POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report R 2010

(In accordance with § 82, sec. 1 point 3 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 financial year 2010 comprising the period from **1 January 2010** to **31 December 2010** containing the financial statements according to International Financial Reporting Standards in PLN.

publication date: 31 March 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	
	year 2010 period from 1 January 2010 to 31 December 2010	**year 2009** period from 1 January 2009 to 31 December 2009	**year 2010** period from 1 January 2010 to 31 December 2010	**year 2009** period from 1 January 2009 to 31 December 2009
I. Sales	15 945 032	11 060 540	3 981 878	2 548 159
II. Operating profit	5 638 148	3 098 092	1 407 988	713 747
III. Profit before income tax	5 605 567	3 066 569	1 399 852	706 485
IV. Profit for the period	4 568 589	2 540 185	1 140 892	585 215
V. Other comprehensive income	83 931	(391 520)	20 960	(90 199)
VI. Total comprehensive income	4 652 520	2 148 665	1 161 852	495 016
VII. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII. Earnings per ordinary share (in PLN/EUR)	22.84	12.70	5.70	2.93
IX. Net cash generated from operating activities	5 346 791	2 487 385	1 335 229	573 051
X. Net cash used in investing activities	(3 125 246)	(946 703)	(780 453)	(218 104)
XI. Net cash used in financing activities	(606 194)	(2 343 562)	(151 382)	(539 917)
XII. Total net cash flow	1 615 351	(802 880)	403 394	(184 970)
	At 31 December 2010	**At 31 December 2009**	**At 31 December 2010**	**At 31 December 2009**
XIII. Non-current assets	12 125 041	9 508 897	3 061 647	2 314 614
XIV. Current assets	7 704 255	4 444 133	1 945 372	1 081 772
XV. Total assets	19 829 296	13 953 030	5 007 019	3 396 386
XVI. Non-current liabilities	2 380 314	1 704 420	601 044	414 883
XVII. Current liabilities	2 992 505	1 844 653	755 626	449 017
XVIII. Equity	14 456 477	10 403 957	3 650 349	2 532 486

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

KGHM POLSKA MIEDŹ S.A.

ANNUAL REPORT R 2010 COMPRISES:

1. **AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS**
2. **DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS**
3. **DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS**
4. **PRESIDENT'S LETTER**
5. **FINANCIAL STATEMENTS**
6. **REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES**

Lubin, March 2011

KGHM POLSKA MIEDŹ S.A.

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS FOR 2010

Lubin, March 2011

PRICEWATERHOUSECOOPERS

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Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have audited the accompanying financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called "the Company") with its registered office in Lubin, 48 Marii Skłodowskiej-Curie Street, which comprise:

(a) the statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 19.829.296 thousand;

(b) the statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 4.652.520 thousand;

(c) the statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 4.052.520 thousand;

(d) the statement of cash flows for the period from 1 January to 31 December 2010, showing a net increase in cash and cash equivalents of PLN 1.615.351 thousand;

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

The Company's Management Board is responsible for preparing the financial statements and a Directors' Report in accordance with the applicable regulations. The Management Board and members of the Supervisory Board are required to ensure that the financial statements and the Director's Report meets the requirements set out in the Accounting Act of 29 September 1994 (uniform text, *Journal of Laws* of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as "the Act").

Our responsibility was to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the following:

(a) the provisions of Chapter 7 of the Act;

(b) national standards on auditing issued by the National Chamber of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included an assessment of the accounting policies applied by the Company and significant estimates made in the preparation of the financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

TRANSLATION ONLY

Independent Registered Auditor's Opinion
to the General Shareholders' Meeting and Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna (cont.)

In our opinion, and in all material respects, the accompanying financial statements:

(a) have been prepared in accordance with the applicable accounting principles (policies) on the basis of properly maintained accounting records;

(b) comply in form and content with the applicable laws and the Company's Memorandum of Association;

(c) give a fair and clear view of the Company's financial position as at 31 December 2010 and profit for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("*the Decree"* – Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 28 March 2011

KGHM Polska Miedź S.A.

Report on the financial statements for the period from 1 January to 31 December 2010

Report on the audit the financial statements
to the General Shareholders' Meeting and the Supervisory Board
of KGHM Polska Miedź S.A.

This report contains 13 consecutively numbered pages and consists of:

I. General information about the Company

(a) The Company was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatisation of state-owned enterprises (*Journal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary Public's Office No. 18 in Warsaw and registered with Rep. No. 8648/91. On 29 June 2001, the District Court for Wrocław Fabryczna, the 9th Business Department of the National Court Register decided to enter the Company in the Commercial Register with the reference number KRS 23302.

(b) On 14 June 1993 the Company was assigned a tax identification number (NIP) 692-000-00-13 for making tax settlements. On 13 August 2003 the Company was assigned a REGON number 390021764 for statistical purposes.

(c) As at 31 December 2010, the Company's registered share capital amounted to PLN 2.000.000.000 and consisted of 200.000.000 shares, each of PLN 10 par value.

(d) As at 31 December 2010, the Company's equity was positive and amounted to PLN 14.456.477 thousand.

(e) In the audited period, the Company's core business was:
- metal ore mining,
- production of non-ferrous metals, precious metals, and salts,
- casting of light metals and non-ferrous metals,
- waste management,
- wholesale trading on the basis of direct payment or contract,
- geological and exploratory activities, research and technical analyses,
- professional rescue services.

(f) During the year on the Parent Company's Management Board were:

• Herbert Wirth	President	
• Maciej Tybura	I Vice President,	
• Ryszard Janeczek	Vice President,	until 15 October 2010
• Wojciech Kędzia	Vice President	since 19 November 2010

(g) The Company has the following related entities:
- the Polish State Treasury (the Company's parent entity in accordance with IAS 27) and its subsidiaries,
- entities incorporated into the capital group, in which the Company is the parent entity together with their associates,
- key members of the Company's management.

Transactions with related parties were described in note no. 35 to the financial statement.

As the Parent Company of the Group, the Company has also prepared consolidated financial statements according to IFRS as adopted by the European Union on 28 March 2011. To better understand the Company's financial position and profit of the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

II. Information about the audit

(a) PricewaterhouseCoopers Sp. z o.o. was appointed independent registered auditor to the Company by Resolution No. 31/VII/10 of the Supervisory Board dated 16 April 2010 in accordance with paragraph 20, point 2 of the Company's Articles of Association.

(b) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clause 2-4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

(c) The audit was conducted in accordance with an agreement signed on 25 May 2010, in the following periods:

- interim audit from 18 October to 26 November 2010;
- final audit from 24 January to 28 March 2011.

III. The Company's results and financial position

The observations below are based on knowledge obtained during the audit of the financial statements.

The financial statements do not take account of the effects of inflation. The consumer price index (on a December to December basis) amounted to 3.1 % in the audited year (3.5% in 2009).

- As at the end of the financial year the Company's assets amounted to PLN 19.829.296 thousand. During the year, total assets increased by PLN 5.876.266 thousand, i.e. by 42,1%. This increase was financed with the profit (of PLN 4.568.589 thousand), an increase in liabilities due to valuation of derivatives (of PLN 858.575 thousand), an increase in current income tax liabilities (of PLN 590.741 thousand) and an increase in trade payables and other liabilities (of PLN 374.430 thousand). In 2010 the Company paid a dividend of PLN 600.000 thousand to its shareholders.

- Total revenues amounted to PLN 15.945.032 thousand and increased by 44,2% when compared to the previous year. The Company's core activities in the current financial year consisted of production and sale of copper, precious metals and smelter by-products. This growth was mainly due to favorable conditions on international and domestic industrial goods markets, which were reflected in an increase in sales volume of copper and copper products. The additional factor for the growth was an increase of the average price of copper and silver when compared with the prior period (of 46,0% and 37,6% respectively). In the same period the average exchange rate of US Dollar decreased by 3,1% when compared to 2009. The revenues include also profit on foreign currencies' and commodities' hedge transactions amounted to PLN 142.187 thousand.

- The operating expenses increased by PLN 1.424.051 thousand, i.e. by 18,1% when compared with 2009. The change was mainly due to the growth of cost of material and energy.

- Profitability measured with operating profit amounted to 29% and was 6 percentage points higher than in the previous year. The change in the Company's profitability was primarily due to high prices of metals (mainly of copper) on international stock markets.

- The financial ratios and the structure of debt remained at comparable level to 2009. The Company's debt ratio increased from 25% at the end of prior year to 27% at the end of the audited period. The payables turnover decreased from 27 to 25 days.

- The Company's liquidity changed slightly as compared with the previous year. The current ratio amounted to 2,6 (2,4 in 2009), whereas the quick ratio amounted to 1.9 (1,4 in 2009).

IV. Discussion of financial statements components

STATEMENT OF FINANCIAL POSITION as at 31 December 2010

	Note	31.12.2010 PLN'000	31.12.2009 PLN'000	Change PLN'000	Change (%)	31.12.2010 Structure (%)	31.12.2009 Structure (%)
ASSETS							
Non-current assets							
Property, plant and equipment		6.551.111	5.937.513	613.598	10,3	33,0	42,6
Intangible assets		86.718	76.147	10.571	13,9	0,4	0,5
Shares and investment certificates in subsidiaries	1	2.643.046	1.915.224	727.822	38,0	13,3	13,7
Investments in associates		1.159.947	1.159.947	-	-	5,9	8,3
Deferred tax assets	2	359.833	167.062	192.771	>100,0	1,8	1,2
Available-for-sale financial assets	3	749.824	17.700	732.124	>100,0	3,8	0,1
Held-to-maturity investments		84.115	67.097	17.018	25,4	0,4	0,5
Derivatives	4	403.839	58.034	345.805	>100,0	2,1	0,4
Trade and other receivables	5	86.608	110.173	(23.565)	(21,4)	0,4	0,8
		12.125.041	**9.508.897**	**2.616.144**	**27,5**	**61,1**	**68,1**
Current assets							
Inventories		2.011.393	1.890.286	121.107	6,4	10,1	13,6
Trade and other receivables	5	2.393.986	1.314.598	1.079.388	82,1	12,1	9,4
Available-for-sale financial assets	3	405.193	-	405.193	-	2,0	-
Held-to-maturity investments		4.129	580	3.549	>100,0	0,1	-
Derivatives	4	294.021	263.247	30.774	11,7	1,5	1,9
Cash and cash equivalents		2.595.529	975.198	1.620.331	>100,0	13,1	7,0
Non-current assets held for sale		4	224	(220)	(98,2)	-	-
		7.704.255	**4.444.133**	**3.260.122**	**73,4**	**38,9**	**31,9**
Total Assets		**19.829.296**	**13.953.030**	**5.876.266**	**42,1**	**100,0**	**100,0**

IV. Discussion of financial statements components (cont.)

STATEMENT OF FINANCIAL POSITION as at 31 December 2010 (cont.)

	Note	31.12.2010 PLN'000	31.12.2009 PLN'000	Change PLN'000	Change (%)	31.12.2010 Structure (%)	31.12.2009 Structure (%)
Equity	**6**						
Share capital	**7**	2.000.000	2.000.000	-	-	10,0	14,3
Other reserves		211.159	127.228	83.931	66,0	1,1	1,0
Retained earnings	**8**	12.245.318	8.276.729	3.968.589	47,9	61,8	59,3
		14.456.477	**10.403.957**	**4.052.520**	**39,0**	**72,9**	**74,6**
Non-current liabilities							
Trade and other payables	**9**	14.249	17.472	(3.223)	(18,4)	0,1	0,1
Borrowings and financial lease liabilities		8.490	11.576	(3.086)	(26,7)	-	0,1
Derivatives	**4**	711.580	61.354	650.226	>100,0	3,6	0,4
Liabilities due to employee benefits		1.128.246	1.098.399	29.847	2,7	5,7	7,9
Provisions for other liabilities and charges		517.749	515.619	2.130	0,4	2,6	3,7
		2.380.314	**1.704.420**	**675.894**	**39,7**	**12,0**	**12,2**
Current liabilities							
Trade and other payables	**9**	1.727.939	1.376.049	351.890	25,6	8,7	9,9
Borrowings and financial lease liabilities		2.965	6.109	(3.144)	(51,5)	-	-
Current income tax liabilities	**10**	668.924	78.183	590.741	>100,0	3,4	0,6
Derivatives	**4**	481.852	273.503	208.349	76,2	2,4	2,0
Liabilities due to employee benefits		93.041	93.122	(81)	(0,1)	0,5	0,7
Provisions for liabilities and other charges		17.784	17.687	97	0,5	0,1	-
		2.992.505	**1.844.653**	**1.147.852**	**62,2**	**15,1**	**13,2**
		19.829.296	**13.953.030**	**5.876.266**	**42,1**	**100,0**	**100,0**

IV. Discussion of financial statements components (cont.)

STATEMENT OF COMPREHENSIVE INCOME

	Note	2010	2009	Change	Change	2010	2009
		PLN'000	PLN'000	PLN'000	(%)	(%) of revenues	(%) of revenues
Revenues		15.945.032	11.060.540	4.884.492	44,2	100,0	100,0
Cost of sales		(8.617.125)	(7.127.255)	(1.489.870)	20,9	(54,0)	(64,4)
Gross profit		**7.327.907**	**3.933.285**	**3.394.622**	**86,3**	**46,0**	**35,6**
Selling costs		(103.171)	(107.303)	4.132	(3,9)	(0,6)	(1,0)
Administrative expenses		(567.390)	(629.077)	61.687	(9,8)	(3,6)	(5,7)
Other operating income	**11**	711.202	870.598	(159.396)	(18,3)	4,5	7,9
Other operating expenses	**11**	(1.730.400)	(969.411)	(760.989)	78,5	(10,9)	(8,8)
Operating profit		**5.638.148**	**3.098.092**	**2.540.056**	**82,0**	**35,4**	**28,0**
Finance costs		(32.581)	(31.523)	(1.058)	3,4	(0,2)	(0,3)
Profit before income tax		**5.605.567**	**3.066.569**	**2.538.998**	**82,8**	**35,2**	**27,7**
Income tax expense	**2, 10**	(1.036.978)	(526.384)	(510.594)	97,0	(6,5)	(4,8)
Profit for the period		**4.568.589**	**2.540.185**	**2.028.404**	**79,9**	**28,7**	**22,9**
Other comprehensive income		83.931	(391.520)	475.451	<(100,0)	0,5	(3,5)
Total comprehensive income		**4.652.520**	**2.148.665**	**2.503.855**	**>100,0**	**29,2**	**19,4**

IV. Discussion of financial statements components (cont.)

Presentation of the Company's financial position and results

The following ratios characterize the Company's financial position and results during the audited year and its financial position as at the end of the reporting period compared with previous year:

	2010	**2009**
Asset ratios		
- receivables turnover	29 days	23 days
- inventory turnover	82 days	84 days
Profitability ratios		
- profitability of sales	29%	23%
- gross margin	35%	28%
- return on capital employed	37%	24%
Liability ratios		
- gearing ratio	27%	25%
- payables turnover	25 days	27 days

	31.12.2010	**31.12.2009**
Liquidity ratios		
- current ratio	2,6	2,4
- quick ratio	1,9	1,4
Other ratios		
- effective tax rate	18,5%	17,2%

IV. Discussion of financial statements components (cont.)

Statement of financial position as at 31 December 2010

1. Shares and investment certificates in subsidiaries

In the audited year, the value of shares and investment certificates in subsidiaries increased by PLN 727.822 thousand, mainly due to purchasing investment certificates in KGHM FIZAN I, II and III (of PLN 360.164 thousand), acquiring shares of KGHM Ajax Mining Inc. (of PLN 109.763 thousand), acquiring Bipromet S.A. (for the amount of PLN 30.812 thousand) and DFM Zanam-Legmet Sp. z o.o. (for the amount of 48.631 thousand), as well as raising the capital in KGHM Ecoren S.A. (by PLN 115.231 thousand) and in Zagłębie Lubin S.A. (by PLN 48.035 thousand).

2. Deferred income tax assets

At the end of 2010 the balance of deferred income tax asset amounted to PLN 359.833 thousand. The significant increase (of PLN 192.771 thousand) as compared with prior year is a consequence of valuation of derivatives and premium paid but not settled as at the end of 2010.

3. Available-for-sale financial assets

The value of available-for-sale financial assets amounted to PLN 1.155.017 thousand and increased by PLN 1.137.317 thousand in comparison to 2009. The balance of available-for-sale financial assets as at the end of financial year 2010 consisted of shares of companies listed on stock exchanges in Poland and Canada and certificates in open-end investment funds.

4. Derivatives

At the end of the accounting period assets related to valuation of derivatives amounted to PLN 697.860 thousand and increased by PLN 376.579 thousand comparing to the previous year.

At the end of the accounting period liabilities resulted from valuation of derivatives amounted to PLN 1.193.432 thousand and increased by PLN 858.575 thousand comparing to 2009.

5. Trade and other receivables

The balance of trade and other receivables increased by PLN 1.055.823 thousand when compared to the previous year and on 31 December 2010 amounted to PLN 2.480.594 thousand. The main reason for the growth was an increase of the balance of trade receivables due to higher unit sales price compared to the previous year and longer payment period of receivables.

IV. Discussion of financial statements components (cont.)

6. Equity

	31.12.2009	Dividend paid	Profit for 2010	Other comprehen-sive income	31.12.2010
	PLN'000	PLN'000	PLN'000	PLN'000	PLN'000
Share capital	2.000.000	-	-	-	2.000.000
Other accumulated comprehensive income	127.228	-	-	83.931	211.159
Retained earnings	8.276.729	(600.000)	4.568.589	-	12.245.318
Total	**10.403.957**	**(600.000)**	**4.568.589**	**83.931**	**14.456.477**

In the audited period the amount of share capital did not change.

7. Share capital – ownership structure

As at 31.12.2010 the only shareholder of the Company holding more than 5% of share capital was the State Treasury. The State Treasury held 63.589.900 ordinary shares with nominal value of PLN 635.899 thousand, which constituted 31,79% of voting rights at the General Shareholders Meeting.

On 8 January 2010 the State Treasury sold 20.000.000 shares of the Parent Company on the regulated market. This number of shares entitles to 10% of voting rights at the General Shareholders Meeting.

8. Retained earnings – profit

The profit for the audited year amounted to PLN 4.568.589 thousand.
In accordance with Resolution No. 5/2010 of the General Shareholders' Meeting of 17 May 2010, the profit for the prior year which amounted to PLN 2.540.185 thousand was appropriated as follows:
- PLN 1.940.185 thousand - transferred to supplementary capital (retained earnings);
- PLN 600.000 thousand - paid as dividend to shareholders.

9. Trade and other payables

The balance of trade and other payables increased by PLN 348.667 thousand comparing to the previous year and as at 31 December 2010 amounted to PLN 1.742.188 thousand. The main reason for this growth was an increase of trade payables, including liabilities related to purchasing of fixed and intangible assets.

10. Deferred income tax liabilities

At the date ending the accounting period the balance of deferred income tax liabilities amounted to PLN 668.924 thousand and increased by PLN 590.741 thousand when compared with the previous accounting period. The increase was a consequence of significantly higher taxable profit generated by the Company in 2010.

IV. Discussion of financial statements components (cont.)

Statement of comprehensive income for the period from 1 January to 31 December 2010

11. Other operating income and expenses

The loss on other operating activity increased by PLN 920.385 thousand comparing to the prior year and amounted to PLN 1.019.198 thousand as a result of recognition of result on settlement and valuation of derivatives.

V. The independent registered auditor's statement

(a) The Company's Management Board provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.

(b) The scope of the audit was not limited.

(c) The Company has updated documentation of its accounting policies, approved by the Management Board. The Company's accounting policies were tailored to its needs and ensured the identification of all events with a material effect on the assessment of its financial position and results, taking into consideration the prudence principle.

(d) The closing balances as at the end of the previous year were correctly brought forward as the opening balances of the current financial year in all material respects.

(e) We have assessed the operation of the accounting system. Our assessment covered in particular:
- the accuracy of the documentation relating to business transactions;
- the fairness, accuracy and verifiability of the accounting records, including computerized accounting records;
- the methods used for controlling access to data and computerized data processing systems;
- the safeguarding of accounting documentation, accounting records and the financial statements.

This assessment together with our verification of individual items of the financial statements is a basis for expressing a general, comprehensive and unqualified opinion on the truth and fairness of these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

(f) The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.

(g) The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.

(h) Counts of assets and equity and liabilities were carried out and reconciled in accordance with the Accounting Act, and their results were included in the accounting records for the audited year.

(i) The financial statements for the previous year were audited by Ernst&Young Audit Sp. z o.o. The registered auditor issued an unqualified opinion.

(j) The Company's financial statements as at and for the year ended 31 December 2009 were approved by Resolution No. 4/2010 passed by the General Shareholders' Meeting on 17 May 2010 r. The financial statements were filed with the National Court Register in Wrocław on 20 May 2010 and published in Monitor Polski B no. 1600 on 3 September 2010.

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VI. Final information and comments

This report has been prepared in connection with our audit of the financial statements of KGHM Polska Miedź Spółka Akcyjna with its registered office in Lubin, 48 Marii Skłodowskiej-Curie Street. The audited financial statements comprised:

(a) the statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 19.829.296 thousand;

(b) the statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 4.652.520 thousand;

(c) the statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 4.052.520 thousand;

(d) the statement of cash flows for the period from 1 January to 31 December 2010, showing a net increase in cash and cash equivalents of PLN 1.615.351 thousand;

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

The financial statements were signed by the Company's Management Board and the person responsible for maintaining the accounting records on 28 March 2011. This report should be read in conjunction with the Independent Registered Auditor's Opinion to the General Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna signed on 28 March 2011 concerning the above-mentioned financial statements. The opinion is a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 28 March 2011

KGHM POLSKA MIEDŹ S.A.

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

Lubin, March 2011

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

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

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

SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
28 March 2011	Ludmiła Mordylak	Chief Accountant of KGHM General Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

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

Lubin, March 2011

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

The entity entitled to audit financial statements, and which has audited the annual financial statements, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this audit, have met the conditions for issuing an impartial and independent audit opinion, in compliance with appropriate legal provisions and professional standards.

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

SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
28 March 2011	Ludmiła Mordylak	Chief Accountant of KGHM General Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

PRESIDENT'S LETTER

Lubin, March 2011

Dear Shareholders,

It is with great pleasure that I present to you the Annual Report for 2010. This year brings us the occasion to celebrate the 50th anniversary of KGHM and simultaneously the achievement of the record profit by KGHM Polska Miedź S.A. of PLN 4.5 billion.

On the one hand, this result is thanks to the implementation of the Development Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 adopted two years ago, and on the other to exceptionally favourable conditions on the financial markets. In 2010, the average annual copper price reached a historically high level - 7 539 USD per tonne. Even more important for us, in 2010 the copper price denominated in PLN was 44 percent higher than in 2009.

Our goal is to become one of the leading global copper producers and to reduce our costs of production. This is a realistic goal. On 12 October we signed an agreement with Abacus Mining & Exploration Corporation to found a joint venture called KGHM AJAX MINING Incorporated, to advance the Afton-Ajax copper-gold mining project located in Canada. We are expecting annual production of 50 thousand tonnes of copper and 3 tonnes of gold. I am convinced that this is not the final project that we will realise beyond the borders of Poland.

We are continuing work on exploring and gaining access to domestic resources. I am deeply convinced that the achievement by KGHM of production at the level of 700 thousand tonnes of copper annually by the year 2018 is completely possible. We are assuming that the average cost of this production will be substantially lower than at present.

We are successfully carrying out work on adapting a roadhead mining complex to the excavation of working faces and a complex to assist in the excavation of drifts. These areas are undergoing a true technological revolution.

We want to optimise the management of operations in the mines and smelters. We have begun to modernise our smelting operations and are building a new flash furnace at the Głogów smelter. This is a further revolution which will enable us to eliminate outdated shaft furnace technology.

In September, we marked an extraordinary achievement – the processing in our Ore Enrichment Plants of the one billionth tonne of copper ore.

We are aiming at the diversification of our activities. We are planning to increase the production of crude and refined lead as well as of copper from scrap. We also want to increase the production of salt which is adjacent to the copper ore. We are becoming increasingly involved in the power sector.

New regulations on the granting of bonuses and on salary category increase programs developed by individual divisions have included a motivational remuneration system in the Company, being implemented since April 2010. For the first time in the Company's history, the greatest emphasis was on the granting of bonuses to employees involved in production in the mines.

The year 2010 brought further evidence of appreciation for our activities.

Investors declared that in 2010 the purchase of our shares was the „best investment in a WIG20 index company". As a result, for the second time, we were awarded the Bull and Bear statuette by the market newspaper Gazeta Giełdy „Parkiet".

The Annual Report of KGHM Polska Miedź S.A. for 2009 was awarded first place in the competition Best Annual Report, organised by the Institute of Accounting and Taxation. We celebrated this success for the third time running. We also earned the most points both in the category companies as well as financial institutions.

Respect is associated with social commitment. Once again we were recognised as a Leader of Philanthropy. Through the Polish Copper Foundation we support the protection of health and the renovation of works of cultural significance, as well as providing assistance to people in difficult situations. We are proud of the fact that, for the second time, KGHM was one of a mere 16 companies listed on the Warsaw Stock Exchange included in the Respect Index.

We are proud of our 21st century football stadium. Construction was formally completed of the Dialog Arena, a stadium which meets all FIFA and UEFA standards. This was the largest investment by KGHM Polska Miedź S.A. in a non-core business activitiy.

The year 2010 saw growing involvement by the Company in international organisations – in particular in the International Copper Association and at the European Parliament. We are engaged in lobbying the European Union to adopt a level of carbon dioxide emission standards which – without harming the environment – will enable our smelters to retain their efficiency.

In the autumn we began business operations in Shanghai, where we founded the company KGHM (Shanghai) Copper Trading Co., Ltd.

We are forecasting a level of profit for 2011 nearly twice as high as in 2010. To a large extent this is due to the planned sale of our telecom assets as well as the favourable conditions on the metals market.

I wish to thank our investors and shareholders for placing their trust in our Company. I can proudly declare that KGHM Polska Miedź S.A. is in a very good condition today, and that tomorrow and beyond it will be even better.

Herbert Wirth

President of the
Management Board

Lubin, 28 March 2011

KGHM POLSKA MIEDŹ S.A.

FINANCIAL STATEMENTS

FOR 2010

Lubin, March 2011

Table of contents to the financial statements

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

Statement of financial position		**At**	
	Note	**31 December 2010**	**31 December 2009**
Assets			
Non-current assets			
Property, plant and equipment	5	6 551 111	5 937 513
Intangible assets	6	86 718	76 147
Shares and investment certificates in subsidiaries	7	2 643 046	1 915 224
Investments in associates	7	1 159 947	1 159 947
Deferred tax assets	20	359 833	167 062
Available-for-sale financial assets	8	749 824	17 700
Held-to-maturity investments	9	84 115	67 097
Derivatives	10	403 839	58 034
Trade and other receivables	11	86 608	110 173
		12 125 041	**9 508 897**
Current assets			
Inventories	12	2 011 393	1 890 286
Trade and other receivables	11	2 393 986	1 314 598
Available-for-sale financial assets	8	405 193	-
Held-to-maturity investments	9	4 129	580
Derivatives	10	294 021	263 247
Cash and cash equivalents	13	2 595 529	975 198
Non-current assets held for sale	14	4	224
		7 704 255	**4 444 133**
TOTAL ASSETS		**19 829 296**	**13 953 030**
Equity and liabilities			
EQUITY			
Share capital	15	2 000 000	2 000 000
Accumulated other comprehensive income	16	211 159	127 228
Retained earnings	17	12 245 318	8 276 729
TOTAL EQUITY		**14 456 477**	**10 403 957**
LIABILITIES			
Non-current liabilities			
Trade and other payables	18	14 249	17 472
Borrowings and finance lease liabilities	19	8 490	11 576
Derivatives	10	711 580	61 354
Liabilities due to employee benefits	21	1 128 246	1 098 399
Provisions for other liabilities and charges	22	517 749	515 619
		2 380 314	**1 704 420**
Current liabilities			
Trade and other payables	18	1 727 939	1 376 049
Borrowings and finance lease liabilities	19	2 965	6 109
Current corporate tax liabilities		668 924	78 183
Derivatives	10	481 852	273 503
Liabilities due to employee benefits	21	93 041	93 122
Provisions for other liabilities and charges	22	17 784	17 687
		2 992 505	**1 844 653**
TOTAL LIABILITIES		**5 372 819**	**3 549 073**
TOTAL EQUITY AND LIABILITIES		**19 829 296**	**13 953 030**

Accounting policies and other explanatory information presented on pages 7 to 103 represent an integral part of these financial statements

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

Statement of comprehensive income

	Note	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
Sales	23	15 945 032	11 060 540
Cost of sales	24	(8 617 125)	(7 127 255)
Gross profit		**7 327 907**	**3 933 285**
Selling costs	24	(103 171)	(107 303)
Administrative expenses	24	(567 390)	(629 077)
Other operating income	26	711 202	870 598
Other operating costs	27	(1 730 400)	(969 411)
Operating profit		**5 638 148**	**3 098 092**
Finance costs	28	(32 581)	(31 523)
Profit before income tax		**5 605 567**	**3 066 569**
Income tax expense	31	(1 036 978)	(526 384)
Profit for the period		**4 568 589**	**2 540 185**
OTHER COMPREHENSIVE INCOME DUE TO:			
Available-for-sale financial assets	16	148 019	(10 834)
Cash flow hedging instruments	16	(44 401)	(472 524)
Income tax related to items presented in other comprehensive income	16	(19 687)	91 838
Other comprehensive net income for the financial period		**83 931**	**(391 520)**
TOTAL COMPREHENSIVE INCOME		**4 652 520**	**2 148 665**
Earnings per share for the annual period (in PLN per share)	32		
- basic		22.84	12.70
- diluted		22.84	12.70

Accounting policies and other explanatory information presented on pages 7 to 103 represent an integral part of these financial statements

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

Statement of changes in equity

			Accumulated other comprehensive income due to:			
	Note	**Share capital**	**Available-for-sale financial assets**	**Cash flow hedging instruments**	**Retained earnings**	**Total equity**
At 1 January 2010		**2 000 000**	**1 489**	**125 739**	**8 276 729**	**10 403 957**
Dividends for 2009 resolved and paid	33	**-**	**-**	**-**	(600 000)	(600 000)
Total comprehensive income	16, 17	-	119 896	(35 965)	4 568 589	4 652 520
At 31 December 2010		**2 000 000**	**121 385**	**89 774**	**12 245 318**	**14 456 477**
At 1 January 2009		**2 000 000**	**10 265**	**508 483**	**8 072 544**	**10 591 292**
Dividends for 2008 resolved and paid	33	**-**	**-**	**-**	(2 336 000)	(2 336 000)
Total comprehensive income	16, 17	-	(8 776)	(382 744)	2 540 185	2 148 665
At 31 December 2009		**2 000 000**	**1 489**	**125 739**	**8 276 729**	**10 403 957**

Accounting policies and other explanatory information presented on pages 7 to 103 represent an integral part of these financial statements

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

Statement of cash flows

	Note	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
Cash flow from operating activities			
Profit for the period		4 568 589	2 540 185
Adjustments to profit for the period	34	1 436 897	567 006
Income tax paid		(658 695)	(619 806)
Net cash generated from operating activities		**5 346 791**	**2 487 385**
Cash flow from investing activities			
Purchase of shares and investment certificates in subsidiaries		(731 224)	(177 106)
Proceeds from sale of shares and investment certificates in subsidiaries		1 534	-
Purchase of property, plant and equipment and intangible assets		(1 156 709)	(1 161 762)
Proceeds from sale of property, plant and equipment and intangible assets	34	4 717	14 195
Purchase of available-for-sale financial assets		(1 296 141)	-
Proceeds from sale of available-for-sale financial assets		310 994	20 000
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(20 567)	(8 132)
Establishment of deposits		(350 000)	(400 500)
Termination of deposits		-	400 500
Loans granted		(40 000)	(69 432)
Repayments of loans granted		71 162	1 044
Interest received		4 932	6 319
Dividends received		146 658	454 628
Advances granted for the purchase of property, plant and equipment and intangible assets		(65 329)	(14 229)
Other investment expenses		(5 273)	(12 228)
Net cash used in investing activities		**(3 125 246)**	**(946 703)**
Cash flow from financing activities			
Repayments of loans		(3 000)	(4 000)
Payments of liabilities due to finance leases		(3 118)	(3 310)
Interest paid		(76)	(252)
Dividends paid		(600 000)	(2 336 000)
Net cash used in financing activities		**(606 194)**	**(2 343 562)**
Total net cash flow		**1 615 351**	**(802 880)**
Exchange gains/(losses) on cash and cash equivalents		4 980	(15 502)
Movements in cash and cash equivalents		**1 620 331**	**(818 382)**
Cash and cash equivalents at beginning of the period	13	**975 198**	**1 793 580**
Cash and cash equivalents at end of the period	13	**2 595 529**	**975 198**
including restricted cash and cash equivalents		1 751	6 722

Accounting policies and other explanatory information presented on pages 7 to 103 represent an integral part of these financial statements

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

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

KGHM Polska Miedź S.A. (the "Company") with its registered office in Lubin at 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 Company was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764. KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), the Ore Enrichment Plant (OEP), the Tailings Plant, the Mine-Smelter Emergency Rescue Unit and the Data Center.
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 Company comprise:
- mining of copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- wholesale based on direct or contractual payments,
- warehousing and storage of goods,
- holding management activities,
- geological and exploratory activities,
- general construction activities with respect to mining and production facilities,
- generation and distribution of electricity, steam and hot water, production of gas and distribution of gaseous fuels through a supply network,
- scheduled and non-scheduled air transport, and
- telecommunication and IT activities.

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

Period of operation

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

Composition of the Management Board

In 2010 the VII-term Management Board of KGHM Polska Miedź S.A. began its work in the following composition:

- Herbert Wirth	President of the Management Board
- Maciej Tybura	I Vice President of the Management Board (Finance)
- Ryszard Janeczek	Vice President of the Management Board (Production)

On 14 October 2010, Ryszard Janeczek submitted his resignation from the position of Vice President of the Management Board of KGHM Polska Miedź S.A.

On 19 October 2010, the President of the Management Board of KGHM Polska Miedź S.A. announced the recruitment process for the position of Vice President of the Management Board.
On 19 November 2010, the recruitment process was concluded and the Supervisory Board of the Company appointed Wojciech Kędzia to the Management Board – granting him the function of Vice President of the Management Board.

As at the date of authorisation of these financial statements for issue, the Management Board of KGHM Polska Miedź S.A. consists of:
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).

1. General information (continuation)

Authorisation of the annual financial statements (financial statements)

These financial statements were authorised for issue and signed by the Management Board of the Company on 28 March 2011.

Going concern

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

In order to fully understand the financial position and the results of the activities of KGHM Polska Miedź S.A. as the parent entity of the Group, these financial statements should be read jointly with the annual consolidated financial statements for the period ended 31 December 2010. These financial statements will be available on the website of the Company www.kghm.pl on dates consistent with the current report concerning dates of publication of the annual report of the Company and the consolidated annual report of the Group for 2010.

Seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

2. Main accounting policies

2.1 Basis of preparing financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, using the same principles for the current and comparable periods.

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

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

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

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 18 Transfers of Assets from Customers

Eligible Hedged Items. An amendment to IAS 39 Financial Instruments: Recognition and Measurement

Amendments to IFRS 2 Share-based Payment

IFRS 3 Business Combinations

IAS 27 Consolidated and Separate Financial Statements

Amended IFRS 1 First-time Adoption of IFRS (standard given a new structure)

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

Improvements to International Financial Reporting Standards 2009

All of the above changes to the standards and interpretations have been approved by the European Union up to the date of publication of these financial statements. In the Company's opinion, the application of most of them would not have an impact on the Company's financial statements or the impact would be 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.

