Consolidated annual report RS 2009

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

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

for the financial year **2009** comprising the period from **1 January 2009** to **31 December 2009**
containing the consolidated financial statements according to International Financial Reporting Standards in PLN.

publication date: 31 March 2010

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

59 - 301
(postal code)

LUBIN
(city)

M. Skłodowskiej – Curie
(street)

48
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(48 76) 74 78 200
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IR@BZ.KGHM.pl
(e-mail)

www.kghm.pl
(website address)

692–000–00-13
(NIP)

390021764
(REGON)

Ernst & Young Audit Sp. z o.o.
....
(entity entitled to audit financial statements)

SELECTED FINANCIAL ITEMS	in '000 PLN		in '000 EUR	
	year 2009 period from 1 January 2009 to 31 December 2009	**year 2008** period from 1 January 2008 to 31 December 2008	**year 2009** period from 1 January 2009 to 31 December 2009	**year 2008** period from 1 January 2008 to 31 December 2008
I. Sales	12 119 910	12 654 885	2 792 220	3 582 822
II. Operating profit	2 679 338	3 186 362	617 274	902 115
III. Profit before income tax	2 904 151	3 396 447	669 067	961 594
IV. Profit for the period	2 359 170	2 765 866	543 512	783 065
V. Profit for the period attributable to shareholders of the Parent Entity	2 358 602	2 766 179	543 381	783 154
VI. Profit for the period attributable to minority interests	568	(313)	131	(89)
VII. Other comprehensive income	(391 155)	504 338	(90 115)	142 787
VIII. Total comprehensive income	1 968 015	3 270 204	453 397	925 852
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	1 967 447	3 270 517	453 266	925 941
X. Total comprehensive income attributable to minority interest	568	(313)	131	(89)
XI. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII. Earnings per ordinary share (in PLN/EUR)	11.79	13.83	2.72	3.92
XIII. Net cash generated from operating activities	2 720 749	2 959 725	626 814	837 951
XIV. Net cash used in investing activities	(1 255 747)	(1 919 124)	(289 303)	(543 338)
XV. Net cash used in financing activities	(2 317 750)	(1 827 363)	(533 970)	(517 359)
XVI. Total net cash flow	(852 748)	(786 762)	(196 459)	(222 746)
	At 31 December 2009	**At 31 December 2008**	**At 31 December 2009**	**At 31 December 2008**
XVII. Non-current assets	9 807 639	9 113 159	2 387 332	2 184 152
XVIII. Current assets	5 083 112	5 856 959	1 237 309	1 403 739
XIX. Non-current assets held for sale	6 674	29 987	1 625	7 187
XX. Total assets	14 897 425	15 000 105	3 626 266	3 595 078
XXI. Non-current liabilities	1 970 994	1 849 264	479 771	443 213
XXII. Current liabilities	2 302 604	2 167 976	560 490	519 599
XXIII. Equity	10 623 827	10 982 865	2 586 005	2 632 266
XXIV. Minority interest	67 875	58 360	16 522	13 987

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

KGHM POLSKA MIEDŹ S.A. GROUP

CONSOLIDATED ANNUAL REPORT RS 2009 COMPRISES:

Lubin, March 2010

KGHM POLSKA MIEDŹ S.A. GROUP

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2009

Lubin, March 2010

Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
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The Polish original should be referred to in matters of interpretation.
Translation of auditors' report originally issued in Polish.

INDEPENDENT AUDITORS' OPINION

To the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

1. We have audited the attached consolidated financial statements of KGHM Polska Miedź S.A. Group ('the Group'), for which the parent entity is KGHM Polska Miedź S.A. ('the Company') located in Lubin at M. Skłodowskiej-Curie 48, for the year ended 31 December 2009, containing:
   - the consolidated statement of financial position as at 31 December 2009 with total assets amounting to 14,897,425 thousand zlotys,
   - the consolidated statement of comprehensive income for the financial year from 1 January 2009 to 31 December 2009 with a total comprehensive income amounting to 1,968,015 thousand zlotys,
   - the consolidated statement of changes in equity for the financial year from 1 January 2009 to 31 December 2009 with a net decrease in equity amounting to 359,038 thousand zlotys,
   - the consolidated statement of cash flows for the financial year from 1 January 2009 to 31 December 2009 with a net cash outflow amounting to 852,748 thousand zlotys and
   - accounting policies and other explanatory information

   ('the attached consolidated financial statements').
2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (uniform text - 2009 Journal of Laws No. 152, item 1223 with further amendments - 'the Accounting Act'),
   - general practice of audit of financial statements applied in Poland (based on the previously binding auditing standards issued by the National Council of Statutory Auditors and after considering the provisions of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649),

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Management Board of the Company, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the financial year from 1 January 2009 to 31 December 2009, as well as its financial position[3] as at 31 December 2009;
   - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
   - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Directors' Report for the financial year from 1 January 2009 to 31 December 2009 and the rules of preparation of annual consolidated financial statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – "Decree on current and periodic information").

On behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Marek Musiał
certified auditor
No. 90036

Warsaw, 26 March 2010

[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

CAPITAL GROUP
KGHM Polska Miedź S.A.

LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

I. GENERAL NOTES

1. Background

The parent entity of the KGHM Polska Miedź S.A. Group (hereinafter 'the Group' or 'the Capital Group') is KGHM Polska Miedź S.A. ('the parent entity', 'the Company').
The parent entity was incorporated on the basis of a Notarial Deed dated 12 September 1991. The Company's registered office is located in Lubin at M. Skłodowskiej-Curie 48.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises a Head Office and 10 Divisions: Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine, Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant, an Ore Enrichment Plant, a Tailings Plant, a Mine-Smelter Emergency Rescue Unit, and a Data Center.

The legal antecedent of KGHM Polska Miedź S.A. is the former State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin transformed into a State-owned, joint stock company pursuant to principles set down in the law dated 13 July 1990 on the privatization of State-owned enterprises.

The parent entity is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2009, No. 152, item 1223 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

The parent entity was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 23302 on 29 June 2001.

The Company was issued with tax identification number (NIP) 692-000-00-13 on 14 June 1993 and statistical number (REGON) 390021764 on 11 February 2000.

The principal activities of the parent entity are as follows:

- the mining of non-ferrous metals ore,
- the production of copper, precious and non-ferrous metals,
- the casting of light and non-ferrous metals,
- the forging, pressing, stamping and roll forming of metal,
- waste management,
- wholesale sales based on direct or contractual payments,
- geological and exploratory activities,
- the generation and distribution of electricity and of steam and hot water, the production of gas, and the distribution of gaseous fuels through a supply network,
- telecommunication and IT activities.

The operations of the Group's subsidiaries and associates include the following activities:

- telecommunication and IT activities,
- general construction services relating to mining and production structures,
- the generation and distribution of electricity,

(in thousand zlotys)

- transport services,
- waste management,
- the production of non-ferrous metals.

As at 31 December 2009, the Company's issued share capital amounted to 2,000,000 thousand zlotys. Equity of the Group as at that date amounted to 10,623,827 thousand zlotys.

As at 26 March 2010, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares in zlotys	% of issued share capital
State Treasury	63,589,900	63,589,900	10	31.79
Others (less than 5%)	136,410,100	136,410,100	10	68.21
	--------	--------	--------	--------
Total	200,000,000	200,000,000	-	100.00
	=====	=====	=====	=====

The following changes took place in the ownership structure of the Company's issued share capital between the end of financial year and the date of the opinion:

- on 8 January 2010 the State Treasury sold 20,000,000 Company's shares on a regulated market to qualified investors; as a result the share of the State Treasury in the Company's share capital decreased from 41.79% as at the end of 2009 to 31.79% as at 26 March 2010.

There were no changes in the share capital in the reporting period.

As at 26 March 2010, the parent entity's Management Board was composed of:

Herbert Wirth	- President
Maciej Tybura	- I Vice President
Ryszard Janeczek	- Vice President

There were following changes in the parent entity's Management Board composition during the reporting period:

- on 15 June 2009, Mr. Mirosław Krutin made a statement on his resignation from the position of the Management Board President;
- on 15 June 2009, Mr. Herbert Wirth was appointed to the position of the Acting President; on 20 July 2009 Mr. Herbert Wirth was appointed to the position of the Management Board President;
- on 15 June 2009, Mr. Maciej Tybura was appointed to the position of the Management Board Vice President; starting from 24 August 2009 Mr. Maciej Tybura acts as the Management Board I Vice President;
- on 24 August 2009, Mr. Ryszard Janeczek was appointed to the position of the Management Board Vice President.

(in thousand zlotys)

There were no changes in the Company's Management Board composition from the end of financial year to the date of the opinion.

2. Group Structure

As at 31 December 2009, the KGHM Polska Miedź S.A. Group consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity auditing financial statements	End of financial year
"Energetyka" sp. z o.o.	purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2009
KGHM CUPRUM sp. z o.o. – CBR	purchase accounting	unqualified	PKF Audyt Sp. z o.o.	31 December 2009
KGHM Polish Copper Ltd. in liquidation	purchase accounting	no audit obligation	no audit obligation	31 December 2009
Centrum Badań Jakości Sp. z o.o.	purchase accounting	unqualified	MDDP Audyt Sp. z o.o.	31 December 2009
KGHM Ecoren S.A.	purchase accounting	qualified	Ernst & Young Audit Sp. z o.o.	31 December 2009
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	purchase accounting	unqualified	AUDYTOR S.A.	31 December 2009
POL-MIEDŹ TRANS Sp. z o.o.	purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2009
KGHM Metraco S.A.	purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2009
KGHM Kupferhandelsges.m. b.H.	purchase accounting	audit procedures completed, opinion will be issued by the end of March 2010	Ernst & Young Wirtschaftsprufungsges. m.b.H	31 December 2009
Telefonia DIALOG S.A.	purchase accounting	audit procedures completed, opinion will be issued by the end of March 2010	Ernst & Young Audit Sp. z o.o.	31 December 2009
Zagłębie Lubin S.A.	purchase accounting	unqualified, with an emphasis of matter	Ernst & Young Audit Sp. z o.o.	31 December 2009
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.	purchase accounting	unqualified, with an emphasis of matter	Ernst & Young Audit Sp. z o.o.	31 December 2009
INOVA Spółka z o.o.	purchase accounting	unqualified	Biuro Ekspertyz i Badania Bilansów „PIAST" Sp. z o.o.	31 December 2009
Ecoren DKE sp. z o.o.	purchase accounting	audit in progress	MDDP Audyt Sp. z o.o.	31 December 2009
INTERFERIE S. A.	purchase accounting	unqualified	MDDP Audyt Sp. z o.o.	31 December 2009
DFM ZANAM - LEGMET Sp. z o.o.	purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2009

(in thousand zlotys)

Entity name	Consolidation method	Type of opinion	Name of authorised entity auditing financial statements	End of financial year
WFP Hefra SA	purchase accounting	unqualified, with an emphasis of matter	Biuro Ekspertyz i Badania Bilansów „Piast" Sp. z o.o.	31 December 2009
Walcownia Metali Nieżelaznych spółka z o.o.	purchase accounting	unqualified	Biuro Usług Finansowo-księgowych i Podatkowych „BANKFIRM" Sp. z o.o.	31 December 2009
PHP "MERCUS" sp. z o.o.	purchase accounting	unqualified	PKF Audyt Sp. z o.o.	31 December 2009
PHU "Lubinpex" Sp. z o.o.	purchase accounting	unqualified	AUDYTOR S.A.	31 December 2009
WM "ŁABĘDY" S.A.	purchase accounting	unqualified, with an emphasis of matter	Biuro Usług Finansowo-księgowych i Podatkowych „BANKFIRM" Sp. z o.o.	31 December 2009
AVISTA MEDIA Sp. z o.o.	purchase accounting	unqualified	Agencja Biegłych Rewidentów "Tax-2" Sp. z o.o.	31 December 2009
PMT Linie Kolejowe Sp. z o.o.	purchase accounting	no audit obligation	no audit obligation	31 December 2009
"PETROTEL" sp. z o.o.	purchase accounting	unqualified	MDDP Audyt Sp. z o.o.	31 December 2009
KGHM LETIA S.A.	purchase accounting	unqualified	Kancelaria Doradztwa Podatkowego i Badania Bilansów „OPINIA"	31 December 2009
"BIOWIND" sp. z o.o.	purchase accounting	no audit obligation	no audit obligation	31 December 2009
KGHM TFI S.A.	purchase accounting	unqualified, with an emphasis of matter	BTFG Audit Sp. z o.o.	31 December 2009
KGHM HMS Bergbau AG	purchase accounting	no audit obligation	no audit obligation	31 December 2009
FADROMA-SERWIS-REMONTY sp. z o.o.	purchase accounting	unqualified	Biuro Ekspertyz i Badania Bilansów „Piast" Sp. z o.o.	31 December 2009
WPEC w Legnicy SA	purchase accounting	unqualified	Polskie Towarzystwo Ekonomiczne Profit Sp. z o.o.	31 December 2009

(in thousand zlotys)

As at 31 December 2009 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
Polkomtel S.A.	Telecommunication activities

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 4 of accounting policies and other explanatory information to the consolidated financial statements of the Group for the year ended 31 December 2009.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

Ernst & Young Audit sp. z o.o. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audit sp. z o.o. was appointed by the Supervisory Board on 19 March 2007 to audit the Group's financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649).

Under the contract executed on 30 April 2007 with the parent entity's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2009.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 26 March 2010, stating the following:

'To the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

1. We have audited the attached consolidated financial statements of KGHM Polska Miedź S.A. Group ('the Group'), for which the parent entity is KGHM Polska Miedź S.A. ('the Company') located in Lubin at M. Skłodowskiej-Curie 48, for the year ended 31 December 2009, containing:
   - the consolidated statement of financial position as at 31 December 2009 with total assets amounting to 14,897,425 thousand zlotys,
   - the consolidated statement of comprehensive income for the financial year from 1 January 2009 to 31 December 2009 with a total comprehensive income amounting to 1,968,015 thousand zlotys,

- the consolidated statement of changes in equity for the financial year from 1 January 2009 to 31 December 2009 with a net decrease in equity amounting to 359,038 thousand zlotys,
- the consolidated statement of cash flows for the financial year from 1 January 2009 to 31 December 2009 with a net cash outflow amounting to 852,748 thousand zlotys and
- accounting policies and other explanatory information

('the attached consolidated financial statements').

2. The truth and fairness[1] of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies and whether they truly and fairly[2] reflect, in all material respects, the financial position and results of the operations of the Group.

3. We conducted our audit of the attached consolidated financial statements in accordance with:
   - chapter 7 of the Accounting Act, dated 29 September 1994 (uniform text - 2009 Journal of Laws No. 152, item 1223 with further amendments - 'the Accounting Act'),
   - general practice of audit of financial statements applied in Poland (based on the previously binding auditing standards issued by the National Council of Statutory Auditors and after considering the provisions of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649),

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Management Board of the Company, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the financial year from 1 January 2009 to 31 December 2009, as well as its financial position[3] as at 31 December 2009;

[1] Translation of the following expression in Polish: '*rzetelność i jasność*'
[2] Translation of the following expression in Polish: '*rzetelnie i jasno*'
[3] Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

- have been prepared in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

5. We have read the 'Directors' Report for the financial year from 1 January 2009 to 31 December 2009 and the rules of preparation of annual consolidated financial statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 – "Decree on current and periodic information").'.

We conducted the audit of the consolidated financial statements during the period from 15 February 2010 to 26 March 2010. We were present at the parent entity's head office in different periods from 15 February 2010 to 26 March 2010.

3.2 Representations provided and data availability

The Management Board of the parent entity confirmed its responsibility for the truth and fairness[4] of the consolidated financial statements and its preparation in accordance with the required applicable accounting policies and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations.

We also obtained a written representation dated 26 March 2010, from the Management Board of the parent entity confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the end of financial year to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the parent entity Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2008 were audited by Marek Musiał, certified auditor no. 90036, acting on behalf of Ernst & Young Audit Sp. z o.o. located in Warsaw, at Rondo ONZ 1 registered in the auditors' register under the number 130. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2008. The

[4] Translation of the following expression in Polish: "*rzetelność i jasność*"

(in thousand zlotys)

consolidated financial statements for the year ended 31 December 2008 were approved by the General Shareholders' Meeting on 16 June 2009.

The consolidated financial statements of the Group for the financial year ended 31 December 2008, together with the auditors' opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 19 June 2009 with the National Court Register.

The consolidated balance sheet as at 31 December 2008, the consolidated profit and loss account, the statement of changes in consolidated equity and the consolidated cash flow statement for the year ended 31 December 2008, together with the auditors' opinion and a copy of the resolution approving the financial statements were published in Monitor Polski B No. 2094 on 29 October 2009.

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2007 – 2009. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2009 and 31 December 2008.

	2009	2008	2007
Total assets	14,897,425	15,000,105	13,503,398
Shareholders' equity	10,623,827	10,982,865	9,501,609
Profit	2,359,170	2,765,866	3,935,516
Return on assets (%)	15.8	18.4	29.1
$\frac{\text{Profit x 100}}{\text{Total assets}}$			
Return on equity (%)	21.5	29.1	46.2
$\frac{\text{Profit x 100}}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	19.5	21.9	29.2
$\frac{\text{Profit x 100}}{\text{Sales of finished goods, goods for resale and raw materials}}$			
Liquidity I	2.4	2.7	2.4
$\frac{\text{Current assets}}{\text{Short-term creditors}}$			

	2009	2008	2007
Liquidity III	0.6	1.0	1.2
Cash and cash equivalents / Short-term creditors			
Debtors days	36 days	21 days	19 days
Trade debtors x 365 / Sales of finished goods, goods for resale and raw materials			
Creditors days	22 days	33 days	31 days
Trade creditors x 365 / Costs of finished goods, goods for resale and raw materials sold			
Inventory days	95 days	69 days	84 days
Inventory x 365 / Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	85.6	90.4	88.2
(Equity + long-term provisions and liabilities) x 100 / Total liabilities, provisions and equity			
Debt ratio (%)	28.7	26.8	29.6
(Total liabilities and provisions) x 100 / Total assets			
Rate of inflation:			
Yearly average	3.50%	4.2%	2.5%
December to December	3.50%	3.3%	4.0%

4.2 Comments

The following trends may be observed based on the above financial ratios:

- Return on assets decreased to the level of 15.8% in 2009 from 18.4% in 2008 and from 29.1% in 2007;
- Return on equity decreased to the level of 21.5% in 2009 from 29.1% in 2008 and from 46.2% in 2007;

- Profit margin decreased from 21.9% at the end of 2008 to 19.5% at the end of 2009. At the end of 2007 profit margin amounted to 29.2%;
- Liquidity I ratio decreased to the level of 2.4 in 2009 from 2.7 in 2008. At the end of 2007 liquidity I ratio amounted to 2.4;
- Liquidity III ratio decreased from the level of 1.2 in 2007 and from 1.0 in 2008 to the level of 0.6 in 2009;
- Debtors days ratio increased to the level of 36 days in 2009 from 21 days in 2008 and from 19 days in 2007;
- Creditors days ratio decreased from 33 days in 2008 to 22 days in 2009. In 2007 creditors days ratio amounted to 31 days;
- Inventory days ratio increased from 69 days in 2008 to 95 days in 2009. In 2007 inventory days ratio amounted to 84 days;
- Stability of financing decreased to 85.6% at the end of 2009 from 90.4% at the end of 2008 and from 88.2% at the end of 2007;
- Debt ratio increased from 26.8% at the end of 2008 to 28.7% at the end of 2009.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the parent entity is unable to continue as a going concern for at least twelve months subsequent to 31 December 2009 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 1 of accounting policies and other explanatory information to the audited consolidated financial statements for the year ended 31 December 2009, the Management Board of the parent entity has stated that the financial statements of the Group entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least twelve months subsequent to 31 December 2009 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 2 of accounting policies and other explanatory information to the Group's consolidated financial statements for the year ended 31 December 2009.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2009.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, the impairment charged in the financial year and up to the end of financial year were presented in note 2 of accounting policies and other explanatory information to the consolidated financial statements.

3.2 Shareholders' funds including minority interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority shareholders' interest amounted to 67,875 thousand zlotys as at 31 December 2009. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 17, 18 and 19 of accounting policies and other explanatory information to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2009 and include the financial data for the period from 1 January 2009 to 31 December 2009.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

During the financial year the Group did not sell any shares in subordinated entities.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2009.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

8. Accounting policies and other explanatory information to the Consolidated Financial Statements

Accounting policies and other explanatory information to the consolidated financial statements for the year ended 31 December 2009 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the 'Directors' Report on the Group's activities for the financial year from 1 January 2009 to 31 December 2009 and the rules of preparation of annual consolidated financial statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the parent entity confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year.

11. Work of Experts

During our audit we have taken into account the results of the work of the following independent experts:

- actuaries – in the area of provisions for future employee benefits;
- lawyers – in the area of claims and litigations.

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor

Marek Musiał
certified auditor
no. 90036

Warsaw, 26 March 2010

KGHM POLSKA MIEDŹ S.A.
GROUP

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

Lubin, March 2010

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

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

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

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

KGHM POLSKA MIEDŹ S.A.
GROUP

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

Lubin, March 2010

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

The entity entitled to audit financial statements, and which has audited the annual consolidated financial statements, was selected in accordance 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 accordance with appropriate legal provisions and auditing standards.

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

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

KGHM POLSKA MIEDŹ S.A. GROUP

PRESIDENT'S LETTER

Lubin, March 2010

Dear Shareholders,

I give to your hands the consolidated annual report of the KGHM Polska Miedź S.A. Group for 2009. Despite the dangers related to the crisis this was a good year for our company and the entire Group.

KGHM Polska Miedź S.A. accepted the Strategy for the years 2009 – 2018. Our goal is to join the group of large, global copper producers and to increase production to around 700 thousand tonnes of copper. The Strategy to develop the Company is based on five pillars: improving productivity, developing the resource base, diversifying sources of revenues and gaining independence from energy prices, regional support and finally, developing organisational know-how and capabilities. KGHM Polska Miedź S.A. aims to achieve target revenues apart from the core business at the level of around 30 percent of revenues. Towards this end, assumed is gradual entrance into the power sector.

The past year was one of key decisions for the entire KGHM Polska Miedź S.A. Group.

KGHM Polska Miedź S.A. is continuing the investment in Głogów Głęboki Przemysłowy deposit and construction of the SW-4 shaft. We are also continuing to work on increasing safety – we purchased nearly 200 mining machines, carried out detailed modernisation of the electrical installation at the Żelazny Most tailings pond, and invested in ventilation equipment in the mines.

We made the decision to conclude the investment in the Democratic Republic of Congo.

We founded the company KGHM HMS Bergbau AG in order to search for and explore deposits of copper and other metals in Europe. The first project realised by this entity is exploration in Saxony in Germany.

We founded KGHM Towarzystwo Funduszy Inwestycyjnych, whose goal is to create and conduct closed-end sector investments. Thanks to this we also created, apart from the potential to obtain external investment capital, the possibility to quickly assess investment projects. The activities of KGHM TFI S.A. also permit diversification of investment risk for KGHM Polska Miedź SA.

The company „Energetyka" sp. z o.o., which is part of the Group, acquired the company Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej in Legnica. In this manner the company also increased the share of the Group in the local heating market.

Taking into account the social responsibility of the business, the KGHM Polska Miedź S.A. Group supported investments in medical equipment realised by the company „Miedziowe Centrum Zdrowia" - which provides medical services to the regional community. We are also continuing to build the Zagłębia Lubin stadium.

In 2009, the KGHM Polska Miedź S.A. Group achieved revenues of PLN 12.1 billion. Despite the unfavourable macroeconomic conditions at the beginning of 2009, the result on sales in 2009 did not change significantly in comparison to that of the prior year. Finally, the profit for the period of the Group amounted to PLN 2.4 billion.

Significant impact on the results of the Group in 2009 were the results achieved by KGHM. Profit for 2009, shown in the separate financial statements, amounted to PLN 2.5 billion. This amount was impacted, apart from the effects of the core business of KGHM Polska Miedź S.A., by the dividend received from Polkomtel S.A.

Despite unfavourable forecasts, this was a good year for KGHM Polska Miedź S.A. We made many important decisions which have a positive impact on the entire Group. The results achieved by KGHM in 2009 enable the realisation of investment projects in accordance with the vision of development of KGHM Polska Miedź S.A. I am convinced that the actions undertaken will cause systematic growth in the value of the company, which will lead to the continued trust of investors in the coming years.

Herbert Wirth

President of the
Management Board

Lubin, 26 March 2010

KGHM POLSKA MIEDŹ S.A. GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR 2009

Lubin, March 2010

Table of contents to the consolidated financial statements

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

Consolidated statement of financial position

	Note	At 31 December 2009	At 31 December 2008
Assets			
Non-current assets			
Property, plant and equipment	6	7 673 437	7 136 307
Intangible assets	7	268 195	151 581
Investment property	8	17 164	18 083
Investments in associates	9	1 346 272	1 498 116
Deferred tax assets	23	347 395	188 992
Available-for-sale financial assets	10	19 412	31 213
Held-to-maturity investments	11	67 144	59 592
Derivative financial instruments	12	58 034	6 501
Trade and other receivables	13	10 586	22 774
		9 807 639	**9 113 159**
Current assets			
Inventories	14	2 072 434	1 608 369
Trade and other receivables	13	1 531 341	1 469 959
Current corporate tax receivables		9 329	1 741
Available-for-sale financial assets	10	8 976	-
Held-to-maturity investments	11	580	-
Derivative financial instruments	12	263 375	711 127
Cash and cash equivalents	15	1 197 077	2 065 763
		5 083 112	**5 856 959**
Non-current assets held for sale	16	**6 674**	**29 987**
TOTAL ASSETS		**14 897 425**	**15 000 105**
Equity and liabilities			
EQUITY			
Equity attributable to shareholders of the Parent Entity			
Share capital	17	2 000 000	2 000 000
Accumulated other comprehensive income	18	126 301	517 456
Retained earnings		8 429 651	8 407 049
		10 555 952	**10 924 505**
Minority interest		**67 875**	**58 360**
TOTAL EQUITY		**10 623 827**	**10 982 865**
LIABILITIES			
Non-current liabilities			
Trade and other payables	20	36 230	44 289
Borrowings and finance lease liabilities	21	120 854	98 055
Derivative financial instruments	12	61 354	-
Deferred tax liabilities	23	41 785	68 182
Liabilities due to employee benefits	24	1 183 350	1 039 423
Provisions for other liabilities and charges	25	527 421	599 315
		1 970 994	**1 849 264**
Current liabilities			
Trade and other payables	20	1 575 896	1 756 752
Borrowings and finance lease liabilities	21	219 816	192 923
Current corporate tax liabilities		79 104	65 952
Derivative financial instruments	12	273 717	4 930
Liabilities due to employee benefits	24	106 704	83 531
Provisions for other liabilities and charges	25	47 367	63 888
		2 302 604	**2 167 976**
TOTAL LIABILITIES		**4 273 598**	**4 017 240**
TOTAL EQUITY AND LIABILITIES		**14 897 425**	**15 000 105**

The accounting policies and other explanatory information presented on pages 7 to 98 represent an integral part of these financial statements

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

Consolidated statement of comprehensive income

	Note	For the period	
		from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Income statement			
Continued activities:			
Sales	27	12 119 910	12 654 885
Cost of sales	28	(7 923 233)	(8 489 581)
Gross profit		**4 196 677**	**4 165 304**
Selling costs	28	(230 159)	(225 540)
Administrative expenses	28	(783 444)	(778 127)
Other operating income	30	495 572	1 043 759
Other operating costs	31	(999 308)	(1 019 034)
Operating profit		**2 679 338**	**3 186 362**
Finance costs - net	32	(45 259)	(57 494)
Share of profits of associates accounted for using the equity method	35	270 072	267 579
Profit before income tax		**2 904 151**	**3 396 447**
Income tax expense	36	(544 981)	(630 581)
Profit for the period		**2 359 170**	**2 765 866**
Other comprehensive income due to:			
Available-for-sale financial assets		(10 384)	7 169
Cash flow hedging instruments		(472 524)	617 862
Income tax related to items presented in other comprehensive income		91 753	(120 693)
Other comprehensive net income for the financial period		**(391 155)**	**504 338**
TOTAL COMPREHENSIVE INCOME		**1 968 015**	**3 270 204**
Profit for the period attributable to:			
shareholders of the Parent Entity		2 358 602	2 766 179
minority interest		568	(313)
Total comprehensive income attributable to:			
shareholders of the Parent Entity		1 967 447	3 270 517
minority interest		568	(313)
Earnings per share attributable to the shareholders of the Parent Entity during the period (in PLN per share)	37		
- basic		11.79	13.83
- diluted		11.79	13.83

The accounting policies and other explanatory information presented on pages 7 to 98 represent an integral part of these financial statements

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

Consolidated statement of changes in equity

	Note	Attributable to shareholders of the Parent Entity					Attributable to minority interest	Total equity
		Share capital	Retained earnings	Accumulated other comprehensive income due to: Available-for-sale financial assets	Accumulated other comprehensive income due to: Cash flow hedging instruments	Total		
At 1 January 2009		**2 000 000**	**8 407 049**	**8 972**	**508 484**	**10 924 505**	**58 360**	**10 982 865**
Dividends for 2008 paid		-	(2 336 000)	-	-	(2 336 000)		(2 336 000)
Total comprehensive income	18	-	2 358 602	(8 411)	(382 744)	1 967 447	568	1 968 015
Transactions with minority interest		-	-	-	-	-	8 947	8 947
At 31 December 2009		**2 000 000**	**8 429 651**	**561**	**125 740**	**10 555 952**	**67 875**	**10 623 827**
At 1 January 2008		**2 000 000**	**7 440 870**	**3 039**	**10 079**	**9 453 988**	**47 621**	**9 501 609**
Dividends for 2007 paid		-	(1 800 000)	-	-	(1 800 000)	(74)	(1 800 074)
Total comprehensive income	18	-	2 766 179	5 933	498 405	3 270 517	(313)	3 270 204
Transactions with minority interest		-	-	-	-	-	11 126	11 126
At 31 December 2008		**2 000 000**	**8 407 049**	**8 972**	**508 484**	**10 924 505**	**58 360**	**10 982 865**

The accounting policies and other explanatory information presented on pages 7 to 98 represent an integral part of these financial statements

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

Consolidated statement of cash flows

	Note	For the period from 1 January 2009 to 31 December 2009	For the period from 1 January 2008 to 31 December 2008
Cash flow from operating activities			
Profit for the period		2 359 170	2 765 866
Adjustments to profit for the period	39	994 786	1 046 072
Income tax paid		(633 207)	(852 213)
Net cash generated from operating activities		**2 720 749**	**2 959 725**
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents		(217 590)	(28 969)
Purchase of shares in associates		-	(737 686)
Proceeds from sale of shares in associates		-	8 542
Purchase of property, plant and equipment and intangible assets		(1 465 749)	(1 331 545)
Proceeds from sale of property, plant and equipment and intangible assets	39	23 386	17 580
Purchase of held-to-maturity investments		-	(77 796)
Proceeds from sale of held-to-maturity investments		-	77 796
Purchase of available-for-sale financial assets		(58)	(201 862)
Proceeds from sale of available-for-sale financial assets		20 000	208 440
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(8 132)	(25 481)
Proceeds from sale of held-to-maturity investments financed from the resources of Mine Closure Fund		-	9 829
Establishment of deposits		(400 523)	-
Termination of deposits		400 500	-
Loans granted		-	(100)
Proceeds from repayments of loans granted		1 048	-
Interest received		5 692	1 004
Dividends received		418 474	183 162
Advances granted for purchase of property, plant and equipment and intangible assets		(22 030)	(14 629)
Other investment expenses		(10 765)	(7 409)
Net cash used in investing activities		**(1 255 747)**	**(1 919 124)**
Cash flow from financing activities			
Proceeds connected with minority interest transactions		57	-
Purchase of the company's own shares for redemption		(9)	-
Proceeds from loans and borrowings		98 136	77 702
Repayments of loans and borrowings		(56 941)	(85 190)
Payments of liabilities due to finance leases		(8 333)	(4 484)
Interest paid		(14 756)	(15 317)
Dividends paid to shareholders of the Parent Entity		(2 336 000)	(1 800 000)
Dividends paid to minority interest		-	(74)
Other financial proceeds		96	-
Net cash used in financing activities		**(2 317 750)**	**(1 827 363)**
Total net cash flow		**(852 748)**	**(786 762)**
Exchange (losses)/gains on cash and cash equivalents		(15 938)	40 429
Movements in cash and cash equivalents		**(868 686)**	**(746 333)**
Cash and cash equivalents at beginning of the period	15	**2 065 763**	**2 812 096**
Cash and cash equivalents at end of the period	15	**1 197 077**	**2 065 763**
including restricted cash and cash equivalents		15 833	2 648

The accounting policies and other explanatory information presented on pages 7 to 98 represent an integral part of these financial statements

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

Accounting policies and other explanatory information to the consolidated financial statements prepared for 2009

1. General information

Name, registered office, business activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at M.Skłodowskiej-Curie Street 48 is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302 , operating on the territory of the Republic of Poland. The Parent Entity was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764.
KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 Divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), Ore Enrichment Plant (OEP), Tailings Plant, Mine-Smelter Emergency Rescue Unit and Data Center. The composition of the Group was presented in Note 4.
The shares of KGHM Polska Miedź S.A. are listed on the Stock Exchange in Warsaw. As of 22 December 2009, due to the termination of the deposit agreement with Deutsche Bank Trust Company Americas, the GDRs (global depository receipts) of the Parent Entity listed on the London Stock Exchange (LSE) were removed from the list of securities admitted to trading in the LSE.

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

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

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

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

Period of operation of the Group

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

Composition of the Management Board of the Parent Entity

During the period from 1 January 2009 to 15 June 2009, the composition of the Management Board and the segregation of its duties were as follows:

- Mirosław Krutin	President of the Management Board
- Herbert Wirth	I Vice President of the Management Board (Development)
- Maciej Tybura	Vice President of the Management Board (Finance)

On 15 June 2009, Mr. Mirosław Krutin submitted to the Chairman of the Supervisory Board a statement in which he announced that he will not be a candidate for the position of VIIth term President of the Management Board.
On 15 June 2009 the Supervisory Board resolved that the next-term (VIIth term) Management Board of KGHM Polska Miedź S.A. shall be comprised of two Members, and appointed the following individuals:
Herbert Wirth – granting him the responsibilities of the President of the Management Board
Maciej Tybura – granting him the function of Vice President.

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

1. General information (continuation)

Simultaneously, the Supervisory Board resolved to commence the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. for the VIIth term.

On 20 July 2009 the Supervisory Board appointed Herbert Wirth to the function of President of the Management Board of KGHM Polska Miedź S.A. for the VIIth term.

On 24 August 2009 the Supervisory Board of the Parent Entity appointed Mr. Ryszard Janeczek as the Vice President of the Management Board of KGHM Polska Miedź S.A. for the VIIth term and granted Maciej Tybura the function of I Vice President of the Management Board.

As at the date of authorisation of these financial statements for issue, the composition of the Management Board and segregation of duties were as follows:

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

Authorisation of the financial statements

These financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 26 March 2010.

Going concern assumption

These consolidated financial statements were prepared under the assumption that Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, there are no circumstances that would indicate a threat to the going concern assumption by the Group companies.

In order to fully understand the financial position and the results of the activities of the Group, these consolidated financial statements should be read jointly with the separate annual financial statements of KGHM Polska Miedź S.A. for the period ended 31 December 2009. These financial statements will be available on the website of the Parent Entity www.kghm.pl on dates consistent with the current report concerning dates of publication of the annual report and the consolidated annual report for the 2009.

2. Main accounting policies

2.1 Basis of preparing financial statements

These financial statements have been prepared in accordance with the International Financial Reporting Standards approved by the European Union using the same principles for the current and comparative period.

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, derivative instruments and investment property, which have been 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.

Standards and interpretations in force applied by the Group as of 1 January 2009

IFRS 8 *Operating segments*

IAS 1 *Presentation of Financial Statements*

IAS 23 *Borrowings costs*

Amended IFRS 2 *Vesting conditions and Cancellations*

Amended IAS 32 *Financial Instruments: Presentation* and amended IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

Amended IFRS 1 *First-time Adoption of International Financial Reporting Standards* and amended IAS 27 *Consolidated and Separate Financial Statements*

IFRIC 13 *Customer Loyalty Programmes*

Improvements to International Financial Reporting Standards 2008

IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRS 4 *Insurance Contracts* and IFRS 7 *Financial Instruments: Disclosures*

IFRIC 9 *Embedded Derivatives* - improvement to IFRIC 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement*

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

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

Application of the changes to IFRS 2, IAS 32, IAS 1, IFRS 1 and IAS 27, IFRIC 15, IFRIC 16, IFRIC 9 and IAS 39 has no effect on the financial statements of the Group. Additionally, application of the remaining standards and interpretations has no significant effect on the accounting policy of the Group, with the exception of the changes to IAS 1, IAS 23, IFRS 8 and IFRS 7, and apart from the changes to IAS 23, the remainder mainly effect the presentation of information in the financial statements. IFRIC 15 was adopted for application by the European Union for annual periods beginning after 31 December 2009.

The effect of changes on the following financial statements is presented below:

<u>The updated IAS 1 *Presentation of Financial Statements*</u>

The changes were mainly in respect of the titles and scope of the key items of the financial statements, i.e.:

to 31 December 2008	**from 1 January 2009**	
title	**title**	**scope**
Balance sheet	Statement of financial position	Change in the title „other reserves" to "accumulated other comprehensive income"
Income statement	Statement of comprehensive income	The elements comprising this statement are the income statement and other comprehensive income which until now represented the item of income and costs in other reserves
Statement of changes in equity	Statement of changes in equity	Detailed presentation of changes in equity arising solely as the result of transactions with owners
Cash flow statement	Statement of cash flows	no change
Balance sheet date	End of the reporting period	no change

<u>IFRS 8 *Operating segments*</u>

This Standard replaced IAS 14 *Segment reporting*, and introduced a management approach to segment reporting based on internal reports that are reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. Details on the application of IFRS 8 are presented in note 5 of this report.

<u>The updated IAS 23 *Borrowing Costs*</u>

As a result of changes introduced by the IASB to IAS 23 based on excluding the possibility of recognising the borrowing costs attributable to a qualifying asset directly in the costs of the period, the Group changed the accounting principles with respect to recognition of these costs. These costs will now be capitalised, in accordance with IAS 23.
However, since 1 January 2009, there have occurred no economic events within the Group which would require the capitalisation of borrowing costs, and therefore the updated IAS 23 has no impact on either the measurement or presentation of these financial statements.

<u>IFRS 7 *Financial Instruments: Disclosures*</u>

The amendments to IFRS 7 introduce the requirement to apply and present a three-level hierarchy for making fair value measurements, as well as requirements to provide additional disclosure in terms of the relative reliability of fair value measurements and of any transfers between these levels. In addition, the amendments expand the existing requirements in terms of disclosure respecting liquidity risk.
Application of these amendments expands the scope of disclosures respecting financial instruments, in particular in terms of the classification of individual financial instrument classes to the level of fair value, depending on the type of measurement.
Details on the implementation of these amendments to IFRS 7 are presented in note 33 of this report.

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

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

Standards and interpretations published which did not come into force by the publication date of these financial statements:

"Eligible Hedged Items". An amendment to IAS 39 *"Financial Instruments: Recognition and Measurement"*
On 31 July 2008 the International Accounting Standards Board issued an amendment to IAS 39, *"Eligible Hedged Items".* This amendment clarifies the principles for qualification as well as the conditions which a financial position must meet to be qualified as hedged. The changes introduced clarify how the existing principles underlying hedge accounting should be applied in two particular situations, and in particular in a situation of (1) designation of a one-sided risk in a hedged item (i.e. changes in the cash flows or fair value of a hedged item above or below a specified level of a determined variable), and (2) designation of inflation representing a portion of the cash flow of a financial hedged item. The introduction of Application Guidance was necessary due to the diversity of solutions being practiced in this regard. This amendment, which requires retrospective application, will be in effect for periods beginning on or after 1 July 2009, and will not affect the financial statements of the Group.

IFRIC 17 *„Distributions of Non-cash Assets to Owners"*
On 27 November 2008 the International Accounting Standards Board issued interpretation IFRIC 17 *„Distributions of Non-cash Assets to Owners"*. This interpretation is aimed at standardising practice in the accounting treatment of distribution of non-cash assets to owners. Until now existing standards did not address how an entity should measure and account for distributions of assets other than cash when it pays dividends to its owners. The interpretation provides guidance as to when a liability should be recognised, how it and any related assets should be measured and when to cease recognition of such assets and liabilities. It also explains the resulting consequences. The interpretation is effective for annual periods beginning on or after 1 July 2009 and will not affect the financial statements of the Group.

IFRS 1 *"First-time Adoption of IFRS"*
On 27 November 2008 the International Accounting Standards Board issued a revised version of IFRS 1 *First-time Adoption of IFRS*. No substantive changes have been introduced by this revision. The revision only updates the structure of the standard, and is aimed at improving its transparency. The revised standard is applicable for annual periods beginning on or after 1 July 2009.

IFRIC 18 *Transfers of Assets from Customers*

On 29 January 2009 the International Accounting Standards Board issued interpretation IFRIC 18 *Transfers of Assets from Customers*. This interpretation is aimed primarily at public utilities, as it clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services. This interpretation is applicable for assets received after 1 July 2009 for annual periods beginning on or after 1 November 2009. The interpretation will not affect the financial statements of the Group, as Group companies are not involved in activities which would involve it receiving property, plant, and equipment or cash for the construction of such assets from its customers.

Improvements to International Financial Reporting Standards 2009

In April 2009, as part of its annual review of the Standards, the International Accounting Standards Board published its "Improvements to IFRSs" 2009. This is a collection of amendments and explanations which, while necessary, are not so urgent or significant as to be the subject of separate projects. There are 12 amendments altogether, the majority of which are of an explanatory or terminological character. Each amendment introduced has a separate effective date, although most of the amendments are effective for annual periods beginning on or after 1 January 2010. The Group is considering the impact of the amendment to IAS 17 *Leasing on the financial statements*.

Amended IFRS 2 *"Group cash-settled share-based payment transactions"*
The amended IFRS 2 was published by the International Accounting Standards Board on 18 June 2009. The amendments to IFRS 2 relate to the method of accounting for goods and services purchased as part of a share-based payment transaction, and explain that the use of the term 'group' in IFRS 2 has the same meaning as in IAS 27. The changes in this Standard become effective for annual periods beginning on or after 1 January 2010 and will not have any effect on the financial statements of the Group.

IFRS 3 *"Business Combinations"*
The amended IFRS 3 was issued by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IFRS 3. Implementation of this standard is connected with the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. The Standard gives more detailed guidance for application of the purchase method for business combinations. The Standard becomes effective for annual periods beginning on or after 1 July 2009 and will be applied to the accounting for business combinations effected after this date.

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

IAS 27 *"Consolidated and Separate Financial Statements"*
The amended IAS 27 was published by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IAS 27. Implementation of this standard relates to the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. IAS 27 requires the recognition of changes in the share held in a subsidiary as an equity transaction. For this reason such a change does not affect goodwill, and there is no recognition of gains or losses. The amended standard also changes the manner of recognising losses incurred by a subsidiary, exceeding the value of the investment, as well as the manner of recognising loss of control over the subsidiary. The amended Standard becomes effective for annual periods beginning on or after 1 July 2009. As these changes are to be applied prospectively, they will affect future acquisitions and transactions with minority interest.

„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 affect the financial statements of the Group.

Amended IFRS 1 *First-time Adoption of IFRS*

On 23 July 2009 the International Accounting Standards Board published „Additional Exemptions for First-time Adopters of IFRS" as an amendment to IFRS 1 *„First-time Adoption of IFRS"*. This amendment does not introduce significant changes, its purpose being to provide additional exemptions to entities while transitioning to IFRS, with respect to exemption from a) retrospective application of IFRSs for oil and gas assets, and b) reassessment of existing leasing contracts in accordance with IFRIC 4, when the application of their national accounting requirements produced the same result. The amended standard will be effective for annual periods beginning on or after 1 January 2010, and will not have an impact on the financial statements of the Group.

Classifications of rights issues - an amendment to IAS 32 *Financial instruments: Presentation*

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

Amended 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 introduces a modified definition of related parties and introduces a partial exemption from the requirement to disclose information related to transactions between parties related to government bodies. The Group expects that, following the adoption of the amendment to this standard, while the scope of disclosures of transactions between companies related to the State Treasury will decrease, it will still be necessary to monitor these transactions. The amendment to this standard becomes effective for annual periods beginning on or after 1 January 2011.