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

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

Amendment to IAS 32 *Financial instruments: Presentation*

On 8 October 2009 the International Accounting Standards Board published the document: Classifications of rights issues as an amendment to IAS 32 Financial instruments: Presentation. This amendment specifies the manner of accounting for rights issues given a situation in which the issued financial instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are offered to the existing shareholders of the issuer proportionally in exchange for a fixed amount of cash, they should be classified as equity instruments, including when their exercise price is in a currency other than that of the functional currency of the issuer.

The amendment to this standard becomes effective for annual periods beginning on or after 1 February 2010, and will not affect the financial statements of the Company.

Amended IFRS 1 *First-time Adoption of IFRS*

On 28 January 2010 the International Accounting Standards Board published *Limited Exemption from Comparative IFRS 7 Disclosures for first-time adopters of IFRS* as an amendment to IFRS 1*.* The purpose of this update is to exempt first-time adopters of IFRS from disclosure required by IFRS 7 *Financial Instruments: Disclosures,* introduced by the IASB in March 2009, with respect to changes in measurement to fair value and liquidity risk. Thanks to this amendment, first-time adopters of IFRS were given the same date of adoption of these changes as entities which have already adopted IFRS.
The amendments become effective for annual periods beginning on or after 1 July 2010, and will not affect the financial statements of the Company.

Amended IAS 24 *Related Party Disclosures*

On 4 November 2009 the International Accounting Standards Board published an updated version of IAS 24 *Related Party Disclosures*. This amendment modifies the definition of related parties and introduces a partial exemption from the requirement to disclose information related to transactions between parties related to government bodies. The Company expects that, following the adoption of the amendment to this standard, the scope of disclosures of transactions between companies related to the State Treasury will be restricted, as transactions entered into by the Company with other entities related to the State Treasury are in the nature of standard transactions, related to providing and realising typical services and transactions resulting from the activities performed by such entities. These transactions have been and are carried out as arm's length transactions, offered equally to other entities engaged in business transactions. The nature and scope of transactions carried out by the Company with entities related to the State Treasury, disclosed in accordance with the standard in force at the date of preparation of these financial statements, are presented in Note 35. The Company, pursuant to the amended version of IAS 24, intends to publish information on transactions and contracts, considered significant due to the nature or size of the transaction and contract, entered into with companies related to the State Treasury, if such transactions occur.
The amending of IAS 24 necessitated the introduction of changes to IFRS 8 *Operating segments*, with respect to the determination by a reporting entity as to whether and when a group of entities under common control should be considered as a single customer for reporting purposes under IFRS 8.
The amendment to this standard becomes effective for annual periods beginning on or after 1 January 2011.

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

On 26 November 2009 the International Accounting Standards Board published minor amendments to IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. These amendments represent a correction of this interpretation, and affect those limited cases in which an entity is subject to minimum funding requirements and makes prepayments towards these requirements. According to the amendment such prepayments decrease the value of future contributions made to satisfy the said minimum funding requirements.

The amendments become effective for annual periods beginning on or after 1 January 2011, and will not affect the financial statements of the Company.

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

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

Changes in International Financial Reporting Standards 2010

On 6 May 2010, as part of the annual review of standards, the International Accounting Standards Board issued its Improvements to IFRSs 2010. This document is a compendium of amendments which are necessary but not as urgent or significant as to require separate projects. The changes involve six standards and one interpretation, of which changes to the following standards have potential impact on the financial statements of the Company:

- IFRS 3 with respect to the measurement of non-controlling interest,
- IFRS 7 with respect to the broadening of explanatory disclosures on the nature and scope of risk involving financial instruments,
- IAS 1 with respect to the manner of presenting information on other comprehensive income in the statement of changes in equity,
- IAS 34 with respect to information published in the interim financial statements.

While each change introduced has an individual effective date, all will be effective for the Company for annual periods beginning on or after 1 January 2011.
None of these changes will have a significant effect on the financial statements of the Company.

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

IFRS *for Small and Medium-sized Entities*

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

IFRS 9 *Financial instruments*

On 12 November 2009 the International Accounting Standards Board published IFRS 9 *Financial instruments*. This standard is the result of the initial stage of work by the Board aimed at withdrawal of IAS 39 *Financial Instruments: Recognition and Measurement* and replacement by a new one, IFRS 9. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories: assets measured at fair value, and assets measured at amortised cost. This classification, made at the time the financial asset is initially recognised, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets, their reclassification and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will affect the financial statements of the Company, in particular with respect to presentation. Potential changes in value which could impact the financial statements of the Company could arise due to changes in the measurement of equity instruments, which due to the lack of an active market the Company measures at cost less any impairment. It is however expected that they will not have a significant impact on the financial statements of the Company.

Amendments to IFRS 7 – *enhancing disclosures about transfers of financial assets*

On 7 October 2010, the International Accounting Standards Board issued *Amendments to* IFRS 7 – *Enhancing disclosures about transfers of financial assets*. The amendments issued enhance existing disclosure requirements. The purpose of the amendments is to increase the transparency of information on risks involving transactions in which financial assets were transferred.
Not every transferral of financial assets by an entity to a third party results in its simultaneous, total or partial derecognition from the financial statements. This occurs when an entity transferring assets does not simultaneously transfer contractual rights to receive cash flows associated with these assets, retaining substantially all of the risks and rewards of their ownership, or continues to be involved in derecognised

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

financial assets at the reporting date. The amendments to IFRS 7 require the presentation in a separate note to the financial statements for each class of financial assets transferred, which were not entirely derecognised, information on the nature and carrying amount of assets transferred and the risks and rewards associated with them.
For assets transferred, in which an entity continues to be involved, the amended IFRS 7 requires the disclosure of information enabling the evaluation of the nature of the involvement and of the risks associated with the continuing involvement of the entity with the derecognised financial assets, by each class of continued involvement, including the carrying amount and fair value of financial assets and liabilities representing the continued involvement of the entity in the derecognised financial assets.
Until now, the only type of financial assets transferred by the Company whose transferral did not qualify for derecognition from the financial statements involved the disposal of Company debtors with respect to recourse factoring. Should there occur such transactions or others which will involve the aforesaid amendments to IFRS 7, the Company will provide disclosures in the financial statements pursuant to the new requirements.
These changes will be effective for annual periods beginning on or after 1 July 2011.

IFRS 9 *Financial Instruments*

On 28 October 2010, the International Accounting Standards Board reissued IFRS 9 *Financial Instruments*. This standard is the result of the further work of the Board aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*. In this publication the Board added to IFRS 9 requirements involving the classification and measurement of financial liabilities. Most of these requirements were transferred directly to IFRS 9 from IAS 39.

In accordance with IFRS 9, liabilities being a derivative related with and settled by the delivery of an equity investment which is not quoted on an active market should be measured at fair value, just as for investments in unquoted equity investments and derivative financial assets related to these investments.
Furthermore, this standard introduces the requirement to recognise, in other comprehensive income, changes in the fair value of financial liabilities measured at fair value through profit or loss, resulting from changes in credit risk associated with the said liabilities. The remaining amount of the change in the fair value of a liability should be presented in profit or loss, unless recognition of the effects of changes in the credit risk of the liability would create or enlarge an accounting mismatch, in which case the entity should recognise the full amount of the change in fair value in profit or loss.

This standard will be effective for annual periods beginning on or after 1 January 2013, and will affect the financial statements of the Company, in particular with respect to presentation. It is estimated that this change will not have a significant impact on the financial statements of the Company.

Amendments to IFRS 1 *First-time Adoption of IFRS*

On 20 December 2010, the International Accounting Standards Board issued an amendment called *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters of IFRS, as an amendment to IFRS 1 First-time Adoption of IFRS*.
Changes to this standard are effective for annual periods beginning on or after 1 July 2011 and will not have an effect on the financial statements of the Company.

Amendments to IAS 12 *Income Taxes*

On 20 December 2010, the International Accounting Standards Board issued an amendment to IAS 12 called *Deferred Tax: Recovery of Underlying Assets*. The purpose of this update is to provide practical guidance in the estimation of the amount of deferred income tax in a situation where investment property is measured through the use of the fair value model from IAS 40 *Investment Property*. In accordance with IAS 12, the measurement of deferred income tax assets and liabilities, i.e. the determination of an income tax rate and the taxable base, depends on the manner in which an entity intends to recover (realise) the value of the assets. In certain tax jurisdictions a different income tax rate is applied to the disposal of property than is applied to income received from the use of such property. Sometimes therefore, entities cannot be certain as to the manner in which the value of a given asset will be eventually recovered (realised) in the future. In such a situation the aforementioned amendment to IAS 12 recommends that the entity should assume that it will recover (realise) the value of the asset through its sale. This same principle for the determination of the amount of deferred income tax should be applied by entities owning

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

non-depreciable and revalued assets covered by IAS 16.
Changes to this standard are effective for annual periods beginning on or after 1 January 2012 and will not have an effect on the financial statements of the Company, primarily due to the lack of investment property.

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

2.2 Accounting policies

2.2.1 Property, plant and equipment

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

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

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.22.

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

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

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

As at the end of the reporting period, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. (Described in detail in note 2.2.9)

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.1 Property, plant and equipment (continuation)

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

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

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

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

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

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

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

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

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

2.2.2 Intangible assets

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

On initial recognition, intangible assets are measured at cost.

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.22.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.2 Intangible assets (continuation)

At the end of the reporting period intangible assets are measured at cost less accumulated amortisation and impairment losses (described in detail in note 2.2.9).

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

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

Development costs

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

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

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

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

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

Research expenditure is recognised as an expense as incurred.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.3 Equity investments

Subsidiaries

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

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

Associates

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

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

2.2.4. Financial Instruments

2.2.4.1 Classification of financial instruments

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

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

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

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

<u>Financial assets and liabilities measured at fair value through profit or loss</u>

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.1 Classification of financial instruments (continuation)

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

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

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

Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.
Loans and receivables are classified as current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables with maturities greater than 12 months after the end of the reporting period are classified as non-current assets.
Loans and receivables in the statement of financial position are included in the item: trade and other receivables.
Cash and cash equivalents are classified as loans and receivables. Cash and cash equivalents are a separate item in the statement of financial position.

Held-to-maturity investments (HtM)

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

Available-for-sale financial assets (AfS)

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

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

Other financial liabilities

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

Hedging instruments (HI)

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

Instruments initially designated as hedging instruments excluded from hedge accounting

Derivatives initially designated as qualifying for hedge accounting, and then excluded from hedge accounting, are presented as Instruments initially designated as hedging instruments excluded from hedge accounting.

Instruments initially designated as hedging instruments excluded from hedge accounting are measured at fair value through profit or loss.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.2. Initial measurement and derecognition of financial instruments

Transactions respecting the purchase and sale of investments, including regular way purchases or sales, are recognised at the trade date, initially at fair value plus transaction costs, with the exception of financial assets and liabilities measured at fair value through profit or loss, which are initially recognised at fair value. Investments are derecognised when the rights to the cash flows from the investments have expired or have been transferred and the Company has transferred substantially all of the risks and rewards of their ownership. Where substantially all of the risks and rewards of ownership have not been transferred, investments are derecognised when the Company loses control over a given asset.

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

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

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

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

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

Loans and receivables, held-to-maturity investments

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

Other financial liabilities

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.4. Fair value

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

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

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the end of the reporting period. Where possible, transactions are fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In the case of copper, the official London Metal Exchange closing prices and volatility estimates as at the end of the reporting period are obtained from the Reuters news service. For silver and gold, the London Bullion Market Association fixing price at the end of the reporting period is used. In the case of volatility and forward prices, quotations given by Banks/Brokers are used. Currency interest rates and currency volatility ratios obtained from Reuters are used. Forwards and swaps on the copper market are priced based on a forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets, whereas the standard Garman-Kohlhagen model is used for European options pricing on currency markets.

The fair value of unquoted debt securities is determined as the present value of future cash flows resulting discounted using the prevailing interest rate.

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

2.2.4.5. Impairment of financial assets

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

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as an adjustment from reclassification.

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

If evidence of potential impairment of loans and receivables or of held-to-maturity investments measured at amortised cost exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated at the initial recognition for fixed interest

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.5. Impairment of financial assets (continuation)

rate assets, and the effective interest rate computed at the last revaluation for floating interest rate assets). Any impairment loss is recognised in profit or loss. The carrying amount of such financial assets includes the impairment loss (due to credit losses) recorded in a separate account.

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

2.2.4.6. Embedded derivatives

Initial recognition of derivatives

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

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

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

These criteria in particular are deemed as being met especially for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase.
In such cases the Company accounts for the embedded derivative separately from the host sale/purchase contract. From the moment of separation, the embedded derivative instrument is measured at fair value at the end of each reporting period. From the date of separation, the embedded derivative is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative is accounted for as an adjustment respectively of revenues from sales or costs of sales.

2.2.4.7 Hedge accounting

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.7 Hedge accounting (continuation)

Derivatives used in cash flow hedges

The Company hedges cash flows. In a cash flow hedge, a derivative used as a hedging instrument is an instrument which**:**

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

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

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

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

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

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

Discontinuation of hedge accounting

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

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

2.2.5 Inventories

Inventories consist of the following items:

- materials,
- half-finished products and work in progress,
- finished goods, and
- merchandise.

Inventory additions are measured in accordance with the following principles:

- materials and merchandise – at cost,
- finished goods, half-finished products – at actual manufacturing cost,
- work in progress – based on valuation of the work-in-progress inventories.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Inventories (continuation)

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

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

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

2.2.6 Trade and other receivables

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

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

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

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

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

2.2.7 Cash and cash equivalents

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.9 Impairment of non-financial assets

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

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

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

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

2.2.10 Equity

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.11 Liabilities

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

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

2.2.12 Accrued expenses

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

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

2.2.13 Deferred income

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

2.2.14 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Provisions are recognised, in particular, in respect of the following:
- future costs of mine decommissioning, after the conclusion of mining activities,
- future costs of decommissioning of technological facilities (in the copper smelters) and other facilities in cases where the law provides for the obligation to dismantle and remove such assets after the conclusion of mining activities and to restore the sites to their original condition,
- the effects of court proceedings and of disputed issues,
- guarantees granted.

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.14 Provisions (continuation)

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

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

The discount rate calculation methodology used to measure provisions is described in Note 3.4.
In accordance with IAS 1 *Presentation of Financial Statements* provisions are presented in the statement of financial position as either current or non-current.

2.2.15 Employee benefits

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

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

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

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

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

2.2.16 Income taxes (including deferred tax)

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.16 Income taxes (including deferred tax) (continuation)

Deferred tax assets and deferred tax liabilities are recognised irrespective of the period in which their realisation is to occur.

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

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

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

2.2.17 Contingent liabilities

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

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

2.2.18 Statement of comprehensive income

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

The Company recognises profit and loss for the period recognised outside profit or loss if individual standards allow or require it. Consequently, the Company recognises profit and loss of the period in **other comprehensive income** involving the fair value measurement of financial assets classified as available for sale, and of profit and loss from fair value remeasurement of the effective portion of future cash flow hedging instruments, reflecting taxation.

Profit or loss *(comprising the previously-applied concepts of „income statement" and „statement of profit and loss")* for the given period is the total amount resulting from the deduction of costs from income, excluding items of other comprehensive income. The cost of sales format is applied as the basic costs accounting method.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.19 Revenues

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

In addition, revenue for the given reporting period which affects the profit or loss of the period includes **other operating income,** which is indirectly related to the activities carried out, in particular:
- income and gains from financial investments,
- gains from the measurement and realisation of trading derivatives and the ineffective portion of gains from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- reversal of impairment losses on held-to–maturity investments, available-for-sale financial assets, and loans and shares in subsidiaries and associates,
- release of unused provisions, previously charged to other operating costs, and
- gains on disposal of property, plant and equipment and intangible assets,

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

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

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

The transferral of the subject of transaction is done when substantially all of the risks and rewards of ownership of the merchandise are transferred to the buyer, in accordance with the INCOTERMS delivery base used for a given transaction.

Interest income is recognised on an accrual basis, using the effective interest method.
Income from dividends is recognised when the shareholder's right is set.

2.2.20 Costs

The Company recognises as costs any probable decrease, in the reporting period, of economic benefits of a reliably-determined amount, in the form of a decrease in the value of assets, or an increase of provisions and liabilities, which lead to a decrease in equity or an increase in negative equity in a manner other than the withdrawal of funds by its owners.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.20 Costs (continuation)

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals.
In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivatives, which are separated from the host purchase contract in accordance with point 2.2.4.6.

Costs are accounted for both by nature and by the cost centres, and are reported in profit or loss using the costs by function (cost of sales) format as the primary cost reporting format.

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

In addition, costs for the given reporting period which affect profit or loss for the period include:
other operating costs, indirectly connected with performed activities, including in particular:
- costs and losses on financial investments,
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- impairment losses on held-to–maturity investments, available-for-sale financial assets, loans and on shares in subsidiaries and associates,
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities,
- donations granted,
- losses on disposal of property, plant and equipment and intangible assets,

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.21 Foreign currency transactions and the measurement of items denominated in foreign currencies (continuation)

- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate (i.e. average exchange rate set for a given currency by the NBP) at the date when the fair value was determined.

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

2.2.22 Borrowing costs

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

Other borrowing costs are accounted for as costs in profit or loss in the period in which they are incurred.

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

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

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

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

2.2.23 Leases

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership of assets. The leased asset is capitalised at the inception of the lease at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.
A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term.
Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, a lease contract is classified as an operating lease. Liabilities due to operating leases not recognised in the statement of financial position, in particular with regard to payments to the State Treasury and to territorial self-government entities due to perpetual usufruct of land, as well as liabilities due to other operating leases agreements, are presented in note 37.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.24 Government grants

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

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

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

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

2.2.25 Segment reporting

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

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

2.2.26 Capital management

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

2.2.27 Earnings per share

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

2.2.28 Statement of cash flows

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

2.2.29 Payments to subsidiaries

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.30 Acquisition of newly-issued shares in the increased share capital

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

2.2.31 Exploration for and evaluation of mineral resources

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

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

are not recognised as assets used in the exploration for and evaluation of mineral resources.

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

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

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

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

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

In order to ensure compliance with the requirement to present for redemption property rights or to make substitute fees, at the end of the reporting periods the Company recognises provisions for the costs of acquiring property rights. As an energy distributor, the Company recognises provisions against the value (cost of acquisition) of merchandise sold. The amount of this provision is the lesser of two amounts: the market value of a given certificate of origin or the amount of the substitute fees representing the amount of energy sold. Settlement of the provision and the redemption of property rights is made at the date of redemption of these rights by the President of the Energy Regulation Office or at the date of incurring substitute fees.
The Company recognises the acquired property rights in the statement of financial position as merchandise.

Property rights at the date of acquisition are measured at cost, equivalent to the value of a given certificate of origin based on current market price, or the amount of the renegotiated contractual price if such rights are purchased in off-session market transactions.

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

Penalties for failure to purchase the obligatory amount of property rights resulting from certificates of origin of energy from renewable resources or cogeneration, or to make substitute fees, is recognised in other operating costs.

3. Important estimates and assumptions

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

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

3.1 Useful life of property, plant and equipment

The Management Board of the Company annually reviews the residual value, depreciation methods and useful lives of depreciable property, plant and equipment subject to depreciation. At 31 December 2010 the Management Board determines that the useful lives of assets applied by the Company for purposes of depreciation reflect the expected period of future economic benefits from these assets.

3.2 Financial instruments

In accordance with the guidelines of IAS 39 relating to the classification of non-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 Company fail to hold such instruments to maturity, apart from the situation described in IAS 39, it would have to reclassify all such assets recognised in this group as available-for-sale. In such a situation, the reclassified investments would be measured at fair value, and not at amortised cost.

Embedded derivatives

At the end of each reporting period the Company analyses the materiality of the impact of separated embedded derivatives on the financial statements. Following this analysis, the Company determined that separation of these instruments at 31 December 2010 would not have a significant effect on the financial statements.

KGHM AJAX MINING INC. options

Based on an agreement, KGHM Polska Miedź S.A. acquired 51% of the shares of KGHM AJAX MINING INC., a company founded with Abacus Mining & Exploration Corp. (Abacus), through a cash contribution in the amount of USD 37 million. Abacus brought to KGHM AJAX MINING INC. all the rights it owns to the Afton-Ajax deposit. The cash will be used to carry out a Bankable Feasibility Study and for further exploration.
In accordance with the above Agreement, KGHM Polska Miedź S.A. holds a call option on a further 29% in KGHM AJAX MINING INC., for an amount calculated as a multiple of USD 0.025 per pound of copper in 29% of the probable and proven industrial ore resources, though not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study, which will include the balance of industrial ore resources.
The Agreement also includes a commitment by KGHM Polska Miedź S.A. to arrange financing for the project CAPEX, in the amount of USD 535 million (the equivalent of PLN 1 585.8 million, per the average National Bank of Poland rate for USD/PLN from 31 December 2010). The commitment will arise at the moment of execution by KGHM of the call option on a further 29% in KGHM AJAX MINING INC.
If this option is not executed by KGHM Polska Miedź S.A., Abacus will have an exclusive call option for a period of 90 days on all of the shares belonging to KGHM Polska Miedź S.A. for an amount representing the equivalent of their fair market value, though not higher than USD 37 million. If Abacus decides not to acquire the shares from KGHM within this timeframe, KGHM Polska Miedź S.A. shall transfer, within 60 days, 2% of its shares in KGHM AJAX MINING INC. to Abacus, increasing the share of this company to 51% for the amount of USD 1 451 thousand.
Under IAS 39, the Company is required to measure the options included in this agreement as derivatives. However, at the moment of publication of these financial statements, the Company was not able to make a reliable estimation of the fair value of these options. Determination of the value of the Ajax copper deposit, being the basis for determining the fair value of these options, will only be possible following the preparation of the Bankable Feasibility Study. Work on this document is expected to be completed by the end of 2011. Moreover, the base instrument of these options is not a traded market instrument. Pursuant to IAS 39.46(c) and IAS 39.47(a), the Company has departed determination of the fair value of these options until a precise determination can be made of the value of the Ajax deposit, i.e. until the completion of the Bankable Feasibility Study.
In the case of measurement of these options, the Company would separate the measured value of premiums on the options from the cost of acquiring 51% of the shares of KGHM AJAX MINING INC. In the Company's opinion this amount is immaterial, and therefore it was not presented separately in the financial statements

3. Important estimations and assumptions (continuation)

3.3 Telecom assets being considered for sale

a) Polkomtel S.A.

The separate financial statements account for the investment in the associate Polkomtel S.A. at cost less impairment losses, and at 31 December 2010 the carrying amount of the investment was PLN 1 159 947 thousand (Note 7).

In 2010, the Polish shareholders of Polkomtel S.A. followed a general model of cooperation with respect to the possibility of a potential sale of shares held in this company. Advisors were selected for this process.

Once the foreign shareholders had joined this cooperation, preparatory work was begun on offering for sale in a private placement 100% of the shares of Polkomtel S.A. However, to the end of 2010 this work had not advanced beyond the preparatory stage.

In January 2011, the shareholders of Polkomtel S.A. decided to send out invitations to submit preliminary offers, and to subsequently provide those interested with an informational memorandum. In the next stage, selected bidders will be allowed to perform due diligence on the company. Based on the results of this due diligence, the bidders will submit binding offers.

By the date of publication of this report, KGHM Polska Miedź S.A. had not made a corporate decision as to the sale of the shares of Polkomtel S.A. Agreements which have been reached between the shareholders of this company, in terms of the mutual offer of shares, are not binding on any of the parties. While KGHM Polska Miedź S.A., together with the other shareholders of the company, has been since January 2011 a participant in the process of offering of 100% of the shares, each of the shareholders continues to act on their own behalf and wishes to achieve their own objectives in terms of this transaction. Any decisions taken by KGHM Polska Miedź S.A. on the sale of these shares will only be made following a review of the binding offers, and after determination that the price offered for the shares is acceptable, i.e. one which guarantees that value will be preserved for the shareholders of KGHM Polska Miedź S.A.

In view of the above, in the opinion of the Management Board, criteria have not been met which would require the reclassification of the investment in Polkomtel S.A. to assets held for sale under IFRS 5.

As at the end of the reporting period, there were no indications of impairment of the value of the investment in Polkomtel S.A.

b) Telefonia Dialog S.A.

The separate financial statements account for the investment in Telefonia Dialog S.A. at cost less impairment losses, and at 31 December 2010 the carrying amount of the investment was PLN 824 926 thousand (Note 7).

With respect to the investment in Telefonia Dialog S.A., at the end of the reporting period KGHM Polska Miedź S.A. had not decided to begin the process of selling the shares of this company, nor had any corporate decision been taken in terms of disposal of the shares held.

In January 2011, the process of preparing a Vendor Due Diligence report was begun - its conclusion is planned at the end of March 2011. Following this, invitations will be sent to interested entities to submit offers. For the Management Board of KGHM Polska Miedź S.A., the criteria enabling a decision to be taken as to an eventual sale, and the recommendation of such a course to the other bodies of then Company, will be the quality of the offers received (above all the price offered in the context of the current and anticipated market conditions).

In view of the above, in the opinion of the Management Board of KGHM Polska Miedź S.A., criteria have not been met which would require the reclassification of the shares of Telefonia Dialog S.A. to assets held for sale in accordance with IFRS 5.

As at the end of the reporting period, there were no indications of impairment of the value of the investment in Telefonia Dialog S.A.

With respect to the investment in Telefonia Dialog S.A., due to the difference between the carrying amount of the investment and its taxable value, there exist deductible temporary differences (at 31 December 2010 in the amount of PLN 1 160 609 thousand). Due to these differences, deferred tax assets were not recognised in prior periods, as it was not probable that these differences would be reversed in the foreseeable future. In the opinion of the Management Board, recognition of the deferred tax assets is not justified as at the date ending the reporting period, as it is not probable that the sale of the shares of Telefonia Dialog S.A. will occur in the foreseeable future.

3. Important estimations and assumptions (continuation)

3.4 Impairment of shares in subsidiaries and associates

In order to determine the value in use of shares, the Management Board prepares an estimate of projected cash flows which are anticipated due to the continuance of investments, and of rates used to discount these cash flows to present value. In determining present value, assumptions are applied in respect of projected company financial results over the next several years, based on future events and circumstances which could differ from amounts actually achieved, and which in future reporting periods could lead to adjustments in the values of shares in subsidiaries and associates. In the current period, analysis of the value of shares in terms of the arising of evidence of potential impairment did not indicate the existence of any impairment.

3.5 Provisions

1. Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments are estimated using actuarial methods. A change in the financial factors being the basis for estimation, i.e.

- an increase in the discount rate by 1% would cause a decrease in the provision by PLN 122 363 thousand,
- a decrease in the discount rate by 1% would cause an increase in the provision by PLN 151 754 thousand,
- an increase in the coal price and salary increase rate by 1% would cause an increase in the provision by PLN 160 802 thousand,
- a decrease in the coal price and salary increase rate by 1% would cause a decrease in the provision by PLN 132 156 thousand.

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% increase in the real discount rate used by the Management Board to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision by PLN 121 965 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 162 068 thousand.

3.6 Deferred tax assets/liabilities

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

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

4. Business segments

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

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to enrichment plants where it is enriched. As a result of this process, copper concentrate is produced, which is then supplied to the smelters. At the smelters, concentrate is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.
Settlements between further stages of the production process are based on valuation at the manufacturing cost, and as a result the internal organisational units (mines, processing plants, smelters) in the production cycle do not show a profit from sales. The financial data which are prepared for management accounting

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

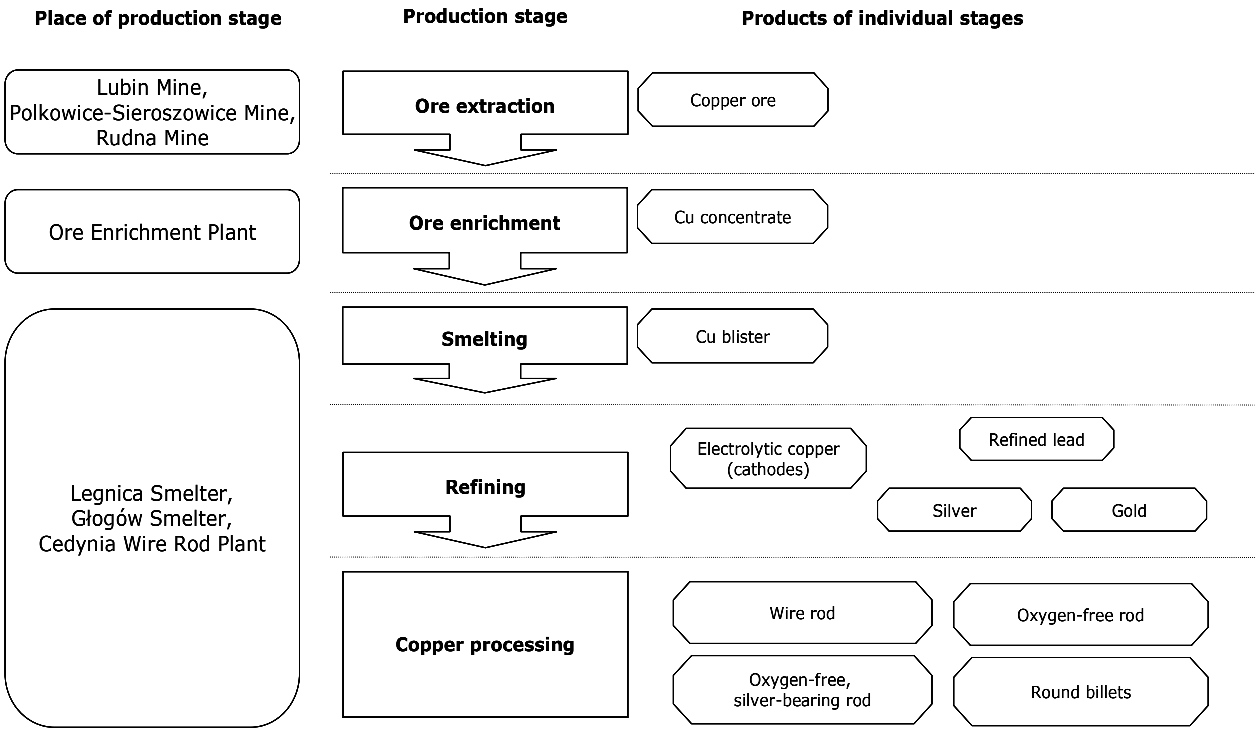
4. Business segments (continuation)

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

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

Production and sale of basic products

In 2010 the Company produced approx. 547 thousand tonnes of electrolytic copper (in 2009 502 thousand tonnes of electrolytic copper respectively) and 1 161 tonnes of silver (in 2009 1 203 tonnes of silver respectively).



Segment assets and liabilities

	At	
	31 December 2010	**31 December 2009**
Assets	**19 829 296**	**13 953 030**
Liabilities	**5 372 819**	**3 549 073**
Debt ratio (%)	27.1	25.4

The main item in the segment's assets is property, plant and equipment, which at 31 December 2010 had a net carrying amount of PLN 6 551 111 thousand (at 31 December 2009, PLN 5 937 513 thousand), amounting to 33.04% of total assets. Depreciation of property, plant and equipment at 31 December 2010 amounted to PLN 7 383 612 thousand, with impairment of PLN 6 408 thousand (at 31 December 2009, respectively PLN 7 104 333 thousand and PLN 7 602 thousand). The property, plant and equipment and intangible assets of the segment are all located in Poland.

Another significant item in the segment's assets is also investments in subsidiaries and associates measured at cost less any impairment. At 31 December 2010 the value of shares and investment certificates in subsidiaries amounted to PLN 2 643 046 thousand (at 31 December 2009, PLN 1 915 224 thousand), while the value of investments in associates at 31 December 2010 amounted to PLN 1 159 947 thousand (at 31 December 2009, PLN 1 159 947 thousand).

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

4. Business segments (continuation)

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

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Development	**742 932**	**513 195**
in mining	629 734	429 759
in metallurgy	81 809	78 180
in other divisions	31 389	5 256
Replacement	**520 060**	**556 617**
in mining	355 363	403 748
of which mining machinery	190 486	194 485
in metallurgy	148 989	140 818
in other divisions	15 708	12 051
Total	**1 262 992**	**1 069 812**

For purposes of making decisions on the allocation of resources, internal reports on expenditures on tangible investments are presented with a breakdown by expenditures on development and replacements. In accordance with the accounting standards in force in the Company, the amount of investment comprises also expenditure on significant maintenance and on the significant spare parts of fixed assets, when it is probable that economic benefits will flow to the Company.

Segment profit or loss

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Sales	**15 945 032**	**11 060 540**
Interest income	62 748	82 487
Interest cost	(739)	(5 654)
Amortisation/depreciation	(615 468)	(547 653)
Revaluation of provisions for employee benefits	(29 766)	(142 535)
Gains on measurement and realisation of derivatives	463 604	261 582
Losses on measurement and realisation of derivatives	(1 635 888)	(800 219)
Income tax	(1 036 978)	(526 384)
Profit for the period	**4 568 589**	**2 540 185**
ROA* - return on assets (%)	23.0	18.2
ROE** - return on equity (%)	31.6	24.4
EBITDA *(EBIT + amortisation/depreciation)*	**6 253 616**	**3 645 745**

$$\text{*ROA (return on assets)} = \frac{\text{profit for the period}}{\text{total assets}} \times 100$$

$$\text{**ROE (return on equity)} = \frac{\text{profit for the period}}{\text{equity}} \times 100$$

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

4. Business segments (continuation)

Geographical areas

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

		For the period	
	Note	**from 1 January 2010 to 31 December 2010**	**from 1 January 2009 to 31 December 2009**
Poland		3 921 110	2 572 962
Germany		3 655 801	1 984 427
France		580 299	752 601
Great Britain		1 516 183	1 227 829
The Czech Republic		1 090 468	512 859
Austria		339 843	161 622
Hungary		411 799	239 023
China		1 890 685	1 674 218
Other countries		2 538 844	1 934 999
Total	**23**	**15 945 032**	**11 060 540**

Main clients

Main clients of the Company from whom revenues from sales achieved 10% of the KGHM Polska Miedź S.A. revenues**.**

	For the period from 1 January 2010 to 31 December 2010
Client 1	1 716 774
Client 2	1 641 879

	For the period from 1 January 2009 to 31 December 2009
Client 1	1 162 788
Client 2	1 144 349

5. Property, plant and equipment

	At	
	31 December 2010	**31 December 2009**
Land	16 093	15 990
Buildings	2 645 282	2 504 055
Technical equipment and machinery	2 583 179	2 472 024
Motor vehicles	55 474	48 693
Other fixed assets	14 390	15 623
Fixed assets under construction	1 236 693	881 128
Total	**6 551 111**	**5 937 513**

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

5. Property, plant and equipment (continuation)

Change in property, plant and equipment in the period from 1 January 2010 to 31 December 2010

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2010								
Gross carrying amount		15 990	6 136 839	5 801 992	146 557	63 996	884 074	**13 049 448**
Accumulated depreciation		-	(3 631 590)	(3 326 833)	(97 537)	(48 373)	-	**(7 104 333)**
Impairment losses		-	(1 194)	(3 135)	(327)	-	(2 946)	**(7 602)**
Net carrying amount		**15 990**	**2 504 055**	**2 472 024**	**48 693**	**15 623**	**881 128**	**5 937 513**
Changes in 2010								
Settlement of fixed assets under construction		114	281 168	582 019	15 933	2 954	(882 188)	**-**
Purchases		-	-	-	-	-	1 226 025	**1 226 025**
Self-constructed		-	-	-	-	-	11 453	**11 453**
Depreciation	24	-	(137 494)	(455 556)	(8 857)	(4 090)	-	**(605 997)**
Disposal, scrapping/decommissioning or write-off		-	(3 704)	(17 019)	(167)	(97)	-	**(20 987)**
Change in amount of provision for costs of decommissioning		-	(624)	-	-	-	-	**(624)**
Other changes		(11)	1 881	1 711	(128)	-	275	**3 728**
At 31 December 2010								
Gross carrying amount		16 093	6 355 195	6 111 776	155 341	63 087	1 239 639	**13 941 131**
Accumulated depreciation			(3 709 913)	(3 525 462)	(99 540)	(48 697)	-	**(7 383 612)**
Impairment losses		-		(3 135)	(327)	-	(2 946)	**(6 408)**
Net carrying amount		**16 093**	**2 645 282**	**2 583 179**	**55 474**	**14 390**	**1 236 693**	**6 551 111**

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

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2009								
Gross carrying amount		14 307	5 902 922	5 291 619	125 274	62 730	984 251	**12 381 103**
Accumulated depreciation		-	(3 543 609)	(3 179 465)	(90 099)	(46 494)	-	**(6 859 667)**
Impairment losses		-	-	(3 135)	(327)	-	(2 946)	**(6 408)**
Net carrying amount		**14 307**	**2 359 313**	**2 109 019**	**34 848**	**16 236**	**981 305**	**5 515 028**
Changes in 2009								
Settlement of fixed assets under construction		1 689	352 530	780 080	21 067	3 975	(1 159 341)	**-**
Purchases		-	-	-	-	-	1 041 441	**1 041 441**
Self-constructed		-	-	-	-	-	14 977	**14 977**
Depreciation	24		(123 151)	(402 858)	(7 574)	(4 574)	-	**(538 157)**
Disposal, scrapping/decommissioning or write-off		(6)	(6 308)	(14 038)	-	(14)	-	**(20 366)**
Reclassification from non-current assets classified as held for sale to property, plant and equipment		-	-	-	153	-	-	**153**
Change in amount of provision for costs of decommissioning		-	(77 221)	-	-	-	-	**(77 221)**
Other changes		-	86	(179)	199	-	2 746	**2 852**
Impairment losses		-	(1 194)	-		-	-	**(1 194)**
At 31 December 2009								
Gross carrying amount		15 990	6 136 839	5 801 992	146 557	63 996	884 074	**13 049 448**
Accumulated depreciation		-	(3 631 590)	(3 326 833)	(97 537)	(48 373)	-	**(7 104 333)**
Impairment losses		-	(1 194)	(3 135)	(327)	-	(2 946)	**(7 602)**
Net carrying amount		**15 990**	**2 504 055**	**2 472 024**	**48 693**	**15 623**	**881 128**	**5 937 513**

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

5. Property, plant and equipment (continuation)

Depreciation of property, plant and equipment used in production or in providing services was recognised as a cost of sales in the amount of PLN 592 410 thousand (for the period from 1 January to 31 December 2009, PLN 524 291 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 13 587 thousand (for period from 1 January to 31 December 2009, PLN 13 852 thousand). Depreciation was not recognised in selling costs in the reporting period (for period from 1 January to 31 December 2009, PLN 14 thousand).
KGHM Polska Miedź S.A. uses also property, plant and equipment (motor vehicles) based on a finance lease agreement in the gross amount at 31 December 2010 of PLN 297 thousand and accumulated depreciation of PLN 144 thousand (at 31 December 2009 the gross amount of PLN 464 thousand and accumulated depreciation of PLN 131 thousand).