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 replacing IAS 39 *Financial Instruments: Recognition and Measurement*. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories for their classification: (1) measurement at fair value, and (2) measurement at amortised cost. This classification, made at the time the financial asset is initially recognised, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets at the moment of initial recognition, in subsequent financial periods and with respect to the reclassification of these assets and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will affect the financial statements of the Group, in particular with respect to presentation. Due to the extended adoption period, it is not possible at the present time to assess the potential changes in value which could affect the statement of financial position, the statement of comprehensive income and the statement of changes in equity. Changes in value may arise from the measurement of equity instruments, which, due to the lack of an active market, the Group currently measures at cost, less any impairment losses. It is however expected that they will not have a significant impact on the financial statements of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

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

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

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. The amendments explain that such prepayments decrease the value of future contributions made to satisfy the said minimum funding requirements. The amendments become effective for annual periods beginning on or after 1 January 2011, and will not affect the financial statements of the Group.

Amended IFRS 1 *First-time Adoption of IFRS*

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

As at the date of publication of these financial statements, the European Union had not yet approved the following from amongst the above standards and interpretations: *Improvements to IFRS 2009*, Amended IFRS 2 *Group cash-settled share-based payment transactions, IFRS for Small and Medium-sized Entities,* Revised IFRS 1 *First-time Adoption of IFRS*, Revised IAS 24 *Related Party Disclosures,* IFRS 9 *Financial Instruments,* IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments, Prepayment of minimum funding requirements as an amendment to* IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, and Limited Exemption from Comparative* IFRS 7 *Disclosures for first-time adopters of IFRS as an amendment to* IFRS 1 *First-time Adoption of IFRS.*

2.2 Accounting policies

2.2.1 Property, plant and equipment

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

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

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

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.1 Property, plant and equipment (continuation)

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

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

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

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

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

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

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

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

Specialised spare parts with a significant initial cost and an anticipated useful life of more than 1 year are recognised as an item of property, plant and equipment. Spare parts and servicing 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 identifiable non-monetary assets without physical substance:
- development costs,
- goodwill,
- software,
- acquired concessions, patents, licenses,
- other intangible assets, and
- intangible assets not yet available for use (under construction).

Goodwill

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

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

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

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

Development costs

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.2 Intangible assets (continuation)

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

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

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

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

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

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

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

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

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

Other intangible assets

Other intangible assets are measured at cost at initial recognition.

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

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

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

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

Intangible assets (excluding goodwill and intangible assets not yet available for use) are amortised using the straight-line method over their anticipated useful lives, which are as follows for the specific types of intangible assets:
- Development costs – 5 – 15 years,
- Software – 2 – 8 years,
- Concessions, licenses and patents – 2 - 5 years,
- Other intangible assets, including rights to geological information – 50 years.

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

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

2.2.3 Investment property

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Investments in subsidiaries and associates

a) Subsidiaries

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

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

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

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

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

The Group treats transactions with minority interest as transactions with third parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in profit or loss. Purchases from minority interest give rise to goodwill, being the difference between any consideration paid and the Group's interest in the carrying amount of the net assets acquired.

b) Associates

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

These investments are initially recognised at cost. The Group's net investment in an associate includes goodwill, as set at the date of acquisition, less any accumulated impairment losses on investments.

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

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

2.2.5 Financial Instruments

2.2.5.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.1 Classification of financial instruments (continuation)

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

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

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

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

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

a) such classification eliminates or significantly reduces any inconsistency in respect of measurement or recognition (also defined as "an accounting mismatch"), that would otherwise arise from measuring assets or liabilities or recognising gains or losses using 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 derivative instruments, unless they have been designated as hedging instruments.

Assets and liabilities in this category are classified as current (current liabilities), if they are expected to be realised within 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. They arise when the Group transfers monetary resources, delivers goods or services directly to the client, and does not intend to classify these receivables to financial assets measured at fair value through profit or loss.

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

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

Held-to-maturity investments (HtM)

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

Available-for-sale financial assets (AfS)

Available-for-sale financial assets are non-derivative financial assets that are either designated as 'available-for-sale' or not classified to any of the other categories. This category primarily includes financial assets which do not have a fixed maturity date and which do not meet the criteria for being included in the category of financial assets measured at fair value through profit or loss, as well as financial assets which were acquired on a secondary market and which have a fixed maturity date, but which the Group does not intend and is not able to hold until maturity.

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

Other financial liabilities

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

Hedging instruments (HI)

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.2 Initial measurement and derecognition of financial instruments

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

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

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

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

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

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

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

Loans and receivables, held-to-maturity investments

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

Other financial liabilities

After initial recognition, the Group measures all financial liabilities, apart from those classified as at fair value through profit or loss, at amortised cost using the effective interest rate method, except for:
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.

If the transfer of financial assets does not qualify them for derecognition because the Group retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Group continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the Group recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability

- financial guarantee agreements, measured at the higher of:
    - the amount determined in accordance with note 2.2.15 Provisions, or
    - the amount initially recognised less cumulative amortisation recognised according to IAS 18 *Revenue.*

2.2.5.4 Fair value

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.4 Fair value (continuation)

Currency interest rates and currency volatility ratios obtained from Reuters are used. Forwards and swaps on copper market are priced based on the forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets, whereas the standard German-Kohlhagen model is used for European options pricing on currency markets.

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

The fair value of participation units held in open-end cash investment funds is determined based on the valuations quoted by those funds. The fair value of shares held in close-end investment funds is measured based on the analysis of information included in the financial statements of the funds.

The fair values of other financial instruments held by the Group are determined based on market prices or on valuation techniques which use as input data only observable market variables from active markets.

2.2.5.5 Impairment of financial assets

At the end of each reporting period an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the disappearance of an active market for a given financial instrument, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the prolonged decrease of the fair value of a financial instrument below its amortised 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 from equity to profit or loss as a reclassification adjustment. Impairment losses on equity instruments recognised in profit or loss are not reversed through profit or loss. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

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

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

2.2.5.6 Embedded derivatives

Initial recognition of derivatives

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.7 Hedge accounting

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

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

Derivatives used in cash flow hedges

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

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

Gains and losses arising from changes in the fair value of the hedging instrument in a cash flow hedge are recognised as 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.

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

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

Discontinuation of hedge accounting

Derivative instruments cease to be accounted for as hedging instruments when they expire or are sold, terminated or settled, or when the Group revokes its designation of a given instrument as a hedging instrument. The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated 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 gain or loss recognised in equity is immediately transferred to profit or loss.

2.2.6 Inventories

Inventories consist of the following items:
- materials,
- semi-products and work in progress,
- finished goods, and
- goods for resale.

Inventory additions are measured in accordance with the following principles:
- materials and goods for resale – at cost,
- finished goods, semi-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)

2.2.6 Inventories (continuation)

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

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

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

2.2.7 Trade and other receivables

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

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

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

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

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

Recognised as receivables are:

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

2.2.8 Cash and cash equivalents

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.10 Impairment of non-financial assets

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

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

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

Impairment losses are recognised in profit or loss.

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

2.2.11 Equity

Equity consists of:

1. Share capital.

2. Accumulated other comprehensive income, which consists of:
- accumulated income/costs from re-measurement set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge,
- accumulated income/costs from re-measurement to fair value of financial assets classified as available-for-sale, and
- the impact of income tax related to income/costs presented in other comprehensive income.

3. Retained earnings, composed of:
- undistributed profit or unabsorbed losses from previous years,
- reserve capital created in accordance with the Commercial Partnerships and Companies Code,
- reserve capital created and used in accordance with the Statutes,
- profit or loss for the period.

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

2.2.12 Liabilities

Liabilities are present obligations of the Group arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Liabilities comprise:
- liabilities arising from bank loans, other loans (borrowings) and finance lease liabilities,
- trade payables,
- other financial liabilities, and
- other non-financial liabilities.

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.13 Accrued expenses

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

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

2.2.14 Deferred income

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

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

2.2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Provisions are recognised, in particular, in respect of the following:
- future costs of mine decommissioning after the conclusion of mining activities, costs of decommissioning of technological facilities in the copper smelters and other facilities (jointly: decommissioning costs) 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 technological 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 external firms or within the Parent Entity. Provisions are reviewed at the end of the reporting period.

The amount of provisions set at 1 January 2004, i.e. at the transition date for application of IFRS for the purposes of preparing the 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.*

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

2.2.16 Employee benefits

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

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

Actuarial gains and losses increase or decrease costs 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.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.17 Income taxes (including deferred tax)

Income taxes in the income statement 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 tax 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 to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

Deferred tax assets and deferred tax liabilities are recognised irrespective of the period in which their realisation is to occur.
Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:
- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit. A deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax is recognised in the income statement for a given period, unless the deferred tax:
- arises from transactions or events which are directly recognised in accumulated other comprehensive income – in which case the deferred tax is also recognised in accumulated other comprehensive income, or
- arises from a business combination – in which case the deferred tax affects goodwill or the excess of interest in the fair value of net assets over the cost of acquisition.

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

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

Contingent liability is:

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

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,
- liabilities arising from implementation contracts, calculated based on future outcome, and
- other contingent liabilities arising from the contracts.

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

2.2.19 Statement of comprehensive income

The statement of comprehensive income is comprised of the income statement and other comprehensive income.

2.2.20 Income statement

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.21 Revenues

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

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

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

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

Moment of recognition of revenues
<u>Revenues from the sale of products, goods for resale and materials are recognised when:</u>

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods for resale, finished goods and materials,
- the Group has ceased to have a continued involvement in the management of goods for resale, finished goods and materials sold to the extent usually associated with inventories over which it has ownership rights, and no longer exercises effective control over those items,
- the amount of revenue can be measured in a reliable manner,
- it is probable that the economic benefits associated with the transaction will flow to the Group, and
- the costs incurred or to be incurred by the Group in respect of the transaction can be measured reliably.

<u>Revenues from the sale of services are recognised when:</u>

- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Group,
- the stage of completion of the transaction at the end of the reporting period can be measured reliably, and
- the costs connected with the transaction and the costs to complete the transaction can be measured reliably.

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

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

2.2.22 Costs

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.22 Costs (continuation)

Costs are accounted for both by type and by the cost centres, and are reported in the income statement using the costs by function (cost of sales) format as the primary cost reporting format.

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

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

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

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

Functional and presentation currency

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

Transactions and balances

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

At the end of each reporting period:
- foreign currency monetary items are translated at the closing rate prevailing on that date, i.e. the average exchange rate set for a given currency by the NBP,
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate (i.e. the average exchange rate set for a given currency by the NBP) prevailing on the transaction date, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate (i.e. the 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 re-measurement to fair value provided they do not represent the change in the fair value of the effective cash flow hedge or a hedge in a net investment in a foreign operation. In such a case they are recognised in equity, 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.

2.2.24 Borrowing costs

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.24 Borrowing costs (continuation)

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 Group would have drawn in its functional currency and the financing cost incurred in the foreign currency.

2.2.25 Leases

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

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

2.2.26 Government grants

Monetary grants for assets are presented in the statement of financial position as deferred income.

Grants are not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to them, and that the grants will be received.

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

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

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

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

2.2.27 Segment reporting

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

The Management Board of KGHM Polska Miedź S.A. is the main body responsible for making decisions as to the allocation of resources and for assessing segment results (the chief operating decision maker, or CDM). Management information provided to the CDM is prepared at the Parent Entity and entities of the Group level. Each of the identified operating segments in the Group represents a specific company and has a segment manager who is directly accountable to and maintains regular contact with the CDM to discuss the financial results, forecasts and plans related to the segment.
As a result of analysis of aggregation criteria and quantitative thresholds the following reporting segments have been identified: „The production of copper, precious metals and other smelter products" and a segment aggregating all of the remaining operating segments under the name „All other segments".

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.28 Emission rights

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

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

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

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

2.2.29 Earnings per share

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

2.2.30 Statement of cash flows

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

2.2.31 Capital management

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

In accordance with market practice, the effective use of capital is monitored among others on the basis of the following ratios:
1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
2. The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation.

2.2.32 Customer Loyalty Programmes

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

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

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

3. Important estimates

3.1 Classification and measurement of financial instruments

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

At the end of each reporting period the Group analyses significance of the impact of bifurcated embedded derivative instruments on the financial statements. Following this analysis, the Group determined that bifurcation of these instruments at 31 December 2009 will not have a significant impact on the financial statements.

3.2 Estimation of provisions

1. At 31 December 2009 the following was recognised:
   – in the Parent Entity, a provision for future employee benefits due to post-mortem benefits in the amount of PLN 25 508 thousand,
   – in subsidiaries, a provision for future employee benefits due to miners day payments for retirees in the amount of PLN 18 986 thousand.

The effects of estimation of the provision were recognised in the financial result as they are immaterial.
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% and an increase by 1% in the coal price and wages increase rate would cause an increase in the provision by PLN 8 871 thousand,
- a decrease in the discount rate by 1% and an increase by 1% in the coal price and wages increase rate would cause an increase in the provision by PLN 330 188 thousand,
- an increase in the discount rate by 1% and a decrease by 1% in the coal price and wages increase rate would cause a decrease in the provision by PLN 224 678 thousand,
- a decrease in the discount rate by 1% and a decrease by 1% in the coal price and wages increase rate would cause an increase in the provision by PLN 8 754 thousand.

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

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

a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
b) the real discount rate calculated based on the profitability of treasury bonds with maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation.

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

A 1% increase in the real discount rate used by the Management Board of the Parent Entity to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision for decommissioning costs of mines and other facilities by PLN 119 734 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 160 269 thousand.

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits described in note 24.

3.3 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 deferred tax assets is considered certain.

3.4 Presentation

The Group recognises income and costs related to financial investments under other operating activities in profit or loss on the grounds that these activities (in particular investments in the telecom sector) are connected with the operating activities of the Group. Detailed principles of recognition of income and costs have been described in Note 2 point 2.2.21 and 2.2.22.

3.5 Strategy of DIALOG S.A.

In the second half of 2009 the subsidiary DIALOG S.A. updated its strategy, based on which the projection of future financial results was reviewed. In consideration of the requirements of IAS 36, the Management Board performed an analysis of the projected financial results in terms of potential impairment of assets, and assessed that there were no indications of any need to perform a test for impairment and to estimate the recoverable value of assets of DIALOG S.A.

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

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, fully consolidated 30 subsidiaries in the current period.

Entity	Head office	Scope of activities	% of share capital held	% of voting rights held
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100
KGHM Ecoren S.A.	Lubin	production of other products from non-metallic mineral resources	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100
KGHM Kupferhandelsges m.b.H.	Vienna	copper trading	100	100
POL-MIEDŹ-TRANS Sp. z o.o.	Lubin	transportation services	100	100
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	65.67	65.67
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
DFM ZANAM - LEGMET Sp. z o.o.	Polkowice	repair and manufacture of machinery	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
Ecoren DKE spółka z o.o.	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics, finished and semi-finished products and services	97.52	97.52
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice	production of sheeting	84.37	84.37
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
WM "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	88.92	88.92
AVISTA MEDIA Sp. z o. o.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
"PETROTEL" sp. z o.o.	Płock	telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	99.99	99.99
"BIOWIND" sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
KGHM HMS Bergbau AG	Berlin	exploration and development of deposits of copper and other metals in Europe	74.9	74.9
FADROMA-SERWIS-REMONTY spółka z ograniczoną odpowiedzialnością	Wrocław	production, servicing and maintenance with respect to construction and mining machinery	98.05	98.05
WPEC w Legnicy SA	Legnica	generation, transfer and distribution of heat	85	85

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

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

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

On 5 January 2009 an agreement for the acquisition of the shares of the company „BIOWIND" sp. z o.o. with its registered head office in Gdańsk was entered into between „Energetyka" sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) and two physical persons.
Based on this agreement, „Energetyka" sp. z o.o. acquired 1000 shares with a nominal value of PLN 50 each, having a total nominal value of PLN 50 thousand, representing 100% of the shares of „BIOWIND" Sp. z o.o. and granting 100% of the votes at the General Shareholders' Meeting of „BIOWIND" Sp. z o.o.
The purchase price for the shares amounts to PLN 450 thousand. The shares were paid for in cash. The share capital of „BIOWIND" Sp. z o.o. amounts to PLN 50 thousand and is divided into 1000 shares with a nominal value of PLN 50 per share.
The total cost of acquisition of these shares was PLN 455 thousand. The acquisition of these assets was financed using the internal funds of „Energetyka" sp. z o.o. The net asset value of the company „BIOWIND" Sp. z o.o. is PLN 50 thousand. Goodwill was set at PLN 405 thousand. No assets were identified which were not accounted for in the statement of financial position.
The purchase of shares of „BIOWIND" Sp. z o.o., holding a lease on property (around 300 hectares) in the Warmińsko-Mazurskie Voivodeship, enables the commencement of formal procedures aimed at realising an investment related to the construction of a wind farm.
From the date of purchase to the end of the reporting period, „BIOWIND" Sp. z o.o. had not earned revenues, and had incurred a loss of PLN 32 thousand.

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

On 12 January 2009 DIALOG S.A. (a subsidiary of KGHM Polska Miedź S.A.) acquired from minority shareholders 2 009 shares of "PETROTEL" sp. z o.o. with a nominal value of PLN 1 000 per share, as a result of which the share of DIALOG S.A. in the share capital of "PETROTEL" sp. z o.o. increased to 99.56%. On 20 March 2009 DIALOG S.A. purchased a further 35 shares, and its share in the share capital of "PETROTEL" sp. z o.o. currently amounts to 99.99%. The total cost of acquisition of 24.93% of the shares of "PETROTEL" sp. z o.o. amounts to PLN 10 895 thousand. The equivalent value of net assets is PLN 10 796 thousand.
In 2009 final settlement of the acquisition of "PETROTEL" sp. z o.o. was made, excluding from goodwill the intangible assets representing the PETROTEL brand and the subscriber base measured at fair value of PLN 11 400 thousand. Including the deferred tax on the measurement of net assets to fair value, goodwill set provisionally was decreased by PLN 9 232 thousand, and at 31 December 2009 amounts to PLN 1 865 thousand.

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

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

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

On 25 March 2009 the Management Board of the company KGHM CONGO S.P.R.L. departed the territory of the Democratic Republic of Congo due to safety-related threats and the inability to carry out its business operations, abandoning the company's assets without any supervision.
Due to the loss of ability to direct the financial and operational policy of the company for the purpose of achieving benefits from its operations, the Management Board of the Parent Entity resolved to settle the losses recognised in the consolidated financial statements from the date of acquisition of KGHM CONGO S.P.R.L. to the date on which the Parent Entity ceased to control this entity as a profit/loss due to loss of control over a subsidiary.
As a result of settlement a gain was set due to loss of control in the amount of PLN 21 457 thousand. In addition, an allowance for impairment of receivables was recognised in the financial result in the amount of PLN 21 373 thousand due to unpaid liabilities of KGHM CONGO S.P.R.L. towards the Parent Entity.
On 28 December 2009 an application for the voluntary liquidation of KGHM CONGO S.P.R.L. was submitted to the Commercial Court in Lubumbashi, based on a Resolution of the Extraordinary General Shareholders' Meeting of KGHM CONGO S.P.R.L. dated 17 December 2009.

Founding of KGHM TFI S.A.

On 10 June 2009 KGHM Polska Miedź S.A. founded the company KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SPÓŁKA AKCYJNA (KGHM TFI S.A.), in which it acquired 100 % of the shares with a total nominal value of PLN 2 800 thousand, covered in cash. The issue price of the shares is equal to their nominal value. The company was registered in the Regional Court for Wrocław-Fabryczna in Wrocław, Section VI (Economic) of the National Court of Registration on 29 June 2009.

The subject of activities of KGHM TFI S.A. is the creation and management of investment funds and the management of financial instrument portfolios.
At 31 December 2009 KGHM TFI S.A. had no revenues from sales, incurred a loss of PLN 964 thousand, comprising mainly of administrative expenses.

On 2 February 2010, KGHM TFI S.A. issued 10 000 Investment Certificates, series A. Of this amount, 2 095 Certificates were acquired by KGHM Polska Miedź S.A at the price of PLN 10 thousand per Certificate. The total amount paid for the Investment Certificates increased by handling charges amounted to PLN 21 998 thousand.

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

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

Founding of KGHM HMS Bergbau AG

On 17 June 2009 an agreement was signed for the foundation of the company KGHM HMS Bergbau AG. Its founders are KGHM CUPRUM Sp. z o.o. – CBR (a 100 percent subsidiary of KGHM Polska Miedź S.A.), which acquired 74.9 percent of the share capital, and HMS Bergbau AG (the remaining 25.1 percent of the share capital). This entity was founded under German commercial law, and its registered head office is in Berlin.

KGHM HMS Bergbau AG was founded for the purpose of exploration and evaluation of deposits of copper and other metals in Europe. The first project to be pursued by the company will involve exploration within the territory of Saxony in Germany. The foundation of KGHM HMS Bergbau AG is related to realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018 which was approved in February 2009. With respect to that part of the Strategy involving development of the resource base, it assumes among others exploring for new deposits in the region.

The share capital of KGHM HMS Bergbau AG amounts to EUR 50 thousand, i.e. PLN 225 thousand. The cost of acquiring these shares was PLN 168 thousand. At the acquisition date minority interest amounted to PLN 57 thousand.

At 31 December 2009 KGHM HMS Bergbau AG had no revenues from sales, incurred a loss of PLN 77 thousand, comprising mainly administrative expenses.

Acquisition of FADROMA-SERWIS-REMONTY spółka z ograniczoną odpowiedzialnością

On 14 July 2009, the indirect subsidiary DFM ZANAM-LEGMET Sp. z o.o. acquired 600 shares of FADROMA S.R. SP. Z O.O. with its registered head office in Wrocław for the amount of PLN 825 thousand, representing 90.09% of the share capital of the acquired company.

On 16 October 2009, DFM ZANAM-LEGMET Sp. z o.o. acquired a further 53 shares of FADROMA S.R. SP. Z O.O. for the amount of PLN 73 thousand, representing 7.95% of the share capital.

The Group owns a total share of 98.05% in FADROMA S.R. SP. Z O.O.

The carrying amount of the net assets of FADROMA S.R. SP. Z O.O. at the date of acquisition totalled PLN 417 thousand. The total cost was PLN 898 thousand. Goodwill provisionally set amounts to PLN 481 thousand. At the date of acquisition minority interest amounted to PLN 11 thousand.

From the date of acquisition to 31 December 2009, FADROMA S.R. SP. Z O.O. generated revenues from sales in the amount of PLN 2 981 thousand and incurred a loss of PLN 92 thousand.

Acquisition of WPEC w Legnicy SA

On 29 December 2009, the subsidiary „Energetyka" sp. z o.o. acquired from the State Treasury 10 030 thousand ordinary registered shares of the company WPEC w Legnicy SA with a per-share face value of PLN 10 during the process of privatisation, representing 85% of the share capital of this company.

The cost of acquisition was PLN 202 621 thousand. The carrying amount of the net assets of WPEC w Legnicy SA amounted to PLN 117 367 thousand, of which the carrying amount of the net assets attributable to the Group amounted to PLN 99 762 thousand. Goodwill provisionally set amounts to PLN 102 859 thousand. At the date of acquisition minority interest amounted to PLN 17 605 thousand.

Acquired net assets at the date of acquisition:

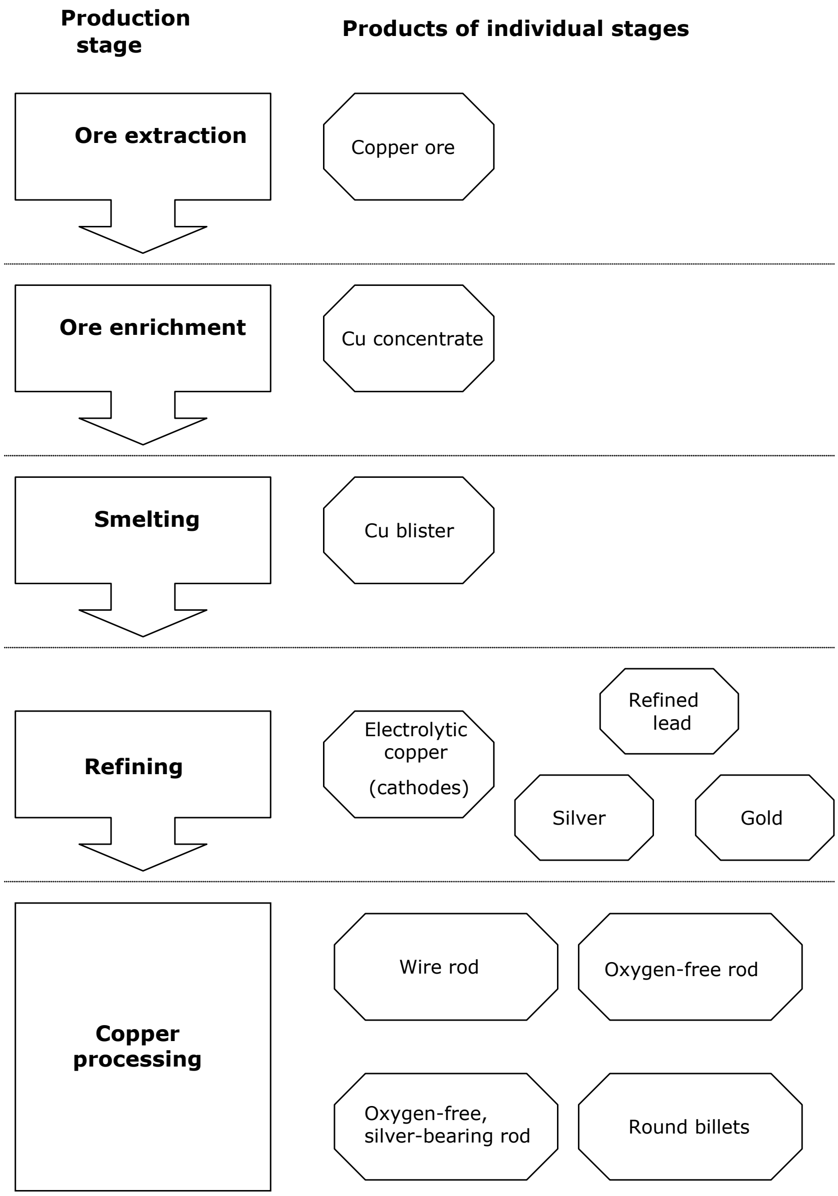
Intangible assets	4 893
Property, plant and equipment	71 555
Deferred tax assets	2 653
Non-current trade and other receivables	3 482
Inventories	16 116
Current trade and other receivables	32 089
Cash and cash equivalents	21 233
Total assets	**152 021**
Non-current trade and other payables	2 074
Current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

5. Information on business segments

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

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

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



5. Information on business segments (continuation)

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

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

All other segments

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

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

5. Information on business segments (continuation)

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

Segments financial results

	Financial period for the 12 months ended 31 December 2009				
	Copper and precious metals, other smelter products	**All other segments**	**Adjustment***	**Eliminations (according to IAS 27)**	**Consolidated amount**
REVENUE	11 060 540	4 644 518	6 532	(3 591 680)	**12 119 910**
of which:					
- external sales	10 380 929	1 735 939	6 532	(3 490)	**12 119 910**
- inter-segment sales	679 611	2 908 579	-	(3 588 190)	**-**
Interest income	82 487	11 808	-	(1 371)	**92 924**
Interest costs	(5 654)	(15 966)	-	780	**(20 840)**
Depreciation/Amortisation	(547 653)	(203 546)	(960)	8 369	**(743 790)**
Revaluation of provisions for employee benefits	(142 535)	(835)	-	(18 715)	**(162 085)**
Impairment losses on property, plant and equipment and intangible assets	(1 194)	(53 048)	-	10 007	**(44 235)**
Gains on measurement and realisation of derivative instruments	261 582	8 475	-	-	**270 057**
Losses on measurement and realisation of derivative instruments	(800 219)	(2 218)	-	-	**(802 437)**
Share of profit of associates	-	-	-	270 072	**270 072**
Profit before income tax	3 066 569	(35 758)	3 671	(130 331)	**2 904 151**
Income tax expense	(526 384)	(22 202)	304	3 301	**(544 981)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	(17 542)	17 542	-	**-**
Profit for the period	2 540 185	(75 502)	21 517	(127 030)	**2 359 170**
	At 31 December 2009				
Segment assets	13 953 030	3 582 630	(14 125)	(2 624 110)	**14 897 425**
Segment liabilities	3 549 073	1 141 693	7 558	(424 726)	**4 273 598**
Bank and other loans	3 005	374 585	-	(78 305)	**299 285**
Investments in associates	1 159 947	-	-	186 325	**1 346 272**
	Financial period for the 12 months ended 31 December 2009				
Capital expenditure	1 069 812	298 231	-	(6 384)	**1 361 659**

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

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

5. Information on business segments (continuation)

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

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

	Sales	**Depreciation /Amortisation**	**Profit before taxation**	**Income tax**	**Segment assets**	**Segment liabilities**
Netting off of Social Fund assets and liabilities	-	-	-	-	(7 357)	(7 357)
Offsetting of deferred tax assets/liabilities	-	-	-	-	(4 587)	(4 587)
Measurement of shares by equity method	-	-	838	-	(25 224)	-
Separate presentation of assets and liabilities for sales transaction from 2008	7 245	-	(111)	-	19 458	19 492
Receivables due to payments to capital	-	-	-	-	2 000	-
Capitalisation of major maintenance expenditures	-	(1 305)	(1 396)	265	-	-
Other	(713)	345	4 340	39	1 585	10
Total adjustment	**6 532**	**(960)**	**3 671**	**304**	**(14 125)**	**7 558**

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

5. Information on business segments (continuation)

	Financial period for the 12 months ended 31 December 2008				
	Copper and precious metals, other smelter products	**All other segments**	**Adjustment***	**Eliminations (according to IAS 27)**	**Consolidated amount**
REVENUE	11 302 913	5 708 411	(17 564)	(4 338 875)	**12 654 885**
of which:					
- external sales	9 907 890	2 752 915	(17 564)	11 644	**12 654 885**
- inter-segment sales	1 395 023	2 955 496	-	(4 350 519)	**-**
Interest income	123 388	16 244	-	9 167	**148 799**
Interest costs	(4 320)	(15 473)	-	695	**(19 098)**
Depreciation/Amortisation	(481 376)	(209 860)	(1 431)	11 300	**(681 367)**
Revaluation of provisions for employee benefits	(129 692)	(5 862)	-	11 725	**(123 829)**
Impairment losses on property, plant and equipment and intangible assets	(3 207)	(279 335)	-	-	**(282 542)**
Gains on measurement and realisation of derivative instruments	672 624	7 333	-	17 471	**697 428**
Losses on measurement and realisation of derivative instruments	(884 625)	(6 727)	-	-	**(891 352)**
Share of profit of associates	-	-	-	267 579	**267 579**
Profit before income tax	3 553 629	(254 123)	1 504	95 437	**3 396 447**
Income tax expense	(633 251)	5 149	(49)	(2 430)	**(630 581)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	(429)	429	-	**-**
Profit for the period	2 920 378	(249 403)	1 884	93 007	**2 765 866**
	At 31 December 2008				
Segment assets	13 900 564	3 323 755	(19 844)	(2 204 370)	**15 000 105**
Segment liabilities	3 309 272	1 063 274	17 842	(373 148)	**4 017 240**
Bank and other loans	7 012	263 051	-	(11 358)	**258 705**
Investments in associates	1 163 640	-	-	334 476	**1 498 116**
	Financial period for the 12 months ended 31 December 2008				
Capital expenditure	1 139 875	339 789	-	(36 352)	**1 443 312**

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

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

5. Information on business segments (continuation)

Details of adjustments restating the amounts shown in the segment „All other segments" to the measurement principles of International Financial Reporting Standards at 31 December 2008:

	Sales	Depreciation/ Amortisation	Profit before taxation	Income tax	Segment assets	Segment liabilities
Netting off of Social Fund assets and liabilities	-	-	-	-	(8 177)	(8 177)
Offsetting of deferred tax assets/ liabilities	-	-	-	-	(4 487)	(4 487)
Accounting for shares using the equity method	-	-	2 089	-	(49 327)	-
Separate presentation of assets and liabilities for sales transaction from 2008	(17 564)	-	-	-	30 674	30 597
Capitalisation of major maintenance expenditures	-	(1 735)	(1 738)	330	1 085	-
Perpetual usufruct of land	-	304	-	-	-	-
Receivables due to payment to capital	-	-	-	-	9 100	-
Other	-	-	1 153	(379)	1 288	(91)
Total adjustment	**(17 564)**	**(1 431)**	**1 504**	**(49)**	**(19 844)**	**17 842**

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

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

	For the period from 1 January 2009 to 31 December 2009	For the period from 1 January 2008 to 31 December 2008
Poland	3 374 311	4 484 809
Germany	2 053 935	1 398 163
France	752 682	809 686
Great Britain	1 298 036	955 703
Czech Republic	563 983	870 895
Austria	190 944	225 360
Hungary	240 215	176 711
China	1 674 758	1 264 189
Other countries	1 971 046	2 469 369
Total	**12 119 910**	**12 654 885**

Main customers

During the period from 1 January 2009 to 31 December 2009, the revenues from no customer exceeded 10% of the revenues of the Group.

However, during the period from 1 January 2008 to 31 December 2008, in the segment „Production of copper, precious metals and other smelter products" the revenues from sales from one customer exceeded 10% of the revenues of the Group and amounted to PLN 1 699 268 thousand.

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

6. Property, plant and equipment

	At 31 December 2009	At 31 December 2008
Land	22 447	19 465
Buildings and constructions	3 463 033	3 239 210
Technical equipment and machinery	2 929 881	2 504 965
Motor vehicles	174 752	139 915
Other fixed assets	61 766	60 924
Assets under construction	1 021 558	1 171 828
Total	**7 673 437**	**7 136 307**

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

	Note	Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
At 1 January 2009								
Gross carrying amount		19 465	7 414 901	6 492 150	353 364	162 900	1 202 236	15 645 016
Accumulated depreciation		-	(3 949 965)	(3 783 833)	(213 097)	(101 930)	-	(8 048 825)
Impairment losses		-	(225 726)	(203 352)	(352)	(46)	(30 408)	(459 884)
Net carrying amount		**19 465**	**3 239 210**	**2 504 965**	**139 915**	**60 924**	**1 171 828**	**7 136 307**
Changes in 2009								
Settlement of assets under construction		1 689	449 424	913 710	52 330	13 050	(1 430 203)	-
Settlement of assets under construction – other (leases, warehouse acceptance, without effect)		-	207	-	-	-	(3 263)	(3 056)
Direct purchases		1 319	93	14 900	2 078	2 862	1 284 985	1 306 237
Internally-produced		-	-	-	-	-	16 579	16 579
Reclassification from non-current assets classified as held for sale or included in a disposal group		-	-	-	1 546	-	-	1 546
Disposal		(6)	(1 365)	(9 908)	(13 285)	-	-	(24 564)
Donations and no-cost transfers		-	-	14	-	4	-	18
Scrapping/decommissioning or write-off		-	(49 161)	(316 269)	(5 426)	(7 913)	(174)	(378 943)
Reclassification to non-current assets classified as held for sale or inclusion in a disposal group		-	-	-	(876)	-	-	(876)
Gross carrying amount in a subsidiary at the date of obtaining control		52	53 096	17 162	1 136	371	1 515	73 332
Other changes		(72)	316	1 312	1 658	(2 897)	(1 549)	(1 232)
Change in amount of provisions for costs of decommissioning		-	(77 221)	-	-	-	-	(77 221)
Transfer between groups		-	(64)	(2 120)	2 177	7	-	-
Depreciation	28	-	(173 815)	(506 600)	(23 241)	(13 720)	-	(717 376)
Decrease in accumulated depreciation due to scrapping, sale and other		-	41 571	307 844	16 740	9 069	-	375 224
Impairment losses	28, 31	-	(18 996)	(1 811)	-	-	(21 151)	(41 958)
Reversal of impairment losses	28, 30	-	34	9	-	-	39	82
Utilisation of impairment losses		-	947	6 978	-	9	3 089	11 023
Impairment losses in a subsidiary at the date of obtaining control		-	(1 243)	(305)	-	-	(137)	(1 685)
At 31 December 2009								
Gross carrying amount		22 447	7 790 226	7 110 951	394 702	168 384	1 070 126	16 556 836
Accumulated depreciation		-	(4 082 209)	(3 982 589)	(219 598)	(106 581)	-	(8 390 977)
Impairment losses		-	(244 984)	(198 481)	(352)	(37)	(48 568)	(492 422)
Net carrying amount		**22 447**	**3 463 033**	**2 929 881**	**174 752**	**61 766**	**1 021 558**	**7 673 437**

In accordance with accounting policy, at the end of the reporting period the management boards of Group companies performed an analysis for the existence of impaired assets. During this work, evidence was identified in the company Zagłębie Lubin S.A. that the economic results achieved by the football stadium do not cover the expenses incurred until now on its construction. Due to the lack of a basis for performing a reliable estimate of the recoverable amount from the sale of this asset on an arm's length basis, the value in use of the asset was assumed as the recoverable amount for purposes of determining the amount of the impairment losses. Based on the discounted cash flows which may be expected from further use of the stadium, a discount rate of 11.74% was used to estimate the value in use of the stadium at PLN 59 289 thousand, and an impairment loss was recognised in the consolidated financial statements on the asset in the amount of PLN 37 593 thousand (the amount of the impairment loss after the consolidation adjustments in the Group), which decreased 2009 profit.

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

6. Property, plant and equipment (continuation)

The most important impairment losses in accumulated impairment losses in property, plant and equipment at 31 December 2009 (PLN 492 422 thousand), apart from the impairment losses made in 2009 in respect of the football stadium in the amount of PLN 37 593 thousand, are impairment losses made in the period 2005-2008 in the subsidiary DIALOG S.A. in the amount of PLN 449 451 thousand. As full technological use was not made of the existing network, and the level of cash flow generated was lower than expected, a test for impairment was performed. For calculation purposes it was assumed that all of the assets of DIALOG S.A. represent a single cash-generating unit. The recoverable amount of this cash-generating unit was determined based on calculations of value in use. The value in use of assets was determined based on cash flow forecasts for the period 2009-2015, assumed for the creation of the long term strategy, adjusted by flows related to future investments.

Changes in property, plant and equipment in the period from 1 January 2008 to 31 December 2008

	Note	Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
At 1 January 2008								
Gross carrying amount		20 237	7 212 489	6 144 468	335 503	151 155	749 273	14 613 125
Accumulated depreciation		-	(3 887 690)	(3 613 606)	(206 424)	(98 148)	-	(7 805 868)
Impairment losses		-	(116 525)	(55 385)	(23)	(13)	(20 959)	(192 905)
Net carrying amount		**20 237**	**3 208 274**	**2 475 477**	**129 056**	**52 994**	**728 314**	**6 614 352**
Changes in 2008								
Settlement of assets under construction		-	268 308	624 800	25 879	15 691	(934 678)	-
Settlement of assets under construction – other (leases, warehouse acceptance, without effect)		-	-	-	-	-	(3 212)	(3 212)
Direct purchases		-	1 063	18 643	2 344	5 968	1 371 533	1 399 551
Internally produced		-	-	-	-	-	14 751	14 751
Reclassification from non-current assets classified as held for sale or included in a disposal group		-	629	63	-	27	-	719
Disposal		(16)	(6 922)	(2 698)	(6 937)	(244)	-	(16 817)
Donations and no-cost transfers		-	-	3	-	68	-	71
Scrapping/decommissioning or write-off		-	(124 680)	(282 751)	(8 044)	(8 725)	(381)	(424 581)
Reclassification to non-current assets classified as held for sale or inclusion in a disposal group		(756)	(4 154)	(10 686)	(7 994)	(99)	-	(23 689)
Gross carrying amount in a subsidiary at the date of obtaining control		-	25 100	13 156	630	76	2 825	41 787
Other changes		-	(5 262)	(2 655)	11 983	(731)	2 125	5 460
Change in amount of provisions for costs of decommissioning		-	37 851	-	-	-	-	37 851
Transfer between groups		-	10 479	(10 193)	-	(286)	-	-
Depreciation	28	-	(171 905)	(446 881)	(24 865)	(12 306)	-	(655 957)
Decrease in accumulated depreciation due to scrapping, sale and other		-	109 630	276 654	18 192	8 524	-	413 000
Impairment losses	28, 31	-	(123 918)	(161 814)	(372)	(34)	(10 560)	(296 698)
Reversal of impairment losses	28, 30	-	14 023	-	-	-	166	14 189
Utilisation of impairment losses		-	694	13 847	43	1	945	15 530
At 31 December 2008								
Gross carrying amount		19 465	7 414 901	6 492 150	353 364	162 900	1 202 236	15 645 016
Accumulated depreciation		-	(3 949 965)	(3 783 833)	(213 097)	(101 930)	-	(8 048 825)
Impairment losses		-	(225 726)	(203 352)	(352)	(46)	(30 408)	(459 884)
Net carrying amount		**19 465**	**3 239 210**	**2 504 965**	**139 915**	**60 924**	**1 171 828**	**7 136 307**

Depreciation of property, plant and equipment used in production or in the provision of services was recognised in profit or loss as a cost of sales in the amount of PLN 686 683 thousand (at 31 December 2008, PLN 623 004 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 20 069 thousand (at 31 December 2008, PLN 21 963 thousand) and in selling costs in the amount of PLN 10 624 thousand (at 31 December 2008, PLN 10 990 thousand).

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

6. Property, plant and equipment (continuation)

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

	At					
	31 December 2009			31 December 2008		
Groups of property, plant and equipment	Initial cost– capitalised finance lease	Accumulated depreciation	Net carrying amount	Initial cost– capitalised finance lease	Accumulated depreciation	Net carrying amount
Technical equipment and machinery	6 811	1 182	5 629	773	87	686
Motor vehicles	27 107	2 911	24 196	17 323	1 477	15 846
Total	**33 918**	**4 093**	**29 825**	**18 096**	**1 564**	**16 532**

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

	At							
	31 December 2009				31 December 2008			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	3 926			3 926	2 349	-	-	2 349
Buildings and constructions	32 312	762	19 468	12 844	31 103	730	18 324	12 779
Technical equipment and machinery	28 415	1 731	13 023	15 392	26 085	1 420	11 388	14 697
Other property, plant and equipment	558	8	538	20	558	24	530	28
Total	**65 211**	**2 501**	**33 029**	**32 182**	**60 095**	**2 174**	**30 242**	**29 853**

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

Amount of compensation from parties external to the Group, recognised in profit or loss, with respect to property, plant and equipment which has been lost or impaired

	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Amount of compensation recognised in profit or loss	4 978	1 949

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

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

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

6. Property, plant and equipment (continuation)

Major investment projects recognised at 31 December 2008 under assets under construction

Construction of the SW-4 shaft	196 452
Głogów Głęboki – Przemysłowy deposit	194 386
Pyrometallurgy modernisation	101 418
Mining region infrastructural development	97 279
Modernisation of a stadium	74 457
Modernisation of a tailings hydrotransport installation including the direct pumping of tailings	47 338
Investments in power and communications facilities	47 149
Modernisation of sulphuric acid unit	39 520
Modernisation of steam and water boilers	33 162
Conveyor belt and pipeline transport investments	25 737
Installation for the incineration of production gases	21 756
Shafts and primary equipment	18 401
Total	**897 055**

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

	At	
	31 December 2009	**31 December 2008**
For the acquisition of property, plant and equipment	265 670	511 877
For the acquisition of intangible assets	17 399	17 141
Total capital commitments:	**283 069**	**529 018**

Perpetual usufruct of land

At 31 December 2009, the Group entities used land under perpetual usufruct rights comprising a total area of 6 091 ha (at 31 December 2008: 6 080 ha).

	At	
	31 December 2009	**31 December 2008**
	(ha)	**(ha)**
KGHM Polska Miedź S.A.	5 700	5 708
Subsidiaries of the Group	391	372

The Parent Entity and some Group companies received perpetual usufruct rights free of charge based on laws in force. The land held under perpetual usufruct comprises industrial terrain related to the principal activities of the Group, which also include protective zones in which environmental quality standards have been transgressed due to the activities carried out by the Group.
Due to the nature of the use of the above-mentioned land, the Parent Entity has not determined a fair value for these perpetual usufruct rights at 31 December 2009.