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

	At							
	31 December 2010				**31 December 2009**			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	4 064	-	-	4 064	3 936	-	-	3 936
Buildings	68 412	1 693	38 491	29 921	71 267	1 773	38 273	32 994
Technical equipment and machinery	5 213	135	4 628	585	5 386	175	4 665	721
Other property, plant and equipment	694	12	657	37	852	9	827	25
Total	**78 383**	**1 840**	**43 776**	**34 607**	**81 441**	**1 957**	**43 765**	**37 676**

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

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Amount of compensation recognised in profit or loss	3 463	4 763

Major investment projects recognised at 31 December 2010 under fixed assets under construction

	Carrying amount
Construction of the SW-4 shaft	392 400
Głogów Głęboki – Przemysłowy	208 329
Ventilation and air conditioning equipment in the mines	215 643
Exchange of floatation machinery in the OEPs	60 872
Investments related to mining region infrastructural development in mines	48 216
Intensification of lead production – development of the 4th Doerschel furnace at the Głogów smelter	37 037
Power and communications infrastructure	35 353
Total	**997 850**

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

5. Property, plant and equipment (continuation)

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

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

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

	At	
	31 December 2010	**31 December 2009**
For the purchase of property, plant and equipment	721 753	211 596
For the purchase of intangible assets	15 725	11 470
Total capital commitments:	**737 478**	**223 066**

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

6. Intangible assets

	At 31 December 2010	At 31 December 2009
Development costs	850	1 046
Software	1 608	1 842
Acquired concessions, patents, licenses	20 223	24 876
Other intangible assets	33 389	33 672
Assets used in the exploration for and evaluation of mineral resources	16 318	790
Intangible assets not yet available for use	14 330	13 921
Total	**86 718**	**76 147**

Change in intangible assets in the period from 1 January 2010 to 31 December 2010:

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Assets used in the exploration for and evaluation of mineral resources	Intangible assets not yet available for use	Total
At 1 January 2010								
Gross carrying amount		8 654	18 822	67 605	37 825	790	14 714	**148 410**
Accumulated amortisation		(7 608)	(16 980)	(42 729)	(4 153)	-	-	**(71 470)**
Impairment losses		-	-	-	-	-	(793)	**(793)**
Net carrying amount		**1 046**	**1 842**	**24 876**	**33 672**	**790**	**13 921**	**76 147**
Changes in 2010								
Transfer from intangible assets not yet available for use		213	353	3 048	491	-	(4 105)	**-**
Purchases		-	-	-	-	15 528	4 985	**20 513**
Other changes		-	-	-	-	-	(471)	**(471)**
Amortisation	24	(409)	(587)	(7 701)	(774)	-	-	**(9 471)**
At 31 December 2010								
Gross carrying amount		8 807	19 053	70 642	38 316	16 318	15 124	**168 260**
Accumulated amortisation		(7 957)	(17 445)	(50 419)	(4 927)	-	-	**(80 748)**
Impairment losses		-	-	-	-	-	(794)	**(794)**
Net carrying amount		**850**	**1 608**	**20 223**	**33 389**	**16 318**	**14 330**	**86 718**

In the current period, the Company capitalised expenditures for exploration and evaluation of mineral resources incurred in the amount of PLN 15 528 thousand for management of the „Szklary" Nickel deposit and management of new reserve regions „Gaworzyce" and „Radwanice".

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

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Assets used in the exploration for and evaluation of mineral resources	Intangible assets not yet available for use	Total
At 1 January 2009								
Gross carrying amount		8 551	18 734	63 510	37 509	930	15 155	**144 389**
Accumulated amortisation		(7 207)	(16 484)	(35 620)	(3 381)	-	-	**(62 692)**
Impairment losses		-	-	-	-	-	(793)	**(793)**
Net carrying amount		**1 344**	**2 250**	**27 890**	**34 128**	**930**	**14 362**	**80 904**
Changes in 2009								
Transfer from intangible assets not yet available for use		239	324	4 441	316	-	(5 320)	**-**
Purchases		-	-	-	-	35	5 044	**5 079**
Other changes		-	-	-	-	(175)	(165)	**(340)**
Amortisation	24	(537)	(732)	(7 455)	(772)	-	-	**(9 496)**
At 31 December 2009								
Gross carrying amount		8 654	18 822	67 605	37 825	790	14 714	**148 410**
Accumulated amortisation		(7 608)	(16 980)	(42 729)	(4 153)	-	-	**(71 470)**
Impairment losses		-	-	-	-	-	(793)	**(793)**
Net carrying amount		**1 046**	**1 842**	**24 876**	**33 672**	**790**	**13 921**	**76 147**

At 31 December 2010, the major item of Other intangible assets is the documentation relating to geological information on the "Głogów Głęboki" deposit, with a carrying amount of PLN 28 088 thousand and the remaining amortisation period of 44 years (at 31 December 2009: PLN 28 735 thousand) and the established mining usufruct for extracting copper ore from the "Głogów Głęboki Przemysłowy" deposit with a carrying amount of PLN 3 820 thousand and the remaining amortisation period of 45 years (at 31 December 2009: PLN 3 907 thousand).
The amortisation of intangible assets utilised in the production or in the providing of services was recognised as cost of sales in the amount of PLN 8 604 thousand (for the period from 1 January to 31 December 2009: PLN 8 573 thousand). The amortisation of other intangible assets was recognised in administrative expenses in the amount of PLN 867 thousand (for the period from 1 January to 31 December 2009: PLN 923 thousand).

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

6. Intangible assets (continuation)

Perpetual usufruct rights of land

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

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

The Company received these rights free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the core business of the Company, which also includes protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company.
Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights at 31 December 2010.

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

Total value of future minimum fees due to perpetual usufruct of land	At	
	31 December 2010	**31 December 2009**
Under one year	7 235	6 047
From one to five years	29 533	26 401
Over five years	372 006	349 598
Total:	**408 774**	**382 046**

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Fees due to perpetual usufruct of land recognised in profit or loss	**7 212**	**6 044**

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

7. Investments in subsidiaries and associates

	Shares and investment certificates in subsidiaries	**Investments in associates**
At 1 January 2010		
Amount at cost	3 236 002	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 1 January 2010	**1 915 224**	**1 159 947**
Changes in 2010		
- acquisition of shares	454 403	-
- acquisition of newly issued shares	274 925	-
- sale of shares	(1 500)	-
- adjustment of cost due to refund of a tax on civil-law transactions	(6)	-
At 31 December 2010		
Amount at cost	3 963 824	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 31 December 2010	**2 643 046**	**1 159 947**
At 1 January 2009		
Amount at cost	3 065 832	1 163 640
Impairment losses	(1 270 819)	-
Net carrying amount at 1 January 2009	**1 795 013**	**1 163 640**
Changes in 2009		
- acquisition of shares	2 800	-
- acquisition of newly issued shares	167 370	-
- impairment losses	(49 959)	-
- adjustment of cost due to refund of a tax on civil-law transactions	-	(3 693)
At 31 December 2009		
Amount at cost	3 236 002	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 31 December 2009	**1 915 224**	**1 159 947**

In 2010 KGHM Polska Miedź S.A. acquired shares and certificates of close-end non-public investment funds in the following entities:

	acquisition value
KGHM I FIZAN	347 814
KGHM II FIZAN	7 350
KGHM III FIZAN	5 000
KGHM HMS Bergbau AG	1 611
BIPROMET S.A.	30 812
INOVA Spółka z o.o.	13 185
DFM ZANAM – LEGMET Sp. z o.o.	48 631
Total:	**454 403**

and acquired newly issued shares in the following Companies:

	acquisition value
Zagłębie Lubin S.A.	48 035
KGHM Ecoren S.A.	115 231
KGHM AJAX MINING INC.	109 763
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	1 896
Total:	**274 925**

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

7. Investments in subsidiaries and associates (continuation)

Investments in subsidiaries (direct share) as at 31 December 2010

Entity	Head office	Subject of activities	% of share capital held	% of voting power	Indirect share	Carrying amount of shares/ investment certificates
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	-	5 125
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100	-	824 926
„Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	-	402 305
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100	-	8 506
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	-	387 287
KGHM HMS Bergbau AG	Berlin	copper and other deposits exploring and mining	74.90	74.90	-	1 611
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	-	347 814
KGHM II FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	-	7 350
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	-	5 000
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100	-	925
KGHM LETIA S.A	Legnica	promotion of innovation	85.45	85.45	-	23 552
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	-	13 470
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100	-	6 903
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	-	2 800
„MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	-	36 286
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	-	84 122
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	-	32 133
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	-	150 569
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	-	98 076
DFM ZANAM – LEGMET Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	-	48 631
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	-	13 185
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	-	1 895
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	51	51	-	109 763
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	-	30 812
						2 643 046

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

7. Investments in subsidiaries and associates (continuation)

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

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

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

7. Investments in subsidiaries and associates (continuation)

Financial information on an associate

	At	
	31 December 2010	**31 December 2009 ***
	POLKOMTEL S.A.	POLKOMTEL S.A.
Head office	Warsaw	Warsaw
% of share capital held	24.39	24.39
% of voting power	24.39	24.39
Total assets	7 965 918	8 425 970
Non-current liabilities	1 892 622	940 432
Current liabilities	2 321 642	4 282 778

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009 ***
Sales	7 672 409	7 773 120
Profit for the period	1 150 159	981 747

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

8. Available-for-sale financial assets

	Note	At	
		31 December 2010	**31 December 2009**
Shares in unlisted companies		9 500	9 770
Shares in listed companies		740 324	-
Share in investment fund		-	7 930
Non-current available-for-sale financial assets	**29**	**749 824**	**17 700**
Participation units of liquidity open-end investment funds		405 193	-
Current available-for-sale financial assets	**29**	**405 193**	**-**
Available-for-sale financial assets, total	**29**	**1 155 017**	**17 700**

The increase in the value of assets available for sale in the reporting period was due to the acquisition and fair value measurement on the last day of the reporting period of the shares of Tauron Polska Energia S.A. and Abacus Mining & Exploration Corp., as well as the acquisition and measurement of participation units of liquidity open-ended investment funds.

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

9. Held-to-maturity investments

	Note	At 31 December 2010	At 31 December 2009
Monetary resources of the Mine Closure Fund		84 115	67 097
Total non-current held-to-maturity investments	**29**	**84 115**	**67 097**
Monetary resources of the Mine Closure Fund		4 129	580
Total current held-to-maturity investments	**29**	**4 129**	**580**
Total held-to-maturity investments	**29**	**88 244**	**67 677**

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

Management of the MCF assets primarily involves their investment in bank deposits or debt securities with a maturity of up to 1 year from the date of acquisition, and interests from these investments increase the value of the Fund. At 31 December 2010 the balance of held-to-maturity investments comprised MCF bank deposits in the amount of PLN 88 240 thousand and cash on MCF bank account in the amount of PLN 4 thousand.
Utilisation of the MCF assets will be carried out in accordance with the approved schedule for closing the mines. A portion of these assets, which the Company plans to make use of within 12 months from the end of the reporting period, is presented in current held-to-maturity investments. The remainder of the assets, which are planned to be utilised in future years, is presented in non-current held-to-maturity investments, due to the restriction placed on their use to settle liabilities for at least twelve months from the end of the reporting period, despite the fact that the resources of this Fund are invested in current financial instruments (IAS 1.57(d)).
Information on the fair value of held-to-maturity investments was presented in Note 29.2.

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

10. Derivatives

	Note	At 31 December 2010	At 31 December 2009
Non-current assets			
hedging instruments		402 234	57 636
trade instruments		1 605	398
Non-current assets due to derivatives, total:		**403 839**	**58 034**
Current assets			
hedging instruments		211 186	125 130
trade instruments		5 574	1 353
instruments initially designated as hedging instruments excluded from hedge accounting		77 261	136 764
Current assets due to derivatives, total:		**294 021**	**263 247**
Total assets due to derivatives	**29**	**697 860**	**321 281**
Non-current liabilities			
hedging instruments		606 154	54 867
trade instruments		105 426	6 487
Non-current liabilities due to derivatives, total:		**711 580**	**61 354**
Current liabilities			
hedging instruments		294 161	76 441
trade instruments		187 237	196 568
instruments initially designated as hedging instruments excluded from hedge accounting		454	494
Current liabilities due to derivatives, total:		**481 852**	**273 503**
Total liabilities due to derivatives	**29**	**1 193 432**	**334 857**

10. Derivatives (continuation)

TRADE INSTRUMENTS

Type of derivative	Volume/ Notional Cu [t] Currency ['000 USD]	Avg. weighted price/ex. rate Cu [USD/t] Currency [USD/PLN]	At 31 December 2010 Financial assets Current	 Financial assets Non-current	 Financial liabilities Current	 Financial liabilities Non-current	At 31 December 2009 Financial assets Current	 Financial assets Non-current	 Financial liabilities Current	 Financial liabilities Non-current
Derivatives – Commodity contracts - Metals - Copper										
Swaps/forwards										
Swap/forwards - purchased	250	9 089.26	375							
Options										
Sold call options	5 744	1			(98 644)	(61 438)			(30 514)	(6 089)
Purchased put options	117 000	4 700	742	1 605			860	398		
Sold put options	234 000	4 683			(742)	(23 580)			(860)	(398)
TOTAL			**1 117**	**1 605**	**(99 386)**	**(85 018)**	**860**	**398**	**(31 374)**	**(6 487)**
Derivatives – Currency contracts										
Options USD										
Purchased call options	180 000	4.4000	454				493			
Purchased put options	360 000	2.4000	4 003							
Purchased call options										
Sold call options									(28 430)	
Sold put options	810 000	2.7222			(87 851)	(20 408)			(136 764)	
TOTAL			**4 457**		**(87 851)**	**(20 408)**	**493**		**(165 194)**	
TOTAL TRADE INSTRUMENTS			**5 574**	**1 605**	**(187 237)**	**(105 426)**	**1 353**	**398**	**(196 568)**	**(6 487)**

10. Derivatives (continuation)

HEDGING INSTRUMENTS	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2010				At 31 December 2009			
							Financial assets		Financial liabilities		Financial assets		Financial liabilities	
Type of derivative	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	**From**	**Till**	**From**	**Till**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper														
Options														
Purchased put options											39 315	5 424		
Collar	19 500	6 700-8 800	Jan 11	June 11	Feb 11	July 11	817		(61 730)		18 797	48 847	(76 441)	(54 867)
Collar- seagull	234 000	7 008-9 383	Jan 11	June 13	Feb 11	July 13	26 198	208 333	(224 011)	(593 707)				
Purchased put options – producer's put	58 500	8 000	Jan 11	June 12	Feb 11	July 12	25 300	45 704						
TOTAL							**52 315**	**254 037**	**(285 741)**	**(593 707)**	**58 112**	**54 271**	**(76 441)**	**(54 867)**
Derivatives – Commodity contracts - Metals - Silver														
Options														
Purchased put options	3 600	20	Jan 11	Dec 11	Feb 11	Jan 12	1 333	406			23 465	3 365		
TOTAL							**1 333**	**406**			**23 465**	**3 365**		
Derivatives – Currency contracts														
Options USD														
Purchased put options	750 000	2.8470	Jan 11	Dec 11	Jan 11	Dec 11	86 063				43 553			
Collar	180 000	3.4000 – 4.4500	Jan 12	Dec 12	Jan 12	Dec 12		79 369		(5 678)				
Collar- seagull	630 000	3.0714-4.000	Jan 11	Dec 12	Jan 11	Dec 12	71 475	68 422	(8 420)	(6 769)				
TOTAL							**157 538**	**147 791**	**(8 420)**	**(12 447)**	**43 553**			
TOTAL HEDGING INSTRUMENTS							**211 186**	**402 234**	**(294 161)**	**(606 154)**	**125 130**	**57 636**	**(76 441)**	**(54 867)**

10. Derivatives (continuation)

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING							**At 31 December 2010**				**At 31 December 2009**			
	Volume/ Notional	**Avg. weighted price/ ex. rate**	**Maturity/ settlement period**		**Period of profit/loss impact**		**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative	Currency ['000 USD]	Currency [USD/PLN]	**From**	**Till**	**From**	**Till**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Currency contracts														
Options USD														
Collar	180 000	3.4000 – 4.4500	Jan 11	Dec 11	Jan 11	Dec 11	77 261		(454)		136 764		(494)	
TOTAL							**77 261**		**(454)**		**136 764**		**(494)**	
TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING							**77 261**		**(454)**		**136 764**		**(494)**	

Derivatives initially designated as hedging instruments under IAS 39 which, due to the restructure of hedging positions, changed their nature, i.e. a change from hedging transactions to trade transactions, were excluded from hedge accounting and are presented as a separate category of financial instruments in the table „Instruments initially designated as hedging instruments excluded from hedge accounting".

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

11. Trade and other receivables

	Note	At 31 December 2010	At 31 December 2009
Non-current trade and other receivables			
Payment to subsidiaries		45 210	44 512
Other financial receivables		1 149	1 246
Loans granted		40 240	64 402
Total loans and financial receivables, net	**29**	**86 599**	**110 160**
Other non-financial receivables		8	11
Prepayments		1	2
Total non-financial receivables, net		**9**	**13**
Non-current trade and other receivables, net		**86 608**	**110 173**
Current trade and other receivables			
Trade receivables		1 735 014	1 024 785
Deposits		351 130	-
Loans granted		6 551	13 642
Payment to subsidiaries		15 955	12 104
Other financial receivables		43 301	16 819
Impairment allowances	30.3.6	(29 600)	(25 582)
Total loans and financial receivables, net	**29**	**2 122 351**	**1 041 768**
Other non-financial receivables, including:		284 558	284 121
Taxes, social and health security and other charges		202 451	268 714
Prepayments		2 526	2 295
Impairment allowances		(15 449)	(13 586)
Total current non-financial receivables, net		**271 635**	**272 830**
Total current trade and other receivables, net		**2 393 986**	**1 314 598**
Total current and non-current trade and other receivables, net		**2 480 594**	**1 424 771**

Impairment allowances on non-financial receivables

	Note	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
Impairment allowances at the beginning of the period		**13 586**	**23 859**
Impairment allowances recognised in profit or loss	27	3 358	389
Impairment allowances reversed through profit or loss	26	(1 484)	(1 559)
Impairment allowances on costs of legal proceedings		2	3
Impairment allowances utilised during the period		(10)	(9 015)
Reversal of impairment allowances on costs of legal proceedings		(3)	(91)
Impairment allowances at the end of the period		**15 449**	**13 586**

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

12. Inventories

	At	
	31 December 2010	**31 December 2009**
Materials	167 496	222 307
Half-finished products and work in progress	1 649 380	1 422 229
Finished goods	194 509	243 200
Merchandise	8	2 550
Total carrying amount of inventories	**2 011 393**	**1 890 286**

	Note	For the period	
Write-down of inventories in the financial period		**from 1 January 2010 to 31 December 2010**	**from 1 January 2009 to 31 December 2009**
Write-down of inventories recognised in cost of sales	24	802	1 537
Reversal of write-down recognised in cost of sales	24	374	1 362

At 31 December 2010 the Company did not identify basic products inventories whose net realisable value would be lower than their costs.

At 31 December 2010, the balance of merchandise includes property rights resulting from certificates of origin for energy from renewable resources and cogeneration in the amount of PLN 8 thousand, with respect to green energy (23 817 allowances), yellow energy (24 606 allowances) and red energy (22 200 allowances).
In accordance with executive regulations respecting property rights, the Company, based on the amount of energy sold to end users, are required to present for redemption property rights resulting from certificates of origin in the following amounts:
- 15 703 734 allowances - green energy,
- 4 680 922 allowances - yellow energy,
- 32 162 455 allowances - red energy.

For the acquisition of lacking rights for obligatory redemption the Company created a provision in the amount of PLN 5 596 thousand for the purchase of 15 679 917 allowances for green energy, 4 656 316 allowances for yellow energy and 32 140 255 allowances for red energy or making substitute fees.

13. Cash and cash equivalents

	Note	At	
		31 December 2010	**31 December 2009**
Cash in hand		56	63
Cash at bank		50 178	8 622
Other financial assets with a maturity of up to 3 months from the date of acquisition		2 545 295	966 513
Total cash and cash equivalents	**29**	**2 595 529**	**975 198**

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 2 538 807 thousand (as at 31 December 2009: PLN 965 222 thousand), and deposit interest in the amount of PLN 6 488 thousand (as at 31 December 2009: PLN 1 291 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.

14. Non-current assets held for sale

At 31 December 2010 in the statement of financial position, the item held-for-sale non-current assets includes: property, plant and equipment - an automobile in the amount of PLN 4 thousand (at 31 December 2009 the item held-for-sale non-current assets in the amount of PLN 224 thousand included property, plant and equipment: a helicopter and an automobile).

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

15. Share capital

At 31 December 2010, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share gives the right to one vote at the General Meeting. The Company does not have treasury shares.
Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2010 and 31 December 2009 there were no changes in the registered share capital or in the number of shares.

During 2010 the State Treasury, which at 31 December 2009 held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and the same number of votes at the General Meeting, decreased its share in the share capital of the Company. On 8 January 2010, 20 000 000 shares of KGHM Polska Miedź S.A. were sold on a regulated market, directed to qualified investors. In 2009 there were no changes in significant blocks of shares of KGHM Polska Miedź S.A.

At 31 December 2010 and at the date of preparation of these financial statements, the shareholder structure of the Company is as follows:

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

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

16. Accumulated other comprehensive income

	Note	Accumulated other comprehensive income due to: Available-for-sale financial assets	Accumulated other comprehensive income due to: Cash flow hedging financial instruments	Total accumulated other comprehensive income
At 1 January 2010		**1 489**	**125 739**	**127 228**
Fair value gains on available-for-sale financial assets		152 734	-	152 734
Impact of effective cash flow hedging transactions entered into	30	-	97 786	97 786
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(4 715)	-	(4 715)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	30	-	(142 187)	(142 187)
Deferred income tax	20	(28 123)	8 436	(19 687)
Other comprehensive income		**119 896**	**(35 965)**	**83 931**
At 31 December 2010		**121 385**	**89 774**	**211 159**
At 1 January 2009		**10 265**	**508 483**	**518 748**
Fair value losses on available-for-sale financial assets		(3 334)	-	(3 334)
Impact of effective cash flow hedging transactions entered into	30	-	(39 337)	(39 337)
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(7 500)	-	(7 500)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	30	-	(433 187)	(433 187)
Deferred income tax	20	2 058	89 780	91 838
Other comprehensive income		**(8 776)**	**(382 744)**	**(391 520)**
At 31 December 2009		**1 489**	**125 739**	**127 228**

Accumulated other comprehensive income components

	At 31 December 2010		At 31 December 2009	
	Gross value	**Net value**	**Gross value**	**Net value**
Accumulated other comprehensive income due to available-for-sale financial assets	**149 857**	**121 385**	**1 838**	**1 489**
Fair value gains	149 857	121 385	1 838	1 489
Accumulated other comprehensive income due to cash flow hedging instruments	**110 832**	**89 774**	**155 233**	**125 739**
Gains on measurement	110 832	89 774	155 233	125 739
Total accumulated other comprehensive income	**260 689**	**211 159**	**157 071**	**127 228**

Accumulated other comprehensive income is not subject to distribution.

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

17. Retained earnings

	Note	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Profit/(loss) from prior years	Retained earnings, total
At 1 January 2010		**660 000**	**5 076 544**	**2 540 185**	**8 276 729**
Profit for the period		**-**	**-**	**4 568 589**	**4 568 589**
Transfer to reserve capital		-	1 940 185	(1 940 185)	**-**
Dividend approved and paid	33	-	-	(600 000)	(600 000)
At 31 December 2010		**660 000**	**7 016 729**	**4 568 589**	**12 245 318**
At 1 January 2009		**660 000**	**4 492 166**	**2 920 378**	**8 072 544**
Profit for the period		**-**	**-**	**2 540 185**	**2 540 185**
Transfer to reserve capital		-	584 378	(584 378)	**-**
Dividend approved and paid		-	-	(2 336 000)	(2 336 000)
At 31 December 2009		**660 000**	**5 076 544**	**2 540 185**	**8 276 729**

Based on the Commercial Partnerships and Companies Code, the Company is required to create reserve capital for any potential (future) or existing losses, to which no less than 8 percent of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
At 31 December 2010 this statutory reserve capital in the Company amounts to PLN 660 000 thousand, and is recognised in equity under retained earnings.

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

18. Trade and other payables

	Note	At 31 December 2010	At 31 December 2009
Non-current trade and other payables			
Trade payables		2 232	3 901
of which payables due to purchase, construction of property, plant and equipment and intangible assets		1 379	1 866
Other financial liabilities		10 683	12 382
Total financial liabilities (scope of IFRS7)	**29**	**12 915**	**16 283**
Deferred income		1 334	1 189
Total non-financial liabilities		**1 334**	**1 189**
Total non-current trade and other payables		**14 249**	**17 472**
Current trade and other payables			
Trade payables		850 478	605 070
of which payables due to purchase, construction of property, plant and equipment and intangible assets		300 612	179 315
Payables due to unsettled derivatives		49 690	30 611
Other financial liabilities		10 283	14 730
Total financial liabilities (scope of IFRS7)	**29**	**910 451**	**650 411**
Other financial liabilities (IAS 19 – Employee benefits)		140 009	125 219
Total financial liabilities		**1 050 460**	**775 630**
Liabilities due to taxes and social security		200 055	176 052
Other non-financial liabilities		41 973	34 542
Special funds		110 013	85 216
Deferred income		741	840
Accruals		324 697	303 769
Total non-financial liabilities		**677 479**	**600 419**
Total current trade and other payables		**1 727 939**	**1 376 049**
Total non-current and current trade and other payables		**1 742 188**	**1 393 521**

The amount of payables due to unsettled derivatives represent the derivatives whose date of settlement falls on 5 January 2011 for the balance at 31 December 2010 and 5 January 2010 for the balance at 31 December 2009.
These instruments were measured to fair value at the average settlement price for the month of December 2010 and of December 2009. For details see note 30.1.8.
At 31 December 2010 the largest item in accruals is a provision for future payment due to the annual bonus in the amount of PLN 264 703 thousand (at 31 December 2009, PLN 242 978 thousand). The annual bonus is paid after approval of the financial statements in accordance with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.

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

19. Borrowings and finance lease liabilities

	Note	At 31 December 2010	At 31 December 2009
Non-current loans and finance lease liabilities			
Finance lease liabilities		8 490	11 576
Total non-current loans and finance lease liabilities		**8 490**	**11 576**
Current loans and finance lease liabilities			
Loans		-	3 005
Finance lease liabilities		2 965	3 104
Total current loans and finance lease liabilities		**2 965**	**6 109**
Total loans and finance lease liabilities	**29**	**11 455**	**17 685**

19.1 Finance lease liabilities

As at 31 December 2010, the largest item in finance lease liabilities is a liability with a carrying amount of PLN 11 310 thousand (EUR 2 885 thousand), which results from an agreement with the State Treasury. Based on this agreement the State Treasury provides access to geological information for a fee. This information was acquired with the purpose to prepare a licensing application to obtain a license for the extraction of ore from the Głogów Głęboki - Przemysłowy deposit. This license was granted in November 2004. Payments to the State Treasury are being made in 10 equal instalments. The last instalment will be settled on 30 June 2014. Those non interest-bearing liabilities were recognised in the books of the Company at a discounted amount. The carrying amount of the related intangible assets at the end of the reporting period amounts to PLN 28 088 thousand.

Finance lease liabilities as at 31 December 2010

	2011 (current)	2012	2013	2014	Total
Nominal value of minimum lease payments	**2 995**	**2 995**	**2 968**	**2 931**	**11 889**
Future finance costs due to finance leases	(30)	(67)	(130)	(207)	**(434)**
Present value of minimum lease payments	**2 965**	**2 928**	**2 838**	**2 724**	**11 455**

Finance lease liabilities as at 31 December 2009

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

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

20. Deferred tax

		For the period	
	Note	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Deferred tax assets at the beginning of the reporting period		601 467	499 221
Deferred tax liabilities at the beginning of the reporting period		434 405	530 737
Net deferred tax (liabilities)/assets at the beginning of the reporting period		**167 062**	**(31 516)**
Changes during the year			
Charged to profit for the period	31	(326 065)	(246 483)
Credited to profit for the period	31	538 523	353 223
Decrease in accumulated other comprehensive income	16	(231 257)	(155 864)
Increase in accumulated other comprehensive income	16	211 570	247 702
Net deferred tax assets at the end of the reporting period, of which:		**359 833**	**167 062**
Deferred tax assets at the end of the reporting period		865 443	601 467
Deferred tax liabilities at the end of the reporting period		505 610	434 405

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

20. Deferred tax (continuation)

Deferred tax assets prior to offsetting

	At 1 January 2010 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences and tax loss	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 31 December 2010 based on the rate of 19%**
Interest	1	(1)	-	**-**
Allowances for impairment of receivables	8 335	(5 359)	-	**2 976**
Short-term accruals for salaries	51 038	3 990	-	**55 028**
Employee benefits (holidays)	3 064	(572)	-	**2 492**
Provision for decommissioning of mines and other facilities	99 453	2 344	-	**101 797**
Measurement of forward transactions	174 330	254 150	-	**428 480**
Depreciation differences	19 330	1 484	-	**20 814**
Liabilities due to future employee benefits	226 387	5 658	-	**232 045**
Unpaid salaries with surcharges	10 986	1 112	-	**12 098**
Other	8 543	1 170	-	**9 713**
Total	**601 467**	**263 976**	**-**	**865 443**

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

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

20. Deferred tax (continuation)

Deferred tax liabilities prior to offsetting

	At 1 January 2010 based on the rate of 19%	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 31 December 2010 based on the rate of 19%**
Interest	429	1 176	-	**1 605**
Measurement of forward transactions	37 138	29 401	-	**66 539**
Re-measurement of hedging instruments	29 494	-	(8 436)	**21 058**
Depreciation differences	365 977	21 793	-	**387 770**
Measurement of available-for-sale financial assets	350	-	28 123	**28 473**
Other	1 017	(852)	-	**165**
Total	**434 405**	**51 518**	**19 687**	**505 610**

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

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

21. Employee benefits

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

Changes in future employee benefits

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Post-mortem benefit
Present value of obligations - at 1 January 2010	**25**	**1 199 110**	**232 680**	**188 436**	**753 304**	**24 690**
Interest costs		**66 104**	12 549	10 559	41 592	1 404
Current service cost		**36 140**	14 263	10 066	11 074	737
Benefits paid		**(80 106)**	(34 821)	(11 847)	(32 315)	(1 123)
Actuarial losses/(gains)		**5 942**	12 605	2 819	(9 596)	114
Present value of obligations - at 31 December 2010	**25**	**1 227 190**	**237 276**	**200 033**	**764 059**	**25 822**
Past service cost unrecognised at the end of the reporting period		**(5 903)**	-	(5 903)	-	-
Carrying amount of liabilities - at 31 December 2010		**1 221 287**	**237 276**	**194 130**	**764 059**	**25 822**
of which:						
Carrying amount of non-current liabilities		**1 128 246**	209 007	166 704	729 007	23 528
Carrying amount of current liabilities		**93 041**	28 269	27 426	35 052	2 294
Present value of obligations - at 1 January 2009	**25**	**1 058 261**	**242 300**	**180 891**	**635 070**	**-**
Interest costs		**57 605**	12 793	9 716	34 400	696
Current service cost		**33 135**	13 967	9 629	9 166	373
Benefits paid		**(80 985)**	(33 359)	(17 665)	(28 844)	(1 117)
Actuarial losses/(gains)		**131 094**	(3 021)	5 865	103 512	24 738
Present value of obligations - at 31 December 2009	**25**	**1 199 110**	**232 680**	**188 436**	**753 304**	**24 690**
Past service cost unrecognised at the end of the reporting period		**(7 589)**	-	(7 589)	-	-
Carrying amount of liabilities - at 31 December 2009		**1 191 521**	**232 680**	**180 847**	**753 304**	**24 690**
of which:						
Carrying amount of non-current liabilities		**1 098 399**	198 555	158 855	718 675	22 314
Carrying amount of current liabilities		**93 122**	34 125	21 992	34 629	2 376

Present value of future employee benefits

At	Present value
31 December 2010	1 227 190
31 December 2009	1 199 110
31 December 2008	1 058 261
31 December 2007	930 256
31 December 2006	879 756

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

21. Employee benefits (continuation)

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

Total costs recognised in profit or loss	**Note**	**For the period** from 1 January 2010 to 31 December 2010	**For the period** from 1 January 2009 to 31 December 2009
Interest costs		66 104	57 605
Current service cost		36 140	33 135
Actuarial losses		5 942	131 094
Past service cost	25	1 686	1 686
		109 872	**223 520**

Main actuarial assumptions at 31 December 2010:	**2011**	**2012**	**2013**	**2014**	**2015 and beyond**
- discount rate	5.50%	5.50%	5.50%	5.50%	5.50%
- rate of increase in coal prices	0.00%	3.00%	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	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	3.50%	4.00%	4.00%	4.00%	4.00%

Main actuarial assumptions at 31 December 2009:	**2010**	**2011**	**2012**	**2013**	**2014 and beyond**
- discount rate	5.50%	5.60%	5.60%	5.60%	5.60%
- rate of increase in coal prices	6%/15%*	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	7.00%	4.00%	4.00%	4.00%	4.00%

* The Divisions of KGHM Polska Miedź S.A. as separate employers assumed a rate of increase in coal prices at the level of 6% or 15% based on specific conditions agreed with the divisional trade unions.