Total value of future minimum fees due to perpetual usufruct of land	At	
	31 December 2009	**31 December 2008**
Under one year	8 069	7 900
From one to five years	35 425	31 890
Over five years	507 218	484 438
Total:	**550 712**	**524 228**

Fees due to perpetual usufruct of land recognised in profit or loss	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Value of fees due to perpetual usufruct of land	8 042	7 717

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

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

7. Intangible assets

	At 31 December 2009	At 31 December 2008
Development costs	3 673	3 892
Goodwill	106 168	11 075
Software	22 086	23 796
Acquired concessions, patents, licenses	27 413	30 730
Other intangible assets	64 279	52 907
Intangible assets not yet available for use	44 576	29 181
Total	**268 195**	**151 581**

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

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use	Total
At 1 January 2009								
Gross carrying amount		19 535	11 477	88 702	70 452	58 803	29 975	278 944
Accumulated amortisation		(15 643)	-	(62 329)	(39 334)	(5 896)	-	(123 202)
Impairment losses		-	(402)	(2 577)	(388)	-	(794)	(4 161)
Net carrying amount		**3 892**	**11 075**	**23 796**	**30 730**	**52 907**	**29 181**	**151 581**
Changes in 2009								
Transfer from intangible assets not yet available for use		448	-	5 716	5 280	61	(11 505)	-
Internally produced		-						-
Direct purchases		-	-	784	1 481	937	32 490	35 692
Other changes		1 292	-	(251)	26	664	(5 597)	(3 866)
Disposals		-	-	(209)	-	(1 712)	-	(1 921)
Liquidation or write-off		(136)	-	(1 494)	(1 594)	(369)	-	(3 593)
Gross carrying amount in a subsidiary at the date of obtaining control		-	103 744	129	4	16 314	7	120 198
Gross carrying amount at the date of loss of control over a subsidiary		-	(6 292)		-	-	-	(6 292)
Amortisation	28	(1 959)	-	(8 529)	(9 987)	(5 939)	-	(26 414)
Decrease in accumulated amortisation due to liquidation, sale and other		136	-	1 991	1 438	1 577	-	5 142
Impairment losses	28	-	(2 359)	-	-	-	-	(2 359)
Utilisation of impairment losses		-	-	153	35	-	-	188
Impairment losses in a subsidiary at the date of obtaining control		-	-	-	-	(161)	-	(161)
At 31 December 2009								
Gross carrying amount		21 139	108 929	93 377	75 649	74 698	45 370	419 162
Accumulated amortisation		(17 466)	-	(68 867)	(47 883)	(10 258)	-	(144 474)
Impairment losses		-	(2 761)	(2 424)	(353)	(161)	(794)	(6 493)
Net carrying amount		**3 673**	**106 168**	**22 086**	**27 413**	**64 279**	**44 576**	**268 195**

At 31 December 2009, the most significant item of intangible assets of the KGHM Polska Miedź S.A. Group is the documentation of geological information on the "Głogów Głęboki" deposit, included under other intangible assets, with a carrying amount of PLN 28 735 thousand (at 31 December 2008: PLN 29 382 thousand) and the remaining amortisation period of 45 years, and the established mining rights for extracting copper ore from the "Głogów Głęboki Przemysłowy" deposit with a carrying amount of PLN 3 907 thousand (at 31 December 2008: PLN 3 994 thousand) and the remaining amortisation period of 46 years.

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

The amount of greenhouse gases emission allowances allocated in the National Plan for Allocating Proprietary Rights for each calendar year in the settlement period 2008-2012 amounts to 486 196 allowances. In 2009 the exploitation of installations caused the utilisation of 492 064.2 allowances (in 2008, 482 552.74 allowances). This exceeding of the limit by 5 868.20 allowances will be partially covered by the excess from 2008 in the amount of 4 624 allowances. The remaining deficit in the amount of 1 244.20 will be covered by allowances from the following year. The final settlement will be after balancing the years 2008-2009.

The amortisation of intangible assets utilised in the production or in the providing of services was recognised as a cost of sales in profit or loss in the amount of PLN 19 753 thousand (at 31 December 2008 in the amount of PLN 20 290 thousand). The amortisation of other intangible assets was recognised in administrative expenses: PLN 4 506 thousand (at 31 December 2008: PLN 3 126 thousand) and selling costs: PLN 2 155 thousand (at 31 December 2008: PLN 1 994 thousand).

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

7. Intangible assets (continuation)

Changes in intangible assets in the period from 1 January 2008 to 31 December 2008:

	Note	Development costs	Goodwill	Software	Acquired concessions, patents,	Other intangible assets	Intangible assets not yet available for	Total
At 1 January 2008								
Gross carrying amount		16 197	3 320	86 806	48 674	49 591	34 786	239 374
Accumulated amortisation		(14 776)	-	(61 444)	(32 017)	(7 396)	-	(115 633)
Impairment losses		(67)	(402)	(3 225)	-	-	(816)	(4 510)
Net carrying amount		**1 354**	**2 918**	**22 137**	**16 657**	**42 195**	**33 970**	**119 231**
Changes in 2008								
Transfer from intangible assets not yet available for use		4 003	-	6 235	11 486	-	(21 724)	-
Direct purchases		-	-	3 903	13 327	2 297	20 586	40 113
Other changes		(95)	-	(1 192)	927	10 349	(3 673)	6 316
Disposals		-	-	-	(5)	(982)	-	(987)
Liquidation or write-off		(570)	-	(7 497)	(4 294)	(2 452)	-	(14 813)
Gross carrying amount at the date of obtaining control over a subsidiary		-	8 157	447	337	-	-	8 941
Amortisation	28	(2 381)	-	(7 872)	(11 785)	(3 372)	-	(25 410)
Decrease in accumulated amortisation due to liquidation, sale and other		1 514	-	6 987	4 468	4 872	-	17 841
Impairment losses	28, 31	-	-	(90)	(392)	-	(29)	(511)
Reversal of impairment losses	28	67	-	411	-	-	-	478
Utilisation of impairment losses		-	-	327	4	-	51	382
At 31 December 2008								
Gross carrying amount		19 535	11 477	88 702	70 452	58 803	29 975	278 944
Accumulated amortisation		(15 643)	-	(62 329)	(39 334)	(5 896)	-	(123 202)
Impairment losses		-	(402)	(2 577)	(388)	-	(794)	(4 161)
Net carrying amount		**3 892**	**11 075**	**23 796**	**30 730**	**52 907**	**29 181**	**151 581**

8. Investment property

	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Beginning of financial period	**18 083**	**16 517**
Changes during the financial period	**(919)**	**1 566**
- re-measurement to fair value	(919)	1 566
End of financial period	**17 164**	**18 083**

At 31 December 2009, investment property with a value of PLN 17 164 thousand is based on the measurement carried out by a valuer at 31 December 2009.

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

9. Investments in associates

		For the period	
	Note	**from 1 January 2009 to 31 December 2009**	**from 1 January 2008 to 31 December 2008**
Beginning of financial period		**1 498 116**	**690 096**
Share of profits of associates	35	270 072	267 579
Changes in equity due to payment of dividend		(418 222)	(182 860)
Acquisition of shares in associates		-	726 391
Disposal of shares in associates		-	(3 090)
Adjustment to purchase cost for tax on civil-law transactions		(3 694)	-
End of financial period		**1 346 272**	**1 498 116**

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

9. Investments in associates (continuation)

In accordance with IAS 28, in 2009 during the 12 months from the transaction date (18 December 2008) final settlement was made in respect of the acquisition of 4.78% of the shares of Polkomtel S.A. Based on the financial projections of Polkomtel S.A. for the years 2009-2013 the fair value of net assets was estimated at the level of PLN 10 735 632 thousand. As a result of measurement, intangible assets were identified, representing the trademark valued at PLN 1 400 000 thousand and customer relationships at PLN 5 400 000 thousand, which caused an adjustment in goodwill set provisionally to the amount of PLN 212 921 thousand. From 1 January 2010 the value of the investment in this associate will be adjusted by amortisation of the customer relationships for a period of 14 years.
The results of measurement are presented in the following table.

Calculation of goodwill	share 100%	share 4.78%
Purchase price of the shares of Polkomtel S.A.	15 187 374	726 391
Acquired net assets per carrying amount	3 935 632	188 236
Goodwill - provisional calculation	**11 251 742**	**538 155**
Adjustment to fair value		
Value of customer relationships	5 400 000	258 274
Value of trademark	1 400 000	66 960
Fair value of acquired net assets	**10 735 632**	**513 470**
Goodwill from final settlement	**5 743 741**	**212 921**

Interests held by the Group in associates

At 31 December 2008 Polkomtel S.A. was an associate of the Group. During the year 2009 there were no changes with respect to associates.

Financial data of Polkomtel S.A.

		At	
	31 December 2009	**31 December 2008 ***	**31 December 2008**
% of share capital held	24.39	24.39	24.39
% of voting rights held	24.39	24.39	24.39
Total assets	8 410 779	8 675 647	8 913 880
Non-current liabilities	969 861	1 042 891	1 293 456
Current liabilities	4 112 669	3 697 124	3 684 792
Sales	7 881 712	8 328 875	8 482 085
Profit for the period	1 107 237	1 361 239	1 361 239

* the data restated for comparability

10. Available-for-sale financial assets

	Note	At	
		31 December 2009	**31 December 2008**
Non-current available-for-sale financial assets		**19 412**	**31 213**
- shares in unlisted companies		11 475	11 417
- shares in listed companies		-	8 525
- share in the AIG investment fund		7 930	11 264
- other		7	7
Current available-for-sale financial assets		**8 976**	**-**
- shares in listed companies		8 976	-
Total available-for-sale financial assets:	**33.1**	**28 388**	**31 213**

The shares of the subsidiary KGHM CONGO S.P.R.L., over which control was lost on 28 February 2009, were qualified as available-for-sale financial assets. The shares of KGHM CONGO S.P.R.L. were reclassified and measured at fair value in accordance with IAS 39, and at 31 December 2009 the fair value amounted to PLN 0.

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

11. Held-to-maturity investments

	Note	At	
		31 December 2009	**31 December 2008**
Non-current held-to-maturity investments		**67 144**	**59 592**
- monetary resources of Mine Closure Fund		67 097	59 545
- other securities		47	47
Current held-to-maturity investments		**580**	-
- monetary resources of Mine Closure Fund		580	-
Total held-to-maturity investments:	**33.1**	**67 724**	**59 592**

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

Management of the MCF assets primarily involves their investment in short-term 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. MCF assets at the end of the reporting period were invested in short-term bank deposit of PLN 67 677 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 in the amount of PLN 580 thousand, which the Parent Entity intends 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 will be utilised in future years, is presented in non-current held-to-maturity investments in the amount of PLN 67 097 thousand, 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 par 57 d.).

Information on the fair value of held-to-maturity investments was presented in Note 33.2.

12. Derivative financial instruments

	Note	At	
		31 December 2009	**31 December 2008**
Non-current assets, of which:		**58 034**	**6 501**
hedging instruments		57 636	6 501
trade instruments		398	-
Current assets, of which:		**263 375**	**711 127**
hedging instruments		244 869	711 096
trade instruments		18 506	31
Total assets:	**33.1**	**321 409**	**717 628**
Non-current liabilities, of which:		**61 354**	**-**
hedging instruments		54 867	-
trade instruments		6 487	-
Current liabilities, of which:		**273 717**	**4 930**
hedging instruments		76 772	-
trade instruments		196 945	4 930
Total liabilities:	**33.1**	**335 071**	**4 930**

12. Derivative financial instruments (continuation)

TRADE INSTRUMENTS			**At 31 December 2009**				**At 31 December 2008**			
	Volume/ Notional	**Avg. weighted price/ex. rate**[1)]	**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative instrument	Cu [‘000 t] Ag [‘000 troz] Currency ['000 USD, '000 EUR]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN] [EUR/PLN]	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts – Metals - Copper										
Swaps/Forwards										
Swaps/Forwards - purchase									(3 771)	
Options										
Sold call options	1.74	1			(30 514)	(6 089)				
Purchased put options	58.50	3 797.44	860	398						
Sold put options	58.50	3 797.44			(860)	(398)				
TOTAL:			**860**	**398**	**(31 374)**	**(6 487)**			**(3 771)**	
Derivatives – Currency contracts										
Forwards/Swaps										
Forwards/Swaps – purchase USD							31		(576)	
Forwards/Swaps – sold USD	2 200	2.7633			(214)					
Forwards/Swaps – sold EUR	4 127	4.1634	128						(583)	
Options USD										
Purchased call options	360 000	4.3685	493							
Sold call options	370 044*	4.2502			(28 592)					
Purchased put options	360 000*	3.2333	17 025							
Sold put options	360 000	3.2333			(136 765)					
TOTAL:			**17 646**		**(165 571)**		**31**		**(1 159)**	
Total trade instruments			**18 506**	**398**	**(196 945)**	**(6 487)**	**31**		**(4 930)**	

12. Derivative financial instruments (continuation)

HEDGING INSTRUMENTS							**At 31 December 2009**				**At 31 December 2008**			
	Volume/ Notional	**Avg. weighted price/ ex. rate[1)]**	**Maturity date**		**Period of profit/loss impact**		**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative instrument	Cu ['000 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	78	5 725	Jan 10	Dec 10	Feb 10	Jan 11	39 315	5 424			37 604			
Collars	78	5 875-8 000	Jan 10	June 11	Feb 10	July 11	18 797	48 847	(76 441)	(54 867)	554 031			
TOTAL:							**58 112**	**54 271**	**(76 441)**	**(54 867)**	**591 635**			
Derivatives – Commodity contracts - Metals - Silver														
Options														
Purchased put options	7 200	16	Jan 10	Dec 10	Feb 10	Jan 11	23 465	3 365			57 135	6 501		
TOTAL:							**23 465**	**3 365**			**57 135**	**6 501**		
Derivatives – Currency contracts - PLN/USD														
Options														
Purchased put options	600 000	2.65	Jan 10	Dec 10	Jan 10	Dec 10	43 552				62 326			
Collars	360 000*	3.2333-4.3685	Jan 10	Dec 10	Jan 10	Dec 10	119 740		(331)					
TOTAL:							**163 292**		**(331)**		**62 326**			
TOTAL HEDGING INSTRUMENTS							**244 869**	**57 636**	**(76 772)**	**(54 867)**	**711 096**	**6 501**		

*Due to the implementation and commencement by the Parent Entity in 2009 of the Trinity/HAT system supporting the process of market risk management and hedge accounting, the fair value of derivative transactions which underwent alteration, i.e. a change from hedging transactions to trade transactions, is divided between hedging transactions and trade transactions, proportionally to the period in which a given transaction functioned as a hedge (designated as a hedge in accordance with hedge accounting) and the period in which it functioned as a trade transaction. There was no change in the presentation of transactions whose status did not change from the date they were entered into. Consequently, in the tables presenting a detailed listing of positions in derivative instruments „Hedging instruments" and „Trade instruments" a portion of the fair value of derivative transactions included in the corridor structure, i.e. purchased put options and sold call options of a nominal USD 360 000 thousand, is presented both in hedging transactions as well as in trade transactions. The transactions described were not shown in the table illustrating the actual hedging position of the Parent Entity.

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

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

13. Trade and other receivables

		At	
	Note	**31 December 2009**	**31 December 2008**
Non-current trade and other receivables			
Trade receivables		16 565	13 468
Amount retained (collateral) due to long-term construction contracts		1 587	2 063
Deposits		23	15 405
Loans granted		2 624	2 624
Other financial receivables		1 261	1 373
Impairment allowances	34.3.6	(15 226)	(15 453)
Total loans and financial receivables, net:	**33.1**	**6 834**	**19 480**
Other non-financial receivables		11	171
Prepayments		3 741	3 123
Total non-financial receivables, net		**3 752**	**3 294**
Non-current trade and other receivables, net:		**10 586**	**22 774**
Current trade and other receivables			
Trade receivables		1 266 369	766 919
Receivables due to unsettled derivative instruments	34.1.8	-	287 146
Loans granted		2 033	907
Deposits of over 3 up to 12 months		45	-
Other financial receivables		25 463	43 712
Impairment allowances	34.3.6	(82 225)	(49 486)
Total loans and financial receivables, net	**33.1**	**1 211 685**	**1 049 198**
Other non-financial receivables, including:		346 782	462 878
- taxes and other charge		298 818	422 318
Prepayments		18 381	13 944
Impairment allowances		(45 507)	(56 061)
Total non-financial receivables, net		**319 656**	**420 761**
Current trade and other receivables, net		**1 531 341**	**1 469 959**
Total non-current and current trade and other receivables, net		**1 541 927**	**1 492 733**

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

13. Trade and other receivables (continuation)

Impairment allowances on non-financial receivables

	Note	For the period	
		from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Impairment allowances at the beginning of the period		**56 061**	**74 459**
Impairment allowances at the day of obtaining control over a subsidiary		12	-
Impairment allowances recognised in profit or loss	31	552	11 915
Impairment allowances reversed through profit or loss	30	(1 810)	(5 434)
Impairment allowances utilised during the period		(9 341)	(24 910)
Impairment allowances on costs of legal proceedings		124	35
Reversal of impairment allowances on costs of legal proceedings		(91)	(4)
Impairment allowances at the end of the period		**45 507**	**56 061**

14. Inventories

	Note	At	
		31 December 2009	**31 December 2008**
Materials		298 288	201 579
Semi-finished products and work in progress		1 456 411	1 091 714
Finished products		270 479	269 796
Goods for resale		47 256	45 280
Total carrying amount of inventories		**2 072 434**	**1 608 369**

		For the period	
Write-down of inventories in the financial period		**from 1 January 2009 to 31 December 2009**	**from 1 January 2008 to 31 December 2008**
Write-down of inventories recognised in cost of sales	28	(11 519)	(66 576)
Reversal of write-down recognised in cost of sales	28	1 886	1 518

In 2009 Group subsidiaries wrote down inventories in the amount of PLN 11 519 thousand relating to finished products and work in progress, whose net realisable value would be lower than their costs.

15. Cash and cash equivalents

	Note	At	
		31 December 2009	**31 December 2008**
Cash in hand		450	418
Cash at bank		41 582	202 613
Other cash		632	197
Other financial assets with a maturity of up to 3 months from the date of acquisition		1 154 413	1 862 535
Total cash and cash equivalents	**33.1**	**1 197 077**	**2 065 763**

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 1 153 051 thousand (as at 31 December 2008: PLN 1 858 673 thousand), and interest accrued on financial assets in the amount of PLN 1 362 thousand (as at 31 December 2008: PLN 3 862 thousand).

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

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

16. Non-current assets held for sale

	At	
	31 December 2009	**31 December 2008**
Property, plant and equipment	6 007	29 320
Intangible assets	667	667
Non-current assets held for sale	**6 674**	**29 987**

At 31 December 2009 non-current assets held for sale represent:
- two quartz mines, „Stanisław" and „Taczalin", and a quartz powder and crushed aggregate processing plant in the amount of PLN 6 450 thousand, whose activities have been discontinued (property, plant and equipment: PLN 5 783 thousand, intangible assets: PLN 667 thousand) (the activities related to the assets held for sale were discontinued in 2004, as well as the depreciation of these assets),
- an automobile, PLN 66 thousand,
- a helicopter, PLN 158 thousand.

17. Share capital

As at 31 December 2009, the Parent Entity's registered share capital, 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 ("A" series), fully paid, with a nominal value of PLN 10 each. All shares are bearer shares. The Parent Entity did not issue preference shares. Each share gives the right to one vote at the General Meeting. The Parent Entity does not have treasury shares. Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2009 and 31 December 2008 there were no changes in the registered share capital or in the number of shares.

<u>The shareholder structure at 31 December 2009</u>

shareholder	number of shares/votes	total nominal value of shares	percentage held in share capital/ total number of votes
State Treasury	83 589 900	835 899 000	41.79%
Other shareholders	116 410 100	1 164 101 000	58.21%
Total	200 000 000	2 000 000 000	100.00%

According to the best judgement of the Management Board of the Parent Entity, there were no changes in significant blocks of shares of KGHM Polska Miedź S.A. in the year ended 31 December 2009.

On 12 January 2010 the Parent Entity received an announcement from the Minister of the State Treasury on the sale by the State Treasury on 8 January 2010, on a regulated market, of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors.

<u>The shareholder structure at the date of preparation of these statements:</u>

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)

18. Accumulated other comprehensive income

	Note	Accumulated other comprehensive income due to: Available-for-sale financial assets	Cash flow hedging financial instruments	Total accumulated other comprehensive income
At 1 January 2009		**8 972**	**508 484**	**517 456**
Fair value losses on available-for-sale financial assets		(2 884)	-	(2 884)
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(7 500)	-	(7 500)
Impact of effective cash flow hedging transactions	34.1.9	-	(39 337)	(39 337)
Amount transferred to profit or loss due to the settlement of hedging instruments	34.1.9	-	(433 187)	(433 187)
Deferred income tax	23	1 973	89 780	91 753
Other comprehensive income		**(8 411)**	**(382 744)**	**(391 155)**
At 31 December 2009		**561**	**125 740**	**126 301**

	Note	Accumulated other comprehensive income due to: Available-for-sale financial assets	Cash flow hedging financial instruments	Total accumulated other comprehensive income
At 1 January 2008		**3 039**	**10 079**	**13 118**
Fair value gains on available-for-sale financial assets		7 169	-	7 169
Impact of effective cash flow hedging transactions entered into	34.1.9	-	1 197 853	1 197 853
Amount transferred to profit or loss due to the settlement of hedging instruments	34.1.9	-	(579 991)	(579 991)
Deferred income tax	23	(1 236)	(119 457)	(120 693)
Other comprehensive income		**5 933**	**498 405**	**504 338**
At 31 December 2008		**8 972**	**508 484**	**517 456**

Accumulated other comprehensive income is not subject to distribution.

Moreover, in the equity item: "Retained earnings", based on the Commercial Partnerships and Companies Code, joint stock companies in the Group are required to create reserve capital against any eventual future or existing losses, to which no less than 8 percent of a given financial year's profit is to be transferred until the capital has been built up to no less than one-third of the share capital. The reserve capital created in this manner is not subject to distribution otherwise than in covering the loss reported in the financial statements.
At 31 December 2009, the amount of this statutory reserve capital in the Group is PLN 682 533 thousand, of which PLN 660 000 thousand is in respect of the Parent Entity.

18.1 Accumulated other comprehensive income components

	At 31 December 2009		31 December 2008	
	Gross value	**Net value**	**Gross value**	**Net value**
Accumulated other comprehensive income due to available-for-sale financial assets	**694**	**561**	**11 077**	**8 972**
Fair value gains	694	561	12 672	10 365
Fair value losses	-	-	(1 595)	(1 393)
Accumulated other comprehensive income due to cash flow hedging instruments	**155 233**	**125 740**	**627 757**	**508 484**
Gains on measurement	155 233	125 740	627 757	508 484
Total accumulated other comprehensive income	**155 927**	**126 301**	**638 834**	**517 456**

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

19. Transactions with minority shareholders

In 2009 transactions with minority shareholders were as follows:
- a decrease in minority interest due to the additional acquisition of 24.93% of the share capital of "PETROTEL" sp. z o.o.,
- a decrease in minority interest due to the additional acquisition of 49.67% of the share capital of Ecoren DKE sp. z o.o.,
- an increase in minority interest due to the acquisition of 74.9% of the share capital of a newly-founded company – KGHM HMS Bergbau AG,
- an increase in minority interest due to the acquisition of 98.05% of the share capital of FADROMA S.R. SP. Z O.O.
- an increase in minority interest due to the acquisition of 85% of the share capital of WPEC w Legnicy SA

	For the period from 1 January 2009 to 31 December 2009				
Type of transaction	**Cost**	**Value of net assets as at acquisition date**	**Goodwill**	**Other operating costs**	**Transactions with minority shareholders**
Acquisition of shares of "PETROTEL" sp. z o.o.	43 772	41 907	1 865	-	(7 954)
Acquisition of shares of Ecoren DKE sp. z o.o.	2 829	1 314	-	1 515	(772)
Acquisition of shares of KGHM HMS Bergbau AG	168	168	-	-	57
Acquisition of shares of FADROMA S.R. SP. Z O.O.	898	417	481	-	11
Acquisition of shares of WPEC w Legnicy SA	202 621	99 762	102 859	-	17 605
Total	250 288	143 568	105 205	1 515	8 947

In 2008 transactions were carried out with minority shareholders through:
- a change in percentage ownership of the share capital of KGHM Letia S.A. due to an increase in share capital by PLN 7 428 thousand. The share of the Group in the share capital of KGHM Letia S.A. as a result of this transaction decreased by 9.5% in favour of minority shareholders.
- the acquisition by DIALOG S.A. of 75.06% of the shares of "PETROTEL" sp. z o.o. Minority interest at the acquisition date of 24.94% of the net assets of "PETROTEL" sp. z o.o. was set at PLN 8 213 thousand.

	For the period from 1 January 2008 to 31 December 2008				
Type of transaction	**Cost**	**Value of net assets as at acquisition date**	**Goodwill**	**Gains from disposal**	**Transactions with minority shareholders**
Increase in the share capital of KGHM Letia S.A.	4 448	7 428	-	67	2 913
Acquisition of shares of "PETROTEL" sp. z o.o.	32 877	32 933	8 157	-	8 213
Total	37 325	40 361	8 157	67	11 126

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

20. Trade and other payables

	Note	At 31 December 2009	At 31 December 2008
Non-current trade and other payables			
Trade payables		8 357	8 030
Payables due to purchase, construction of property, plant and equipment and intangible assets		1 866	10 912
Other financial liabilities		12 509	13 063
Total non-current financial liabilities (scope of IFRS 7)	**33.1**	**22 732**	**32 005**
Deferred income		13 250	12 284
Other non-financial liabilities		248	-
Total non-current non-financial liabilities		**13 498**	**12 284**
Total non-current trade and other payables		**36 230**	**44 289**
Current trade and other payables			
Trade payables		462 006	518 698
Payables due to purchase, construction of property, plant and equipment and intangible assets		157 722	247 887
Payables due to unsettled derivative financial instruments		30 611	35 395
Other financial liabilities		36 476	67 747
Total current financial liabilities (scope of IFRS 7)	**33.1**	**686 815**	**869 727**
Other financial liabilities (IAS 19 – Employee benefits)		150 181	156 960
Total current financial liabilities		**836 996**	**1 026 687**
Liabilities due to taxes and social security		258 135	264 678
Other non-financial liabilities		34 256	37 770
Special funds		85 324	74 034
Deferred income		21 134	24 426
Accruals		340 051	329 157
Total current non-financial liabilities		**738 900**	**730 065**
Total current trade and other payables		**1 575 896**	**1 756 752**
Total non-current and current trade and other payables		**1 612 126**	**1 801 041**

Trade payables are recognised in the statement of financial position at amortised cost, using the effective interest rate, with the proviso that current trade payables are not discounted. The carrying amount of current trade payables approximates their fair value.
Accruals consist mainly of one-off remuneration paid after the approval of the annual financial statements in the amount of PLN 272 976 thousand (PLN 250 629 thousand at 31 December 2008) and settlement of unused annual leave in the amount of PLN 22 262 thousand (PLN 23 211 thousand at 31 December 2008).

21. Borrowings and finance lease liabilities

	Note	At 31 December 2009	At 31 December 2008
Non-current borrowings and finance lease liabilities			
Bank loans		86 340	63 605
Loans		3 715	8 311
Finance lease liabilities		30 799	26 139
Total non-current borrowings and finance lease liabilities		**120 854**	**98 055**
Current borrowings and finance lease liabilities			
Bank loans		204 442	181 031
Loans		4 788	5 758
Finance lease liabilities		10 586	6 134
Total current borrowings and finance lease liabilities		**219 816**	**192 923**
Total borrowings and finance lease liabilities	**33.1**	**340 670**	**290 978**

21. Borrowings and finance lease liabilities (continuation)

21.1 Borrowings

Bank and other loans as at 31 December 2009

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

Bank and other loans as at 31 December 2008

Bank loan currency	Interest rate	The value of the bank and other loans the end of the reporting period (in '000)		Of which payable in:				
		in foreign currency	in PLN	2009 (current)	2010	2011	2012-2013	2014 and beyond
EUR	Variable	2 050	8 553	1 652	1 972	819	1 637	2 473
PLN	Variable		233 188	177 845	12 002	9 337	16 956	17 048
PLN	Fixed		16 964	7 292	6 253	1 941	1 432	46
Total bank and other loans			**258 705**	**186 789**	**20 227**	**12 097**	**20 025**	**19 567**

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

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

Ratio (%)	**31 December 2009**	**31 December 2008**
WIBOR 1W	3.5600	5.4600
WIBOR 1M	3.7600	5.6100
WIBOR 3M	4.2700	5.8800
EURIBOR 1M	0.4530	2.6030
EURIBOR 3M	0.7000	2.8920

The major item in borrowings is the bank loan drawn by the subsidiary DIALOG S.A. in the amount of PLN 100 034 thousand at 31 December 2009 (PLN 130 652 thousand at 31 December 2008 respectively). The bank loan agreement sets out the additional covenants which must be met by the company over the term of the loan, including the following:

- ensuring maintenance of defined financial indicators at set levels during the period of loan term (Financial Debt to EBITDA Ratio not higher than 2.50 : 1, a Debt Service Coverage Ratio not lower than 1.1 : 1, Equity not lower than PLN 700 000 thousand, a Loan Collateral Ratio not lower than 1.5 : 1);
- the requirement to set additional loan security in case the terms of the contract are breached;

Based on the contracts signed, the total value of overdraft facilities granted at 31 December 2009 amounted to PLN 135 100 thousand (at 31 December 2008 PLN 103 100 thousand), of which PLN 45 579 thousand was utilised at 31 December 2009 (at 31 December 2008 PLN 28 580 thousand).

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

21. Borrowings and finance lease liabilities (continuation)

21.2 Finance lease liabilities

As at 31 December 2009, the carrying amount of the finance lease liabilities amounted to PLN 41 385 thousand (at 31 December 2008: PLN 32 273 thousand, respectively).
The most significant item is the commitment resulting from an agreement with the State Treasury. Based on this agreement the State Treasury provides access to geological information for a fee. This information was acquired with the purpose of preparing a licensing application to obtain a license for the extraction of ore from the Głogów Głęboki - Przemysłowy deposit. This license was granted in November 2004. Payments to the State Treasury are being made in 10 equal instalments. The last instalment will be settled on 30 June 2014. Those non interest-bearing liabilities were recognised in the accounts of the Parent Entity at a discounted amount. As the payments are in EUR, the liability is exposed to currency risk due to changes in foreign exchange rates at the date of payment. The carrying amount of the liabilities resulting from this agreement is PLN 14 368 thousand (EUR 3 700 thousand) (at 31 December 2008: PLN 16 903 thousand (EUR 4 051 thousand)), while the carrying amount of the related intangible assets at the end of the reporting period amounts to PLN 28 735 thousand (at 31 December 2008: PLN 29 382 thousand).

Finance lease liabilities as at 31 December 2009

	2010 (current)	2011	2012	2013-2014	2015 and beyond	Total
Nominal value of minimum lease payments	**11 703**	**10 570**	**10 302**	**12 364**	**-**	**44 939**
Future finance costs due to finance leases	1 117	886	659	892	-	3 554
Present value of minimum lease payments	**10 586**	**9 684**	**9 643**	**11 472**	**-**	**41 385**

Finance lease liabilities as at 31 December 2008

	2009 (current)	2010	2011	2012-2013	2014 and beyond	Total
Nominal value of minimum lease payments	**7 177**	**7 014**	**7 476**	**11 803**	**3 088**	**36 558**
Future finance costs due to finance leases	1 043	894	751	1 083	514	4 285
Present value of minimum lease payments	**6 134**	**6 120**	**6 725**	**10 720**	**2 574**	**32 273**

22. Collateral for the repayment of liabilities

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

- proxy rights to all present and future bank accounts of the borrowers,
- transfer of receivables due to an existing insurance contract and future contracts, a financial pledge on certain bank accounts up to PLN 165 000 thousand, a registered pledge on aggregate movable assets and property rights to PLN 165 000 thousand,
- contractual mortgage on properties up to PLN 35 094 thousand,
- mortgages to the total amount of PLN 236 031 thousand,
- contractual mortgage on investment properties of PLN 30 000 thousand,
- blank promissory notes with a declaration of rights thereunder up to PLN 149 346 thousand,
- statement on submitting to the enforcement regime,
- assignment of rights under insurance policies,
- assignment of receivables up to PLN 116 329 thousand,
- registered pledge on technical equipment and machinery, with assignment of rights under insurance policies on these machines and equipment up to PLN 21 735 thousand,
- registered pledge and agreements for ownership transfer on inventories of finished products, semi-finished products, goods for resale and materials up to PLN 66 000 thousand,
- ownership transfer on tangible assets up to PLN 16 906 thousand,
- assignment of rights under movable assets insurance agreement (assignment of rights under insurance policy against fire and other accidents for PLN 15 600 thousand and an insurance policy against theft with breaking, entering and robbery, PLN 150 thousand),
- proxy rights for the Bank to discharge liabilities to the Bank from funds in the current account and other accounts kept by the Bank.

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

22. Collateral for the repayment of liabilities (continuation)

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

	At	
	31 December 2009	**31 December 2008**
Property, plant and equipment, including:	377 898	101 191
• Assets under construction (incl. those under a mortgage)	-	11 203
• Buildings and constructions	268 964	57 892
• Motor vehicles[1)]	24 971	19 689
• Technical equipment and machinery[1)]	83 963	12 407
Intangible assets	969	-
Investment property	17 163	-
Inventories	39 213	23 594
Trade receivables[2)]	11 851	6 440
Cash and cash equivalents	473	60 092
Total carrying amount of assets for which collateral was established to guarantee repayment of financial liabilities	**447 567**	**191 317**

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

23. Deferred tax

		At	
	Note	**31 December 2009**	**31 December 2008**
Net deferred tax assets at the beginning of the financial period, of which:		**120 810**	**290 702**
Deferred tax assets at the beginning of the financial period		**188 992**	**320 506**
Deferred tax liabilities at the beginning of the financial period		**68 182**	**29 804**
Credited/(Charged) to profit or loss	36	92 555	(50 156)
Increase/(decrease) in equity	18	91 753	(120 693)
Deferred tax assets at the date of acquisition of shares in a subsidiary		492	957
Net deferred tax assets at the end of the financial period, of which:		**305 610**	**120 810**
Deferred tax assets at the end of the financial period		**347 395**	**188 992**
Deferred tax liabilities at the end of the financial period		**41 785**	**68 182**

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

23. Deferred tax (continuation)

Deferred tax assets prior to offsetting

	At 1 January 2009 based on the rate of 19%	**Increase due to obtaining control of a subsidiary**	**Credited/(Charged) to profit or loss due to a change in the balance of temporary differences and tax loss**	**Increase/ (Decrease) in equity due to change in the balance of temporary differences**	**At 31 December 2009 based on the rate of 19%**
Exchange rate differences	94	-	(67)	-	27
Interest	140	-	(104)	-	36
Allowances for impairment of receivables	13 072	402	(116)	-	13 358
Short-term accruals for wages	54 593	-	(1 281)	-	53 312
Employee benefits (holidays)	4 715	1	(593)	-	4 123
Provision for decommissioning of mines and other facilities	117 381	-	(17 836)	-	99 545
Measurement of forward transactions	38 249	-	136 081	-	174 330
Re-measurement of hedging instruments	1 660	-	(1 619)	-	41
Depreciation and amortisation	137 438	-	(6 706)	-	130 732
Liabilities due to future employee benefits	212 132	867	30 589	-	243 588
Unpaid wages with surcharges	53 584	-	(41 361)	-	12 223
Measurement of available-for-sale financial assets	303	-	-	(85)	218
Other	87 458	1 791	(3 296)	-	85 953
Total	**720 819**	**3 061**	**93 691**	**(85)**	**817 486**

	At 1 January 2008 based on the rate of 19%	**Increase due to obtaining control of a subsidiary**	**Credited/(Charged) to profit or loss due to a change in the balance of temporary differences and tax loss**	**Increase/ (Decrease) in equity due to change in the balance of temporary differences**	**At 31 December 2008 based on the rate of 19%**
Exchange rate differences	3 795	-	(3 701)	-	94
Interest	232	2	(94)	-	140
Allowances for impairment of receivables	18 900	217	(6 045)	-	13 072
Short-term accruals for wages	58 061	269	(3 737)	-	54 593
Employee benefits (holidays)	4 350	31	334	-	4 715
Provision for decommissioning of mines and other facilities	104 630	-	12 751	-	117 381
Measurement of forward transactions	61 382	-	(23 133)	-	38 249
Re-measurement of hedging instruments	9 881	-	(8 038)	(183)	1 660
Depreciation and amortisation	104 594	8	32 836	-	137 438
Liabilities due to future employee benefits	188 294	342	23 496	-	212 132
Unpaid wages with surcharges	57 165	150	(3 731)	-	53 584
Measurement of available-for-sale financial assets	-	-	-	303	303
Other	87 778	185	(505)	-	87 458
Total	**699 062**	**1 204**	**20 433**	**120**	**720 819**

The amount of deductible temporary differences and unused tax losses in respect of which the Group did not recognise deferred tax assets (due to the remote possibility of their being settled in future years) amounts to PLN 250 583 thousand (at 31 December 2008: PLN 176 507 thousand).

Tax losses which may be settled in future periods by reducing taxable profit amount to PLN 225 827 thousand (at 31 December 2008: PLN 161 561 thousand). These losses expire as follows:

	At	
Expiration year of tax losses	**31 December 2009**	**31 December 2008**
2009	-	2 549
2010	779	-
2011	24 720	950
2012	79 483	49 649
2013	87 890	108 413
2014	32 955	-
	225 827	**161 561**

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

23. Deferred tax (continuation)

The Group created deferred tax assets whose realisation depend on the future generation of taxable profit in the amount exceeding gains arising from the reversal of taxable temporary differences in the amount of PLN 17 000 thousand (at 31 December 2008: PLN 13 661 thousand). The recognition of deferred tax assets was based on current, approved financial plans and on the current activities of the Group.

Deferred tax liabilities prior to offsetting

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

	At 1 January 2008 based on the rate of 19%	Increase due to obtaining control of a subsidiary	(Credited)/Charged to profit or loss due to a change in the balance of temporary differences	(Increase)/ Decrease in equity due to change in the balance of temporary differences	At 31 December 2008 based on the rate of 19%
Exchange rate differences	1 686	-	(1 366)	-	320
Interest	3 223	2	(1 837)	-	1 388
Measurement of forward transactions	9 556	-	49 942	-	59 498
Re-measurement of hedging instruments	34	-	(34)	119 274	119 274
Depreciation/amortisation	332 179	-	30 549	-	362 728
Measurement of available-for-sale financial assets	869	-	-	1 539	2 408
Other	60 813	245	(6 665)	-	54 393
Total	**408 360**	**247**	**70 589**	**120 813**	**600 009**

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

24. Employee benefits

A general description of the employee benefit plans is included in note 2, Main accounting policies, point 2.2.16.

Change in liabilities due to future employee benefits

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

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent
Present value of obligations - at 1 January 2008	**1 008 286**	**297 370**	**203 840**	**507 076**
Interest costs	54 919	16 030	11 134	27 755
Current service cost	41 330	18 798	11 928	10 604
Benefits paid	(83 066)	(39 445)	(17 522)	(26 099)
Actuarial losses/(gains)	115 787	4 107	(4 053)	115 733
Gains due to limitation of the employee benefit plans	(6 827)	(4 070)	(2 757)	-
Liabilities due to business combination	1 800	1 378	422	-
Present value of obligations - at 31 December 2008	**1 132 229**	**294 168**	**202 992**	**635 069**
Past service cost unrecognised at the end of the reporting period	(9 275)	-	(9 275)	-
Carrying amount of liabilities - at 31 December 2008	**1 122 954**	**294 168**	**193 717**	**635 069**
of which:				
Carrying amount of non-current liabilities	1 039 423	259 521	174 684	605 218
Carrying amount of current liabilities	83 531	34 647	19 033	29 851

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

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

24. Employee benefits (continuation)

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

	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Interest costs	62 216	54 919
Current service cost	58 989	41 330
Actuarial losses	132 383	115 787
Gains due to limitation of the employee benefit plans	(640)	(6 827)
Past service cost	1 936	1 686
Total costs recognised in profit or loss	**254 884**	**206 895**

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

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

Main actuarial assumptions:	**2010**	**2011**	**2012**	**2013**	**2014 and beyond**
- discount rate	5.60%	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 wage	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 wages	7.00%	4.00%	4.00%	4.00%	4.00%

* Divisions of KGHM Polska Miedź S.A. as separate employers assumed the rate of increase in coal prices at the level of 6% or 15%

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

25. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2009		**663 203**	**603 339**	**6 208**	**24 989**	**28 667**
Provisions recognised		17 246	3 986	-	3 791	9 469
Changes arising from changes in provisions after updating of estimates		(108 826)	(109 084)	-	-	258
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect)	32	29 716	29 171	86	-	459
Utilisation of provisions		(10 986)	(2 789)	(7)	(2 243)	(5 947)
Release of provisions		(13 155)	(808)	(980)	(4 023)	(7 344)
Transfer to Mine Closure Fund		(17 508)	(17 508)	-	-	-
Other		15 098	5 077	-	1 610	8 411
Provisions at 31 December 2009		**574 788**	**511 384**	**5 307**	**24 124**	**33 973**
of which:						
Non-current provisions		**527 421**	**501 861**	**-**	**8 239**	**17 321**
Current provisions		**47 367**	**9 523**	**5 307**	**15 885**	**16 652**

	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2008		**666 583**	**550 658**	**4 810**	**19 611**	**91 504**
Provisions recognised		23 156	191	1 173	13 476	8 316
Changes arising from changes in provisions after updating of estimates		42 767	39 469	(22)	-	3 320
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect)	32	38 091	37 289	217	-	585
Utilisation of provisions		(46 702)	(9 687)	-	(1 537)	(35 478)
Release of provisions		(22 425)	(230)	(38)	(13 344)	(8 813)
Transfer to Mine Closure Fund		(14 351)	(14 351)	-	-	-
Provisions due to business combination		68	-	68	-	-
Other		(23 984)	-	-	6 783	(30 767)
Provisions at 31 December 2008		**663 203**	**603 339**	**6 208**	**24 989**	**28 667**
of which:						
Non-current provisions		**599 315**	**574 235**	**2 467**	**7 921**	**14 692**
Current provisions		**63 888**	**29 104**	**3 741**	**17 068**	**13 975**

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

The most significant item of provisions for other liabilities is the **provision for the costs of future decommissioning (liquidation) of mines and other technological facilities** with the carrying value of PLN 511 384 thousand (as at 31 December 2008: PLN 603 339 thousand), created in accordance with the methodology defined in the International Financial Reporting Standards. The decrease in the provision in 2009 was mainly caused by the change in forecast discount rates, and in particular long-term inflation. The change in the value of the provision was also affected to a significant degree by the updated (end-2009) estimate of the costs of liquidation of technological facilities, reflecting changes in the schedule of mining of the deposit and the actual costs incurred with respect to liquidation of the closed Polkowice Wschodnie region.

The programme and schedule of decommissioning of other technological facilities and estimates of decommissioning costs have been worked on since 2001 by the subsidiary, KGHM CUPRUM Sp. z o.o. - CBR. Revaluations of the basic decommissioning costs originally calculated in 2001 are made periodically based on the changes of the price index for the construction–assembly industry, which are published by the Central Statistical Office, taking into account movements in tangible fixed assets.

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

25. Provisions for other liabilities and charges (continuation)

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

The largest facility earmarked for decommissioning (restoration), which at the same time accounts for the largest share in the costs of decommissioning of all technological facilities, is the "Żelazny Most" tailings pond, together with the hydro-transportation network and cubage hydro-technical facilities. The "Żelazny Most" tailings pond is a hydro-technical facility, formed from a raised earthen embankment on lowered terrain. At the same time, it serves as the central water management facility. The area and type of this tailings pond requires (apart from restoration activities carried out on a regular basis in the form of shaping of the slope of the reservoir using a biological coat) several stages of site restoration and development. This is also due to the main underlying assumption that the "Żelazny Most" tailings pond will be operational until the last working day of the mines and enrichment plants. During the final stage of operating this tailings pond, transfer to the method of a centralised waste dump from the currently-used circumferential one would be required in order to fill in the reservoir and create the coarse-grained layer for restoration of the inside of the tailings pond. After the "Żelazny Most" tailings pond has ceased being operational, during the course of mine liquidation, the discharge of mine waters will be carried out excepting this tailings pond. According to the current plan, preparatory works for the tailings pond's liquidation and its partial restoration will commence in 2025 and will last until 2037. In 2038, the main stage of the tailings pond's liquidation will commence and is expected to be completed in 2047. In the meantime, i.e. from the year 2025 to 2040, pipelines and accompanying cubage hydro-technical facilities will be decommissioned. The decommissioning will be carried out by way of dismantling, scrap recovery and utilisation of concrete elements, which, after crumbling, will be used as foundation for hardening. As regards the surface of the "Żelazny Most" tailings pond, application of the non-soil restoration method was adopted as a possible and reasonable solution. It is planned that trees will be planted on the whole area of the waste storage yard as it is done for protective greenery, after prior preparation of the surface of the tailings pond. It is also assumed that selected types of grass and mixes thereof will be used for land restoration purposes, together with mineral additives to improve the ground, as well as special techniques of cultivation and fertilization. The above site restoration method is comparable to those used in EU countries. The decommissioning project assumes a 10-year monitoring period for the facility.