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

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

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

22. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2010		**533 306**	**510 903**	**5 307**	**1 507**	**15 589**
Provisions recognised		**2 083**	217	293	1 271	302
Changes in provisions arising from updating of estimates		**(1 691)**	(1 523)	-	-	(168)
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount)	28	**32 174**	31 842	-	-	332
Utilisation of provisions		**(6 961)**	(4 590)	-	(327)	(2 044)
Release of provisions		**(1 522)**	(987)	-	(476)	(59)
Transfer to Mine Closure Fund		**(21 856)**	(21 856)	-	-	-
Provisions at 31 December 2010		**535 533**	**514 006**	**5 600**	**1 975**	**13 952**
of which:						
Non-current provisions		**517 749**	**500 739**	**4 546**	**-**	**12 464**
Current provisions		**17 784**	**13 268**	**1 054**	**1 975**	**1 487**

	Note	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2009		**634 790**	**602 925**	**5 721**	**4 832**	**21 312**
Provisions recognised		**5 658**	3 919	-	1 507	232
Changes in provisions arising from updating of estimates		**(108 874)**	(109 084)	(48)	-	258
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount)	28	**29 764**	29 171	134	-	459
Utilisation of provisions		**(6 228)**	(2 790)	-	(1 812)	(1 626)
Release of provisions		**(9 373)**	(807)	(500)	(3 020)	(5 046)
Transfer to Mine Closure Fund		**(17 508)**	(17 508)	-	-	-
Other		**5 077**	5 077		-	-
Provisions at 31 December 2009		**533 306**	**510 903**	**5 307**	**1 507**	**15 589**
of which:						
Non-current provisions		**515 619**	**501 850**	**-**	**-**	**13 769**
Current provisions		**17 687**	**9 053**	**5 307**	**1 507**	**1 820**

22. Provisions for other liabilities and charges (continuation)

As at 31 December 2010 the largest item of provisions for other liabilities is the assessment for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying value of PLN 514 007 thousand (as at 31 December 2009: PLN 510 903 thousand), estimated in accordance with the methodology defined in the International Financial Reporting Standards. The increase in the provision in 2010 was mainly caused by the change in long term forecast yield on bonds.
The programme and schedule of decommissioning of technological facilities and estimates of decommissioning costs have been worked on since 2001 in cooperation with the subsidiary, KGHM Cuprum Sp. z o.o. CBR. Revaluations of the basic decommissioning costs originally calculated in 2001 are made periodically based on the changes of the price index for the construction–assembly industry, which are published by the Main Statistical Office, and movements in tangible fixed assets encompassed by the plan.

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

In 2009 the process of decommissioning shafts and surface facilities in the Polkowice Wschodnie region of the Polkowice–Sieroszowice mine was completed. A detailed analysis of the process of decommissioning this region was the justifying basis for preparing a new assessment of the costs of decommissioning of other shafts and shaft towers in the mines of KGHM Polska Miedź S.A. An analogous update was made of the forecast restoration costs for the Polkowice Wschodnie region to current market conditions, and represented the basis for adjusting the estimated restoration costs of the remaining shaft regions in the mines of KGHM Polska Miedź S.A. In addition, a significant adjustment was made in the costs of maintaining the mine during the decommissioning period and to the labour costs incurred as a result of decommissioning underground facilities, reflecting the expanded scope of these activities and the change in pricing conditions which has occurred since the last update in 2007.

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

The amount of the provision recognised in the statement of financial position is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value. The amount of the provision is revalued by the Company at the end of each quarter by applying in the model the discounting ratios described in Note 3.5.

The balance of the decommissioning provision is adjusted for the amount transferred to the Mine Closure Fund of KGHM Polska Miedź S.A., which has been created based on article 26c of the act dated 27 July 2001 amending the act – Geological and Mining Law (Journal of Laws No. 110, item 1190), and calculated in accordance with principles set forth in the Decree of the Minister of the Economy dated 24 June 2002 concerning detailed principles for creation and functioning of mine closure funds, i.e. 5% of depreciation of the mines' fixed assets for each year which is set in accordance with the Corporate Income Tax Act. Cash transfers made to the Mine Closure Fund are invested by the Company in secure short-term securities or short-term deposits. Income from these investments increases the Fund's balance, and the Company does not charge any fee for this cash management.

22. Provisions for other liabilities and charges (continuation)

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

Provisions by the facilities of the highest importance in the amount of provision for decommissioning of mines and other technological facilities at 31 December 2010

Division	Facility	'000 PLN
Tailings Plant	"Żelazny Most" tailings pond	92 328
Tailings Plant	Other waste storage areas	44 460
Rudna Mine	Central part of Rudna Mine (shafts: RI, RII, RV)	41 325
Ore Enrichment Plant	Rudna OEP	39 789
Ore Enrichment Plant	Polkowice OEP	38 517
Polkowice-Sieroszowice Mine	Western part of Polkowice Mine (shafts: P-I, P-II)	31 764
Ore Enrichment Plant	Lubin OEP	30 979
Lubin Mine	Central part of Lubin Mine (shafts: LI, LII)	26 937
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	25 642
Lubin Mine	Western part of Lubin Mine (shafts: LIV,LV)	24 038

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

Division	Facility	'000 PLN
Tailings Plant	"Żelazny Most" tailings pond	87 252
Tailings Plant	Other waste storage areas	43 003
Rudna Mine	Central part of Rudna Mine (shafts: RI, RII, RV)	38 917
Ore Enrichment Plant	Rudna OEP	37 435
Ore Enrichment Plant	Polkowice OEP	36 479
Polkowice-Sieroszowice Mine	Western part of Polkowice Mine (shafts: P-I, P-II)	29 938
Ore Enrichment Plant	Lubin OEP	29 340
Lubin Mine	Central part of Lubin Mine (shafts: LI, LII)	25 561
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	24 148
Lubin Mine	Western part of Lubin Mine (shafts: LIV,LV)	22 800

23. Sales

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

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Copper, precious metals, smelter by-products	15 698 874	10 856 180
Salt	64 108	43 297
Services	56 619	54 745
Other goods	10 741	11 114
Merchandise	72 778	56 641
Scrap and production materials	41 408	38 333
Other materials	504	230
Total	**15 945 032**	**11 060 540**

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

23. Sales (continuation)

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

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
domestic	**3 921 110**	**2 572 962**
Copper, precious metals, smelter by-products	3 687 824	2 376 790
Salt	64 108	43 297
Services	55 731	54 691
Other goods	10 741	11 114
Merchandise	60 794	48 507
Scrap and production materials	41 408	38 333
Other materials	504	230
foreign	**12 023 922**	**8 487 578**
Copper, precious metals, smelter by-products	12 011 050	8 479 390
Merchandise	11 984	8 134
Services	888	54
Total	**15 945 032**	**11 060 540**

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Average copper price on LME (USD/t)	7 539	5 164
Average exchange rate (USD/PLN) per NBP	3.02	3.12

24. Expenses by nature

	Note	For the period	
		from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Depreciation of property, plant and equipment and amortisation of intangible assets	5,6	615 468	547 653
Employee benefits expenses	25	2 661 477	2 589 063
Materials and energy		4 777 879	3 748 025
External services		1 029 023	1 028 170
Taxes and charges		300 165	285 178
Advertising costs and representation expenses		23 857	16 139
Property and personal insurance		18 308	13 437
Research and development costs not capitalised in intangible assets		4 460	3 724
Other costs, of which:		**11 405**	**5 898**
Write-down of inventories	12	802	1 537
Allowance for impairment of receivables	29.3	24	909
Reversal of write-down of inventories	12	(374)	(1 362)
Reversal of allowance for impairment of receivables	29.3	-	(149)
Losses from the disposal of financial instruments	29.3	2 337	998
Business trips		4 900	3 026
Other operating costs		3 716	939
Total expenses by nature		**9 442 042**	**8 237 287**
Cost of merchandise and materials sold (+) of which:		107 176	88 132
Allowance for impairment of receivables	29.3	3	-
Change in inventories of finished goods and work in progress (+/-)		(170 460)	(364 789)
Cost of manufacturing products for internal use (-)		(91 072)	(96 995)
Total cost of sales, selling costs and administrative expenses		**9 287 686**	**7 863 635**

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

25. Employee benefits expenses

	Note	For the period	
		from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Remuneration		1 933 097	1 800 376
Costs of social security and other benefits		698 614	646 152
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:		29 766	142 535
Present value of obligation	21	28 080	140 849
Past service cost	21	1 686	1 686
Employee benefits expenses		**2 661 477**	**2 589 063**

26. Other operating income

	Note	For the period	
		from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Income and gains from financial instruments classified under other operating activities, resulting from:	29.3	528 256	349 831
Measurement and realisation of derivatives		463 604	261 582
Interest		59 419	79 787
Gains from measurement of non-current liabilities		167	-
Gains from disposal		4 925	7 500
Reversal of allowance for impairment of loans		-	954
Reversal of allowance for impairment of other receivables		141	8
Non-financial interest		3 329	2 700
Reversal of allowance for impairment of non-financial receivables		1 484	1 559
Dividends received		146 658	454 848
Release of unused provisions due to:		6 028	43 987
Decommissioning of mines		3 973	32 969
Disputed issues and court proceedings		476	3 020
Liabilities towards municipal authorities (gminas) due to signed donation agreements		1 520	2 404
Royalties		-	4 810
Other		59	784
Penalties and compensation		8 209	8 103
Excess payments of property tax		2 169	495
Government grants and other donations received		223	237
Surpluses identified in current assets		8 779	9
Other operating income/gains		6 067	8 829
Total other operating income		**711 202**	**870 598**

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

27. Other operating costs

	Note	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
Costs and losses on financial instruments classified under other operating activities, resulting from:	29.3	1 666 441	864 662
Measurement and realisation of derivatives		1 635 888	800 219
Interest		24	170
Foreign exchange losses		30 445	61 664
Losses on measurement of non-current liabilities		-	249
Allowance for impairment of loans		13	2 232
Allowances for impairment of other receivables		71	128
Impairment losses on shares in a subsidiary		-	49 959
Allowances for impairment of other non-financial receivables		3 358	389
Losses on the sale of property, plant and equipment and intangible assets		17 614	17 844
Donations granted		12 503	6 088
Interest on overdue non-financial liabilities		114	4 230
Provisions for:		5 522	8 618
Decommissioning of mines		2 305	4 217
Disputed issues, pending court proceedings		1 271	1 507
Liabilities towards municipal authorities (gminas) due to signed donation agreements		1 352	2 662
Other		594	232
Penalties and compensation paid		498	373
Contributions to a voluntary organisation		8 202	7 433
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events		3 423	1 452
Other operating costs/losses		12 725	8 363
Total other operating costs		**1 730 400**	**969 411**

28. Finance costs

	Note	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
Interest expense due to:	29.3	601	1 254
Loans		116	336
Finance leases		485	918
Net foreign exchange gains on borrowings	29.3	(459)	(178)
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:		32 174	29 764
Measurement of provisions for decommissioning of mines	22	31 842	29 171
Measurement of other provisions	22	332	593
Losses due to measurement of non-current liabilities	29.3	265	381
Other finance costs		-	302
Total finance costs		**32 581**	**31 523**

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

29. Financial instruments

29.1 Carrying amount

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		Hedging instruments	**Total**
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Listed shares	8	740 324	-	-	-	-	-	-	-	**740 324**
Unlisted shares	8	9 500	-	-	-	-	-	-	-	**9 500**
Participation units of investment funds	8	405 193	-	-	-	-	-	-	-	**405 193**
Trade receivables (net)	11	-	-	-	1 712 403	-	-	-	-	**1 712 403**
Cash and cash equivalents and deposits	9,11,13	-	88 244	-	2 946 659	-	-	-	-	**3 034 903**
Other financial assets (net)	11	-	-	-	145 417	-	-	-	-	**145 417**
Derivatives - Currency	10	-	-	81 718	-	(108 713)	-	-	284 462	**257 467**
Derivatives - Commodity contracts - Metals	10	-	-	2 722	-	(184 404)	-	-	(571 357)	**(753 039)**
Trade payables	18	-	-	-	-	-	(852 710)	-	-	**(852 710)**
Other financial liabilities	18, 19	-	-	-	-	-	(70 656)	(11 455)	-	**(82 111)**
		1 155 017	**88 244**	**84 440**	**4 804 479**	**(293 117)**	**(923 366)**	**(11 455)**	**(286 895)**	**4 617 347**

* 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)

29. Financial instruments (continuation)

29.1 Carrying amount (continuation)

At 31 December 2009

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		Hedging instruments	**Total**
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Unlisted shares	8	9 770	-	-	-	-	-	-	-	**9 770**
Shares in investment funds	8	7 930	-	-	-	-	-	-	-	**7 930**
Trade receivables (net)	11	-	-	-	1 003 016	-	-	-	-	**1 003 016**
Cash and cash equivalents and deposits	9,13	-	67 677	-	975 198	-	-	-	-	**1 042 875**
Other financial assets (net)	11	-	-	-	148 912	-	-	-	-	**148 912**
Derivatives - Currency	10	-	-	137 257		(165 688)	-	-	43 553	**15 122**
Derivatives - Commodity contracts - Metals	10	-	-	1 258		(37 861)	-	-	7 905	**(28 698)**
Trade payables	18	-	-	-	-	-	(608 971)	-	-	**(608 971)**
Bank and other loans	19	-	-	-	-	-	(3 005)	-	-	**(3 005)**
Other financial liabilities	18,19	-	-	-	-	-	(57 723)	(14 680)	-	**(72 403)**
		17 700	**67 677**	**138 515**	**2 127 126**	**(203 549)**	**(669 699)**	**(14 680)**	**51 458**	**1 514 548**

* 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)

29. Financial instruments (continuation)

29.2 Fair value

Classes of financial instruments	Note	At 31 December 2010 Carrying amount 29.1	At 31 December 2010 Fair Value	At 31 December 2009 Carrying amount 29.1	At 31 December 2009 Fair Value
Listed shares	8	740 324	740 324	-	-
Unlisted shares*	8	9 500	-	9 770	-
Shares in investment funds	8	-	-	7 930	7 930
Participation units of investment funds	8	405 193	405 193	-	-
Trade receivables (net)	11	1 712 403	1 712 403	1 003 016	1 003 016
Cash and cash equivalents and deposits	9, 11,13	3 034 903	3 034 920	1 042 875	1 042 878
Other financial assets (net)	11	145 417	145 417	148 912	148 912
Derivatives – Currency, of which:	10	257 467	257 467	15 122	15 122
Assets		387 047	387 047	180 810	180 810
Liabilities		(129 580)	(129 580)	(165 688)	(165 688)
Derivatives - Commodity contracts - Metals, of which:	10	(753 039)	(753 039)	(28 698)	(28 698)
Assets		310 813	310 813	140 471	140 471
Liabilities		(1 063 852)	(1 063 852)	(169 169)	(169 169)
Trade payables	18	(852 710)	(852 710)	(608 971)	(608 971)
Bank and other loans	19	-	-	(3 005)	(3 005)
Other financial liabilities	18,19	(82 111)	(82 111)	(72 403)	(72 403)

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

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

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

29. Financial instruments (continuation)

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

For the period from 1 January 2010 to 31 December 2010	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total financial instruments**
Interest income/(costs) recognised in:		-	-	**59 419**	**(140)**	**(485)**	-	**58 794**
Other operating income	26	-	-	59 419	-	-	-	59 419
Other operating costs	27	-	-	-	(24)	-	-	(24)
Finance costs	28	-	-	-	(116)	(485)	-	(601)
Exchange gains/(losses) recognised in:		-	**(691)**	**50 039**	**(79 793)**	**459**	**-**	**(29 986)**
Other operating costs	27	-	(691)	50 039	(79 793)	-	-	(30 445)
Finance costs	28	-	-	-	-	459	-	459
Gains/(Losses) on measurement of non-current liabilities recognised in:		-	-	-	**(98)**	-	-	**(98)**
Other operating income	26	-	-	-	167		-	167
Finance costs	28	-	-	-	(265)		**-**	(265)
Impairment allowances recognised in:		-	-	**(108)**	-	-	-	**(108)**
Expenses by nature	24	-	-	(24)	0			(24)
Other operating costs	27	-	-	(84)	0			(84)
Reversal of impairment allowances	26	-	-	141	-	-	-	**141**
Adjustment to sales due to hedging transactions	30	-	-	-	-	-	142 187	**142 187**
Gains/(losses) from disposal of financial instruments recognised in:		-	**4 925**	**(2 337)**	-	-	-	**2 588**
Expenses by nature	24		-	(2 337)	-	-	-	(2 337)
Other operating income	26		4 925	-	-	-	-	4 925
Gains on measurement and realisation of derivatives	26	463 604	-	-	-	-	-	**463 604**
Losses on measurement and realisation of derivatives	27	(1 635 888)	-	-	-	-	-	**(1 635 888)**
Total net gain/(loss)		**(1 172 284)**	**4 234**	**107 154**	**(80 031)**	**(26)**	**142 187**	**(998 766)**

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

29. Financial instruments (continuation)

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

For the period from 1 January 2009 to 31 December 2009	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total financial instruments**
Interest income/(costs) recognised in:		-	-	**79 787**	**(506)**	**(918)**	-	**78 363**
Other operating income	26	-	-	79 787	-	-	-	79 787
Other operating costs	27	-	-	-	(170)	-	-	(170)
Finance costs	28	-	-	-	(336)	(918)	-	(1 254)
Exchange gains/(losses) recognised in:		-	-	**4 549**	**(66 213)**	**178**	-	**(61 486)**
Other operating costs	27	-	-	4 549	(66 213)		-	(61 664)
Finance costs	28	-	-	-		178	-	178
Losses on measurement of non-current liabilities recognised in:		-	-	-	**(630)**	-	-	**(630)**
Other operating costs	27	-	-	-	(249)	-	-	(249)
Finance costs	28	-	-	-	(381)	-	-	(381)
Impairment allowances recognised in:		-	-	**(3 269)**	-	-	-	**(3 269)**
Expenses by nature	24	-	-	(909)	-	-	-	(909)
Other operating costs	27	-	-	(2 360)	-	-	-	(2 360)
Reversal of impairment allowances recognised in:		-	-	**1 111**	-	-	-	**1 111**
Expenses by nature	24	-	-	149	-	-	-	149
Other operating income	26	-	-	962	-	-	-	962
Adjustment to sales due to hedging transactions	30	-	-	-	-	-	433 187	**433 187**
Profit/(losses) from disposal of financial instruments recognised in:		-	**7 500**	**(998)**	-	-	-	**6 502**
Expenses by nature	24	-		(998)	-	-	-	(998)
Other operating income	26	-	7 500	-	-	-	-	7 500
Gains on measurement and realisation of derivatives	26	261 582	-	-	-	-	-	**261 582**
Losses on measurement and realisation of derivatives	27	(800 219)	-	-	-	-	-	**(800 219)**
Total net gain/(loss)		**(538 637)**	**7 500**	**81 180**	**(67 349)**	**(740)**	**433 187**	**(84 859)**

29. Financial instruments (continuation)

29.4 Transfers not qualified for de-recognition

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

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

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

- at the end of the reporting period, the Company did not designate a financial instrument to be measured at fair value through profit or loss (IFRS 7.9, 7.10, 7.11),
- the Company did not reclassify a financial asset in a way which would result in a change of the method of measurement of these assets (IFRS 7.12),
- the Company does not hold any collateral established on assets which would improve crediting terms (IFRS 7.15),
- the Company has not issued an instrument that contains both a liability and an equity component (IFRS 7.17),
- the Company did not violate any contractual provisions (IFRS 7.18),
- the Company invests assets accumulated in a separate bank account kept for the Mine Closure Fund, but does not receive any fee due to those fiduciary activities (IFRS 7.20(c.ii)),
- the Company did not identify any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur (IFRS 7.23 (b)),
- the Company did not make use of any hedging transactions which would subsequently result in the recognition of a non-financial asset or liability (IFRS 7.23(e)),
- the Company did not use fair value hedges or hedges of net investments in foreign operations (IFRS 7.24(a), 7.24(c)),
- the Company did not purchase any financial assets at a price different from their fair value (IFRS 7.28),
- the Company did not obtain any assets as collateral (IFRS 7.38).

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

29. Financial instruments (continuation)

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

29.6.1 Fair value hierarchy

	Note	At 31 December 2010	
Classes of financial instruments	**29.2**	Level 1	Level 2
Listed shares		740 324	-
Participation units of investment funds		405 193	-
Derivatives - currency, of which:		-	257 467
Assets		-	387 047
Liabilities		-	(129 580)
Derivatives financial instruments – metals, of which:		-	(753 039)
Assets		-	310 813
Liabilities		-	(1 063 852)
Other financial liabilities		-	(49 690)

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

Methods and – when a valuation technique is used - assumptions applied in determining fair values of each class of financial assets or financial liabilities.

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

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

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

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

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

29. Financial instruments (continuation)

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

29.6.1 Fair value hierarchy (continuation)

Level 1

Listed shares

The shares listed on the Warsaw Stock Exchange were measured based on the closing price from 31 December 2010 and the shares listed on the TSX Venture Exchange were measured applying a share price and the average National Bank of Poland fixing for the Canadian dollar at the valuation date.

Participation units of investment funds

Participation units of investment funds were measured based on data received from these funds.

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

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

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

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

30. Financial risk management

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

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

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

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

30.1 Market risk

30.1.1. Principles of market risk management

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

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

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

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

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

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

30.1.2. Techniques for market risk management

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.2. Techniques for market risk management (continuation)

It is permitted to use the following types of instruments:

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

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

30.1.3. Hedge effectiveness requirement

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

30.1.4. Measurement of market risk

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

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

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

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

30.1.5. Restrictions on entering into hedging transactions

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

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

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

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.6. Market risk exposure

30.1.6.1. Commodity risk

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

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

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

Exposure of the Company to commodity risk is presented below:

	For the period			
	from 1 January 2010 to 31 December 2010		from 1 January 2009 to 31 December 2009	
	Sales	**Purchases**	**Sales**	**Purchases**
Copper [‘000 tonnes]	545	130	510	113
Silver [tonnes]	1247	9	1 198	72

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

30.1.6.1.1 Price risk related to investments in participation units of investment funds

At 31 December 2010, the Company held 1 191 181.1 participation units of liquidity open-ended investment funds with a value of PLN 405 193 thousand classified as available-for-sale financial assets. This investment is inconsiderably exposed to the 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.

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

At 31 December 2010, the Company held shares with a value of PLN 740 324 thousand listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange. These investments expose the Company to the risk of a substantial change in accumulated comprehensive income due to changes in the prices of the shares held. The sensitivity of assets was presented in note 30.1.11.

30.1.6.2. Currency risk

The Company is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD. However, the base (functional) currency for the Company is the PLN. As a result, the Company receives the equivalent in PLN or exchanges the USD it receives for PLN. Such exchanges lead to the risk associated with fluctuations in the USD/PLN exchange rate during the period from the moment of entering into the trade contract to the moment of determining the exchange rate. In a situation wherein foreign clients pay in local currency for the copper or precious metals which they have imported, the Company is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN, GBP/PLN.
Moreover, the Company is exposed to the risk of changes in currency rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the USD.
Sensitivity of the Company's financial instruments to currency risk at the end of the reporting period is presented in Note 30.1.10 Sensitivity analysis of exposure to market risk.

30.1.6.3. Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the financial position of the Company. The Company is exposed to this risk due to loans granted with interest based on a variable interest rate of WIBOR 1M. (Balance at 31 December 2010: PLN 45 499 thousand, of which long-term loans

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.6. Market risk exposure (continuation)

30.1.6.3. Interest rate risk (continuation)

amount to PLN 40 240 thousand, short-term to PLN 5 259 thousand). The decrease in market interest rates results in a decrease in the expected amount of income due to decreased cash flow due to loans granted.

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

30.1.7. Hedging exposure to market risk

In 2010 copper price hedging strategies represented approx. 33% (in 2009 34%) of the sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 18% (in 2009 25%). In the case of the currency market, hedged revenues from sales represented approx. 16% (in 2009 34%) of total revenues from sales realised by the Company.

In 2010 the Company implemented copper price hedging strategies with a total volume of 336.4 thousand tonnes and a time horizon falling from July 2010 to June 2013. The Company made use of options (Asian options), including: puts and option strategies (collars, seagulls and producer's puts). In addition, the Company performed a restructure, implemented in the analysed period, of seagull options for 2011 and for the first half of 2012 with a total volume of 117 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 price of this metal in 2011 and in the first half of 2012. During the analysed period the Company implemented an adjustment hedge transaction for 250 tonnes of copper which will be settled in April 2011.

In 2010 the Company implemented silver price hedging strategies with a total volume of 3.6 million troz and a time horizon falling in 2011. In the reporting period, adjustment hedge transactions were not implemented on this market.

In the case of the forward currency market, in 2010 the Company implemented transactions hedging revenues from sales with a total nominal amount of USD 1 785 million and a time horizon falling in the second to fourth quarters of 2010 and in years 2011-2012. The Company made use of options (European options), including puts and option strategies (collars and seagulls). During this period no adjustment hedge transactions were implemented on the currency market. In addition, the Company performed a restructure, implemented in the prior and in the reporting periods, of options strategies for 2011 with the total nominal amount of USD 540 million through the repurchase of sold puts from a seagull strategy (for USD 360 million) and through the sale of a collar strategy (for USD 180 million). The seagull strategy restructure enables the full use of put options purchased within this structure in the case of any decrease in the USD/PLN exchange rate in 2011. As a result of the collar strategy restructure, the amount of PLN 84 873 thousand was recognised in accumulated other comprehensive income, and will adjust *in plus* sales revenues in 2011. Additionally, as part of the restructure, put options were purchased to hedge the USD/PLN rate for USD 180 million for the whole of 2011.

The Company remains hedged for a portion of copper sales planned in 2011 (156 thousand tonnes), in 2012 (136.5 thousand tonnes), and in the first half of 2013 (19.5 thousand tonnes), and also for a portion of silver sales planned in 2011 (3.6 million troz). With respect to revenues from sales (currency market) the Company holds a hedging position in 2011 (USD 1 200 million), and in 2012 (USD 360 million).

Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 31 December 2010. The hedged nominal/volume in the months included in the presented periods is equally balanced.

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.7. Hedging exposure to market risk (continuation)

HEDGING POSITION (condensed information) – COPPER MARKET

Period	Instrument		Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
I half of 2011	Collar	Sold call option	19 500	8 800	(470)	6 230 participation restricted to 8 800
		Purchased put option		6 700		
	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	9 600	(345)	6 755 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**			
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
	Producer's puts[2]		19 500	8 000	9.78%[3]	minimal effective hedging price 7 288
		Total	**78 000**			
		TOTAL 2011	**156 000**			
I half of 2012	Seagull[2]	Sold call option	19 500	9 300	(397)	6 503 restricted to 4 700 participation restricted to 9 300
		Purchased put option		6 900		
		Sold put option		4 700		
	Collar[1]	Sold call option	19 500	9 000	(478)	6 322 participation restricted to 9 000
		Purchased put option		6 800		
	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	8 000	9.90%[3]	minimal effective hedging price 7 279
		Total	**78 000**			
II half of 2012	Seagull[2]	Sold call option	19 500	9 300	(397)	6 503 restricted to 4 700 participation restricted to 9 300
		Purchased put option		6 900		
		Sold put option		4 700		
	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		
		Total	**58 500**			
		TOTAL 2012	**136 500**			
I half of 2013	Seagull[2]	Sold call option	19 500	9 500	(383)	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
		Total	**19 500**			
		TOTAL first half of 2013	**19 500**			

HEDGING POSITION (condensed information)– SILVER MARKET

Period	Instrument	Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
I half of 2011	Purchased put option	1.80	20.00	(1.27)	18.73
	Total	**1.80**			
II half of 2011	Purchased put option	1.80	20.00	(1.27)	18.73
	Total	**1.80**			
	TOTAL 2011	**3.60**			

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

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

[3] Payable at the moment of settlement.

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

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

HEDGING POSITION (condensed information) – CURRENCY MARKET

Period	Instrument		Nominal [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
I half of 2011	Collar[1]	Sold call option	180	3.7000	(0.1277)	2.7723 participation restricted to 3.70
		Purchased put option		2.9000		
		Purchased put option	90	3.3500	(0.2390)	3.1110
		Purchased put option	90	2.7000	(0.0781)	2.6219
		Purchased put option	120	2.8000	(0.0722)	2.7278
		Purchased put option	120	2.9000	(0.0993)	2.8007
		Total	**600**			
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	**1 200**			
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		
		Total	**180**			
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	**360**			

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

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

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

As at 31 December 2010, the fair value of open positions in derivatives amounted to PLN (495 572) thousand, PLN 697 860 thousand relate to financial assets and PLN 1 193 432 thousand relate to financial liabilities.

Derivatives whose date of settlement was 5 January 2011 were measured at fair value in the amount of PLN (49 690) thousand, and accounted for in trade and other payables as payables due to unsettled derivatives (Note 18).

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

30.1.9. Impact of derivatives on the Company's profit or loss and other comprehensive income

In 2010, the result on derivatives amounted to PLN (1 030 097) thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from accumulated other comprehensive income to profit or loss in the reporting period, as an adjustment from reclassification, increased revenues from sales by PLN 142 187 thousand. The loss on the measurement of derivatives amounted to PLN (1 036 864) thousand, while the loss on the realisation of derivatives amounted to PLN (135 420) thousand. Adjustment to other operating costs arising from the measurement of derivatives results mainly from changes of the time value of options, which will be settled in future periods, and in accordance with the hedge accounting principles applied by the Company, the change in the time value of options is recognised in accumulated other comprehensive income.

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

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Impact on sales	**142 187**	**433 187**
Impact on other operating activities	**(1 172 284)**	**(538 637)**
Losses from realisation of derivatives	(135 420)	(192 783)
Losses from measurement of derivatives	(1 036 864)	(345 854)
Total impact of derivatives on profit or loss:	**(1 030 097)**	**(105 450)**

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

In 2010 the Company recognised in profit or loss due to the ineffective portion of cash flow hedges – the amount (loss) of PLN 1 328 573 thousand (in 2009: PLN 626 345 thousand), of which PLN 1 170 400 thousand is a loss on the measurement of hedging instruments (in 2009: PLN 431 299 thousand) and PLN 158 173 thousand is a loss on the realisation of the ineffective portion of hedging instruments (in 2009: PLN 195 046 thousand).

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

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

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

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME	At	
	31 December 2010	31 December 2009
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	(98 940)	(3 937)
Accumulated other comprehensive income – currency risk hedging transactions – derivatives	209 772	159 170
Total accumulated other comprehensive income **- financial instruments hedging future cash flows (excluding the deferred tax effects)**	**110 832**	**155 233**

Gains or (losses) on derivatives hedging future cash flows recognised in other comprehensive income	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Accumulated gain or loss achieved on financial instruments hedging future cash flows at the beginning of the reporting period	**155 233**	**627 757**
Amount recognised in the reporting period due to hedging transactions	97 786	(39 337)
Amount reclassified from accumulated other comprehensive income to revenues from sales	(142 187)	(433 187)
Accumulated other comprehensive income due to instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	**110 832**	**155 233**

30.1.10. Sensitivity analysis of exposure to market risk

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

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

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

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

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

Scope of historical data (daily data):

- for copper: 01 January 1978 to 31 December 2010 – settlement prices
- for silver: 01 January 1978 to 31 December 2010 – fixing prices
- for USD/PLN, EUR/PLN and GPB/PLN exchange rates: 01 January 2000 to 31 December 2010 – fixing NBP.

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

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

Potential price changes at the end of the reporting period:

31 December 2010	Copper	Silver	USD/PLN	EUR/PLN	GBP/PLN
SPOT / FIX	9 650	30.63	2.9641	3.9603	4.5938
DOWN 95%	6 461	19.71	2.4294	3.4875	3.9389
	-33%	-36%	-18%	-12%	-14%
UP 95%	12 965	41.91	3.6292	4.5628	5.4067
	34%	37%	22%	15%	18%

31 December 2009	Copper	Silver	USD/PLN	EUR/PLN	GBP/PLN
SPOT / FIX	7 342	16.99	2.8503	4.1082	4.5986
DOWN 95%	4 765	10.93	2.2400	3.5069	3.9491
	-35%	-36%	-21%	-15%	-14%
UP 95%	10 061	24.43	3.5782	4.8508	5.3865
	37%	44%	26%	18%	17%

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

Currency structure of financial instruments exposed to market risk at 31 December 2010

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure			
	[‘000 PLN]	[‘000 USD]	[‘000 EUR]	[‘000 GBP]
Trade receivables (net)	1 385 755	292 965	87 938	36 815
Cash and cash equivalents and deposits	457 225	96 018	35 846	6 674
Other financial assets (net)	27 482	620	5 233	1 070
Derivatives – Currency contracts	257 467	lack of data	-	-
Derivatives – Commodity contracts - Metals	(753 039)	(254 053)	-	-
Trade payables	(104 620)	(24 957)	(7 738)	-
Other financial liabilities	(70 767)	(18 275)	(3 322)	(750)

30. Financial risk management (continuation)

30.1 Market risk (continuation)

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

Currency structure of financial instruments exposed to market risk at 31 December 2009

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure			
	[‘000 PLN]	[‘000 USD]	[‘000 EUR]	[‘000 GBP]
Shares in investment funds	7 930	2 782	-	-
Trade receivables (net)	854 801	114 256	109 612	17 142
Cash and cash equivalents and deposits	167 254	37 136	10 857	3 654
Other financial assets (net)	11 625	1 242	1 202	685
Derivatives – Currency contracts	15 122	lack of data	-	-
Derivatives – Commodity contracts - Metals	(28 698)	(10 069)	-	-
Trade payables	(36 207)	(7 653)	(3 502)	0.5
Other financial liabilities	(45 296)	(10 848)	(3 499)	-

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

SENSITIVITY ANALYSIS AS AT 31 December 2010

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2010 CARRYING AMOUNT	CURRENCY RISK												COMMODITY RISK							
			USD/PLN				EUR/PLN				GBP/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			3.63		2.43		4.56		3.49		5.41		3.94		12 965		6 461		41.91		19.71	
			+ 22%		- 18%		+ 15%		- 12%		+18%		-14%		+ 34%		- 33%		+ 37%		- 36%	
	[`000 PLN]	[`000 PLN]	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
Trade receivables (net)	1 385 755	1 712 403	157 829		(126 885)		42 916		(33 677)		24 241		(19 529)									
Cash and cash equivalents and deposits	457 225	3 034 903	51 728		(41 586)		17 494		(13 728)		4 394		(3 540)									
Other financial assets (net)	27 482	145 417	334		(269)		2 554		(2 004)		705		(568)									
Derivatives – Currency contracts	257 467	257 467	(158 080)	(104 629)	(127 999)	529 874																
Derivatives – Commodity contracts - Metals	(753 039)	(753 039)	(121 136)	(15 730)	97 386	12 646									182 070	(1 827 586)	612 600	750 806	(1 278)		14 128	1 744
Trade payables	(104 620)	(852 710)	(13 445)		10 809		(3 779)		2 964													
Other financial liabilities	(70 767)	(82 111)	(9 845)		7 915		(1 621)		1 272		(494)		398									
IMPACT ON PROFIT OR LOSS			(92 615)		(180 629)		57 564		(45 173)		28 846		(23 239)		182 070		612 600		(1 278)		14 128	
IMPACT ON OTHER COMPREHENSIVE INCOME				(120 359)		542 520										(1 827 586)		750 806				1 744

Translation from the original Polish version

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

SENSITIVITY ANALYSIS AS AT 31 December 2009

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2009 CARRYING AMOUNT	CURRENCY RISK											
			USD/PLN				EUR/PLN				GBP/PLN			
			3.58		2.24		4.85		3.51		5.39		3.95	
			+ 26%		- 21%		+ 18%		-15%		+ 17%		- 14%	
	[‘000 PLN]	[‘000 PLN]	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
Shares in investment fund	7 930	7 930	1 640		(1 375)									
Trade receivables (net)	854 801	1 003 016	67 365		(56 482)		65 932		(53 387)		10 940		(9 018)	
Cash and cash equivalents and deposits	167 254	1 042 875	21 895		(18 358)		6 531		(5 288)		2 332		(1 922)	
Other financial assets (net)	11 625	148 912	732		(614)		723		(586)		437		(360)	
Derivatives – Currency contracts	15 122	15 122	(29 385)	(9 119)	(4 254)	164 897								
Derivatives – Commodity contracts - Metals	(28 698)	(28 698)	(7 959)	2 022	6 673	(1 696)								
Trade payables	(36 207)	(608 971)	(4 512)		3 783		(2 107)		1 706					
Other financial liabilities	(45 296)	(72 403)	(6 396)		5 363		(2 105)		1 704					
IMPACT ON PROFIT OR LOSS			43 380		(65 264)		68 974		(55 851)		13 709		(11 300)	
IMPACT ON OTHER COMPREHENSIVE INCOME				(7 097)		163 201								

FINANCIAL ASSETS AND LIABILITIES	COMMODITY RISK							
	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
	10 061		4 765		24.43		10.93	
	+ 37%		- 35%		+ 44%		- 36%	
	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
Shares in investment fund								
Trade receivables (net)								
Cash and cash equivalents and deposits								
Other financial assets (net)								
Derivatives – Currency contracts								
Derivatives – Commodity contracts - Metals	(54 596)	(348 905)	96 549	366 613	(10 366)	(7 918)	(10 660)	75 732
Trade payables								
Other financial liabilities								
IMPACT ON PROFIT OR LOSS	(54 596)		96 549		(10 366)		(10 660)	
IMPACT ON OTHER COMPREHENSIVE INCOME		(348 905)		366 613		(7 918)		75 732

30. Financial risk management (continuation)

30.1.11. Sensitivity analysis of exposure to price risk associated with acquisition of shares of listed companies

Sensitivity analysis of listed companies shares to price changes at 31 December 2010

Shares of one company are listed on the Warsaw Stock Exchange and shares of one company are listed on the TSX Venture Exchange.

	Carrying amount At 31 December 2010 (in PLN '000)	Percentage change of share price	
		-36%	22%
Listed shares	**740 324**		
Impact on other comprehensive income		**(266 517)**	**162 871**

30.2. Liquidity risk and capital management

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

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

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

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

Contractual maturities for financial liabilities as at 31 December 2010

	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
Financial liabilities	**Up to 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	850 479	-	1 810	478	-	**852 767**	**852 710**
Derivatives – Currency contracts	19 002	50 211	-	-	-	**69 213**	**129 580**
Derivatives – Commodity contracts - metals	12 767	42 978	30 671	-	-	**86 416**	**1 063 852**
Other financial liabilities	58 357	4 600	10 550	5 921	3 157	**82 585**	**82 111**
Total financial liabilities by maturity	**940 605**	**97 789**	**43 031**	**6 399**	**3 157**	**1 090 981**	

Contractual maturities for financial liabilities as at 31 December 2009

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

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

30. Financial risk management (continuation)

30.2. Liquidity risk and capital management (continuation)

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

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

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

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

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

	31 December 2010	31 December 2009
Equity	14 456 477	10 403 957
Less: intangible assets	86 718	76 147
Net assets	14 369 759	10 327 810
Total assets	19 829 296	13 953 030
Equity ratio	**0.72**	**0.74**
Operating profit	5 638 148	3 098 092
Plus: depreciation/amortisation	615 468	547 653
EBITDA	6 253 616	3 645 745
Borrowings and finance lease liabilities	11 455	17 685
Ratio of Debt/EBITDA	**0.002**	**0.005**

Due to the low level of debt of the Company as at 31 December 2010, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.002.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.72 at 31 December 2010.

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

30.3. Credit risk

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

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

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

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

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

30. Financial risk management (continuation)

30.3. Credit risk (continuation)

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

All entities with which deposit transactions are entered into by the Company operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest (2% of deposits), medium-high[4] (89% of deposits) and medium[5] credit ratings (9% of deposit), an appropriate level of equity and a strong, stable market position. The maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounts to 27% as at 31 December 2010.

30.3.2. Credit risk related to derivative transactions

All entities with whom derivative transactions are entered into by the Company operate in the financial sector. These are financial institutions (mainly banks), with the highest[6] (40.7%), medium-high[4] (48.2%) or medium[5] (11.1%) credit ratings. Based on fair value at 31 December 2010, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Company amounted to 30%.

The fair value of derivative transactions entered into by the Company at 31 December 2010 amounted to[7]:

PLN 545 262 thousand	negative balance on the measurement of derivatives, of which:
PLN 697 860 thousand	financial assets (Note 10),
PLN 1 243 122 thousand	financial liabilities (Notes 10, 18).

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

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

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

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 Company is not materially exposed to credit risk as a result of derivative transactions entered into.

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

30.3.3. Credit risk related to trade and other financial receivables

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

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

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

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

[7] The measurement of transactions includes the measurement of both open positions as well as transactions which were settled on 5 January 2011, which were presented in the Company's statement of financial position under other financial receivables (Note 18).

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

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

30. Financial risk management (continuation)

30.3. Credit risk (continuation)

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

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

	At					
	31 December 2010			31 December 2009		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	34.9%	34.0%	31.1%	33.7%	56.6%	9.7%

The Company makes the majority of its sales transactions based on prepayments. The Company monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted.

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always secured. The Company has secured the majority of its receivables by promissory notes[9], frozen funds on bank accounts, registered pledges[10], bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers which hold buyer's credit on contracts have ownership rights confirmed by a date certain[11]. To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral. Taking into account the collateral held and the credit limits received from the insurance company, at 31 December 2010 the Company had secured 69.1% of its trade receivables.

The total value of the Company's net trade receivables as at 31 December 2010, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 712 403 thousand (at 31 December 2009: PLN 1 003 016 thousand). The increase in receivables compared to the end of the prior year is mainly due to the increased value of sales in the fourth quarter of 2010 versus the fourth quarter of 2009.

The concentration of credit risk in the Company results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 31 December 2010 the balance of receivables from 7 of the Company's largest clients, calculated as a percentage of trade receivables at the end of the reporting period, represented 66% of the balance of trade receivables (at 31 December 2009: 79%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

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

30.3.4. Credit risk related to loans granted

At 31 December 2010 the carrying amount of loans granted by the Company amounted to PLN 45 499 thousand. The loans were granted to the company Energetyka Sp. z o.o., including interest of PLN 229 thousand.

KGHM Polska Miedź S.A. continuously monitors the assets and financial results of the borrower.

30.3.5. Credit risk related to investments in participation units of investment funds

At 31 December 2010, the Company held 1 191 181.1 participation units of investment funds with a value of PLN 405 193 thousand. Fund management institutions hold a medium-high rating.

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

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

[11] 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 Company transfers substantially all of the risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

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

30. Financial risk management (continuation)

30.3. Credit risk (continuation)

30.3.6. Other information related to credit risk

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

	At 31 December 2010					
	Total 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	**42 775**	36 891	61	-	5 544	279
Other receivables	**516**	245	270	1	-	-

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

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

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

Allowances for impairment of loans and financial receivables

a) trade receivables (category: loans and receivables)

		For the period	
	Note	**from 1 January 2010 to 31 December 2010**	**from 1 January 2009 to 31 December 2009**
Impairment allowance at the beginning of the period	**11**	**21 769**	**21 890**
Impairment allowance recognised in profit or loss	24	27	909
Impairment allowance reversed through profit or loss	24	-	(149)
Revaluation of impairment allowance on foreign exchange differences		822	(800)
Impairment allowance utilised during the period		(7)	(81)
Impairment allowance at the end of the period	**11**	**22 611**	**21 769**

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

		For the period	
	Note	**from 1 January 2010 to 31 December 2010**	**from 1 January 2009 to 31 December 2009**
Impairment allowance at the beginning of the period	**11**	**3 813**	**2 518**
Impairment allowance recognised in profit or loss	27	84	2 360
Impairment allowance reversed through profit or loss	26	(141)	(962)
Revaluation of impairment allowance on foreign exchange differences		50	(49)
Impairment allowance utilised during the period		(7)	(52)
Reversal of impairment allowance on costs of legal proceedings		(3)	(2)
Impairment allowance on costs of legal proceedings		3 193	-
Impairment allowance at the end of the period	**11**	**6 989**	**3 813**

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

		For the period	
	Note	**from 1 January 2010 to 31 December 2010**	**from 1 January 2009 to 31 December 2009**
Impairment allowance at the beginning of the period		**58 579**	-
Reclassification of shares in subsidiaries to available-for-sale financial assets		-	58 579
Impairment allowance at the end of the period	**8**	**58 579**	**58 579**

31. Income tax

		For the period	
Income tax	**Note**	**from 1 January 2010 to 31 December 2010**	**from 1 January 2009 to 31 December 2009**
Current income tax		1 256 172	620 775
Adjustments to income tax from prior periods		(6 736)	12 349
Deferred income tax	20	(212 458)	(106 740)
Total		**1 036 978**	**526 384**

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Profit before income tax	5 605 567	3 066 569
Tax calculated at tax rates in force	1 065 058	582 648
Non-taxable income	(28 430)	(82 832)
Expenses not deductible for tax purposes	7 086	14 219
Adjustments to income tax from prior periods	(6 736)	12 349
Income tax expense	**1 036 978**	**526 384**

The rate applied to the taxation of income in accordance with tax law in force in corporate income tax amounted to 19 % (in 2009: 19%). The effective interest rate was 18.50% (in 2009: 17.16%).

32. Earnings per share

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Profit for the period	4 568 589	2 540 185
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	22.84	12.70

There are no dilutive ordinary shares.

33. Dividend paid and proposed for payment

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

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

34. Notes to the statement of cash flows

Adjustments to profit for the period

	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
Income tax recognised in profit or loss	1 036 978	526 384
Depreciation/amortisation	615 468	547 653
Losses on sales of property, plant and equipment and intangible assets	17 614	17 844
Gains on sales of available-for-sale financial assets	(4 925)	(7 500)
Impairment loss on loan, property, plant and equipment, intangible assets, and on shares in subsidiaries	13	52 431
Interest and share in profits (dividends)	(151 978)	(460 304)
Foreign exchange (gains)/losses	(742)	18 261
Change in provisions	32 616	118 271
Change in derivatives	579 782	688 065
Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives	(142 187)	(433 187)
Other adjustments	271	(156)
Changes in working capital:	**(546 013)**	**(500 756)**
Inventories	(120 875)	(443 425)
Trade and other receivables	(684 838)	(54 968)
Trade and other payables	259 700	(2 363)
Total adjustments to profit for the period	**1 436 897**	**567 006**

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

	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	22 318	32 114
Losses on sales of property, plant and equipment and intangible assets	(17 614)	(17 844)
Negative change in receivables due to sales	13	10
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	-	(85)
Proceeds from sales of property, plant and equipment and intangible assets	**4 717**	**14 195**

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

34. Notes to the statement of cash flows (continuation)

Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in operating activities

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2010 to 31 December 2010**
Acquisition of assets used in the exploration for and evaluation of mineral resources recognised in profit or loss	(4 025)	(3 115)
(Negative)/Positive change in liabilities recognised in operating activities due to assets used in the exploration for and evaluation of mineral resources recognised in profit or loss	(189)	603
Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in operating activities	**(4 214)**	**(2 512)**

Expenditures for assets used in the exploration for and evaluation of mineral resources recognised in investing activities

		For the period	
	Note	**from 1 January 2010 to 31 December 2010**	**from 1 January 2010 to 31 December 2010**
Purchase	6	(15 528)	(35)
Positive change in liabilities due to acquisition of assets used in the exploration for and evaluation of mineral resources		1 737	-
Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in investing activities		**(13 791)**	**(35)**

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

35. Related party transactions

State Treasury Companies (Companies list as at 31 December 2010) meet the definition of related entities. Turnover and balances with these entities have been reflected in the disclosures presented in this note.

Sales	For the period from 1 January 2010 to 31 December 2010		
	Sales of products	Sales of merchandise and materials	Other transactions
To subsidiaries	1 053 083	60 492	6 404
To associates	104	35	19
To State Treasury Companies	44 640	2	5 013
Total sales to related entities	**1 097 827**	**60 529**	**11 436**

During the period from 1 January 2010 to 31 December 2010, KGHM Polska Miedź S.A. received dividends from an associate in the amount of PLN 146 658 thousand (from 1 January 2009 to 31 December 2009: PLN 418 222 thousand and dividends from subsidiaries in the amount of PLN 36 626 thousand).

During the period from 1 January 2010 to 31 December 2010, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Company were reported.

Significant revenues from State Treasury Companies during the period from 1 January 2010 to 31 December 2010:

1. Fabryka Przewodów Energetycznych S.A.	44 185
2. EnergiaPro Gigawat Sp. z o.o.	4 971

Sales	For the period from 1 January 2009 to 31 December 2009		
	Sales of products	Sales of merchandise and materials	Other transactions
To subsidiaries	628 605	51 006	3 152
To associates	105	33	19
To State Treasury Companies	20 775	1	19
Total sales to related entities	**649 485**	**51 040**	**3 190**

Significant revenues from State Treasury Companies during the period from 1 January 2009 to 31 December 2009:

1. Fabryka Przewodów Energetycznych S.A.	19 939
2. Huta Będzin S.A.	706

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

35. Related party transactions (continuation)

Purchases	For the period from 1 January 2010 to 31 December 2010			
	Purchase of services	Purchase of merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
From subsidiaries	654 035	2 983 108	610 259	2 572
From associates	1 254	74	10	-
From the State Treasury and State Treasury Companies	513 073	209 755	1 066	577 134
Total purchases from related entities	**1 168 362**	**3 192 937**	**611 335**	**579 706**

Significant purchases from State Treasury Companies during the period from 1 January 2010 to 31 December 2010:

1. State Treasury	577 128
2. EnergiaPro Gigawat Sp. z o.o.	432 297
3. EnergiaPro Koncern Energetyczny S.A.	133 845
4. Polskie Górnictwo Naftowe i Gazownictwo S.A.	108 551

Purchases	For the period from 1 January 2009 to 31 December 2009			
	Purchase of services	Purchase of merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
From subsidiaries	617 143	1 830 058	421 159	51 441
From associates	1 483	57	5	-
From State Treasury Companies	360 993	339 567	1 606	6
Total purchases from related entities	**979 619**	**2 169 682**	**422 770**	**51 447**

Significant purchases from State Treasury Companies during the period from 1 January 2009 to 31 December 2009:

1. EnergiaPro Koncern Energetyczny S.A.	556 727
2. Polskie Górnictwo Naftowe i Gazownictwo S.A.	100 813

Remuneration of the Management Board in 2010

	Period when function served	Salaries	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits, other earnings	Total earnings in 2010
Members of the Management Board as at 31 December 2010						
Herbert Wirth	01.01-31.12.2010	591	321	313	96	1 321
Maciej Tybura	01.01-31.12.2010	494	256	116	143	1 009
Wojciech Kędzia	19.11-31.12.2010	88	44	10	1	143
Dismissed Members of the Management Board *						
Ryszard Janeczek	01.01-15.10.2010	343	140	50	59	592
Mirosław Krutin	-	-	91	-	-	91
Total		**1 516**	**852**	**489**	**299**	**3 156**

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

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

35. Related party transactions (continuation)

Remuneration of the Supervisory Board in 2010

	Period when function served	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Total earnings in 2010
Marcin Dyl	01.01-31.12.2010	107	-	107
Arkadiusz Kawecki	01.01-31.12.2010	107	-	107
Jacek Kuciński	01.01-31.12.2010	130	-	130
Marek Panfil	01.01-31.12.2010	104	-	104
Marek Trawiński	01.01-17.02.2010	18	-	18
Marzenna Weresa	01.01-31.12.2010	98	-	98
Jan Rymarczyk	17.05-31.12.2010	61	-	61
Józef Czyczerski	01.01-31.12.2010	85	104	189
Leszek Hajdacki	01.01-31.12.2010	90	173	263
Ryszard Kurek	01.01-31.12.2010	92	173	265
Total		**892**	**450**	**1 342**

Remuneration of the Management Board in 2009

	Period when function served	Salaries	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits due to termination of employment relationship	Benefits, other earnings	Total earnings in 2009
Members of the Management Board as at 31 December 2009							
Herbert Wirth	01.01-31.12.2009	461	179	117	-	64	821
Maciej Tybura	01.01-31.12.2009	416	194	-	-	121	731
Ryszard Janeczek	24.08-31.12.2009	145	10	-	-	6	161
Dismissed Members of the Management Board *							
Mirosław Krutin	01.01-15.06.2009	239	133	-	22	65	459
Krzysztof Skóra	-	-	-	-	97	-	97
Maksymilian Bylicki	-	-	-	-	57	-	57
Marek Fusiński	-	-	46	-	119	-	165
Stanisław Kot	-	-	46	-	119	-	165
Ireneusz Reszczyński	-	-	46	-	119	-	165
Dariusz Kaśków	-	-	-	-	39	-	39
Total		**1 261**	**654**	**117**	**572**	**256**	**2 860**

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

Remuneration of the Supervisory Board in 2009

	Period when function served	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Total earnings in 2009
Marcin Dyl	01.01-31.12.2009	93	-	93
Arkadiusz Kawecki	01.01-31.12.2009	91	-	91
Jacek Kuciński	01.01-31.12.2009	108	-	108
Marek Panfil	01.01-31.12.2009	89	-	89
Marek Trawiński	01.01-31.12.2009	112	-	112
Marzenna Weresa	01.01-31.12.2009	87	-	87
Józef Czyczerski	01.01-31.12.2009	85	112	197
Leszek Hajdacki	01.01-31.12.2009	85	152	237
Ryszard Kurek	01.01-31.12.2009	86	196	282
Total		**836**	**460**	**1 296**

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

35. Related party transactions (continuation)

	At	
Trade receivables from related entities	**31 December 2010**	**31 December 2009**
From subsidiaries	202 777	201 606
From associates	28	26
From State Treasury Companies	2 945	3 038
Total receivables from related entities	**205 750**	**204 670**

Significant receivables due to sales transactions with State Treasury Companies at 31 December 2010:

1. EnergiaPro Koncern Energetyczny S.A.	1 033
2. Huta Będzin S.A.	879
3. EnergiaPro Gigawat Sp. z o.o.	682

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

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

Allowances for impairment of trade receivables from related entities

	For the period	
	from 1 January 2010 to 31 December 2010	**from 1 January 2009 to 31 December 2009**
Impairment allowance at the beginning of the period	**882**	**21 376**
Impairment allowance recognised during the period	-	879
Reclassification due to loss of control over a subsidiary	-	(21 373)
Impairment allowance at the end of the period	**882**	**882**

	At	
Trade payables towards related entities	**31 December 2010**	**31 December 2009**
Towards subsidiaries	317 968	249 654
Towards associates	276	283
Towards State Treasury Companies	103 124	59 956
Total payables towards related entities	**421 368**	**309 893**

Significant payables due to purchases from State Treasury Companies at 31 December 2010:

1. EnergiaPro Gigawat Sp. z o.o.	89 620
2. NITROERG Spółka Akcyjna	5 252
3. EnergiaPro Koncern Energetyczny S.A.	4 771

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

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

All related party transactions were carried out under arm’s length conditions.
In 2010 the Company did not grant no-cost guarantees to related entities.

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

36. Remuneration of entity entitled to audit the financial statements and of entities related to it

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
PricewaterhouseCoopers Sp. z o.o.	**719**	**-**
From contract for the review and audit of financial statements	710	-
audit of annual financial statements of the Company and of annual consolidated financial statements of the Group	408	-
review of interim financial statements of the Company and of interim consolidated financial statements of the Group	302	-
From realisation of other contracts	9	-
Other companies of the PricewaterhouseCoopers Group in Poland	**598**	**-**
From contracts of consultancy	598	-

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Ernst & Young Audit Sp. z o.o.	**-**	**1 010**
From contract for the review and audit of financial statements	-	978
audit of annual financial statements of the Company and of annual consolidated financial statements of the Group	-	597
review of interim financial statements of the Company and of interim consolidated financial statements of the Group	-	381
From realisation of other contracts	-	32
Other companies of the Ernst & Young Group in Poland	**-**	**904**
From contract of tax consultancy	-	881

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

Total value of future minimum payments due to perpetual usufruct of land

	At	
	31 December 2010	31 December 2009
Up to one year	7 235	6 047
From one to five years	29 533	26 401
Over five years	372 006	349 598
Total:	**408 774**	**382 046**

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Payments due to perpetual usufruct of land recognised in profit or loss	**7 212**	**6 044**

Total value of future minimum lease payments

	At	
	31 December 2010	31 December 2009
Up to one year	6 826	5 708
From one to five years	11 979	11 516
Over five years	468	2 363
Total:	**19 273**	**19 587**

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Lease payments recognised in profit or loss	**7 596**	**7 389**

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

38. Contingent assets and liabilities

	At	
	31 December 2010	**31 December 2009**
Contingent assets	**205 634**	**103 014**
Disputed State Budget issues	17 518	23 200
Guarantees received	132 214	25 380
Promissory notes receivables	22 573	22 923
Other	-	276
Inventions, implementation of projects	33 329	31 235
Contingent liabilities	**127 143**	**128 920**
Guarantees	5 000	5 000
Disputed issues, pending court proceedings	15 566	15 062
Contingent penalties	-	23
Preventive safety measures in respect of mine-related damages	2 475	2 491
Liabilities due to implementation of projects and inventions	104 098	106 341
Other	4	3

39. Government grants

In 2010 the Company made use of Government assistance in the form of grants for the financing of the target project "Modernisation of the local furnace ventilation system in the Metallurgy Department". The balance of grants recognised in deferred income at 31 December 2010 amounted to PLN 171 thousand (at 31 December 2009: PLN 212 thousand).

With respect to financing from the funds of the European Regional Development Fund, KGHM entered into an agreement for the financing of two projects: „Restriction of waste – construction of the 4th Doerschel furnace" and „Development of technology for mining with the use of the ACT mining unit". The maximum amount of financing for these projects is respectively PLN 12 711 thousand and PLN 39 560 thousand. KGHM shall receive these funds once the financing conditions are met.

40. Social Fund assets and liabilities

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

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control of the Company and do not meet the definition of an asset. Accordingly, the net balance (liability towards Social Fund) at 31 December 2010 amounts to PLN 1 505 thousand, and the net balance (liability towards Social Fund) at 31 December 2009 amounted to PLN 2 238 thousand.

Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
Social Fund assets and liabilities	**31 December 2010**	**31 December 2009**
Housing loans granted to employees	108 143	105 089
Other receivables	250	267
Cash and cash equivalents	18 680	14 939
Liabilities towards Social Fund	128 578	122 533
Net balance	**(1 505)**	**(2 238)**
Transfers made to the Social Fund during the financial period	99 712	94 608

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

41. Employment structure

	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009
White-collar employees	4 462	4 425
Blue-collar employees	14 003	13 945
Total:	**18 465**	**18 370**

42. Subsequent events

Telecom assets being considered for sale
A detailed description of preliminary actions in respect of the investment in Polkomtel S.A. and Telefonia Dialog S.A. was presented in Note 3.3.

Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.
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 622 900 thousand (PLN 1 796 943 thousand) to USD 753 428 thousand (PLN 2 173 490 thousand).

Forecast of results for 2011
On 31 January 2011 the Supervisory Board of KGHM Polska Miedź S.A. approved the Company's Budget for 2011 as presented by the Management Board. The basis for preparation of the Budget were the anticipated results for 2010 and the assumptions contained in specific operating plans. For detailed information on the forecast see Report of the Management Board on the Company's activities, Note 4.4.

Significant contract with MKM Mansfelder Kupfer und Messing GmbH
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 692 092 thousand, i.e. PLN 1 967 205 thousand.

Agreement for the purchase of shares of TAURON Polska Energia S.A.
On 22 March 2011, the Ministry of the State Treasury commenced the process of selling 208 478 000 shares of TAURON Polska Energia S.A., representing 11.9% of the share capital at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. KGHM Polska Miedź S.A. participated in this process, submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, KGHM Polska Miedź S.A. acquired 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share.
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.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
28 March 2011	Herbert Wirth	President of the Management Board	
28 March 2011	Maciej Tybura	I Vice President of the Management Board	
28 March 2011	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
28 March 2011	Ludmiła Mordylak	Chief Accountant of KGHM General Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

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

Lubin, March 2011

KGHM POLSKA MIEDŹ S.A. IN THE YEARS 1997-2010

(data for the years 1997-2005 per published annual reports, and since 2006 per IFRS)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Change 2009=100
Statement of comprehensive income																
Sales	m PLN	4 089	3 642	4 113	4 983	4 218	4 488	4 741	6 158	8 000	11 670	12 183	11 303	11 061	15 945	144.2
Profit on sales	m PLN	905	240	348	941	173	152	431	1 445	2 707	4 139	4 880	3 392	3 197	6 657	× 2,1
EBITDA*	m PLN	1 212	631	319	1 198	144	753	956	1 761	2 937	4 784	5 101	4 078	3 646	6 254	171.5
Profit before income tax	m PLN	914	310	(58)	795	(147)	310	569	1 446	2 635	4 380	4 656	3 554	3 067	5 606	182.8
Profit for the period	m PLN	502	179	(170)	618	(190)	255	412	1 397	2 289	3 605	3 799	2 920	2 540	4 569	179.9
Statement of financial position																
Total assets	m PLN	4 937	4 975	4 884	5 757	7 557	8 155	8 695	8 948	10 977	12 251	12 424	13 901	13 953	19 829	142.1
Non-current assets	m PLN	3 558	3 698	3 579	4 177	4 735	6 440	6 621	6 552	7 079	7 017	7 431	8 704	9 509	12 125	127.5
Current assets	m PLN	1 364	1 242	1 250	1 381	2 657	1 715	2 074	2 397	3 899	5 234	4 992	5 174	4 444	7 704	173.4
Equity	m PLN	4 021	4 096	3 470	4 067	3 696	4 011	4 007	5 337	6 214	8 116	8 966	10 591	10 404	14 456	138.9
Liabilities and provisions	m PLN	846	775	1 187	1 380	3 634	4 144	4 689	3 612	4 763	4 136	3 458	3 309	3 549	5 373	151.4
Financial ratios																
Earnings per share (EPS)	PLN	2.51	0.89	(0.85)	3.09	(0.95)	1.27	2.06	6.99	11.45	18.02	18.99	14.60	12.70	22.84	179.8
Dividend per share (DPS) **	PLN	0.25	0.10	-	1.00	-	-	-	2.00	10.00	16.97	9.00	11.68	3.00	x	x
Price per share / Earnings per share (P/E)	x	5.4	14.0	(30.8)	8.3	(13.7)	10.6	12.7	4.5	5.5	4.9	5.6	1.9	8.3	7.6	91.6
Current liquidity	x	2.2	2.3	2.6	2.3	1.0	1.2	1.2	1.2	1.4	1.9	2.5	3.1	2.4	2.6	108.3
Quick liquidity	x	1.0	0.9	1.0	0.9	0.7	0.6	0.7	0.8	1.0	1.3	1.7	2.2	1.4	1.9	135.7
Return on assets (ROA)	%	10.2	3.6	(3.5)	10.7	(2.5)	3.1	4.7	15.6	20.9	29.4	30.6	21.0	18.2	23.0	126.4
Return on equity (ROE)	%	12.5	4.4	(4.9)	15.2	(5.1)	6.3	10.3	26.2	36.8	44.4	42.4	27.6	24.4	31.6	129.5
Debt ratio	%	14.2	13.5	14.3	15.9	38.2	34.2	38.8	24.0	28.2	33.8	27.8	23.8	25.4	27.1	106.7
Durability of financing structure	%	86.1	87.1	85.7	84.1	63.4	79.0	76.8	75.0	70.6	77.0	83.8	88.0	86.8	84.9	97.8
Production results																
Electrolytic copper production	000 t	440.6	446.8	470.5	486.0	498.5	508.7	529.6	550.1	560.3	556.6	533.0	526.8	502.5	547.1	108.9
Metallic silver production	t	1 029	1 098	1 093	1 119	1 163	1 192	1 358	1 344	1 244	1 242	1 215	1 193	1 203	1 161	96.5
Macroeconomic data (average annual)																
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814	1 578	1 558	1 780	2 868	3 684	6 731	7 126	6 952	5 164	7 539	146.0
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.99	14.67	20.19	137.6
Exchange rate	USD/PLN	3.28	3.49	3.96	4.35	4.10	4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	3.02	96.8
Other																
Market value of Company shares at end of period	PLN/share	13.50	12.50	26.20	25.80	13.00	13.50	26.20	31.30	62.50	89.00	105.80	28.12	106.00	173.00	163.2
Capital expenditure	m PLN	649	487	379	584	433	360	424	616	651	709	828	1 140	1 070	1 263	118.0
Equity investments ***	m PLN	493	200	229	468	271	105	146	707	613	24	155	793	170	1 321	× 7.8
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156	6 328	6 305	6 237	6 660	7 723	10 497	11 160	11 736	11 170	12 983	116.2
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417	1 544	1 545	1 603	1 825	2 388	3 381	4 031	4 878	3 582	4 302	120.1

** operating profit (in the years 1997-2006 profit (loss) before extraordinary items and taxation adjusted by interest cost) + depreciation/amortisation*
*** dividend for financial year*
**** acquisition of shares/new issued shares and investment certificates*

Table of contents to the Report of the Management Board on the Activities

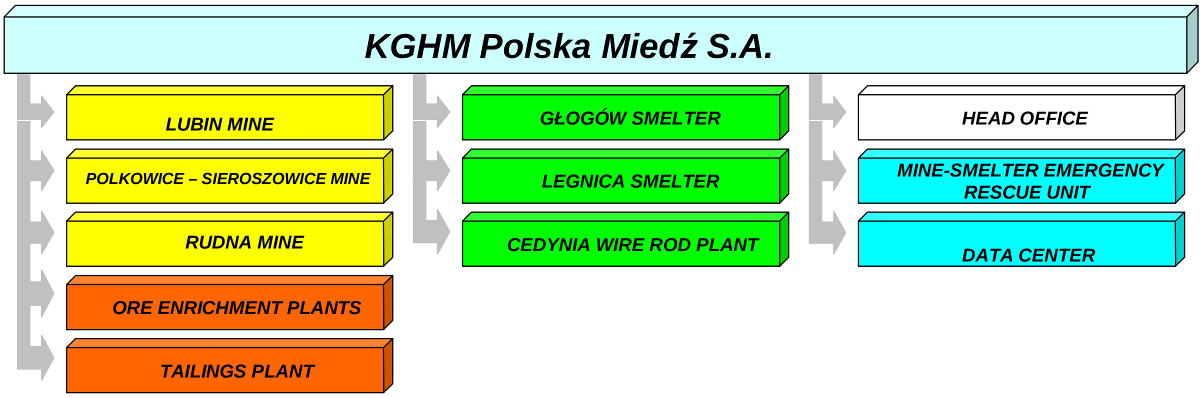
1. Company profile

1.1. Company organisation

In 2010 the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions.

The organisational structure of KGHM Polska Miedź S.A. at 31 December 2010 is presented in the diagram below:

Diagram 1. Organisational structure of the Company at 31 December 2010



Information on the employment contracts and remuneration of Management Board Members

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board.

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary, variable salary, bonuses and additional benefits resulting from the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. along with sector rules not tied to the basic monthly salary. Payment of the variable salary is contingent on the fulfilment of criteria set for the Management Board by the Supervisory Board, and amounts up to 40% of the annual basic salary. Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the Members of the Management Board up to 10% of the annual basic salary.

The employment contracts which are signed with Members of the Management Board provide that, in case of the dismissal of a Member of the Management Board and the termination of their contract prior to the time stipulated in the contract, the said Member of the Management Board shall receive compensation due to the loss of an existing source of income and to the premature termination of a contract in an amount equal to the 10 basic monthly salaries. Employment contracts describe those cases in which a Member of the Management Board shall not receive the above-mentioned compensation.

The employment contracts with the Members of the Management Board of KGHM Polska Miedź S.A. do not provide for compensation with respect to forbidding any activities which would be competitive towards KGHM. One of the points of the chapter „Forbidding of employment and forbidding of competition" of the employment contract states: „The parties shall regulate in a separate contract the principles of forbidding competition following termination of employment and of the amount of compensation due in this regard." At the date of preparation of this Report such a contract had not been signed.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the Company of costs required for the proper fulfilment of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the budget),
- the use of business cars and rental of a flat for Management Board members (the costs associated with the use of a business car and flat are defined in a separate contract),
- medical benefits (in each calendar year of the life of the contract the Company purchases a medical packet for Management Board members worth up to PLN 10 thousand),
- life insurance premiums (once every year the Company covers or reimburses the amount of the premiums to an amount up to one monthly basic salary, with the principles and manner of settlement being agreed by the parties in a separate contract).

Detailed information on remuneration due and paid, bonuses or benefits for management personnel can be found in Note 35 of the financial statements.

In addition, potentially-due remuneration with respect to variable salary for 2010, the payment of which is decided by the Supervisory Board, amounts as follows for individual Members of the Management Board: Herbert Wirth – PLN 194 thousand, Maciej Tybura – PLN 163 thousand, Ryszard Janeczek – PLN 77 thousand and Wojciech Kędzia – PLN 39 thousand.

Information on the remuneration of Supervisory Board Members

The question of remuneration for members of the Supervisory Board is regulated by a Resolution adopted by the Ordinary General Meeting dated 29 May 2003 regarding changes in the remuneration principles of Supervisory Board members.

The Company also covers or reimburses those costs related to the participation in the work of the Supervisory Board, and in particular the costs of travel from the place of residence to the meeting site of the Supervisory Board and back, as well as room and board.

Detailed information on remuneration due and paid, bonuses or benefits for supervisory personnel can be found in Note 35 of the financial statements.

1.2. Production results

The main objectives set forth by the Management Board with respect to production in 2010 were:

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

The objectives set forth required fulfilment of the following tasks:

- improving the ore selection system by: selecting an appropriate size for the support pillars and the geometry of working areas in order to restrict the risk of rock collapse, applying so-called partial backfill in thick ore seams and increasing the scope of selective mining (i.e. leaving a larger amount of barren rock at the bottom of the mine) and utilising wheeled machines which are an appropriate height for the thickness of the ore,
- performing drift work to prepare new working areas in the mines and improve knowledge of the deposit,
- adapting the production capacity of specific areas of the Ore Enrichment Plants to the amount and quality of ore supplied,
- improving enrichment parameters through the successive exchange of floatation equipment in specific areas of OEPs,
- maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters,
- commencing the separation of concentrate produced at the OEP of the Rudna mine into two types of concentrate with different organic carbon content,
- preparation of infrastructure and terrain at the Głogów smelter required for the further modernisation of the smelter – construction of a flash furnace,
- modernisation begun on the overhead pouring units at the Głogów smelter,
- construction of a 4th Doerschel furnace at the Głogów smelter,
- modernisation of the electrolyte purification unit at the Głogów smelter,
- realisation of the first stage of modernisation of the sulphuric acid plant at the Głogów smelter,
- replacement of 6 cranes in the electrorefining unit at the Głogów smelter,
- general maintenance on the Contirod line at the Cedynia plant in Orsk.