The Parent Entity's method of estimating the required decommissioning provision is based on the prudence concept. The amount of the provision recognised in the statement of financial position is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value. The amount of the provision is revalued by the Parent Entity at the end of each quarter by applying in the discounting model the ratios described in Note 3.2.

The balance of the decommissioning provision is adjusted for the amount transferred to the mine closure fund, which has been created based on article 26c of the act dated 27 July 2001 amending the act – Geological and Mining Law, Journal of Laws No. 110, item 1190, and calculated in accordance with principles set forth in the Decree of the Minister of the Economy dated 24 June 2002 concerning detailed principles for creation and functioning of mine closure funds, i.e. 3% of the amount of depreciation of the mines' fixed assets for each year. Cash transfers made to the Mine Closure Fund are invested by the Parent Entity in secure short-term securities or short-term deposits. Income from these investments increases the Fund's balance, and the Parent Entity does not charge any fee for this cash management.

It is expected that decommissioning costs will be incurred by the year 2047. The provision was estimated based on the currently-used technology for decommissioning of mining facilities and using the current prices and the discount rate as in the model for provisions for future employee benefits (Note 24).

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

25. Provisions for other liabilities and charges (continuation)

Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other facilities at 31 December 2009

Division	Facility	
Tailings Plant	"Żelazny Most" tailings pond	87 252
Tailings Plant	Other waste storage areas	43 003
Rudna Mine	Central part of Rudna Mine (shafts: RI, RII, RV)	38 917
Ore Enrichment Plant	Rudna OEP	37 435
Ore Enrichment Plant	Polkowice OEP	36 479
Polkowice-Sieroszowice Mine	PZ – (shafts: PI, PII)	29 938
Ore Enrichment Plant	Lubin OEP	29 340
Lubin Mine	R6 - Central (shafts: LI, LII)	25 561
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	24 148
Lubin Mine	R1 – Western – Central (LIV,LV)	22 800

Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other facilities at 31 December 2008

Division	Facility	
Tailings Plant	"Żelazny Most" tailings pond	118 755
Ore Enrichment Plant	Rudna OEP	55 889
Tailings Plant	Other waste storage areas	46 859
Ore Enrichment Plant	Polkowice OEP	46 036
Rudna Mine	Central part of Rudna Mine (shafts: RI, RII, RV)	44 006
Ore Enrichment Plant	Lubin OEP	36 253
Tailings Plant	Pipelines and technological facilities	28 627
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	25 867
Lubin Mine	R6 - Central (shafts: LI, LII)	20 245
Lubin Mine	R1 – Western – Central (LIV,LV)	17 061

Provisions for disputed issues and court proceedings represent a less significant item of provisions. They mainly relate to:
- proceedings in a dispute concerning the payment of damages for breach of contract for delivery of equipment and services of PLN 7 795 thousand (at 31 December 2008: PLN 7 795 thousand),
- questioning of the amount of social insurance premiums as a result of the control by Social Insurance Institution (ZUS) for prior years in the amount of PLN 12 212 thousand (at 31 December 2008: PLN 10 478 thousand).

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

26. Impairment losses

Impairment losses by asset class during the financial period from 1 January to 31 December 2009

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings and constructions	6	18 996	34	947
Technical equipment and machinery	6	1 811	9	6 978
Other fixed assets	6	-	-	9
Assets under construction	6	21 151	39	3 089
Goodwill	7	2 359	-	-
Software	7	-	-	153
Acquired concessions, patents, licenses	7	-	-	35
Total		**44 317**	**82**	**11 211**

Impairment losses by segment during the financial period from 1 January to 31 December 2009

	Production of copper and precious metals, other smelter products	All other segments	Total consolidated amount
Impairment loss recognised	1 194	43 123	**44 317**
Impairment loss reversed	-	82	**82**
Impairment loss used	-	11 211	**11 211**

Impairment losses by asset class during the financial period from 1 January to 31 December 2008

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings and constructions	6	123 918	14 023	694
Technical equipment and machinery	6	161 814	-	13 847
Motor vehicles	6	372	-	43
Other fixed assets	6	34	-	1
Assets under construction	6	10 560	166	945
Development costs	7	-	67	-
Software	7	90	411	327
Acquired concessions, patents, licenses	7	392	-	4
Intangible assets not yet available for use	7	29	-	51
Total		**297 209**	**14 667**	**15 912**

Impairment losses by segment during the financial period from 1 January to 31 December 2008

	Note	Copper and precious metals, other smelter products	All other segments	Total consolidated amount
Impairment loss recognised	6, 7	3 386	293 823	**297 209**
Impairment loss reversed	6, 7	68	14 599	**14 667**
Impairment loss used	6, 7	94	15 818	**15 912**

Impairment losses on property, plant and equipment used in the manufacture of products or in the providing of services were recognised in profit or loss as costs of sales. For other property, plant and equipment impairment losses were recognised in administrative expenses. Details on the principles of accounting for impairment losses applied by the Group are described in point 2.2.10 of note 2.

Impairment losses recognised in 2009 relate to property, plant and equipment and intangible assets which will not bring expected economic benefits.

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

27. Sales

Net revenues from the sale of products, goods for resale and materials (by type of activity)

	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
- copper, precious metals, smelter by-products	10 992 841	11 231 173
- energy	35 399	35 657
- services	728 554	1 006 651
- mining machinery, transport vehicles for mining and other	16 508	34 408
- goods for resale	219 013	239 493
- wastes and materials	11 260	9 785
- other goods	116 335	97 718
Total	**12 119 910**	**12 654 885**

Net revenues from the sale of products, goods for resale and materials (by destination)

	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
domestic	**3 374 311**	**4 484 811**
- copper, precious metals, smelter by-products	2 302 770	3 129 743
- energy	35 399	35 657
- services	702 134	948 196
- mining machinery, transport vehicles for mining and other	13 537	31 162
- goods for resale	208 495	236 598
- wastes and materials	11 255	9 785
- other goods	100 721	93 670
export	**8 745 599**	**8 170 074**
- copper, precious metals, smelter by-products	8 690 071	8 101 430
- services	26 420	58 455
- mining machinery, transport vehicles for mining and other	2 971	3 246
- goods for resale and materials	10 518	2 895
- wastes and materials	5	-
- other goods	15 614	4 048
Total	**12 119 910**	**12 654 885**

	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Average copper price on LME (USD/t)	5 164	6 952
Average exchange rate (USD/PLN) per NBP	3.12	2.41

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

28. Costs by type

	Note	For the period from 1 January 2009 to 31 December 2009	For the period from 1 January 2008 to 31 December 2008
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 7	743 790	681 367
Employee benefit costs	29	3 262 073	3 080 980
Materials and energy consumption		3 857 174	3 392 670
External services		1 216 401	1 802 192
Taxes and charges		342 012	335 860
Advertising costs and representation expenses		38 570	49 967
Property and personal insurance		20 062	14 734
Research and development costs not capitalised in intangible assets		5 570	4 883
Other costs, of which:		96 684	388 948
Impairment losses on property, plant and equipment, intangible assets	6, 7	20 807	286 620
Impairment losses on goodwill	7	2 359	-
Write-down of inventories	14	11 519	66 576
Allowance for impairment of trade receivables	34.3.6	43 006	21 320
Reversal of impairment of property, plant and equipment, intangible assets	6, 7	(43)	(14 501)
Reversal of write-down of inventories	14	(1 886)	(1 518)
Reversal of allowance for impairment of trade receivables	34.3.6	(11 101)	(12 703)
Losses from the disposal of financial instruments	33.3	998	1 608
Other operating costs		31 025	41 546
Total costs by type		**9 582 336**	**9 751 601**
Cost of goods for resale and materials sold (+), of which:		158 742	128 436
Allowance for impairment of receivables	34.3.6	2 029	1 438
Reversal of allowance for impairment of receivables	34.3.6	(884)	(505)
Change in inventories of finished goods and work in progress (+/-)		(368 246)	91 338
Cost of manufacturing products for internal use (-)		(435 996)	(478 127)
Total cost of sales, selling and administrative costs		**8 936 836**	**9 493 248**

29. Employee benefit costs

	Note	For the period from 1 January 2009 to 31 December 2009	For the period from 1 January 2008 to 31 December 2008
Remuneration		2 332 345	2 255 442
Costs of social security		767 643	701 709
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits		162 085	123 829
Employee benefit costs	**28**	**3 262 073**	**3 080 980**

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

30. Other operating income

	Note	For the period	
		from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Income and gains from financial instruments classified under other operating activities, resulting from:	33.3	368 747	953 297
Measurement and realisation of derivative instruments		270 057	697 428
Interest		89 386	128 344
Foreign exchange gains		-	108 697
Gains from disposal		7 519	15 695
Reversal of impairment losses on available-for-sale financial assets		-	78
Reversal of allowance for impairment of loans and receivables		1 785	3 055
Increase in fair value of investment property		-	1 566
Gains from the disposal of a subsidiary and due to loss of control over a subsidiary		21 457	5 913
Gains from the disposal of perpetual usufruct of land		-	450
Gains from the disposal of intangible assets		1 556	2 027
Other interest		3 538	20 455
Dividends received		251	303
Reversal of impairment losses on assets under construction	6	39	166
Reversal of allowance for impairment of other non-financial receivables	13	1 810	5 434
Government grants and other donations received		825	2 520
Release of unused provisions due to:		47 768	27 733
Decommissioning of mines		32 969	4 311
Disputed issues, pending court proceedings		4 024	13 404
Other		10 775	10 018
Surpluses identified in property, plant and equipment		116	7 899
Penalties and compensation received		23 085	15 812
Foreign exchange losses - non-financial		2 568	(13 631)
Other operating income/gains		23 812	13 815
Total other operating income		**495 572**	**1 043 759**

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

31. Other operating costs

	Note	For the period from 1 January 2009 to 31 December 2009	For the period from 1 January 2008 to 31 December 2008
Costs and losses on financial instruments classified under other operating activities, resulting from:	33.3	888 576	903 878
Measurement and realisation of derivative instruments		802 437	891 352
Interest		1 728	657
Foreign exchange losses		75 464	-
Losses on measurement of non-current liabilities		249	2 555
Losses from disposal		2 227	2 608
Impairment losses on available-for-sale financial assets		-	45
Allowances for impairment of loans and receivables		6 471	6 661
Decrease in fair value of investment property		919	-
Allowances for impairment of other non-financial receivables	13	552	11 915
Losses on the sale of property, plant and equipment		23 914	21 626
Impairment losses on assets under construction	6	21 151	10 560
Impairment losses on intangible assets not yet available for use		-	29
Interest on overdue non-financial liabilities (including Budget)		4 504	1 801
Donations granted		7 193	11 546
Provisions for:		20 124	31 771
Decommissioning of mines		4 285	5 891
Disputed issues, pending court proceedings		3 791	12 338
Other		12 048	13 542
Penalties and compensation paid		3 412	4 484
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events		2 480	1 823
Contributions to a voluntary organisation		7 433	1 483
Other operating costs/losses		19 050	18 118
Total other operating costs		**999 308**	**1 019 034**

32. Net finance costs

	Note	For the period from 1 January 2009 to 31 December 2009	For the period from 1 January 2008 to 31 December 2008
Interest expense:	33.3	14 608	16 640
On bank and other loans		12 696	14 339
Due to finance leases		1 912	2 301
Net foreign exchange (gains)/losses on borrowings	33.3	(748)	2 004
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect), due to:	25	29 764	38 091
Measurement of provisions for decommissioning of mines		29 171	37 289
Measurement of other provisions		593	802
Losses due to measurement of non-current liabilities	33.3	381	497
Other finance costs		1 254	262
Total net finance costs		**45 259**	**57 494**

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

33. Financial instruments

33.1 Carrying amount

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		
Shares	10	20 451								**20 451**
Shares in investment funds	10	7 930								**7 930**
Trade receivables (net)	13				1 199 512					**1 199 512**
Cash and cash equivalents and deposits	11,13,15		67 677		1 197 145					**1 264 822**
Other financial assets (net)	10,11,13	7	47		18 938					**18 992**
Derivatives - Currency	12			17 646		(165 571)			162 961	**15 036**
Derivatives - Commodity contracts - metals	12			1 258		(37 861)			7 905	**(28 698)**
Trade payables	20						(629 951)			**(629 951)**
Bank and other loans	21						(299 285)			**(299 285)**
Other financial liabilities	20,21						(79 596)	(41 385)		**(120 981)**
		28 388	**67 724**	**18 904**	**2 415 595**	**(203 432)**	**(1 008 832)**	**(41 385)**	**170 866**	**1 447 828**

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

33. Financial instruments (continuation)

33.1 Carrying amount (continuation)

At 31 December 2008

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		
Shares	10	19 942								**19 942**
Shares in investment funds	10	11 264								**11 264**
Trade receivables (net)	13				725 700					**725 700**
Cash and cash equivalents and deposits	11,15,13		59 545		2 081 168					**2 140 713**
Other financial assets (net)	10,11,13	7	47		327 552					**327 606**
Derivatives - Currency	12			31		(1 159)			62 326	**61 198**
Derivatives - Commodity contracts - metals	12					(3 771)			655 271	**651 500**
Trade payables	20						(785 527)			**(785 527)**
Bank and other loans	21						(258 705)			**(258 705)**
Other financial liabilities	20,21						(116 205)	(32 273)		**(148 478)**
		31 213	**59 592**	**31**	**3 134 420**	**(4 930)**	**(1 160 437)**	**(32 273)**	**717 597**	**2 745 213**

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

33. Financial instruments (continuation)

33.2 Fair value

Classes of financial instruments	Note	At 31 December 2009 Carrying amount	At 31 December 2009 Fair Value	At 31 December 2008 Carrying amount	At 31 December 2008 Fair Value
		33.1		33.1	
Shares*	10	20 451	8 976	19 942	8 525
Shares in investment funds	10	7 930	7 930	11 264	11 264
Trade receivables (net)	13	1 199 512	1 199 512	725 700	725 700
Cash and cash equivalents and deposits	11, 15, 13	1 264 822	1 264 835	2 140 713	2 140 958
Other financial assets (net)	10, 11, 13	18 992	18 992	327 606	327 606
Derivatives - Currency, of which:	12	15 036	15 036	61 198	61 198
Assets		180 938	180 938	62 357	62 357
Liabilities		(165 902)	(165 902)	(1 159)	(1 159)
Derivatives - Commodity contracts - metals, of which:	12	(28 698)	(28 698)	651 500	651 500
Assets		140 471	140 471	655 271	655 271
Liabilities		(169 169)	(169 169)	(3 771)	(3 771)
Trade payables	20	(629 951)	(629 951)	(785 527)	(785 527)
Bank and other loans	21	(299 285)	(299 285)	(258 705)	(258 705)
Other financial liabilities	20, 21	(120 981)	(120 981)	(148 478)	(148 478)

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

*The Group is unable to reliably measure the fair value of shares held in companies which are not listed on active markets, classified as available-for-sale financial assets, which carrying amount at 31 December 2009 amounted to PLN 11 475 thousand (at 31 December 2008 amounted to PLN 11 417 thousand). As a result, they are disclosed in the statement of financial position at cost less impairment.

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

33. Financial instruments (continuation)
33.3 Items of income, costs, profit and losses recognised in profit or loss for the period by category of financial instruments

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	Held-to-maturity investments	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total financial instruments
Interest income/(expense)	**30, 31, 32**		21	108	89 257	(14 424)	(1 912)		**73 050**
Exchange gains/(losses)	**31, 32**			(9)	(9 292)	(65 593)	178		**(74 716)**
Losses on measurement of non-current financial liabilities	**31,32**					(630)			**(630)**
Impairment allowances	**28, 31**				(51 506)				**(51 506)**
Reversal of impairment allowances	**28, 30**				13 770				**13 770**
Adjustment to sales due to hedging transactions	**34.1.9**							433 187	**433 187**
Profit/(losses) from disposal of financial instruments	**28, 30, 31**		7 500		(3 206)				**4 294**
Gains on measurement and realisation of derivative instruments	**30**	270 057							**270 057**
Losses on measurement and realisation of derivative instruments	**31**	(802 437)							**(802 437)**
Total net gain/(loss)		**(532 380)**	**7 521**	**99**	**39 023**	**(80 647)**	**(1 734)**	**433 187**	**(134 931)**

For the period from 1 January 2008 to 31 December 2008	Note	Financial assets/liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total financial instruments
Interest income/(expense)	**30, 31, 32**		891	200	127 253	(14 996)	(2 301)		**111 047**
Exchange gains/(losses)	**30, 32**			6	137 107	(28 580)	(1 840)		**106 693**
Losses on measurement of non-current financial liabilities	**31,32**					(3 052)			**(3 052)**
Impairment allowances	**28, 31**		(45)		(29 419)				**(29 464)**
Reversal of impairment allowances	**28, 30**		78		16 263				**16 341**
Adjustment to sales due to hedging transactions	**34.1.9**							562 520	**562 520**
Profit/(losses) from disposal of financial instruments	**28, 30, 31**		3 217	294	7 968				**11 479**
Gains on measurement and realisation of derivative instruments	**30**	697 428							**697 428**
Losses on measurement and realisation of derivative instruments	**31**	(891 352)							**(891 352)**
Total net gain/(loss)		**(193 924)**	**4 141**	**500**	**259 172**	**(46 628)**	**(4 141)**	**562 520**	**581 640**

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

33. Financial instruments (continuation)

33.4 Transfers not qualified for de-recognition

As at 31 December 2009 there were no financial assets whose transfer does not qualify for derecognition.

33.5 Assets acquired as a security

In 2009 a bank guarantee due to security on an annual contract was used. The amount of paid by the Guarantor receivables amounted to PLN 3 213 thousand.

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

The following business events and situations, which are required to be disclosed, did not occur in the Group in the financial years ended 31 December 2009 and 31 December 2008:

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

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

33.7.1 Fair value hierarchy

		At					
	Note	**31 December 2009**			**31 December 2008**		
Classes of financial instruments		level 1	level 2	level 3	level 1	level 2	level 3
Shares	33.2	8 976	-	-	8 525	-	-
Shares in investment funds	33.2	-	-	7 930	-	-	11 264
Other financial assets		-	-	-	-	287 146	-
Derivative financial instruments - currency, of which:	33.2	-	15 036	-	-	61 198	-
Assets		-	180 938	-	-	62 357	-
Liabilities		-	(165 902)	-	-	(1 159)	-
Derivative financial instruments – metals, of which:	33.2	-	(28 698)	-	-	651 500	-
Assets		-	140 471	-	-	655 271	-
Liabilities		-	(169 169)	-	-	(3 771)	-
Other financial liabilities		-	(30 611)	-	-	(35 395)	-

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

33. Financial instruments (continuation)

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

33.7.1 Fair value hierarchy (continuation)

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

Level 3
Shares and participation units in investment funds.
The measurement of such shares is based on the financial statements of the given fund. The fair value of the fund is calculated as the multiple of the value of the fund and the share of the Group at the level of 5.8803%. Input data for assessing fair value does not come from an active market.

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

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

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

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

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

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

Shares and participation units in Investment Funds	**Note**	**At 31 December 2009**	**At 31 December 2008**
Beginning of the period		**11 264**	**10 665**
Gains recognised in other comprehensive income		2 205	3 716
Losses recognised in other comprehensive income		5 539	3 117
Total	**33.7.1**	**7 930**	**11 264**

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

34. Financial risk management

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

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

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

34. Financial risk management (continuation)

34.1 Market risk

34.1.1 Principles of market risk management

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

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

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

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

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

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

34.1.2 Techniques for market risk management

The primary technique for market risk management is the use of hedging strategies involving derivative instruments. Apart from this, natural hedging is also used. Hedging strategies as understood by hedge accounting (IAS 39) are used only in the Parent Entity.

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

It is permitted to use the following types of instruments:

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

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

34.1.3 Hedge effectiveness requirement

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

34.1.4 Measurement of market risk

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

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

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

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.5 Restrictions on entering into hedging transactions

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

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

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

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

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

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

34.1.6 Market risk exposure

34.1.6.1 Commodity risk

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

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

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

Exposure of the Group to commodity risk is presented below:

	For the period			
	1 January 2009 to 31 December 2009		1 January 2008 to 31 December 2008	
	Sales	**Purchases**	**Sales**	**Purchases**
Copper ['000 tonnes]	514	122	539	107
Silver [tonnes]	1 198	72	1 176	6

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

34.1.6.2 Currency risk

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

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

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

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.6 Market risk exposure (continuation)

34.1.6.3 Interest rate risk

The Group is exposed to interest rate risk due to:

– changes in the fair value of bank and other loans drawn, bonds purchased and bank deposits for which interest is calculated at fixed rates,

– changes in cash flow related to bank and other loans drawn, bonds purchased and bank deposits for which interest is calculated at variable rates.

As at 31 December 2009 the Group had liabilities amounting to PLN 299 285 thousand due to bank and other loans (as at 31 December 2008: PLN 258 705 thousand) based on variable and fixed interest rates.
At the end of the reporting period the Group had no instruments hedging against interest rate risk.

34.1.7 Hedging exposure to market risk in the Parent Entity

In 2009 copper price hedging strategies represented approx. 34% (in 2008 35%) of the sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 25% (in 2008 32 %). In the case of the currency market, hedged revenues from sales represented approx. 34% (in 2008 11%) of total revenues from sales realised by the Parent Entity.

In 2009 the Parent Entity implemented copper price hedging strategies with a total volume of 264 thousand tonnes and a time horizon falling in the second half of 2009, 2010 and the first half of 2011. The Parent Entity made use of options (Asian options), including puts, corridor strategies, seagulls and producer puts. In addition the Parent Entity performed a restructurisation, implemented in the analysed period, of seagull options for 2010 with a total volume of 58.5 thousand tonnes through the buyback of sold puts. In the period the Parent Entity did not implement adjustment hedge transactions. In the case of the silver market, during the analysed period strategies were implemented to hedge the price of this metal with a total volume of 7.2 million troz and a time horizon falling in 2010. The Parent Entity made use of put options (Asian options). In 2009, adjustment hedge transactions were not implemented on the silver market either.