Mine production

Ore extraction by dry weight in 2010 was lower by 426.7 thousand tonnes than in 2009, mainly due to optimisation of work on days legally free from work. The average copper content in extracted ore amounted to 1.64% and was lower than that achieved in 2009 (1.68%) mainly due to work in regions with lower copper ore mineralisation. These factors caused a decrease in the amount of copper in extracted ore by 18.9 thousand tonnes (i.e. by 4%) to 480.6 thousand tonnes.

The decrease in copper content in extracted ore (despite an increase in copper recovery during floatation by 0.5%) led directly to a decrease by 13.6 thousand tonnes, i.e. by 3%, in the amount of copper in concentrate produced. The amount copper content in concentrate increased, from 22.76% in 2009 to 23.11% in 2010. The amount of silver in concentrate was lower by 2% versus 2009 (a decrease from 1 206 t to 1 181 t).

Table 1. Production results in mining

	Unit	2008	2009	2010	Change 2009=100
Copper ore (dry weight)	million t	29.4	29.7	29.3	98.7
Copper content in ore	'000 t	481.6	499.5	480.6	96.2
Copper content in ore	%	1.64	1.68	1.64	97.6
Copper concentrate (dry weight)	'000 t	1 865.8	1 929.0	1 841.2	95.4
Copper content in concentrate	'000 t	429.4	439.0	425.4	96.9

Smelter production

In comparison to the prior year the production of electrolytic copper increased in 2010 by 44.6 thousand tonnes, i.e. by 9%, mainly due to the three-month maintenance on the flash furnace at the Głogów smelter in 2009 and an increase in 2010 of electrolytic copper production from purchased copper-bearing materials. The augmentation of own concentrates with purchased copper-bearing materials enabled the effective utilisation of existing technological abilities. Also of impact on the amount of final production in 2010 was the more than month-long maintenance on the shaft furnace at the Głogów smelter.

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

Table 2. Production results in smelting

	Unit	2008	2009	2010	Change 2009=100
Copper products:					
Electrolytic copper	'000 t	526.8	502.5	547.1	108.9
of which from purchased copper-bearing materials	'000 t	105.1	103.8	120.0	115.6
Wire rod (Contirod)	'000 t	206.2	177.5	237.3	133.7
Oxygen-free copper rod (UPCAST)	'000 t	11.8	13.8	15.5	112.3
Round billets	'000 t	20.2	14.9	18.7	125.5
Granular copper	'000 t	2.3	2.5	2.3	92.0
Other metals:					
Metallic silver	t	1 193	1 203	1 161	96.5
Metallic gold	kg	902	814	776	95.3
Crude lead	'000 t	23.7	24.1	22.0	91.3
Refined lead	'000 t	20.0	21.6	20.9	96.8

Main directions in production

The main production goals set out by the Management Board in 2011, as in the prior year, are: optimal utilisation of the resource base and of the production capacity of the Company and optimisation of the copper content in ore and concentrate.

As a result of the above the key goals for 2011 will be:

- continued drift preparation work being realised on declining gallery H at the Rudna Mine in the direction of the Głogów Głęboki Przemysłowy deposit,
- the application of new drift preparation work technology using drift combines,
- restricting depletion in extracted ore,
- continued exchange of floatation machinery in the Rudna and Polkowice areas,
- optimisation of the enrichment process in order to counter the effects of a decrease in ore quantity-quality parameters,
- continued separation of concentrate produced at the OEP of the Rudna mine into two types of concentrate with different organic carbon content,
- continued modernisation of technology at the Głogów smelter,
- completion of modernisation of the overhead pouring units at the Głogów smelter,
- construction of a concentrate warehouse at the Głogów smelter – completion of project,
- modernisation of casting forms unit and caissons at the Głogów smelter,
- development of unit for the thermal elimination of oil emulsions in the Contirod line of the Cedynia wire rod plant.

In addition, the Company has begun work on obtaining a license for the extraction of copper ore from the following licensed areas: Rudna I, Sieroszowice I, Polkowice II, Lubin I and Małomice I (licenses expire on these areas on 31 December 2013), and from Radwanice Wschód, whose license expires on 31 May 2015.

The licenses based on which mining operations are currently underway in these areas were issued, in accordance with the laws then in force, for a maximum period of 20 years. In accordance with the law on geology and mining currently in force (Journal of Laws 2005 No. 228, item 1947), the maximum period for which licenses are currently granted for the extraction of minerals is 50 years. The Company intends to seek a license granting the longest period of time. 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, minimal.

In addition to the above-mentioned deadlines, agreements granting mining usufruct rights to the licensed areas are also expiring. Entering into new agreements granting mining usufruct rights will be associated with the incurring of fees whose amounts are not regulated by individual laws and remains the decision of the licensing body. It is currently estimated (based on prior experience), that the amount of the one-off fee for mining usufruct rights for which KGHM Polska Miedź S.A. will engage in mining operations after 2013 may amount to tens of millions PLN.

1.3. Product sales structure

In 2010 the Company sold 545.3 thousand tonnes of copper and copper products, constituting an increase in the volume of sales by 35.4 thousand tonnes (7%), mainly due to an increase by 57.0 thousand tonnes (32%) in wire rod sales. Silver sales amounted to 1 247 t and were higher by 4% (49 t) versus the comparable prior period. Gold sales also increased, by 3% (22 kg) and amounted to 840 kg.

Table 3. Sales volume for basic products

	Unit	2008	2009	2010	Change 2009=100
Copper and copper products	'000 t	537.3	509.9	545.3	106.9
of which export *	'000 t	382.6	390.5	406.0	104.0
Silver	t	1 175	1 198	1 247	104.1
of which export *	t	1 094	1 150	1 214	105.6
Gold	kg	924	818	840	102.7
of which export *	kg	348	755	647	85.7

** including sales to European Union countries*

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

	2008	2009	2010	Change 2009=100
Total	**11 220 197**	**10 965 336**	**15 830 341**	144.4
of which export **	**7 872 270**	**8 479 444**	**12 011 937**	141.7
Copper and copper products	9 442 761	8 815 919	12 837 041	145.6
of which export **	6 586 294	6 733 784	9 521 850	141.4
Silver	1 348 511	1 731 718	2 467 928	142.5
of which export **	1 255 464	1 663 074	2 404 682	144.6
Gold	62 652	84 721	101 504	119.8
of which export **	24 605	78 563	78 706	100.2
Other products and services	366 273	332 978	423 868	127.3
of which export **	5 907	4 023	6 699	166.5

** Reflecting impact of commodity hedging transactions*

*** including sales to European Union countries*

Total revenues from the sale of KGHM Polska Miedź S.A. products and services amounted to PLN 15 830 341 thousand and were higher by 44% than those achieved in 2009, mainly due to the high level of copper prices in 2010 and to the increase in the volume of copper sales.

Revenues from the sale of copper and copper products were higher by 46%, while revenues from silver and gold sales, in comparison to their level in 2009, were higher respectively by 43% and 20%. This is due to the increase in metals prices on financial markets, the increased sales volume and to an improvement in the structure of sales of copper products (a higher share of wire rod).

Revenues from the sale of products in 2010 reflect the result from the settlement of commodity hedging instruments in the amount of PLN (26 776) thousand (in 2009 PLN 425 402 thousand) and currency hedging instruments in the amount of PLN 168 964 thousand (in 2009 PLN 7 785 thousand).

Geographical structure of product sales

In 2010 the volume of domestic sales of copper and copper products represented 26% of total copper sales, with export and European Union sales accounting for 74%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and Italy.

During the twelve months of 2010 domestic silver sales amounted to 3% of the total volume of silver sales, while export and European Union sales accounted for 97% of sales volume. The largest foreign customers for silver were Great Britain, Belgium, Germany and the USA.

Macroeconomic sales conditions

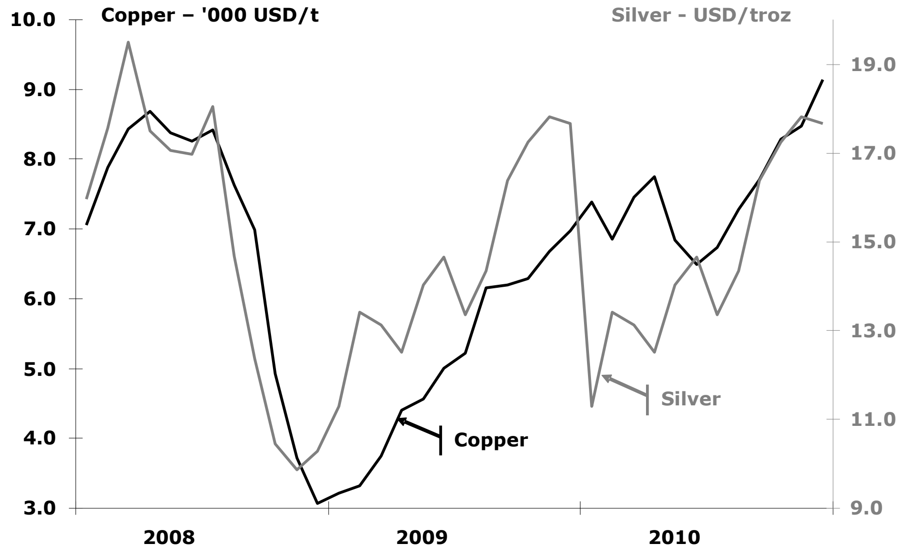
Metals prices in the first half of 2010 showed substantial volatility, followed in the second half of the year by a strong rising trend. The average annual electrolytic copper price on the London Metal Exchange (LME) amounted to 7 539 USD/t, meaning an increase of 46% compared to 2009, when it amounted to 5 164 USD/t.

The minimum average monthly copper price was recorded in June and amounted to 6 499 USD/t. The best month for copper producers was December, when prices were at the average level of 9 147 USD/t.

The average annual silver price on the London Bullion Market Association (LBMA) in 2010 amounted to 20.19 USD/troz (649 USD/kg). This means an increase of 38% compared to the average price in 2009 of 14.67 USD/troz (472 USD/kg). The minimum average monthly silver price was recorded in February at the level of 15.87 USD/troz (510 USD/kg), while the highest monthly price was observed in December – 29.35 USD/troz (944 USD/kg).

Copper prices on the LME and silver on the LBMA in the years 2008-2010 are shown in the chart below:

Chart 1. Copper prices on the LME and silver quotations on the LBMA



After a relatively quiet first quarter of 2010, from April began a dynamic weakening of the Polish zloty versus the USD and the Euro, lasting until the end of the second quarter. In the second half of the year there was a gradual appreciation of the Polish zloty to levels prevalent at the start of the year. In the final two months of the year there occurred a further period of weakening of the Polish currency. The average USD/PLN (NBP) exchange rate in 2010 amounted to 3.02 USD/PLN and was lower versus the prior year by 3% (3.12 USD/PLN). In 2010 the minimum PLN exchange rate versus the USD was recorded at the beginning of November at the level of 2.74 USD/PLN, with its maximum value reached in July – 3.49 USD/PLN.

Position of the Company on the copper and silver markets

According to preliminary estimated data from CRU International, in 2010 global copper mine production amounted to 15 883 thousand tonnes. In this period, KGHM Polska Miedź S.A. produced 425 thousand tonnes of copper in concentrate, representing 2.7% of global production. Global production of refined copper, according to preliminary estimates of the CRU, amounted to 18 636 thousand tonnes. Refined copper production in the Company amounted to 547 thousand tonnes, representing 2.9% of global production.

During this same period global silver mine production amounted to 733 million troz (estimated data from GFMS Ltd.). The Company produced 38 million troz of silver in concentrate, representing 5.2% of global production.

1.4. Signed contracts significant for the activities of the Company

In 2010 the Company entered into the following contracts significant for the activities of the Company:

Trade contracts of the Company (value of contracts based on data current at the time contract signed):

- Contract for the sale of copper cathodes in 2010 entered into on 14 January 2010 between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH. The estimated value of this contract is USD 523 million (i.e. approx. PLN 1 460 million),
- Contract for the sale of copper wire rod and oxygen-free copper rod entered into on 20 January 2010 between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. The estimated value of this contract is from USD 479 million (i.e. approx. PLN 1 355 million), to USD 579 million (i.e. approx. PLN 1 638 million),

- Contracts for the sale of copper wire rod in 2010 and 2011 entered into on 4 May 2010 between KGHM Polska Miedź S.A. and nkt cables GmbH Cologne and its subsidiaries (i.e. nkt cables Warszowice Sp. z o.o., nkt cables Kladno s.r.o, nkt cables Velke Mezirici k.s., nkt cables Vrschlabi k.s., nkt cables a/s Asnaes). The estimated value of these contracts in the Group is from PLN 2 290 million to PLN 2 613 million,
- Contract for the supply of natural gas in years 2012-2033 entered into on 30 July 2010 between KGHM Polska Miedź S.A. and PGNiG S.A. The estimated value of this contract is about PLN 4 000 million,
- Contract for the sale of copper cathodes in 2011 entered into on 3 November 2010 between KGHM Polska Miedź S.A. and China Minmetals Corporation. The estimated value of this contract is from USD 425 million (i.e. about PLN 1 202 million) to USD 850 million (i.e. about PLN 2 405 million),
- Contract for the sale of silver in 2010 entered into on 29 December 2010 between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch. The estimated value of this contract is PLN 60 million. This contract met the criteria to be considered a significant contract, together with other contracts from the last 12 months preceding its signing (the highest-value contract entered into during this period is a contract for the sale of silver in 2010, entered into on 20 January 2010 with an estimated value of PLN 1 195 215 thousand).

There was no instance of dependence on a single or multiple customers or suppliers. Customers whose share in revenues from sales of KGHM exceeds 10%: Tele-Fonika Kable S.A. and MKM Mansfelder Kupfer und Messing GmbH (respective shares of 10.8% and 10.3%). These entities are not related to the Company.

Bond Issuance Program Agreement

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

The Program provides that the Company will be able to make multiple issuances of bearer bonds, with maturities of from 30 days to 10 years. Bonds will be issued under the Program in Polish zloties, in respect of which the per-bond face value will be PLN 10 000, or a multiple of this amount. The issue price will be set during the Bond offer process. The maximum total amount of debt due to bonds from this Program may not exceed PLN 500 million.

The funds obtained from the issuance of Bonds will be allocated to finance the current activities of the Company. The Agreement has an unspecified period of time.

Agreement with Abacus Mining & Exploration Corporation

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

Realisation of the Investment Agreement required the agreement of the shareholders of Abacus. Consequently, the Parties agreed to the deadline of the second quarter of 2010 for the signing of the final agreement, though no later than 30 September 2010. An **Annex to the Agreement** dated 30 September 2010 extended the above-mentioned deadline to 12 October 2010.

In accordance with the Agreement and Annexes, on 12 October 2010 an **Agreement** was signed regarding entrance to a company under the name KGHM AJAX MINING INC. to advance the Afton-Ajax copper-gold ore mining project in Canada.

Based on the agreement, KGHM Polska Miedź S.A. acquired a 51% interest in the company KGHM AJAX MINING INC. formed together with Abacus Mining & Exploration Corp. (Abacus) through a cash contribution in the amount of USD 37 million. Abacus brought to the KGHM AJAX MINING INC. all the rights it owns to the Afton-Ajax deposit. The cash will be used to carry out a Bankable Feasibility Study and for further exploration.

In accordance with the above agreement, KGHM Polska Miedź S.A. holds a call option on a further 29% in KGHM AJAX MINING INC., for an amount calculated as a multiple of USD 0.025 per pound of copper in 29% of the probable and proven industrial ore resources, though not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study, which will include the balance of industrial ore resources.

The Agreement also includes a commitment by KGHM Polska Miedź S.A. to arrange financing for the project CAPEX, in the amount of USD 535 million (the equivalent of PLN 1 585.8 million, per the average National Bank of Poland rate for USD/PLN from 31 December 2010). The commitment will arise at the moment of execution by KGHM Polska Miedź S.A. of the call option on a further 29% in KGHM AJAX MINING INC.

If this option is not executed by KGHM Polska Miedź S.A, Abacus will have an exclusive call option for a period of 90 days on all of the shares belonging to KGHM Polska Miedź S.A. for an amount representing the equivalent of their fair market value, though not higher than USD 37 million. If Abacus decides not to acquire the shares from KGHM within this timeframe, KGHM Polska Miedź S.A shall transfer, within 60 days, 2% of its shares in KGHM AJAX MINING INC to Abacus, increasing the share of this company to 51% for the amount of USD 1 451 thousand.

In accordance with the Technical report by Wardrop Engineering Inc. dated 29 July 2009, the project assumes annual copper production at the level of 50 thousand tonnes, and gold production at the level of 100 thousand ounces. A 23-year mine-life is predicted.

Detailed information on the measurement and recognition of options included in the agreement may be found in note 3.2 of the financial statements.

Information on contracts for the auditing or review of the separate or consolidated financial statements

The entity entitled to audit the separate and consolidated financial statements of the Company is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw.

The contract which was signed on 25 May 2010 is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2010, 2011 and 2012.

Detailed information on the amount of remuneration due to the entity entitled to audit the financial statements for the review and audit of the financial statements, and remuneration for other purposes is shown in note 36 of the financial statements.

1.5. Employment and remuneration

Employment in KGHM Polska Miedź S.A. at the end of 2010 was 18 639 persons, which was 1% higher than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 465 and was higher than the level of employment in 2009 by 95 persons. The main reason for the increase in employment in the Company was an increase in employment in the mines, due to the development of infrastructure and the replacement of Company maintenance services.

Table 5. End-of-period employment (# of persons)

	2008	2009	2010	Change 2009=100
Mines	12 468	12 397	12 645	102.0
Smelters	4 024	3 931	3 869	98.4
Other Divisions	2 143	2 085	2 125	101.9
Total	**18 635**	**18 413**	**18 639**	**101.2**

Remuneration policy in 2010 was aimed at implementing motivational bonus regulations and individual increases in salary categories. The increase in the total average salary was mainly due to higher annual bonus payments, which are tied to Company profit.

In 2010 the average salary excluding the annual bonus was PLN 7 011, meaning a statistical increase of 0.1% as compared to the level in 2009.

Table 6. Average monthly remuneration (in PLN)

	2008	2009	2010	Change 2009=100
Mining divisions	8 293	8 476	8 994	106.1
Smelting divisions	6 529	6 769	7 306	107.9
Total	**7 909**	**8 097**	**8 640**	**106.7**

Relations with the trade unions

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

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

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

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

In 2011 there are no substantial changes foreseen in the level of employment. With respect to salaries, work will be continued on increasing the motivational function of salary. Salary increases will be of an individual nature.

2. Investments and development

2.1. Capital expenditure

The structure of investments realised in 2010 is presented in the table below:

Table 7. Investment expenditures ('000 PLN)

	2008	2009	2010	Change 2009=100
Mining	879 829	833 507	985 097	118.2
Smelting	243 135	218 998	230 798	105.4
Other activities	16 911	17 307	47 097	×2.7
Total	**1 139 875**	**1 069 812**	**1 262 992**	**118.1**

Investment activities were primarily aimed at the realisation of development projects and the replacement of equipment.

Table 8. Structure of realised development-related investments ('000 PLN)

	2008	2009	2010	Change 2009=100	Structure (%)
Development:	**492 015**	**513 195**	**742 932**	**144.8**	**58.8**
in mining	422 123	429 759	629 734	146.5	84.8
in smelting	62 331	78 180	81 809	104.6	11.0
in other Divisions	7 561	5 256	31 389	×6.0	4.2

Table 9. Structure of realised replacement-related investments ('000 PLN)

	2008	2009	2010	Change 2009=100	Structure (%)
Replacement:	**647 860**	**556 617**	**520 060**	**93.4**	**41.2**
in mining, of which:	457 706	403 748	355 363	88.0	68.3
mining machinery	*222 204*	*194 485*	*190 486*	*97.9*	*36.6*
in smelting	180 804	140 818	148 989	105.8	28.7
in other Divisions	9 350	12 051	15 708	130.3	3.0

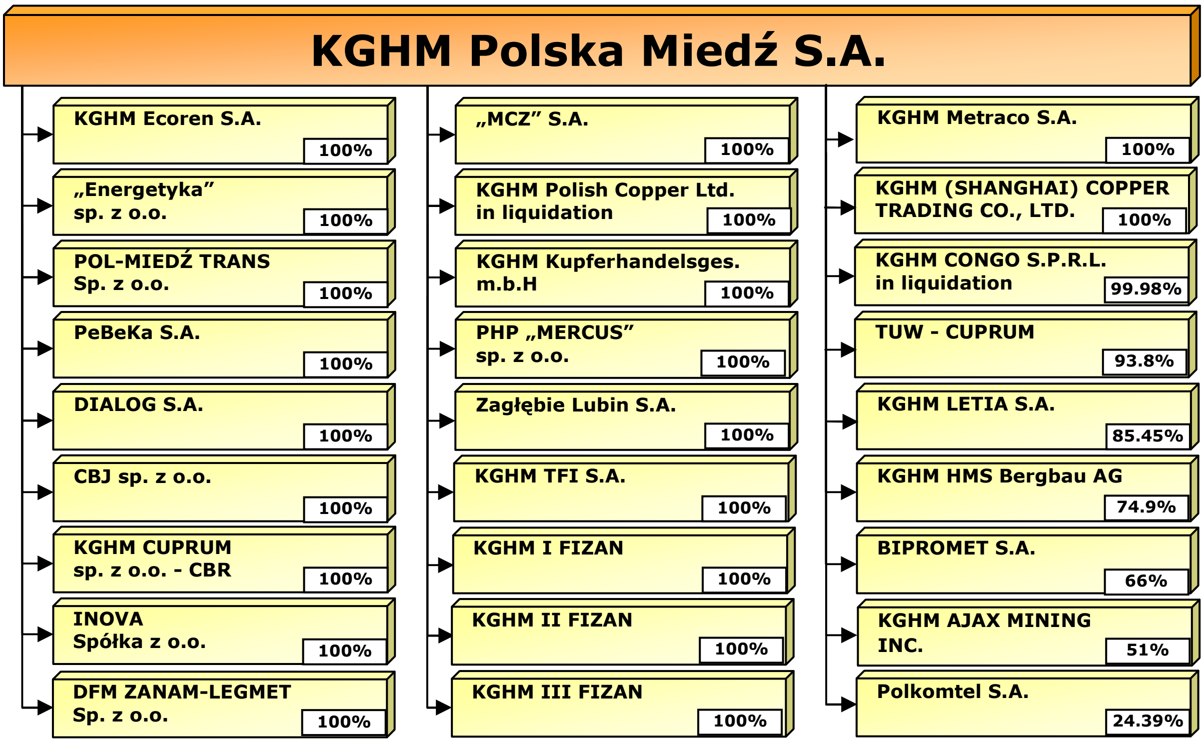
Major projects and facilities realised in 2010:

- continued sinking of the SW-4 shaft – since the investment began, 811 meters have been excavated,
- investment related to the Głogów Głęboki Przemysłowy project – 5.7 thousand meters of tunnels were dug (since 2005, 37.6 thousand meters of the planned 129.9 thousand meters of tunnels have been developed). With respect to preparatory work for the sinking of the GG-1 shaft, a freezing plate was executed along with 11 freezing openings,
- investments related to developing the infrastructure of the excavation sections of the mines,
- ventilation and air conditioning equipment – the main surface ventilation station of the SG-2 shaft was realised and the central air conditioning system was built,
- with respect to the modernisation and replacement of the machinery park in the mines, 200 mining machines were purchased,
- with respect to the replacement of floatation machinery, suppliers were selected for all machines to be built in the years 2010-2013 (in 2010 replacement was completed of 14 floatation machines and construction was begun on others),
- facilities were realised related to improving and maintaining the safety of the Żelazny Most mining waste treatment tailings pond, and eliminating its environmental impact,
- realisation was begun on the project „Development of the Żelazny Most mining tailings treatment pond to ensure the ability to store floatation tailings after 2016",
- realisation was begun on the project „Licensing 2013" aimed at receiving licenses for the excavation of copper ore from areas whose licenses expire on 31 December 2013,
- work was begun on determining the possibility of mining the Radwanice – Gaworzyce deposit,
- an agreement was signed to receive EU financing for the project „Development of mining technology utilising the ACT/KGHM complex",
- a project was realised called „Redevelopment of the Sulphuric Acid Plant at the Głogów-I smelter",
- realisation was begun on the project „Pyrometallurgy Modernisation Program",
- with respect to development of a 4th Doerschel furnace, an agreement was signed to receive EU financing for the project, with renovation of the furnace completed together with installations and associated equipment – completion of the project will occur in the first half of 2011,
- with respect to the construction of gas-steam blocks in the powerplants in Głogów and Polkowice, an agreement was signed for the supply of gas from PGNiG S.A. and connection to the distribution network of WSG Sp. z o.o., along with an agreement for the supply of gas-powered turbo units, recovery boilers and for the supply of steam-powered turbo units.

2.2. Equity investments

At 31 December 2010 KGHM Polska Miedź S.A. directly owned shares of 23 subsidiaries, 1 associate, 2 other companies and investment certificates in 3 closed-end non-public investment funds. Eight of these entities have their own capital groups: 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., BIPROMET S.A. and KGHM I FIZAN. The equity investments of KGHM Polska Miedź S.A. in specific entities is shown in the diagram below.

Diagram 2. Equity investments of KGHM Polska Miedź S.A. in subsidiaries, associates



KGHM Polska Miedź S.A. has equity investments in entities engaged in various businesses. They offer products and services both related to the core business of KGHM Polska Miedź S.A. (including exploring for and mining deposits of copper ore and other metals, mine construction, power generation and heat production, mining machinery and equipment and research and development) as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as transportation, telecommunications, health-related services and cash investing. In 2010 there were no changes in the basic management principles of the Group.

The value of the equity investments of KGHM Polska Miedź S.A. in 2010 amounted to PLN 1 321 117 thousand, including the acquisition of shares/newly issued shares in the amount of PLN 960 953 thousand, and the acquisition of investment certificates in the amount of PLN 360 164 thousand. These investments were financed by the internal funds of the Company.

Acquisition of shares/newly issued shares

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

  In 2010, KGHM Polska Miedź S.A. acquired new shares in the increased share capital of Zagłębie Lubin S.A. Altogether 48 035 newly issued shares were acquired, paid in cash at their nominal amount, in the total amount of PLN 48 035 thousand. The funds obtained from this new issuance of share capital were used to complete realisation of an investment – construction of a football stadium – and to regulate liabilities. The percentage ownership of KGHM Polska Miedź S.A. in the share capital of this company following the increase remained unchanged.

– Acquisition of shares of Abacus Mining & Exploration Corporation

  In May 2010, KGHM Polska Miedź S.A. acquired 15 million registered shares of a new issue of Abacus Mining & Exploration Corporation with its registered head office in Vancouver in Canada („Abacus"), representing 8.75% of the share capital of this entity, for the total price of CAD 4 500 thousand. The total acquisition-related costs of these shares was PLN 14 660 thousand.

This transaction was related to the intention of KGHM Polska Miedź S.A. and the shareholders of Abacus to realise a joint venture to advance the Afton – Ajax copper-gold mining project located in British Columbia in Canada.

– Acquisition of the shares of TAURON Polska Energia S.A.

  In June 2010, KGHM Polska Miedź S.A. acquired through a public offer 77 882 499 shares of TAURON Polska Energia S.A., representing 4.9% of the share capital of the company, for the total price of PLN 399 537 thousand. Shares were subsequently purchased on the secondary market. At the end of 2010, KGHM Polska Miedź S.A. maintained its equity involvement in TAURON Polska Energia S.A. at a level above 5%. In 2011, KGHM Polska Miedź S.A. increased its equity involvement in TAURON Polska Energia S.A. to the level of 10.39%. Detailed information on this may be found on page 149 of this report.

  Purchase of the shares of TAURON Polska Energia S.A. results from realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009-2018, which foresees the diversification of sources of income and entry to the power sector. The generation of electricity is, from the point of view of KGHM Polska Miedź S.A., one of the most attractive sectors, uncorrelated with conditions on the metals markets.

– Acquisition of shares of KGHM HMS Bergbau AG

  In June 2010, KGHM Polska Miedź S.A. purchased from KGHM CUPRUM sp. z o.o. – CBR (a subsidiary) 37 449 shares of KGHM HMS Bergbau AG with its registered head office in Berlin, granting the right to 74.9% of the votes at the General Meeting of this entity. The acquisition-related costs of these shares amounted to PLN 1 611 thousand. As a result of this transaction, KGHM CUPRUM sp. z o.o. – CBR no longer owns shares in KGHM HMS Bergbau AG.

  KGHM HMS Bergbau AG was founded by KGHM CUPRUM sp. z o.o. – CBR and the company HMS Bergbau AG in June 2009, to realise a project of exploration for and evaluation of deposits of copper ore and other metals in Europe. This purchase by KGHM Polska Miedź S.A. of the shares of KGHM HMS Bergbau AG is in accordance with the project assumptions.

– Acquisition of shares of BIPROMET S.A.

  In July 2010, KGHM Polska Miedź S.A. acquired through a call for the sale of shares 4 091 868 shares of BIPROMET S.A., for the total price of PLN 30 689 thousand, granting the right to 66% of the votes at the General Meeting of this company. The acquisition-related costs of these shares amounted to PLN 30 812 thousand.

  The decision to acquire a controlling interest in BIPROMET S.A. was due to the identification of significant smelting-related synergies effects between KGHM Polska Miedź S.A. and this company.

– Foundation of the company KGHM (SHANGHAI) COPPER TRADING CO., LTD in the People's Republic of China

  In September 2010, KGHM Polska Miedź S.A. founded, in the People's Republic of China, the company KGHM (SHANGHAI) COPPER TRADING CO., LTD., with share capital of USD 500 thousand. KGHM Polska Miedź S.A. is the sole shareholder of the company. Total acquisition-related cost of shares: PLN 1 896 thousand.

  The creation of this company is aimed at gaining a competitive market position in the trading and distribution of goods such as copper, silicon, artificial materials and chemicals (excluding hazardous and poisonous materials).

– Acquisition of newly issued shares in the increased share capital of KGHM Ecoren S.A.

  In October 2010, KGHM Polska Miedź S.A. acquired 12 066 120 of newly issued shares in the increased share capital of KGHM Ecoren S.A., paid in cash at their nominal amount, in the total amount of PLN 115 231 thousand. The funds from this increase in share capital were used to purchase shares of CENTROZŁOM WROCŁAW S.A. from the State Treasury. The share of KGHM Polska Miedź S.A. in the share capital of this company following the increase remained unchanged.

– Acquisition of shares of KGHM AJAX MINING INC.

  In October 2010, KGHM Polska Miedź S.A. acquired 51% of the shares of KGHM AJAX MINING INC., a company founded jointly with Abacus Mining & Exploration Corporation with its registered head office in Vancouver, through a cash contribution in the amount of USD 37 000 thousand. Total acquisition cost of shares: PLN 109 763 thousand. Abacus brought to the company all the rights it owns to the Afton-Ajax deposit in Canada.

  This transaction was the result of the signing in May 2010 by the Management Board of KGHM Polska Miedź S.A with Abacus of an Investment Agreement (further information on this contract may be found on page 113 of this Report) on the joint realisation of the Afton-Ajax copper-gold mining project located in British Columbia in Canada. Abacus is involved in the exploration of mineral ore resources and mining ventures.

– Acquisition of shares of ZANAM-LEGMET Sp. z o.o.

  In November 2010, KGHM Polska Miedź S.A. acquired from the subsidiary KGHM Ecoren S.A. 719 397 shares of ZANAM-LEGMET Sp. z o.o., representing 100% of the votes at the General Shareholders' Meeting of the company. The total acquisition-related costs of the shares was PLN 48 631 thousand.

– Acquisition of shares of INOVA Spółka z o.o.

  In November 2010, KGHM Polska Miedź S.A. acquired from the subsidiary KGHM Ecoren S.A. 6 600 shares of INOVA Spółka z o.o., representing 100% of the votes at the General Shareholders' Meeting of this company. The total acquisition-related costs of these shares amounts to PLN 13 185 thousand.

  The purchase by KGHM Polska Miedź S.A. of the shares of ZANAM-LEGMET Sp. z o.o. and INOVA Spółka z o.o. was aimed at gaining direct supervision by KGHM Polska Miedź S.A. of companies which support the core business.

Acquisition of Investment Certificates

– Acquisition of Investment Certificates of KGHM I FIZAN

  In 2010, KGHM Polska Miedź S.A. three times acquired Investment Certificates of the fund KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. Altogether 36 160 Investment Certificates were acquired, with a total issue price of PLN 342 975 thousand. Total acquisition cost of certificates: PLN 347 814 thousand.

  The funds acquired from issuance of the Fund's certificates were designated to be used to purchase 90% of the shares of each of the following companies: Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A., Uzdrowisko Cieplice Sp. z o.o. and to acquire newly issued shares of Interferie Medical SPA sp. z o.o. In addition, through the special purpose entity Fundusz Hotele 01 Sp. z o.o. SKA, as a result of a call for the sale of shares, the Fund purchased 67% of the shares of INTERFERIE S.A.

– Acquisition of Investment Certificates of KGHM II FIZAN

  In June 2010, KGHM Polska Miedź S.A. acquired 700 Investment Certificates of the fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, with a total issue price of PLN 7 000 thousand. The total acquisition-related costs of these certificates amounted to PLN 7 350 thousand.

  Acquisition of these certificates was aimed at enabling the registration of this Fund in the registry of investment funds. The Fund will deposit the cash acquired in investment accounts pursuant to the investment decision of the General Meeting of Investors.

– Acquisition of Investment Certificates of KGHM III FIZAN

  In November 2010, KGHM Polska Miedź S.A. acquired 500 Investment Certificates of the fund KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych, with a total issue price of PLN 5 000 thousand.

  Acquisition of these certificates was aimed at enabling the registration of this Fund in the registry of investment funds. The Fund will deposit the cash acquired in investment accounts pursuant to the investment decision of the General Meeting of Investors.

The Managing Body of the above-mentioned funds is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. At the end of 2010, KGHM Polska Miedź S.A. was the sole participant of these funds.

Disposal of shares

In 2010, KGHM Polska Miedź S.A. disposed of shares of two entities.

– Disposal of shares of PCPM sp. z o.o.

  In July 2010, KGHM Polska Miedź S.A. sold all of the shares it held in POLSKIE CENTRUM PROMOCJI MIEDZI sp. z o.o., granting the right to 82.86% of the votes at the General Shareholders' Meeting, to another shareholder - The European Copper Institute. The sale price amounted to PLN 122 thousand. The acquisition-related costs of these assets was PLN 270 thousand.

– Disposal of shares of INTERFERIE S.A.

  In December 2010, KGHM Polska Miedź S.A. sold, in response to a call for the sale of shares, all of the shares it held in INTERFERIE S.A., granting the right to 2.06% of the votes at the General Meeting of the company. The shares were sold to Fundusz Hotele 01 Sp. z o.o. S.K.A. (a 100% subsidiary of the fund KGHM I FIZAN). The sale price amounted to PLN 1 536 thousand. The acquisition-related costs of these assets was PLN 1 500 thousand.

Payments to subsidiary

In 2010, KGHM Polska Miedź S.A. granted payments to the reserve capital of two subsidiaries, in the total amount of PLN 6 846 thousand.

- KGHM CUPRUM sp. z o.o. – CBR

  In August and November 2010, this company was granted two payments to its reserve capital in the total amount of PLN 5 351 thousand, for the purchase of land related to realisation of a project involving construction of the conference-hotel centre CUPRUM III in Wrocław.

- CBJ sp. z o.o.

  In July 2010, this company was granted a payment to its reserve capital in the amount of PLN 1 495 thousand, payable in 5 instalments during the period 2010-2012. The payment was aimed at the financing by the company of the purchase and implementation of an integrated IT system.

In June 2010, KGHM CUPRUM sp. z o.o. – CBR returned to KGHM Polska Miedź S.A. a payment in the amount of PLN 1 500 thousand, granted to the company in 2008 to finance the first stage of exploratory work in the Weisswasser region.

Owner loans

Information on loans granted to Group companies may be found on page 129 of this report.

Dividends

In June 2010, KGHM Polska Miedź S.A. received dividends from Polkomtel S.A. in the amount of PLN 24 051 thousand, from the appropriation of profit for 2009 (the Company received an interim payment towards the dividend for 2009 in the amount of PLN 113 256 thousand from Polkomtel S.A. in December 2009).

Also in 2010, KGHM Polska Miedź S.A. received two interim payments from Polkomtel S.A. towards the dividend for 2010: PLN 77 454 thousand in November and PLN 45 152 thousand in December.

Significant transactions entered into by the subsidiaries of KGHM Polska Miedź S.A. with related entities under other than arm's length conditions

In 2010, the subsidiaries of KGHM Polska Miedź S.A. did not enter into significant transactions with related entities under other than arm's length conditions.

Telecom assets of the Company

Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. in the statement of financial position of KGHM Polska Miedź S.A. at 31 December 2010 measured at cost less impairment losses is PLN 1 159 947 thousand.

Table 10. Financial results of Polkomtel S.A. ('000 PLN)

	2009*	**2010****	**Change** 2009=100
Revenues from sales	7 773 120	7 672 409	98.7
Profit on sales	1 427 645	1 521 504	106.6
Operating profit	1 378 019	1 534 825	111.4
EBITDA	2 685 807	2 889 105	107.6
Profit before tax	1 230 236	1 429 302	116.2
Profit for the period	981 747	1 150 159	117.2

* *Data for 2009 were adjusted with respect to those presented in the report for 2009, due to changes introduced in the financial statements of Polkomtel S.A. after an audit*
** *Prior to audit*

Revenues from sales for 2010 were slightly lower than in the comparable prior period. However, both the result on sales (an increase by PLN 93 859 thousand) and the profit for the period (an increase by PLN 168 412 thousand) were higher.

In 2010, the Polish shareholders of Polkomtel S.A. followed a general model of cooperation with respect to the possibility of a potential sale of shares held in this company. Advisors were selected for this process.

Once the foreign shareholders had joined this cooperation, preparatory work was begun on offering for sale in a private placement 100% of the shares of Polkomtel S.A. However, to the end of 2010 this work had not advanced beyond the preparatory stage.

In January 2011, the shareholders of Polkomtel S.A. decided to send out invitations to submit preliminary offers, and to subsequently provide those interested with an informational memorandum. In the next stage, selected bidders will be allowed to perform due diligence on the company. Based on the results of this due diligence, the bidders will submit binding offers.

By the date of publication of this report, KGHM Polska Miedź S.A. had not made a corporate decision as to the sale of the shares of Polkomtel S.A. Agreements which have been reached between the shareholders of this company, in terms of the mutual offer of shares, are not binding on any of the parties. While KGHM Polska Miedź S.A., together with the other shareholders of the company, has been since January 2011 a participant in the process of offering of 100% of the shares, each of the shareholders continues to act on their own behalf and wishes to achieve their own objectives in terms of this transaction. Any decisions taken by KGHM Polska Miedź S.A. on the sale of these shares will only be made following a review of the binding offers, and after determination that the price offered for the shares is acceptable, i.e. one which guarantees that value will be preserved for the shareholders of KGHM Polska Miedź S.A.

DIALOG S.A.

DIALOG S.A. is the parent entity of the DIALOG S.A. Group, which at 31 December 2010 comprised the following subsidiaries:

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

Table 11. Financial data of the DIALOG S.A. Group ('000 PLN)

	2009*	**2010****	**Change** 2009=100
Sales	520 886	528 803	101.5
Profit on sales	34 189	40 047	117.1
Operating profit	36 053	50 309	139.5
EBITDA	136 535	137 232	100.5
Profit before taxation	28 414	46 059	162.1
Profit for the period	11 635	80 156	×6.9

** Data for 2009 differ from the data presented in the report for 2009, as these data are from audited financial statements (reflecting the settlement of shares acquired of „PETROTEL" sp. z o.o.)*
***Data for 2010 prior to audit*

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

	2009*	**2010**	**Change** 2009=100
Sales	493 790	499 457	101.1
Profit on sales	34 154	35 028	102.6
Operating profit	29 878	45 132	151.1
EBITDA	120 202	123 123	102.4
Profit before taxation	22 679	41 151	181.4
Profit for the period	7 030	76 048	×10.8

** Data for 2009 differ from the data presented in the report for 2009, as these data are from audited financial statements*

In 2010 the sales of the DIALOG S.A. Group were higher than those in the comparable prior period by PLN 7 917 thousand. This increase in sales was due primarily to the sector of services based on external infrastructure (mainly WLR services) and to the sector of IPTV digital television.

There was also an increase, versus the comparable prior period, in the profit on sales (an increase by PLN 5 858 thousand) and in operating profit (an increase by 14 256 thousand).

Profit for the period was also substantially higher than that achieved in 2009, increasing by PLN 68 521 thousand. Apart from better operating results, this is also the effect of a substantial difference in the amount of the income tax due (mainly deferred portion due to revaluation of deferred tax assets). In 2009 this amounted to PLN 16 779 thousand, while in 2010 the level of this tax was negative and amounted to PLN 34 097 thousand, also improving profit for the period.

At the end of 2010, DIALOG S.A. Group had 723.9 thousand ringing lines. The number of data transmission services amounted to 156.1 thousand.

In 2010 the company recorded an increase in the number of active IPTV services (digital television offered within the DIALOGmedia package with fixed-line telephony and Internet access) by 14.4 thousand versus the end of 2009.

In the first quarter of 2010 the DIALOG S.A. Group introduced the mobile phone service Diallo, realised based on the virtual operator (MVNO) model. In September 2010, a further product was added to the group of mobile phone services - mobile Internet access. At the end of the year the total number of all active SIM cards and data transmission modems amounted to 26.4 thousand.

DIALOG S.A. is using financing from EU funds to implement an innovative project based on a passive optical network (PON) – so-called „fiber to the premises", whose planned coverage target by 2012 is around 80 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. In October 2010, the company received additional financing from EU funds for realisation of the project „Development of a regional wide-band network in the voivodeship of Łódź".

Although KGHM Polska Miedź S.A. is considering an equity exit from the company, at the end date of the reporting period no decision had been made as to beginning the sale process, nor had any corporate decision been made with respect to the sale of the shares held.

In January 2011, the process of preparing a Vendor Due Diligence report was begun. Conclusion of this process is planned at the end of March 2011. Following this, invitations will be sent to interested entities to submit offers. For the Management Board of KGHM Polska Miedź S.A., the criteria enabling a decision to be taken as to an eventual sale, and the recommendation of such a course to the other bodies of then Company, will be the quality of the offers received (above all the price offered in the context of the current and anticipated market conditions).

Intentions as regards equity investments

The intentions of KGHM Polska Miedź S.A. as regards equity investments are mainly aimed at:

- investments in the core strategic area – mining, to increase the resource base,
- investments in the KGHM Polska Miedź S.A. Group, to improve the effectiveness of Group entities,
- investments in the power sector,
- acquisition of investment certificates for the Closed-End Investment Funds managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A., to diversify investment risk.

KGHM Polska Miedź S.A. intends to continue investments aimed at increasing the resource base, in order to increase copper production. This includes the acquisition of mining entities at the pre-production and/or production stage.

The intentions of KGHM Polska Miedź S.A. with respect to investments in the Group are aimed among others at investments supporting the core business, including those aimed at reducing production costs. In carrying out these strategic intentions, those subsidiaries which provide services to the Divisions of KGHM Polska Miedź S.A. are developing investment programs reflecting these aspects. Investments planned within the Group are also aimed at increasing value through the realisation in these companies of development-related investment plans, aimed at strengthening their market positions. This includes the continuation of investments related to the development by POL-MIEDŹ TRANS Sp. z o.o. of its expertise in railway transport. The strategy of increasing the effectiveness of the Group will also be realised by investing in the property sector.

The realisation of investments involving the power sector will take place among others through the subsidiary „Energetyka" sp. z o.o. and involve the acquisition of new, alternative energy sources.

Plans with respect to equity investments assume further investment in the certificates of Closed-End Investment Funds created in 2010, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A. (KGHM TFI S.A.) - a company 100% owned by KGHM Polska Miedź S.A. This investment is of a long-term nature, is not related to the core business and does not require operational commitment in the activities of companies belonging to the funds. KGHM Polska Miedź S.A., as the owner of KGHM TFI S.A. has influence over the investment strategies of the created funds. These funds are of a sector nature, and their primary areas of focus are health protection, renewable energy and new technology.

In implementing the strategy of responsibility to the local community, KGHM Polska Miedź S.A. provides equity support for investments of social significance, including among others the development of medical activities by „MCZ" S.A.

In addition, actions taken within the Group will aim at liquidating selected entities. In 2011 the conclusion of the process of liquidating the company KGHM Polish Copper Ltd. with its registered head office in London and continuation of the process of liquidating the company KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi in the Democratic Republic of Congo are planned.

2.3. Environmental protection

Activities of the Company on behalf of environmental protection

KGHM Polska Miedź S.A., as one of the largest enterprises in Lower Silesia, may not and does not wish to avoid its responsibility to the environment in which we live. The idea of balanced growth, and in particular respect for the environment, is an important element of the strategy of the Company. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations serving the environment, both those built in the past as well as new investments in this area. In 2010 the Company spent PLN 78 969 thousand on the realisation of projects related to environmental protection.

Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2010 amounted to PLN 26 707 thousand. The amount of fees paid was similar to that paid in 2009, despite the annual increase in fees to match inflation.

In 2010 the largest fees paid by the Company were for waste discharge: PLN 17 876 thousand, including PLN 17 872 thousand for the drainoff of excess water from the Żelazny Most waste treatment tailings pond.

Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits at the Głogów smelter,
- an installation titled The Biechów industrial waste storage facility at the Głogów smelter,
- an installation titled The Biechów II industrial waste storage facility at the Głogów smelter,
- an installation for the production of refined lead at the Legnica smelter,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the tailings waste facility „Polowice", a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica smelter,
- an installation for the melting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Plant,
- an installation for the storage of tailings from the floatation of copper ore at the Tailings Plant, and
- an installation for the neutralisation of sulphuric acid waste at the Ore Enrichment Plants.

The remaining Divisions of the Company possess environmental sector administrative decisions.

In 2010 the procedure was continued to acquire a permit by the Tailings Plant to operate a waste treatment facility in accordance with the law on mining waste. Based on this law, the Żelazny Most tailings pond is a mining waste treatment facility and by the end of April 2012 the Company is required to adapt its status to the provisions of this law.

In performance of the requirements of Regulation (EC) no. 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), in November 2010 the Company completed the process of registering 7 end substances: copper, silver, lead (crude, refined and bismuth), copper sulphate, nickel sulphate, end slag (shaft and granulate), sulphuric acid and 20 indirect substances. In accordance with the principles of this Regulation: „one substance – one document" European producers and importers have cooperated in the mutual completion of required documentation for so-called leading registered entities. Next, each company had to register individually. To meet these requirements, KGHM Polska Miedź S.A. joined six international consortiums. The costs of meeting the requirements of the REACH Regulation by KGHM in 2010 amounted in total to PLN 1 500 thousand.

The Company has achieved a high level of technical solutions which enable the operation of installations in accordance with prevailing environmental law. In the near future it will be necessary to keep up with changes in EU law with respect to environmental protection in order to make the process of production compliant with the law. In addition, it will be necessary to modernise our installations in such a way as to increase production while minimising environmental impact. Amongst the most important investments planned in the near term are the following:

- implementation of a program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones,

- adaptation of administrative decisions to legal changes with respect to air pollution,
- preparing the Company to participate in the European system for trading CO_2 emissions,
- obtaining a decision on environmental parameters for enterprises involved in the underground excavation of ores,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- continued modernisation of atmospheric protection equipment at the Głogów II smelter – the electric furnace dedusting installation,
- completing construction of a concentrate warehouse at the Głogów II smelter,
- completing construction of a fourth Doerschel furnace together with infrastructure in the lead section of the Głogów smelter to increase the utilisation of lead-bearing waste,
- work related to the restoration of land following liquidation of a shaft at the Polkowice – Sieroszowice mine,
- registration by 1 June 2018 with respect to REACH: selenium and gold as end substances and silver chloride and copper chloride as indirect substances,
- detailed analysis of new ECHA guidelines, which tighten permissible conditions for indirect products.

2.4. Research and Development

External funding for R&D work in 2010 in KGHM Polska Miedź S.A. and the development of feasibility studies and analyses in R&D amounted in total to PLN 18 474 thousand. This amount was slightly higher in comparison to expenditures incurred in 2009, by PLN 2 333 thousand.

Table 13. R&D expenditures ('000 PLN)

	2008	2009	2010	Change 2009=100
Mining	3 518	2 517	4 298	170.8
Smelting	2 368	1 757	1 954	111.2
Total	5 886	4 274	6 252	146.3

R&D work is mainly financed by the Company's internal funds. In certain cases the Company makes use of public funds. In 2010 KGHM Polska Miedź S.A. signed an agreement with the Polish Agency for Enterprise Development on financing from the funds of the European Regional Development Fund for an R&D project titled „Development of mining technology through the use of an ACT combine by KGHM". The total amount granted was PLN 39 560 thousand, representing 32% of total planned expenditures on this project. Total external and internal expenditures incurred by KGHM Polska Miedź S.A. on this project in 2010 amounted to PLN 8 171 thousand. External expenditures for R&D amounted to PLN 1 712 thousand. It is planned that the R&D portion of this project will be realised by 2013. In the years 2014 and 2015 implementation of this project is planned through investments.

Public funds are also being used in part to finance an R&D project called „Technology for hydrometallurgical treatment of half-finished products and copper concentrates by the Lubin Ore Enrichment Plant", which is being realised by the Chemical Department of the Wrocław University of Technology. In this project, KGHM Polska Miedź S.A. is acting as an industrial partner and an end-user of the solutions developed. In addition, in cooperation with the Wrocław University of Technology, an application was prepared for the Ministry of Education and Higher Learning to realise a project called „Adaptation and implementation of Lean methodology in copper mines". This project was provisionally accepted, and KGHM Polska Miedź S.A. received a grant in the amount of PLN 800 thousand.

The Company has also joined academic-industrial consortiums with respect to a strategic research program called „Improving safety for mine workers" initiated by the National Centre for Research and Development. Applications have been prepared for R&D projects called „Development of a new table of natural threats in underground mines with academic review" and „Development of principles for the employment of workers in environmentally hazardous conditions in underground mines", which has received positive formal evaluation.

Examples of active participation in domestic and international sector projects in terms of R&D are the participation of the Company in academic-industrial projects by the Centre in domestically-applied geological research called „Geocentrum Polska EFRB (EXPLOSIVE - FREE ROCK BREAKAGE INITIATIVE), involving the search for alternative methods for explosion-free breakage of hard rock, and the initiative MIFU (MINE OF THE FUTURE), i.e. designing model future mines. KGHM Polska Miedź S.A. is also engaged in applied research and development work with respect to the Seventh Framework Program of the EU.

Important projects realised in mining:

- work on developing technology for the mechanical mining of rock in the mines of KGHM Polska Miedź S.A.,
- attempts to utilise combines for drift work,
- improving safety during mining operations under conditions of seismic and roof-collapse threats,
- research into the possibility of controlling the calorific value of concentrates sent to the smelters,
- preliminary analysis and research with respect to the implementation of technology enabling the achievement of energy savings in the production line of the Company,
- research with respect to the safe operation and expansion of the capacity of the Żelazny Most mine waste treatment tailings pond.

Important projects realised in smelting:

- work on a spatial program concept for the Pyrometallurgy Modernisation Program, including construction of an installation for the pyrometallurgical elimination of coal from concentrate,
- research into optimising the flash furnace process by applying a single concentrate burner in the flash furnace at the Głogów smelter,
- research into the composition of purchased copper-bearing materials in terms of ensuring the current high level of quality of electrolytic copper,
- minimising the impact of the Company's smelters on the environment.

Major directions of research with respect to technological innovation in subsequent years:

- research into developing mining and drift development technology in the mines of KGHM Polska Miedź S.A. utilising mining combines,
- development of modified and/or new technology for mining deep deposits,
- research into improving mine work safety under conditions of seismic and roof-collapse threats,
- searching for possibilities to reduce production costs, to improve the use of machinery and equipment, the consumption of materials and energy, and better organisation of work,
- development of processing procedures in terms of increasing the amount of recovered useful elements and aimed at reducing the costs of this procedure,
- research into optimising flash furnace technology,
- minimising the impact of the Company's smelters on the environment.

3. Review of financial position

3.1. Assets

In 2010, total assets increased by PLN 5 876 266 thousand (42%) and at the end of December amounted to PLN 19 829 296 thousand. The most important changes in assets primarily involved cash and cash equivalents, receivables, shares and investment certificates and available-for-sale financial assets.

Table 14. Assets ('000 PLN)

	31.12.2009	31.12.2010	Change 2009=100	Structure (%)
Non-current assets	**9 508 897**	**12 125 041**	**127.5**	**61.1**
Property, plant and equipment	5 937 513	**6 551 111**	110.3	33.0
Intangible assets	76 147	**86 718**	113.9	0.4
Shares and investment certificates in subsidiaries	1 915 224	**2 643 046**	138.0	13.3
Investments in associates	1 159 947	**1 159 947**	100.0	5.8
Deferred tax asset	167 062	**359 833**	215.4	1.8
Available-for-sale financial assets	17 700	**749 824**	×42.4	3.8
Held-to-maturity investments	67 097	**84 115**	125.4	0.4
Derivatives	58 034	**403 839**	×7.0	2.0
Trade and other receivables	110 173	**86 608**	78.6	0.4
Current assets	**4 444 133**	**7 704 255**	**173.4**	**38.9**
Inventories	1 890 286	**2 011 393**	106.4	10.1
Trade and other receivables	1 314 598	**2 393 986**	182.1	12.1
Available-for-sale financial assets	-	**405 193**	x	2.0
Held-to-maturity investments	580	**4 129**	×7.1	-
Derivatives	263 247	**294 021**	111.7	1.5
Cash and cash equivalents	975 198	**2 595 529**	×2.7	13.1
Non-current assets held for sale	224	4	1.8	0.0
Total assets	**13 953 030**	**19 829 296**	**142.1**	**100.0**

Property, plant and equipment increased in 2010 by PLN 613 598 thousand (10%), mainly due to realisation of the investment program. Capital expenditures amounted to PLN 1 262 992 thousand, i.e. over twice as much as depreciation on property, plant and equipment and amortisation on intangible assets. Expenditures by the Company on the replacement of assets amounted to PLN 520 060 thousand. The remaining amount of expenditures (PLN 742 932 thousand) was invested in the realisation of development projects, increasing the value of assets.

Due to the realisation of equity investments, the value of shares and investment certificates in subsidiaries increased to PLN 2 643 046 thousand, i.e. by 38%. Among the most important equity investments realised in 2010 are the following:

– Investment funds – in 2010, KGHM Polska Miedź S.A. acquired certificates in the closed-end non-public investment funds FIZAN I, II and III. The funds received from the issuance of certificates in the total amount of PLN 360 164 thousand were primarily used for the purchase of shares of State Treasury companies (spas) and for the purchase of shares of Interferie S.A. as the result of a public call for sale,
– KGHM Ecoren S.A. – an increase in the share capital of the company used for the purchase of shares of the privatised company Centrozłom Wrocław S.A. The value of this transaction amounted to PLN 115 231 thousand,
– KGHM AJAX MINING INC. – this company was formed with Abacus Mining & Exploration Corporation, to realise the Afton-Ajax mining project in Canada. The carrying amount of 51% of the shares acquired by KGHM Polska Miedź S.A. amounts to PLN 109 763 thousand.

Investments in associates comprise the shares of Polkomtel S.A. in the amount of PLN 1 159 947 thousand – unchanged in comparison to the amount at the end of 2009.

Available-for-sale financial assets in the total amount of PLN 1 155 017 thousand primarily comprise shares of exchange-listed companies and participation units in investment funds.

Current and non-current held-to-maturity investments were totally comprised of the cash resources of the Mine Closure Fund in the amount of PLN 88 244 thousand.

Current assets amounted to PLN 7 704 255 thousand and were nearly three-times higher than current liabilities.

The highest-value item in current assets was cash and cash equivalents in the amount of PLN 2 595 529 thousand. During 2010 there was a notable increase in monetary resources with the highest liquidity, mainly due to continuation in 2010 of the rising market in metals and lower expenditures due to shareholder dividends. Unallocated funds were mainly invested in short-term assets with a maturity up to three months and will be used to finance the investment program.

Receivables at the end of 2010 amounted to PLN 2 480 594 thousand (total current and non-current), including trade receivables of PLN 1 735 014 thousand (70%). The significant increase in trade receivables (by PLN 710 229 thousand) was due to the increase in metals prices, which increased revenues from sales. In addition, current receivables include bank deposits with a maturity of from three months to one year in the amount of PLN 351 130 thousand, of which there were none in 2009.

Inventories increased from PLN 1 890 286 thousand in 2009 to PLN 2 011 393 thousand in 2010, i.e. by 6%. The increase comprised half-finished products and work in progress and was mainly due to the higher valuation of copper-bearing batch materials and increase in the production of silver in progress.

Assets items related to derivatives amounted to PLN 697 860 thousand (total current and non-current), which means a more than doubled increase in comparison to the end of 2009.

Assets effectiveness ratios were at comparable levels to those in 2009. An exception was the liquid assets turnover ratio, which is lower due to the significant increase in current receivables (described above).

Table 15. Assets effectiveness ratios

	2009	**2010**
Assets turnover ratio	0.8	0.8
Non-current assets turnover ratio	1.2	1.3
Current assets turnover ratio	2.5	2.1
Liquid assets turnover ratio	4.8	3.2

Ratios calculated based on end-of-year balances, pursuant to methodology described in Appendix A

3.2. Equity and liabilities

In 2010 the basic source for financing assets was equity, representing 73% of total assets and exceeding by 19% non-current assets.

Table 16. Sources of financing assets ('000 PLN)

	31.12.2009	**31.12.2010**	**Change** 2009=100	**Structure (%)**
Equity	**10 403 957**	**14 456 477**	**139.0**	**72.9**
Share capital	2 000 000	2 000 000	100.0	10.1
Accumulated other comprehensive income	127 228	211 159	166.0	1.1
Retained earnings	8 276 729	12 245 318	147.9	61.8
Non-current liabilities	**1 704 420**	**2 380 314**	**139.7**	**12.0**
Trade and other payables	17 472	14 249	81.6	0.1
Borrowings and finance lease liabilities	11 576	8 490	73.3	0.0
Derivatives	61 354	711 580	×11.6	3.6
Liabilities due to employee benefits	1 098 399	1 128 246	102.7	5.7
Provisions for other liabilities and charges	515 619	517 749	100.4	2.6
Current liabilities	**1 844 653**	**2 992 505**	**162.2**	**15.1**
Trade and other payables	1 376 049	1 727 939	125.6	8.7
Borrowings and finance lease liabilities	6 109	2 965	48.5	-
Current corporate tax liability	78 183	668 924	×8.6	3.4
Derivatives	273 503	481 852	176.2	2.4
Liabilities due to employee benefits	93 122	93 041	99.9	0.5
Provisions for other liabilities and charges	17 687	17 784	100.5	0.1
Total equity and liabilities	**13 953 030**	**19 829 296**	**142.1**	**100.0**

Equity increased during the year by PLN 4 052 520 thousand (39%), primarily due to the profit for 2010 and to dividends which were paid in an amount lower than in 2009 (PLN 600 000 thousand in 2010; PLN 2 336 000 thousand in 2009).

Total non-current and current liabilities amounted to PLN 5 372 819 thousand, i.e. PLN 1 823 746 thousand higher than at the end of 2009. This increased their share in the assets financing structure, as shown by the relation of liabilities to equity – an increase from 34% to 37%.

The largest item was trade and other payables in the total amount of PLN 1 742 188 thousand, of which:

– trade payables excluding investment liabilities in the amount of PLN 550 719 thousand (an increase of 29% during the year),
– payables due to the purchase and construction of fixed assets and intangible assets in the amount of PLN 301 991 thousand (an increase of 67% during the year),

- other payables in the amount of PLN 889 478 thousand, including taxation and social security, PLN 200 055 thousand and accruals, PLN 324 697 thousand, mainly the annual bonus, payable after approval of the financial statements.

A significant item is liabilities due to employee benefits in the total amount of PLN 1 221 287 thousand, of which:

- the coal equivalent payment PLN 764 059 thousand,
- jubilee bonuses PLN 237 276 thousand,
- retirement and disability benefits PLN 194 130 thousand.

Liabilities due to derivatives amounted in total to PLN 1 193 432 thousand, and during the year more than tripled, mainly with respect to hedging instruments.

The prevailing part of provisions for other liabilities (PLN 535 533 thousand - total non-current and current) is a revalued provision for decommissioning costs of mines and other facilities (PLN 514 007 thousand).

In 2010 the Company did not make use of bank loans. At the end of the year the sole liability of the Company was due to a finance lease in the amount of PLN 11 455 thousand, mainly with respect to geological information related to the preparation of a licensing application for mining the ore of the Głogów Głęboki Przemysłowy deposit. The license was granted in November 2004.

Ratios illustrating the financing of assets did not change significantly with respect to 2009.

Table 17. Assets financing ratios

	2009	2010
Coverage of assets by equity	0.7	0.7
Coverage of non-current assets by equity	1.1	1.2
Coverage of non-current assets by long-term capital	1.3	1.4
Coverage of current assets by current liabilities	0.4	0.4

Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A

Contingent assets and liabilities

At 31 December 2010, contingent assets of the Company amounted to PLN 205 634 thousand and related to disputed State budget issues, guarantees received, promissory note receivables and projects and inventions. Contingent liabilities at the end of 2010 amounted to PLN 127 143 thousand, including due to:

- liabilities due to implementation of projects and inventions PLN 104 098 thousand,
- disputed issues, pending court proceedings PLN 15 566 thousand.
- guarantees granted PLN 5 000 thousand,
- preventive safety measures in respect of mine-related damage PLN 2 475 thousand.

In addition, future payments due to perpetual usufruct of land amounted to PLN 408 774 thousand (this is not a due liability, but only represents the basis for making annual payments to the State Treasury).

3.3. Liquidity

Financial resources of the Company

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

Table 18. Structure of cash and cash equivalents ('000 PLN)

	31.12.2008	31.12.2009	31.12.2010	Change 2009=100
Cash in hand and at bank	110 904	8 685	50 234	x 5.8
Other monetary assets, of which:	1 682 676	966 513	2 545 295	x 2.6
- monetary assets with a maturity up to 3 months	1 678 914	965 222	2 538 807	x 2.6
- interest on financial assets with a maturity up to 3 months	3 762	1 291	6 488	x 5.0
Total	**1 793 580**	**975 198**	**2 595 529**	**x 2.7**

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

Table 19. Income from the depositing of periodically unallocated cash and cash equivalents and short-term investments ('000 PLN)

	2008	2009	2010	Change 2009=100
On-demand bank deposits	253	887	3 985	×4.5
Securities and participation units	14 644	-	4 158	x
Fixed term bank deposits	104 498	69 453	46 514	67.0
Total	**119 395**	**70 339**	**54 657**	**77.7**

Periodically unallocated cash and cash equivalents generated income in the amount of PLN 54 657 thousand. The decrease in income versus 2009 was due to the decrease in market interest rates.

Credit servicing

In 2010 the Company did not make use of external sources of financing in the form of bank loans.

Loans received

At 31 December 2010 the Company did not make use of financing in the form of loans.

In 2010, the total repayment of a loan, received on 21 November 2003 from the Regional Fund for Environmental Protection and Water Management in Wrocław, amounted to PLN 3 000 thousand (principal amount), of which on 16 September 2010 the Company paid the final instalment on the loan in the amount of PLN 1 000 thousand.

Loans granted

At 31 December 2009, in KGHM Polska Miedź S.A. a balance of loans granted to Group companies: to Zagłębie Lubin S.A. and Energetyka Sp. z o.o., amounting to PLN 76 814 thousand. At 31 December 2010 the balance of receivables due to loans granted had decreased to PLN 45 499 thousand, due to:

– full repayment of a loan granted to Zagłębie Lubin S.A.

  On 28 April 2010 the subsidiary Zagłębie Lubin S.A. made early full repayment on a loan in the amount of PLN 7 000 thousand. The loan was granted on 15 April 2008 and, under the agreement, was to be fully repaid by 31 December 2010.

  On 27 December 2010, the subsidiary Zagłębie Lubin S.A. made early full repayment on a loan in the amount of PLN 19 132 thousand. The loan was granted on 9 July 2009 and, under the agreement, was to be repaid by 31 December 2011.

– partial repayment of a loan granted to Energetyka Sp. z o.o.

  On 21 December 2009, the Company granted Energetyka Sp. z o.o. a loan in the amount of PLN 50 300 thousand. Interest on the loan is based on WIBOR 1M + a margin of 2.77%, with interest payable monthly. Repayment is in forty equal instalments in the amount of PLN 1 257.5 thousand payable at the end of each quarter, beginning from 31 March 2010. At 31 December 2010 the balance of the loan granted was PLN 45 499 thousand.

In addition, on 29 June 2010, KGHM Polska Miedź S.A. granted a short-term loan to the subsidiary KGHM Ecoren S.A. in the amount of PLN 40 000 thousand. The full amount of the loan was granted on 29 June 2010. According to agreement, the loan was fully repaid together with interest on 30 July 2010.

Financial guarantees granted

In 2010 the Company granted no financial guarantees.

3.4. Statement of comprehensive income

Profit for 2010 amounted to PLN 4 568 589 thousand and was 80% higher in relation to the prior year and arose from the principal operating activities of the Company.

Table 20. Statement of comprehensive income – basic items ('000 PLN)

	2009	**2010**	**Change** 2009=100
Sales	11 060 540	15 945 032	144.2
Operating costs	(7 863 635)	(9 287 686)	118.1
Profit on sales	**3 196 905**	**6 657 346**	×2.1
Profit/(loss) on other operating activities	(98 813)	(1 019 198)	×10.3
Operating profit (EBIT)	**3 098 092**	**5 638 148**	182.0
Finance costs	(31 523)	(32 581)	103.4
Profit before income tax	**3 066 569**	**5 605 567**	182.8
Profit for the period	**2 540 185**	**4 568 589**	179.9
EBITDA (EBIT + depreciation/amortisation)	*3 645 745*	*6 253 616*	*171.5*

In relation to 2009, profit on sales increased by PLN 3 460 441 thousand, impacted by the increase in revenues from sales by PLN 4 884 492 thousand, mainly due to:

– a higher average price of copper by 46% PLN 4 024 899 thousand,
– an increase by 35.5 thousand tonnes in the volume of sales of copper products PLN 583 678 thousand,
– a change in the PLN exchange rate from 3.12 to 3.02 USD/PLN PLN (350 690) thousand,
– and a lower positive adjustment of revenues due to the hedging of copper and silver prices PLN (290 999) thousand,

alongside an increase in operating costs by PLN 1 424 051 thousand.

Table 21. Basic factors affecting the profit on sales

	Unit	**2009**	**2010**	**Change** 2009=100
Sale of copper and copper products	'000 t	509.9	545,3	106.9
Silver sales	t	1 198	1 247	104.1
Average copper price on the LME	USD/t	5 164	7 539	146.0
Average silver price on the LBM	USD/troz	14.67	20.19	137.6
Average USD/PLN exchange rate per NBP	PLN/USD	3.12	3.02	96.8
Unit cost of electrolytic copper production	PLN/t	11 170	12 983	116.2
	USD/t	3 582	4 302	120.1

In 2010, 99% of sales represented revenues from the sale of products, of which: 41% - from the sale of cathodes and their constituent parts, 37% - copper wire rod, 15% - metallic silver. Revenues from the sale of products, excluding hedging transactions, were higher by PLN 5 156 005 thousand, i.e. by 49% in relation to the prior year.

The loss on other operating activities in the amount of PLN 1 019 198 thousand was mainly due to the following ('000 PLN):

– loss on measurement and realisation of derivatives (1 172 284)
– income from dividends 146 658
– interest income on financial instruments 59 395
– foreign exchange losses (30 445)

The net finance costs in the amount of PLN 32 581 thousand were mainly impacted by the change in the level of provisions (unwinding of the discount effect) in the amount of PLN 32 174 thousand.

Profit before income tax was charged by income tax in the amount of PLN 1 036 978 thousand. Current income taxation in the amount of PLN 1 256 172 thousand was decreased by PLN 212 458 thousand due to a change in deferred tax balance and by the adjustment of current income taxation for prior periods in the amount of PLN (6 736) thousand.

In accordance with the requirements of the income tax law, the basis for taxation (taxable base) was set by the adjustment to profit before income tax („+" being an increase, „-" being a decrease in the profit before taxation):

Table 22. Adjustment to profit before income tax by the change in taxable base ('000 PLN)

Profit before income tax (gross)	**5 605 567**
- Income tax calculated at tax rates in force	1 065 058
- Non-taxable income	(28 430)
- Expenses not deductible for tax purposes	7 086
- Adjustments to current income tax from prior periods	(6 736)
Income tax expense	**1 036 978**

Financial ratios

The table below presents the results describing the economic activities of KGHM in the years 2009-2010:

Table 23. Basic ratios describing the economic activities of the Company

	2009	2010
Current liquidity	2.4	2.6
Quick liquidity	1.4	1.9
ROA - return on assets (%)	18.2	23.0
ROE - return on equity (%)	24.4	31.6
Debt ratio (%)	25.4	27.1
Durability of financing structure (%)	86.8	84.9

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The increase in the liquidity ratios was mainly due to an increase in cash and cash equivalents.

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

The increase in the debt ratio is due to a greater increase in liabilities (by 51%) than in equity (by 39%). The decrease in the durability of financing structure ratio was mainly due to a greater increase in Company assets than in equity and non-current liabilities.

Capital market ratios

The Company's activities are characterised by the following ratios, significant from a shareholder's point of view:

Table 24. Capital market ratios

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

** Financial surplus = profit for the period + depreciation/amortisation*
*** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 106.00 in 2009; PLN 173.00 in 2010).*
**** Carrying amount of the equity at the end of the reporting period.*

3.5. Operating costs

The Company's operating costs are decisively impacted by the costs of electrolytic copper production, whose share in the Company's costs is over 91%.

Table 25. The unit cost of electrolytic copper production

	Unit	2008	2009	2010	Change 2009=100
Pre-precious metals credit total cost of	PLN/t	13 434	13 944	15 540	111.4
copper production	USD/t	5 583	4 472	5 149	115.1
of which: from own concentrates	PLN/t	12 882	13 153	13 661	103.9
Total cost of	PLN/t	11 736	11 170	12 983	116.2
copper production	USD/t	4 878	3 582	4 302	120.1
of which: from own concentrates	PLN/t	10 797	9 750	10 487	107.6
Electrolytic copper production	'000 t	526.8	502.5	547.1	108.9
of which: from own concentrates	'000 t	421.7	398.6	427.0	107.1

The pre-precious metals credit unit cost of copper production (unit cost prior to decrease by the value of silver and gold) in 2010 increased versus 2009 by 1 596 PLN/t, i.e. by 11%, mainly due to an increase in the value of purchased copper-bearing materials (+1 382 PLN/t) due to a higher volume of consumption by 16% (16 thousand tonnes of copper) and of purchase prices by 30%.

The total pre-precious metals credit cost of copper production from own concentrates increased by 508 PLN/t, i.e. by 4%, which was primarily due to the below-mentioned increase in expenses by nature, alongside the positive impact of a higher volume of copper production from own concentrate (+7% in relation to 2009).

The structure of expenses by nature is presented below:

Table 26. Structure of expenses by nature (%)

	2008	2009	2010
Depreciation of property, plant and equipment and amortisation of intangible assets	6	7	7
Materials and energy	44	46	51
including purchased copper-bearing materials	*21*	*23*	*30*
External services	13	12	11
Employee benefits costs	31	31	28
Taxes and charges	4	3	3
Other	2	1	0

In 2010 total expenses by nature increased by PLN 1 204 755 thousand, i.e. by 15%, mainly due to:

- the higher value of purchased copper-bearing materials (PLN 960 734 thousand) due to an increase in purchase prices and in the volume of consumption by 18 thousand tonnes Cu (of which 16 thousand tonnes relates to cathode production),
- labour costs (PLN 72 414 thousand) – mainly due to a higher annual bonus (in 2009 17.5%; in 2010 24%) and a higher level of employment, alongside lower provisions for future employee benefits by PLN 112 768 thousand
- depreciation/amortisation (PLN 67 815 thousand) – due to an increase in realised investments in property, plant and equipment (+18%)
- materials and fuel (PLN 61 834 thousand) – mainly due to an increase in fuel prices.

3.6. Risk management in the Company in 2010

In 2010 copper price hedging strategies represented approx. 33% (in 2009 34%) of sales of this metal realised by the Company. In the case of silver sales they amounted to approx. 18% (in 2009 25%). In case of the currency market, hedged revenues from sales represented approx. 16% (in 2009 34%) of total revenues from sales realised by the Company.

In 2010 the result on derivatives was at the level of PLN (1 030 097) thousand. The effective portion of the gain or loss on the hedging instruments transferred from accumulated other comprehensive income to profit or loss in the reporting period as a reclassification adjustment caused an increase in revenues from sales by PLN 142 187 thousand. The loss due to changes in the fair value of derivatives amounted to PLN (1 036 864) thousand, and due to the realisation of derivatives, PLN (135 420) thousand. The adjustment of other operating costs due to the fair value measurement of derivatives results mainly from changes in the time value of options which are to be settled in future periods, and in accordance with the hedge accounting principles applied by the Company, changes in the time value of options are recognised in profit or loss.

The impact of derivatives on the profit or loss of the current and comparable periods was as follows:

	For the period	
	from 01.01.10 to 31.12.10	**from 01.01.09 to 31.12.09**
Impact on sales	**142 187**	**433 187**
Impact on other operating activities	**(1 172 284)**	**(538 637)**
Loss from the realisation of derivatives	(135 420)	(192 783)
Loss from the measurement of derivatives	(1 036 864)	(345 854)
Total impact of derivatives on profit or loss:	**(1 030 097)**	**(105 450)**

In 2010, the Company implemented copper price hedging strategies of a total volume of 336.4 thousand tonnes and a time horizon from July 2010 to June 2013. The Company made use of options (Asian options) including puts, and option strategies (collars, seagulls and producer's puts). Additionally, the Company performed a restructure, implemented during the analysed period, of its seagull options strategy for 2011 and the first half of 2012 of a total volume of 117 thousand tonnes through the repurchase of sold puts. Option strategy restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of this metal in 2011 and the first half of 2012. During the reporting period the Company implemented adjustment hedge transactions for 250 tonnes of copper which will be settled in April 2011.

In 2010, the Company implemented silver price hedging strategies with a total volume of 3.6 million troz and a time horizon falling in 2011. During the reporting period adjustment hedge transactions were not implemented on this market.

In the case of the forward currency market, in 2010 the Company implemented strategies hedging revenues from sales in a total nominal amount of USD 1 785 million and a time horizon falling in the second to fourth quarters of 2010 and in the years 2011-2012. The Company made use of options (European options) including puts, and option strategies (collars and seagulls). During the reporting period no adjustment hedge transactions were implemented on the currency market. Additionally, the Company performed a restructure, implemented in prior periods as well as in the analysed reporting period, of its option strategies for 2011 of a total nominal amount of USD 540 million, through the repurchase of sold puts from the seagull strategy (for USD 360 million) and the sale of collars (for USD 180 million). The seagull strategy restructure enables the full use of put options purchased within this structure in the case of any decrease in the USD/PLN exchange rate in 2011. The collar strategy restructure was recognised in accumulated other comprehensive income in the amount of PLN 84 873 thousand, which adjusts *in plus* revenues from sales in 2011. Simultaneous to this restructure, put options were purchased to hedge the USD/PLN exchange rate for USD 180 million throughout 2011.

The Company remains hedged for a portion of copper sales planned in 2011 (156 thousand tonnes), in 2012 (136.5 thousand tonnes) and in the first half of 2013 (19.5 thousand tonnes), and for a portion of silver sales planned in 2011 (3.6 million troz). The Company holds hedging positions for revenues from sales (currency market) for 2011 (USD 1 200 million) and 2012 (USD 360 million).

A condensed list of hedging positions by type of hedged asset and instruments used at 31 December 2010 may be found in Note 30 of the annual financial statements.

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

At 31 December 2010, the fair value of open positions in derivatives amounted to PLN (495 572) thousand, financial assets amounted to PLN 697 860 thousand, and financial liabilities, PLN 1 193 432 thousand.

Derivatives whose maturity date falls on 5 January 2011 were measured at fair value in the amount of PLN (49 690) thousand and were recognised in trade and other payables as liabilities due to unsettled derivatives. The fair value of open positions in derivatives varies in dependence on changes in market conditions, and the final result on these transactions may vary significantly from the amounts described above.

Further information regarding derivatives is presented in Note 10 Derivatives and in Note 29 Financial instruments of the financial statements.

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

AMOUNT RECOGNISED IN EQUITY	**At**	
	31 December 2010	**31 December 2009**
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	(98 940)	(3 937)
Accumulated other comprehensive income - currency risk hedging transactions – derivatives	209 772	159 170
Total accumulated other comprehensive income - financial instruments hedging future cash flows (excluding deferred tax effects)	**110 832**	**155 233**

Gains or (losses) on derivatives hedging future cash flows recognised in other comprehensive income	For the period from 01.01.10 to 31.12.10	For the period from 01.01.09 to 31.12.09
Accumulated gain or loss achieved on financial instruments hedging cash flows at the beginning of the reporting period	**155 233**	**627 757**
Amount recognised in the reporting period due to hedging transactions	97 786	(39 337)
Amount transferred from accumulated other comprehensive income to revenues from sales	(142 187)	(433 187)
Accumulated other comprehensive income due to instruments hedging cash flows at the end of the reporting period (excluding the deferred tax effects)	**110 832**	**155 233**

Details of the risk management policy in the Company together with identification of the main types of risk can be found in Note 30 of the financial statements.

3.7. Disputed issues

At 31 December 2010, the total value of ongoing disputed issues both by and against KGHM Polska Miedź S.A. and in the subsidiaries of the Company amounted to PLN 204 903 thousand, including related receivables of PLN 95 354 thousand and liabilities of PLN 109 549 thousand. With respect to the Company the value of proceedings amounted to PLN 132 370 thousand, including related receivables of PLN 42 639 thousand and liabilities of PLN 89 731 thousand.

The largest proceedings involving the liabilities of KGHM Polska Miedź S.A. at the end of 2010 concerned the following:

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

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

  In the Company's opinion the royalties being pursued by the Court is undue, because KGHM Polska Miedź S.A. covered amounts due to the authors of the project resulting from use of an invention project.

– return of costs of protecting against mining damage

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

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

  Value of amount under dispute: PLN 11 760 thousand. A claim was filed with the Regional Court in Legnica by eleven co-authors and two heirs of authors of invention project no. 2/97/KGHM. The plaintiffs are demanding additional compensation due to the use by KGHM Polska Miedź S.A. of a patent from the submitted project no. 2/97/KGHM. Proceedings have been suspended until the case can be heard by the Patent Office of the Republic of Poland for the annulment of patent no. 185036. On 22 March 2011, a hearing was held at the Deciding Board of the Patent Office, although the issuance of a decision was deferred until 31 March 2011.

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

The largest proceedings being pursued by KGHM Polska Miedź S.A. in respect of debtors at the end of 2010 concerned the following:

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

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

– setting the amount of corporate income tax liabilities for KGHM Polska Miedź S.A. for the year 2003

  On 10 July 2009 the Company submitted an appeal to the Director of the Tax Chamber in Wrocław of a decision of the Director of the Legnica branch of the Tax Inspection Office in Wrocław dated 30 June 2009, calling for a decrease in the amount of liabilities set by the Director of the Tax Inspection Office by PLN 13 915 thousand.

  The appeal involves a decision – which the Company considers as unfounded – by the tax authority not to recognise as tax deductible costs a portion of expenses incurred by the Company related to a business activity and income earned, as well as refusal of the right to deduct subsidies related to environmental protection, health, etc., for which the tax law (as worded and in force in 2003) allowed deduction. Proceedings are in progress.

  On 25 February 2011, the body of appeal issued a final decision, in which it partially recognised the soundness of the appeal submitted by the Company, and in consequence reduced the liabilities by PLN 4 740 thousand. The Company decided to submit a complaint to the Regional Administrative Court.

4. Realisation of Company development assumptions

4.1. Company Strategy

On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018. In realising the Strategy, KGHM Polska Miedź S.A. intends to become a major, global copper producer and will increase copper production in the Group to approx. 700 thousand tonnes annually. It was assumed that total expenditures on the realisation of projects would amount to approx. PLN 20 billion.

The Strategy for the years 2009-2018 is based on five pillars:

- **Pillar I** - **Improving productivity**, aimed at reversing/halting the trend of rising unit production costs through:
    - investments in new technology,
    - modernisation of infrastructure,
    - optimisation of production procedures and organisation,
- **Pillar II - Developing the resource base**, aimed at increasing the production of mined copper in the Group to 700 thousand tonnes annually, through:
    - developing the system for mining deep ore,
    - mining new regional ore deposits,
    - acquisitions in the mining sector,
    - intensifying the processing of scrap,
- **Pillar III - Diversifying sources of revenues and gaining independence from energy prices**, which assumes that by 2018 approx. 30% of the revenues of KGHM Polska Miedź S.A. will be generated from outside the core business, through
    - continued investment in the telecoms sector, and
    - entrance into the power sector,
- **Pillar IV** - **Regional support** – the creation of 750 new jobs and development of social activities through:
    - the creation of jobs using the infrastructure of KGHM Letia S.A.,
    - supporting regional sport, health, arts, education and the regional environment,
- **Pillar V - Developing organisational know-how and capabilities** through:
    - management through goals,
    - transparent information and data,
    - staff development programs, and
    - building a holding structure.

Due to the proposal of the other shareholders of Polkomtel S.A. and the acceptance of the model of cooperation with respect to the possibility of the potential sale of shares held in this company, KGHM Polska Miedź S.A has begun work aimed at reviewing the strategic assumptions with respect to the involvement of the Company in telecom assets.

4.2. Realisation of Strategy in the years 2009-2010

Since the Strategy was approved in the years 2009-2010 approx. 90% of planned projects have been initiated. Expenditures related to the realisation of projects amounted to nearly PLN 2 billion, of which the largest involved investments in the core business.

With respect to Pillar I, the greatest progress was achieved in work related to improving effectiveness, where most identified projects are at the stage of realisation, including: „Replacement of mining machinery", „Replacement of floatation machinery", „Project „Effectiveness", „Program for saving energy", „CMMS – system for the IT servicing of underground machinery", „Deposit Mining IT management System". In addition, with respect to the initiative „Mechanical ore mining" a project was begun called „Development of technology for mining thin ore seams using the Bucyrus ACT mining complex". Also of importance is the realisation of the project involving the Centralisation of Procurement. As a result of the introduction of a unified procurement policy for the Divisions and the KGHM Group and the commencement of a Procurement Support System, substantial savings were achieved in 2010 with respect to procurement.

In addition, with respect to realisation of Strategic Pillar II, work was continued on gaining access to the researched Głogów Głęboki Przemysłowy deposit, and work was realised on researching the Weisswasser copper deposit in Germany, as a result of which in 2009 an exploration company was founded with a German partner (KGHM HMS Bergbau AG). Work was also begun on a program of geological work (drill holes) with respect to licenses held for the Gaworzyce-Radwanice deposit, and copper ore exploration projects were prepared in the regions of Synklina Grodziecka and Nowiny.

Of great importance is the project to acquire foreign assets associated with the production of copper and gold from the Afton-Ajax deposit in Canada. In 2010 the Company signed an Investment Agreement with Abacus Mining & Exploration Corporation regarding the joint realisation of the project.

Simultaneously, with respect to the initiative to intensify the processing of scrap, a project was begun called „Change in the profile of the Legnica smelter". Stage one of the project involves the analysis of a project called Construction of a scrap melting unit.

In 2010, work was begun with respect to increasing the involvement of the Company in the development of alternative income sources (Pillar III). Work was mainly carried out on investments in the power sector – preparing for the construction of gas-steam blocks at the Głogów and Polkowice power plants, as well as the development of business assumptions for the project to build a power plant with the sector partner Tauron Polska Energia S.A.

With respect to supporting the region (Pillar IV) the Company carried out its business while considering the natural environment. An active policy with respect to the local communities was continued by ensuring access to health care for the employees of KGHM and the region's inhabitants, promoting sport, and improving selected elements of the cultural infrastructure of the region (renovating monuments, cultural events).

With respect to KGHM LETIA S.A., tasks were held aimed at creating a region attractive to businesses and investing in activities based on new technology and creating new jobs. In 2010 the Company began the construction of a modern office building, LETIA BUSINESS CENTRE in Legnica.

In Pillar V, involving the development of the organisational know-how and capabilities of KGHM, the company KGHM TFI S.A. was founded, with respect to which three Closed-End Investment Funds were created.

KGHM continued realisation of its ownership Strategy with respect to the Group, aimed at realisation of equity investments and the growth in value and development of companies. Among the more important development projects are the following: the opening of a production line for the industrial recovery of rhenium and a production line for the processing of used electrical and electronic equipment (KGHM ECOREN S.A.), the purchase of 85% of the shares of Centrozłom Wrocław S.A. (KGHM ECOREN S.A.), a project to build its own sulphuric acid storage–loading base at a Polish port (KGHM Metraco S.A.), a system for the automated preparation and measurement of samples from the production line of the Ore Enrichment Plants (CBJ sp. z o.o.), and separation of the developer company CUPRUM III (KGHM CUPRUM sp. z o.o.).

With respect to the telecom assets owned by the Company, work was realised aimed at undertaking the optimum decision in terms of the effective exit from these equity investments at an appropriate moment for KGHM Polska Miedź S.A.

With respect to programs supporting realisation of the Strategy, work was initiated on updating the social potential management system and its integration with the current Company Strategy. Projects were begun with respect to development of a remuneration system in KGHM Polska Miedź S.A., as well as the implementation of a new IT system for employee evaluations.

Substantial progress was made in the implementation of approved strategic initiatives, and the operating results achieved by the Company in 2010 demonstrate the soundness of the approved Strategy. The course which its realisation has taken thus far augurs well for the effective achievement of the intended goals.

In 2011 the review and updating of the strategy is anticipated, with respect to individual pillars identified in the Strategy of KGHM Polska Miedź S.A. for the years 2009-2018.

4.3. Realisation of projected financial results for 2010

In a current report dated 1 February 2010, the Company published its Budget assumptions for 2010 as accepted by the Supervisory Board on the same day. The Budget assumed the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit of PLN 2 898 million.

Along with the improvement in macroeconomic conditions during the year, the Company updated its forecast. The final projection of financial results was published in a current report on 6 December 2010. Basic assumptions, projected results and their realisation are shown in the following table:

Table 27. Realisation of projected Company financial results for 2010

		Forecast (1.02.2010)	Forecast update (6.09.2010)	Forecast update (6.12.2010)	Execution 2010	Realisation of forecast (%)
Sales	**million PLN**	**11 736**	**14 395**	**15 464**	**15 945**	**103.1**
Profit for the period	**million PLN**	**2 898**	**3 910**	**4 462**	**4 569**	**102.4**
Average annual copper price	USD/t	6 700	6 700	7 475	7 539	100.9
Average annual silver price	USD/troz	17.00	18.00	19.95	20.19	101.2
Exchange rate	USD/PLN	2.70	3.10	3.015	3.02	100.2
Electrolytic copper production	'000 t	512.0	541.0	546.2	547.1	100.2
- of which from purchased copper-bearing materials	'000 t	84.0	120.0	120.2	120.0	99.8
Silver production	t	1 100	1 158	1 136	1 161	102.2
Unit cost of electrolytic copper production	PLN/t	12 548	13 465	13 465	12 983	96.4
Capital expenditure	million PLN	1 633	1 535	1 535	1 263	82.3
Equity expenditures*	million PLN	1 738	2 206	2 206	1 367	62.0

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

The higher-than-assumed profit is mainly the result of the higher-than-planned volume of copper and silver sales and more favourable metals prices.

The relatively low realisation of planned equity investments is due to the level of equity investment in Tauron Polska Energia S.A., which the Company ties to favourable market conditions for the purchase of shares.

4.4. Projected Company financial situation

On 31 January 2011 the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2011. The basis for preparation of the Budget were the preliminary results for 2010 and the assumptions contained in specific operating plans. The accepted Budget assumes the achievement in 2011 of revenues from sales in the amount of PLN 16 067 million and profit for the period of PLN 8 345 million.

Details of the basic assumptions of the Budget for 2011 are presented below:

Table 28. Company Budget assumptions for 2011

	Unit	2010	Budget 2011	Change 2010=100
Sales	**million PLN**	**15 945**	**16 067**	100.8
Profit for the period	**million PLN**	**4 569**	**8 345**	182.6
Average annual copper price	USD/t	7 539	8 200	108.8
Average annual silver price	USD/troz	20.19	25.00	123.8
Exchange rate	USD/PLN	3.02	2.80	92.7
Electrolytic copper production	'000 t	547.1	543.0	99.3
- of which from purchased copper-bearing materials	'000 t	120.0	111.0	92.5
Silver production	t	1 161	1 027	88.5
Unit cost of electrolytic copper production from own concentrate	PLN/t	10 486	12 634	120.5
Capital expenditure	million PLN	1 263	1 892	149.8
Equity expenditures*	million PLN	1 367	9 046	x6.6

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

The level of expenditures on equity investments was set with the assumption of earning income from the sale of the telecom assets. The most important item with respect to assumed equity investments is the acquisition of foreign, low-cost mine assets, representing an element in the realisation of the Company's strategic assumptions. The goal from realisation of these projects is the achievement in subsequent years of mine production in the KGHM Polska Miedź S.A. Group at the level of 700 thousand tonnes of copper in concentrate annually.

The capital expenditures plan assumes the continuation of tangible projects begun mainly with respect to: accessing the Głogów Głęboki Przemysłowy deposit, continued construction of the SW-4 shaft, the Pyrometallurgy Modernisation Program and the construction of gas-steam blocks.

The increase in the electrolytic copper production cost from own concentrate with respect to 2010 is mainly due to the increased scope of preparatory mine work, an increase in labour costs and the lower value of anode slimes (the lower amount of silver in slimes) alongside the higher utilisation of stored internal half-finished products.

It should be noted that, given the high level of hedging of future Company revenues, the continued high volatility in metals prices and in the exchange rate has a substantial impact on the change in the fair value measurement of derivatives at the end of the reporting period and on the level of profit for the period.

Realisation of this forecast will be monitored by the Company on an on-going basis. Should there occur significant deviation from the amounts forecasted, the Company will perform an adjustment to the forecast and immediately will publish it in the form of a current report.

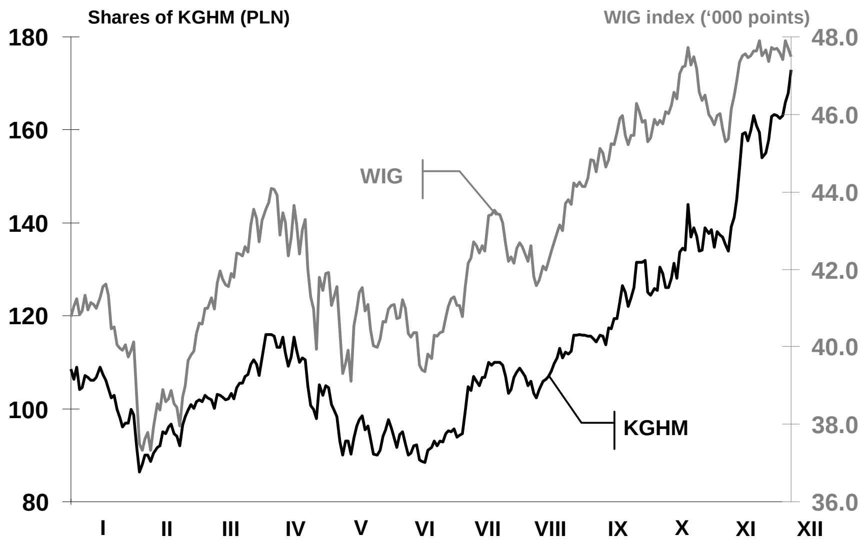
5. The Company on the securities markets

5.1. Company quotations in 2010

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Company are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indices, as well as the RESPECT index – an index of socially responsible companies – and since 1 January 2011 as a component of the WIGdiv index, comprising companies which regularly pay dividends to their shareholders.

The year 2010 was successful for the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange. Particularly outstanding was the second half of the year, when the Company's share price systematically rose, frequently achieving new record highs. Finally it had increased 63%, from PLN 106 on the last trading day of 2009 to PLN 173 on 31 December 2010, when it reached its record high for 2010. During this time the Warsaw Stock Exchange index WIG increased by 19%, while the WIG20 index of the twenty largest companies rose by 15%.

Chart 2. Share price of KGHM Polska Miedź S.A. versus the WIG index in 2010



In 2010, KGHM Polska Miedź S.A. was the leading company in terms of turnover value on the Warsaw Stock Exchange. The average per-session trading volume of the Company's shares on the Warsaw Stock Exchange in 2010 amounted to 966 thousand.

Key share data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2008-2010 is presented in the following table:

Table 29. Key share data of the Company on the Warsaw Stock Exchange

	Unit	2008	2009	2010
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	28.12	106.00	173.00
Market value of the Company at year's end	million PLN	5 624	21 200	34 600
Highest closing price in the year	PLN	112.00	110.70	173.00
Lowest closing price in the year	PLN	21.40	27.50	86.50
Average trading volume per session	'000	1 124	1 222	966
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	9.00	11.68	3.00

5.2. Information on the ownership structure and on the issued shares of the Company

At 31 December 2010, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares, series A, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the General Meeting.

In 2010 there was no change either in registered share capital or in the number of issued shares.

There was a change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The State Treasury, which at the end of 2009 held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and of the total number of votes, sold on 8 January 2010, on a regulated market, 20 000 000 shares, directed to qualified investors.

At 31 December 2010, the shareholder structure of the Company was as follows:

- State Treasury - 63 589 900 (31.79%),
- other shareholders - 136 410 100 shares (68.21%).

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

At 31 December 2010, based on information held by the Management Board of the Company, members of the Company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A. or of related entities. Ryszard Kurek, a Supervisory Board member who on 31 December 2009 was in the possession of 10 shares of the Company with a total nominal value of PLN 100, sold them in December 2010.

In 2010 the Company did not have an employee share incentive program.

6. Report on the application of corporate governance principles

In July 2007, the Supervisory Board of the Warsaw Stock Exchange resolved the principles of corporate governance for joint-stock companies that are issuers of shares, convertible bonds or bonds with priority rights admitted to exchange trading. These corporate governance principles as described in the document "Code of Best Practice for WSE Listed Companies" represent an annex to resolution no. 12/1170/2007 of the Supervisory Board dated 4 July 2007 which came into force on 1 January 2008, and remained in force until 30 June 2010. Since 1 July 2010 a group of principles have been in force representing an annex to resolution no. 17/1249/2010 of the Supervisory Board dated 19 May 2010. The contents of this document are available on the official website of the Warsaw Stock Exchange under the section on corporate governance (www.corp-gov.gpw.pl), as well as on the website of the Company (www.kghm.pl) under the section on corporate governance.

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

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, the Company made the broadest possible use of both traditional as well as modern technology for the distribution of information about the Company (recommendation I.1 of the "Code of Best Practice for WSE Listed Companies"). In 2010 the Company decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and immediately made them available on the Company website in both Polish and English, accessible under the section Investor Zone/Transmissions. At present the Company is preparing to provide access to General Meeting on-line transmissions, as recommended by principle IV.10. from 1 January 2012.

In accordance with principle I.9, the Company offers equal participation to men and women to fulfil management and supervisory functions. At present however, there are no women on the Management Board of the Company. In competitions for the position of President of the Management Board in 2008 and for Vice President of the Management Board (Production), realised in November 2010, no applications were received from women.

6.1. General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the Company and the Bylaws of the General Meeting. The Company's corporate documents are available on its website.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the Company's activity and the financial statements, including the consolidated financial statements of the Company Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- changing the subject of the Company's activity,
- amending the Company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to execute their rights.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the National Court Register of a constitutive nature. Changes in the Company Statutes are made by the General Meeting in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

In accordance with the Statutes of KGHM Polska Miedź S.A., the State Treasury may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted.

Due to changes to the act dated 15 September 2000 respecting the Commercial Partnerships and Companies Code, which came into force on 3 August 2009, in 2010 the Ordinary General Meeting adopted new Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin.

From the new regulations of the Commercial Partnerships and Companies Code, the Company has adopted only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication were, however, not adopted. The changes to the regulations of the CPCC have fundamentally altered the process of organising General Meetings and granted new rights to shareholders.

6.2. Shareholders and their rights

Throughout 2010, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting was the Polish State Treasury.

At 1 January 2010 this shareholder held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and of the total number of votes at the General Meeting. On 12 January 2010 the Company received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury sold on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors. Following this sale, the State Treasury owns 63 589 900 shares of KGHM Polska Miedź S.A., granting the same number of votes and representing 31.79% of the share capital of the Company and of the total number of votes. To 31 December 2010 this situation had not changed.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting.

Shareholders are entitled to exercise their voting during General Meetings either personally or through a proxy. All of the shares are bearer shares. Each share grants the right to one vote. There is no limitation to the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights attached to the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special control rights in respect of the Company.

6.3. Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis or prevailing law, the Statutes of the Company and the Regulations of the Supervisory Board.

The composition of the 7th-term Supervisory Board at 1 January 2010 was as follows:

- Marek Trawiński – Chairman
- Jacek Kuciński – Deputy Chairman
- Marek Panfil – Secretary
- Marcin Dyl
- Arkadiusz Kawecki
- Marzenna Weresa

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

On 16 February 2010 Marek Trawiński submitted his resignation from membership in the Supervisory Board of KGHM Polska Miedź S.A. as of 17 February 2010.

On 26 March 2010 Jacek Kuciński became Chairman of the Supervisory Board and Marcin Dyl became Deputy Chairman.

On 17 May 2010 the Ordinary General Meeting of KGHM Polska Miedź S.A. appointed Jan Rymarczyk to the Supervisory Board of the Company.

The composition of the 7th-term Supervisory Board at 31 December 2010 was as follows:

– Jacek Kuciński	Chairman
– Marcin Dyl	Deputy Chairman
– Marek Panfil	Secretary
– Arkadiusz Kawecki	
– Jan Rymarczyk	
– Marzenna Weresa	

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

Supervisory Board Committees

Under the auspices of the Supervisory Board are two committees: the Audit Committee and the Remuneration Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits. The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the Company and Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

The rights, scope of action and manner of work of these Committees are described by regulations approved by the Supervisory Board.

The specific duties and composition of the Committees are as follows:

<u>Audit Committee</u>

In accordance with the Regulations of the Supervisory Board the duties of the Audit Committee are as follows:

- supervision, on behalf of the Supervisory Board, of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles applied in the Company,
- the review of transactions with parties related to the Company, and of unusual transactions,
- the analysis and monitoring of post-control conclusions arising from the risk management process,
- conduct of the process of selecting independent auditors to audit the financial statements of the Company in order to recommend their acceptance by the Supervisory Board, and participation in commercial negotiations prior to the Company signing a contract with an auditor,
- continuous co-operation with the independent auditor of the Company during the audit, analysis and formulation of conclusions from the audit and opinion of the auditor respecting the financial statements, the auditor's letter to the Management Board and/or Supervisory Board, and the preparation of draft statements and evaluations required by the by-laws for Company bodies and other administrative institutions,
- providing an opinion on the internal audit plan and the internal audit regulations of the Company, and of changes of the director of internal audit,
- analysis of the conclusions reached and the recommendations made by an internal audit of the Company, with monitoring of the degree of implementation of these recommendations by the Management Board of the Company,
- the monitoring of decrees and Company's regulations as regards accounting, finances and hedging against trade and financial risks, and exposure of the Company to serious harm.

The Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision, required public companies to appoint Supervisory Board Audit Committees and listed tasks which should be in particular the responsibility of such Committees.

The law in addition calls for Audit Committees to include at least 3 members, of which at least one member should meet the criteria for independence and hold qualifications in the areas of accounting or financial review.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. throughout 2010:

- Marcin Dyl
- Marek Panfil
- Marzenna Weresa

Remuneration Committee

In accordance with the Regulations of the Supervisory Board the duties of the Remuneration Committee are as follows:

- to carry out the recruitment and employment of members of the Management Board by developing and organising draft documents and procedures to be submitted to the Supervisory Board for their acceptance,
- to develop draft agreements and samples of other documents related to the hiring of members of the Management Board, and supervision over the realisation of the contractual obligations entered into by the parties,
- to supervise realisation of the system of remuneration of the Management Board, in particular to prepare documents related to variable salary and premiums, in order to submit recommendation to the Supervisory Board,
- to monitor and make periodic analyses of the remuneration system of the management staff of the Company and, if necessary, to formulate recommendations to the Supervisory Board,
- to supervise realisation of additional benefits received by the Management Board arising from labour contracts, such as: insurance, automobiles, housing, etc.

The following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. throughout 2010:

- Leszek Hajdacki
- Arkadiusz Kawecki
- Jacek Kuciński

After the end of the year the Audit and Remuneration Committees submit a report of their activities to the Supervisory Board. These reports, following approval by the Supervisory Board, are made available to shareholders in the materials for the General Meeting.

6.4. Management Board

The Management Board conducts the business of the Company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the Company which have not otherwise been assigned by law or the Statutes to the duties of other Company bodies. The Management Board operates based on prevailing law, the Statutes of the Company and the Regulations of the Management Board. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec.1 point of 6 the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds. The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The Management Board is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board. The Supervisory Board appoints and dismisses the employee-elected member of the Management Board.

At 1 January 2010 the Management Board consisted of (including segregation of duties):

– Herbert Wirth	President of the Management Board
– Maciej Tybura	I Vice President of the Management Board (Finance)
– Ryszard Janeczek	Vice President of the Management Board (Production)

On 14 October 2010, Ryszard Janeczek submitted his resignation from the position of Vice President of the Management Board of KGHM Polska Miedź S.A.

On 19 November 2010, the Supervisory Board appointed, as the result of a competitive recruitment process, Wojciech Kędzia to the Management Board, granting him the function of Vice President of the Management Board.

Until 31 December 2010, the Management Board consisted of (including segregation of duties):

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

6.5. Description of the basic characteristics of internal control and risk management systems applied in the Company with respect to the process of preparing financial statements and consolidated financial statements

KGHM Polska Miedź S.A. has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the financial statements of KGHM Polska Miedź S.A. the Management Board of the Company is responsible. The management of company risk in this regard is performed by the

identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimalisation or total elimination.
KGHM Polska Miedź S.A. uses its many years of experience in the identification, documentation, record maintenance and control of economic operations and established audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data.

In order to ensure truth and accuracy in the keeping of accounting records of the Parent Entity and subsidiaries of the Group, based on fixed principles, and the generation on their basis of high-quality financial data for presentation in the financial statements, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group, in accordance with International Financial Reporting Standards,

and in addition, for the Parent Entity:

- Principles for Financial Management and for an Economic System,
- Documentation for an IT system for the processing of accounting data,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets, and
- Sector Chart of Accounts in accordance with IFRS,

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of the Parent Entity and the Group, along with the established scope and principles of financial reporting based on International Financial Reporting Standards and other legal standards.

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of duties, uniformity of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. KGHM Polska Miedź S.A. continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. The technical servicing of the system is ensured by the highly experienced specialists employed by the Company. KGHM Polska Miedź S.A. has full documentation of the IT system, both in the part meant for end-users, as well as in the technical part encompassing configuration, parameterization and calculation algorithms of the system. In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically verified and updated, and confirmed each time by the heads of the units, i.e. the Management Board of the Company and management boards of subsidiaries.

The Company has introduced organisational and systemic solutions with respect to ensuring the proper use and protection of systems and data, as well as secure access to data and hardware. Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Company. The Audit Committee, in accordance with its duties as set forth in *the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision* (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the Company and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- recommends to the Supervisory Board an entity entitled to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

A significant element of risk management with respect to the process of preparing financial statements of KGHM is examining the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A., carried out by internal audit.

Internal audit operates based on the „Regulations for internal audit in KGHM Polska Miedź S.A.", the „Code of ethics for internal auditors in KGHM Polska Miedź S.A." and the „Audit Plan" adopted by the Management Board of the Company and approved by the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. These documents were developed based on International Professional Standards in Internal Audit Practice published by the Institute of Internal Auditors.

In performing audit tasks in 2010, risk was identified and assessed, as well as the functioning of control mechanisms, among others in the following processes: planning and realising production, maintenance management, inventories and warehouse management, IT strategy, communications and investment. The evaluation of efficiency performed in this regard, among others in terms of the reliability and uniformity of financial data, supports the process of preparing financial statements required by law and of management reports. From 2011 internal audit (including effectiveness) will also include selected companies of the KGHM Polska Miedź S.A. Group.

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

Amongst those areas of risk to which the Company is exposed, the most important is market risk. The process of risk management is based on policy and organisational structure and on procedures adopted by the Management Board of the Company.

Due to the exposure of the Company to market risk (copper and silver prices and the USD/PLN exchange rate), derivatives are used to manage this risk. Organisation of the market risk management process in the Company, as regards entering and realising transactions on the derivatives market, separates the functions of units responsible for entering transactions from the functions of units responsible for their authorisation, settlement and the preparation of information on the measurement of these transactions. Such an organisational structure, in accordance with best practice in risk management, permits control over the process of entering into transactions and the elimination of derivatives transactions unauthorised by the Management Board.

The effectiveness of the internal control and risk management procedures in the process of preparing financial statements of KGHM Polska Miedź S.A. may be seen in the high assessment of the quality of these statements, confirmed the top position of the Company as a participant in the competition The Best Annual Report.

Appendix A: Methodology of calculating ratios used in the report

Assets effectiveness ratios

$$\text{Assets turnover ratio} = \frac{\text{sales}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{sales}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{sales}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{sales}}{\text{current receivables + cash and cash equivalents}}$$

Assets financing ratios

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity + non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

Economic activity ratios

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets - inventories}}{\text{current liabilities}}$$

$$\text{ROA (return on assets)} = \frac{\text{profit for the period}}{\text{total assets}} \times 100$$

$$\text{ROE (return on equity)} = \frac{\text{profit for the period}}{\text{equity}} \times 100$$

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity + non-current liabilities}}{\text{equity and liabilities}} \times 100$$

Appendix B: Current reports of the Company published in 2011 – to the date of preparation of the annual report for 2010

After the end of the reporting period the Company published the following current reports:

Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A. (publication date: 19 January 2011)

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.

Significant contract with MKM Mansfelder Kupfer und Messing GmbH (publication date: 4 February 2011)

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.

Acquisition of the shares of TAURON Polska Energia S.A. (publication date: 23 March 2011)

The Company participated in the process of selling shares of TAURON Polska Energia S.A. by the Ministry of the State Treasury, submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, KGHM Polska Miedź S.A. acquired on 23 March 2011 71 million shares of TAURON Polska Energia S.A. at the price of PLN 6.15. 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.

Other information published:

- Publication dates for periodic reports in 2011 (publication date: 5 January 2011),
- Forecast of Company results for 2011 (publication date: 31 January 2011)

Appendix C: List of tables, diagrams and charts

TABLES

DIAGRAMS

CHARTS

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