In the case of the forward currency market, in 2009 the Parent Entity implemented strategies hedging the USD/PLN rate for an amount of USD 1 410 million and a time horizon falling in the second half of 2009 and in the entire year 2010. The Parent Entity made use of options (European options), including puts, corridors and producer puts. In addition the Parent Entity performed a restructurisation, implemented in prior periods as well as in the analysed period, of options strategies for 2009 and 2010 with the total nominal amount of USD 630 million through the sale of purchased puts and the sale of corridor options. These operations were recognised in accumulated other comprehensive income in the amount of PLN 147 912 thousand, which will be an adjustment in plus of revenues from sales in 2010. During the analysed period there were no adjustment hedge transactions implemented on the currency market.

The Parent Entity remains hedged for a portion of copper sales planned in the first half of 2010 (78 thousand tonnes), in the second half of 2010 (58.5 thousand tonnes) and in the first half of 2011 (19.5 thousand tonnes) for a portion of silver sales planned in 2010 (7.2 million troz). With respect to revenues from sales (currency market) the Parent Entity holds a hedging position in 2010 (USD 600 million).
Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 31 December 2009. The hedged nominal/volume in the months included in the presented periods is equally balanced.

HEDGING POSITION – COPPER MARKET

Period	Instrument		Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
I half of 2010		Purchased put option	39 000	4 700	(695)	4 005
	Corridor	Sold call option	19 500	8 000	(327)	5 473 participation restricted to 8 000
		Purchased put option		5 800		
		Purchased put option	19 500	7 000	(692)	6 308
		Total	**78 000**			
II half of 2010	Corridor	Sold call option	39 000	8 000	(400)	5 100 participation restricted to 8 000
		Purchased put option		5 500		
		Producer puts[1]	19 500	6 500	8.94%[2]	-
		Total	**58 500**			
TOTAL 2010			**136 500**			
I half of 2011	Corridor	Sold call option	19 500	8 800	(470)	6 230 participation restricted to 8 800
		Purchased put option		6 700		
		Total	**19 500**			
TOTAL 2011			**19 500**			

[1] Due to current hedge accounting laws, transactions embedded within a producer put – a purchased put option – are shown in the table containing a detailed list of derivative instrument positions -„Hedging instruments", while sold call options are shown in the table „Trade instruments".
[2] Payable at the moment of settlement.

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.7 Hedging exposure to market risk in the Parent Entity (continuation)

HEDGING POSITION – SILVER MARKET

Period	Instrument	Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
I half of 2010	Purchased put option	1.80	14.00	(2.00)	12.00
	Purchased put option	1.80	18.00	(2.00)	16.00
	Total	**3.60**			
II half of 2010	Purchased put option	1.80	14.00	(2.00)	12.00
	Purchased put option	1.80	18.00	(2.00)	16.00
	Total	**3.60**			
TOTAL 2010		**7.20**			

HEDGING POSITION – 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 2010	Producer puts [3]	60	3.0000	8.37%[4]	-
	Purchased put option	60	2.6000	(0.0692)	2.5308
	Purchased put option	180	2.5500	(0.0681)	2.4819
	Total	**300**			
II half of 2010	Producer puts[3]	60	3.0000	8.37%	-
	Purchased put option	60	2.6000	(0.0692)	2.5308
	Purchased put option	180	2.5500	(0.0681)	2.4819
	Total	**300**			
TOTAL 2010		**600**			

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

As at 31 December 2009, the fair value of open positions in derivative instruments amounted to PLN (13 662) thousand, of which PLN 321 409 thousand relate to financial assets and PLN 335 071 thousand relate to financial liabilities.

Derivative instruments whose date of settlement was 5 January 2010 were measured at fair value in the amount of PLN (30 611) thousand and accounted for in trade and other payables as payables due to unsettled derivative instruments (Note 20).

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

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

In 2009, the result on derivative instruments amounted to PLN (99 193) 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 433 187 thousand. The loss on the measurement of derivative instruments amounted to PLN 344 894 thousand, while the loss on the realisation of derivative instruments amounted to PLN 187 486 thousand. Adjustment to other operating costs arising from the measurement of derivative instruments results mainly from changes of the time value of options, which will be settled in the future periods. In accordance with the applied hedge accounting principles, the change in the time value of options is not recognised in other comprehensive income.

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

	For the period	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Impact on sales	**433 187**	**562 520**
Impact on other operating costs	**(532 380)**	**(194 924)**
Losses from realisation of derivative instruments	(187 486)	(81 191)
Losses from measurement of derivative instruments	(344 894)	(113 733)
Total impact of derivative instruments on profit or loss:	**(99 193)**	**367 596**

[3] Due to current hedge accounting laws, transactions embedded within a producer put – a purchased put option – are shown in the table containing a detailed list of derivative instrument positions -„Hedging instruments", while sold call options are shown in the table „Trade instruments".
[4] Payable at the moment of settlement.

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

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

The value of the adjustment to the other operating cost of the Parent Entity for 2009 due to the ineffective portion of cash flow hedges amounted to PLN (626 345) thousand (in 2008: PLN 205 487 thousand), of which PLN (431 299) thousand is a loss on measurement of hedging instruments (in 2008: PLN 107 924 thousand) and PLN (195 046) thousand is a loss on the realisation of the ineffective portion of hedging instruments (in 2008: PLN 97 563 thousand).

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

The effectiveness of hedging instruments used by the Parent Entity during the reporting period is evaluated and measured by comparing the changes in the forward prices of hedged items with the changes in the prices of forward contracts or – in the case of options - the changes in the intrinsic value of options.
The tables below present the balances and movements in accumulated other comprehensive income resulting from the transfer of the effective portion of the gain or loss from changes in the fair value of derivative instruments designated as hedging instruments in cash flow hedges:

AMOUNTS RECOGNISED IN EQUITY	**At**	
	31 December 2009	**31 December 2008**
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	**(3 937)**	**627 757**
Accumulated other comprehensive income – currency risk hedging transactions - derivatives	**159 170**	**-**
Total accumulated other comprehensive income - **financial instruments hedging future cash flows (excluding the deferred tax effects)**	**155 233**	**627 757**

Gains or (losses) on derivative instruments hedging future cash flows recognised in other comprehensive income	**For the period**	
	from 1 January 2009 to 31 December 2009	**from 1 January 2008 to 31 December 2008**
Accumulated gain or (loss) achieved on financial instruments hedging future cash flows at the beginning of the reporting period	**627 757**	**9 895**
Amount recognised in the reporting period due to hedging transactions	(39 337)	1 197 853
Amount transferred from other comprehensive income to revenues from sales	(433 187)	(579 991)
Accumulated other comprehensive income achieved on instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	**155 233**	**627 757**

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

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

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

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

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

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

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

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

Scope of historical data (daily data):
- for copper: 01 January 1978 to 31 December 2009 – settlement prices
- for silver: 01 January 1978 to 31 December 2009 – fixing prices
- for USD/PLN and EUR/PLN exchange rates: 01 January 2000 to 31 December 2009 – 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 current structure of forward interest rates, while variability is the exponentially weighted historical variability.

Potential price changes at the end of the reporting period:

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

31 December 2008	Copper	Silver	USD/PLN	EUR/PLN
SPOT / FIX	2 902	10.79	2.9618	4.1724
DOWN 95%	1 685	6.00	2.1056	3.3476
	-42%	-44%	-29%	-20%
UP 95%	5 298	19.54	3.9630	5.0875
	83%	81%	34%	22%

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

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

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]
Shares and participation units in investment funds	7 930	2 782	-
Trade receivables (net)	826 252	123 662	115 325
Cash and cash equivalents and deposits	159 008	37 535	12 663
Other financial assets (net)	8 524	1 242	1 213
Derivatives - Currency	15 036	lack of data	lack of data
Derivatives – Commodity contracts - Metals	(28 698)	(10 069)	-
Trade payables	(43 708)	(7 892)	(5 164)
Bank and other loans	(6 728)	-	(1 638)
Other financial liabilities	(56 842)	(14 879)	(3 513)

Currency structure of financial instruments exposed to market risk at 31 December 2008

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure		
	[‘000 PLN]	[‘000 USD]	[‘000 EUR]
Shares and participation units in investment funds	11 264	3 803	-
Trade receivables (net)	296 667	82 780	12 340
Cash and cash equivalents and deposits	542 002	159 108	16 958
Other financial assets (net)	308 495	103 666	349
Derivatives - Currency	61 198	lack of data	lack of data
Derivatives – Commodity contracts - Metals	651 500	219 968	-
Trade payables	(97 295)	(14 040)	(13 352)
Bank and other loans	(8 553)	-	(2 050)
Other financial liabilities	(43 098)	(2 818)	(8 329)

34. Financial risk management (continuation)

34.1 Market risk (continuation)

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

SENSITIVITY ANALYSIS AS AT 31 December 2009

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2009 CARRYING AMOUNT	CURRENCY RISK								COMMODITY RISK							
			USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			3.58		2.24		4.85		3.51		10 061		4 765		24.43		10.93	
			+ 26%		- 21%		+ 18%		- 15%		+ 37%		- 35%		+ 44%		- 36%	
	[in '000 PLN]	[in '000 PLN]	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
Shares and participation units in investment funds	7 930	7 930	1 640		(1 375)													
Trade receivables (net)	826 252	1 199 513	72 911		(61 132)		69 369		(56 169)									
Cash and cash equivalents and deposits	159 008	1 264 822	22 131		(18 555)		7 617		(6 168)									
Other financial assets (net)	8 524	18 992	732		(614)		730		(591)									
Derivatives – Currency	15 036	15 036	(31 354)	(9 119)	(2 606)	164 897	(1 879)		1 513									
Derivatives – Commodity contracts - Metals	(28 698)	(28 698)	(7 959)	2 022	6 673	(1 696)					(54 596)	(348 905)	96 549	366 613	(10 366)	(7 918)	(10 660)	75 732
Trade payables	(43 708)	(629 951)	(4 653)		3 901		(3 106)		2 515									
Bank and other loans	(6 728)	(299 285)					(985)		798									
Other financial liabilities	(56 842)	(120 981)	(8 772)		7 355		(2 113)		1 711									
IMPACT ON PROFIT OR LOSS			44 676		(66 353)		69 633		(56 391)		(54 596)		96 549		(10 366)		(10 660)	
IMPACT ON EQUITY				(7 097)		163 201						(348 905)		366 613		(7 918)		75 732

34. Financial risk management (continuation)

34.1 Market risk (continuation)

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

SENSITIVITY ANALYSIS AS AT 31 December 2008

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2008 CARRYING AMOUNT	CURRENCY RISK								COMMODITY RISK							
			USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			3.96		2.11		5.09		3.35		5 298		1 685		19.54		6.00	
			+34%		- 29%		+22%		- 20%		+83%		- 42%		+81%		-44%	
	[in '000 PLN]	[in '000 PLN]	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
Shares and participation units in investment funds	11 264	11 264	3 084		(2 637)													
Trade receivables (net)	296 667	725 700	67 132		(57 410)		9 147		(8 244)									
Cash and cash equivalents and deposits	542 002	2 140 713	129 032		(110 345)		12 570		(11 330)									
Other financial assets (net)	308 495	327 606	84 070		(71 895)		259		(233)									
Derivatives - Currency	61 198	61 198	(48 662)	-	23 847	216 981	(1 706)		1 254									
Derivatives – Commodity contracts - Metals	651 500	651 500	6 297	171 887	(5 385)	(146 993)					56 489	(380 994)	(3 346)	195 213	(17 984)	(27 547)	(23 836)	110 461
Trade payables	(97 295)	(785 527)	(11 387)		9 737		(9 897)		8 920									
Bank and other loans	(8 553)	(258 705)					(1 520)		1 370									
Other financial liabilities	(43 098)	(148 478)	(2 285)		1 954		(6 174)		5 565									
IMPACT ON PROFIT OR LOSS			227 281		(212 134)		2 679		(2 698)		56 489		(3 346)		(17 984)		(23 836)	
IMPACT ON EQUITY				171 887		69 988						(380 994)		195 213		(27 547)		110 461

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

34. Financial risk management (continuation)

34.2 Liquidity risk and capital management

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

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

In 2009, as well as in the comparable period, due to positive operating cash flow and the significant amount of cash and cash equivalents balances, the Group companies barely used external sources of financing.

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

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

Contractual maturities for financial liabilities as at 31 December 2009

	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
Financial liabilities	**Up to 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	614 992	4 737	9 335	1 003	4	**630 071**	**629 951**
Loans, including bank loans	31 278	179 898	63 277	22 580	27 930	**324 963**	**299 285**
Derivatives – Currency contracts	40 559	108 673	-	-	-	**149 232**	**165 902**
Derivatives – Commodity contracts - Metals	-	31 514	6 360	-	-	**37 874**	**169 169**
Other financial liabilities	66 235	12 527	25 873	15 493	6 498	**126 626**	**120 981**
Total financial liabilities by maturity	**753 064**	**337 349**	**104 845**	**39 076**	**34 432**	**1 268 766**	

Contractual maturities for financial liabilities as at 31 December 2008

	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	763 482	3 106	17 650	1 014	518	**785 770**	**785 527**
Loans, including bank loans	62 561	131 796	35 705	23 254	22 993	**276 309**	**258 705**
Derivatives - Currency	529	630	-	-	-	**1 159**	**1 159**
Derivatives – Commodity contracts - Metals	-	3 771	-	-	-	**3 771**	**3 771**
Other financial liabilities	87 273	23 033	18 155	14 685	10 915	**154 061**	**148 478**
Total financial liabilities by maturity	**913 845**	**162 336**	**71 510**	**38 953**	**34 426**	**1 221 070**	

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

As at 31 December 2009 the Group had overdraft facilities in the amount of PLN 135 100 thousand (as at 31 December 2008 : PLN 103 100 thousand).

As at 31 December 2009 unused overdraft facilities amounted to PLN 88 345 thousand (as at 31 December 2008 : PLN 74 520 thousand).

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

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

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

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

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

34. Financial risk management (continuation)

34.2 Liquidity risk and capital management (continuation)

The above ratios at 31 December 2009 and 31 December 2008 are presented below:

	At	
	31 December 2009	**31 December 2008**
Equity	10 623 827	10 982 865
Less: intangible assets	268 195	151 581
Net assets	10 355 632	10 831 284
Total assets	14 897 425	15 000 105
Equity ratio	**0.70**	**0.72**
Operating profit	2 679 338	3 186 362
Plus: depreciation/amortisation	743 790	681 367
EBITDA	3 423 128	3 867 729
Borrowings and finance lease liabilities	340 670	290 978
Ratio of Debt/EBITDA	**0.100**	**0.075**

Due to the low level of debt of the Group as at 31 December 2009, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.1.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.70 at 31 December 2009.

In 2009 and in 2008 there were no external capital requirements imposed on the Parent Entity.

34.3 Credit risk

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

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

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

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

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

All entities with which deposit transactions are entered into 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 for the most part with medium - high[5] credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounts to 22% as at 31 December 2009.

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

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

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

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

34.3.2 Credit risk related to derivative instruments

All entities with which derivative transactions are entered into by the Group operate in the financial sector. These are financial institutions (mainly banks), with the highest[6] (39.1%), medium - high[7] (52.2%) or medium[8] (8.7%) credit ratings. Based on fair value the maximum exposure of the Group to a single entity in respect of derivative instruments amounts to 46.1 %.

Fair value of derivative instruments entered into by the Group at 31 December 2009 amounted to [9]:

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

All entities with whom derivative transactions were entered into in 2008 by the Group operated in the financial sector. These are financial institutions (mainly banks), with the highest[6] (27.7%), medium-high[7] (55.6%) or medium[8] (16.7%) credit ratings. The maximum share of a single entity with respect to derivative transactions entered into by the Group amounted to 17.9%.

The fair value of derivative transactions entered into by the Group at 31 December 2008 amounted to[10]:

PLN 964 449 thousand (positive balance on the measurement of derivative instruments), of which:
PLN 40 325 thousand financial liabilities (Notes 12,20),
PLN 1 004 774 thousand financial assets (Notes 12,13).

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

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

34.3.3 Credit risk related to trade and other financial receivables

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

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

	At					
	31 December 2009			31 December 2008		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Trade receivables from sales of copper and silver	33.41%	56.76%	9.83%	55.11%	32.84%	12.05%

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[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 Moodys.
[7] By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moodys.
[8] By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moodys.
[9] 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 recognised in the Group's statement of financial position under other financial receivables.
[10] The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2009, which were recognised in the Group's statement of financial position for the period from 1 January 2008 to 31 December 2008 under other financial receivables and other financial liabilities.

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

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

The Parent Entity makes the majority of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always 100% secured. The Parent Entity has secured the majority of its receivables by promissory notes[11], frozen funds on bank accounts, registered pledge[12], bank guarantees, mortgages, letters of credit and documentary collection. In addition, the majority of contracts where customers are provided with buyer's credit contain an ownership rights reservation clause confirmed by a date certain[13]. To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral. Taking into account the collateral held and the credit limits received from the insurance company, at 31 December 2009 the Parent Entity has secured 55 % of its trade receivables.

The total value of the Group's trade receivables as at 31 December 2009, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 199 512 thousand (at 31 December 2008: PLN 725 700 thousand).

The concentration of credit risk in the Parent Entity results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 31 December 2009 the balance of receivables of the Group from 7 of the Parent Entity's largest clients, calculated as a percentage of trade receivables at the end of the reporting period, represents 66% of the balance of trade receivables (at 31 December 2008: 55%). Despite the concentration of this type of risk the Parent Entity believes that, given the available historical data as well as long-lasting history of cooperation, 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 measurement of credit risk.

The following Group companies have significant trade receivables: DIALOG S.A. PLN 77 715 thousand, KGHM Metraco S.A. PLN 36 931 thousand, WPEC w Legnicy SA PLN 31 808 thousand, KGHM Ecoren S.A. PLN 25 878 thousand, Walcownia Metali Nieżelaznych spółka z o. o. PLN 12 401 thousand, POL-MIEDŹ TRANS Sp. z o.o. PLN 10 384 thousand, PHP "Mercus" sp. z o.o. PLN 8 961 thousand.

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

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

34.3.4 Credit risk related to loans granted

At 31 December 2009 the carrying amount of loans granted was PLN 0 (at 31 December 2008 PLN 100 thousand). The balance is composed of loans granted to the following entities:

- KGHM CONGO S.P.R.L. in the gross amount of PLN 2 643 thousand. Due to the arising of a high level of credit risk, at 31 March 2009 an impairment loss was recognised for the entire amount of the loan in the amount of PLN 2 643 thousand. Due to actions taken towards recovery of the impaired receivables, an agreement was signed surrendering the receivables of KGHM CONGO S.P.R.L. to the Parent Entity. By the end of December 2009 partial repayment of the receivables subject to this agreement was made in the amount of PLN 1 413 thousand,
- VIVID S.A. in the gross amount of PLN 3 124 thousand. In July 2008, due to the probability that the loan would not be repaid, an allowance for impairment was recognised in the amount of PLN 2 780 thousand. In September 2008 the bankruptcy of the company was announced, and a further allowance for impairment was recognised bringing the amount of the loan to 0 in the amount of PLN 344 thousand,
- MILLENNIUM COMMUNICATIONS S.A. in the gross amount of PLN 307 thousand. Due to the announcement of bankruptcy by the company in 2007, an allowance for impairment was recognised in the amount of PLN 307 thousand. In March 2009 the debtor repaid PLN 4 thousand of the receivables.

[11] In order to speed up any potential collection of receivables, usually each promissory note is accompanied by a notarial enforcement declaration.
[12] At the end of the reporting period the Group held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.
[13] A trade contract clause officially certified by a notary means that the ownership of goods is transferred to the buyer only upon payment, regardless of their physical delivery.

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

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

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

The Parent Entity is exposed to this type of credit risk due to changes in the fair value of the share in the AIG investment fund. At 31 December 2009 the carrying amount of these shares was PLN 7 930 thousand (at 31 December 2008: PLN 11 264 thousand). The valuation of these fund shares is based on the financial statements of the fund as a multiple of the value of the fund and the share of the Parent Entity in the fund at the level of 5.8803%. During 2009 the Parent Entity did not invest unallocated financial resources either in debt securities, funds or participation units in investment funds.

34.3.6. Other information related to credit risk

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

At 31 December 2009

	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	**75 046**	56 450	3 952	2 200	10 648	1 796
Other financial receivables	**394**	215	107	9	6	57

At 31 December 2008

	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	**97 849**	90 212	5 847	368	326	1 096
Other financial receivables	**847**	526	283	34	1	3

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

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

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

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

	Note	For the period 1 January 2009 to 31 December 2009	1 January 2008 to 31 December 2008
Impairment allowance at the beginning of the period	**13**	**54 687**	**55 184**
Increase due to obtaining control of a subsidiary		2 168	1 498
Impairment allowance recognised in profit or loss		45 035	22 992
Impairment allowance reversed through profit or loss		(11 985)	(16 124)
Impairment allowance on foreign exchange differences		(1 047)	2 381
Impairment allowance utilised during the period		(5 107)	(10 730)
Impairment allowance reversed on costs of legal proceedings		(118)	(494)
Decrease due to loss of control of a subsidiary		(211)	(20)
Impairment allowance at the end of the period	**13**	**83 422**	**54 687**

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

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

34.3.6 Other information related to credit risk (continuation)

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

	Note	For the period 1 January 2009 to 31 December 2009	For the period 1 January 2008 to 31 December 2008
Impairment allowance at the beginning of the period	**13**	**10 252**	**4 439**
Impairment allowance recognised in profit or loss		6 471	6 427
Impairment allowance reversed through profit or loss		(1 785)	(139)
Impairment allowance on foreign exchange differences		(49)	-
Impairment allowance utilised during the period		(863)	(563)
Impairment allowance on costs of legal proceedings		3	88
Impairment allowance at the end of the period	**13**	**14 029**	**10 252**

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

	Note	For the period 1 January 2009 to 31 December 2009	For the period 1 January 2008 to 31 December 2008
Impairment allowance at the beginning of the period	**10**	**248**	**549**
Impairment allowance recognised in profit or loss		-	45
Impairment allowance reversed through profit or loss		-	(78)
Impairment allowance utilised during the period		(248)	(268)
Impairment allowance at the end of the period	**10**	-	**248**

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

	For the period 1 January 2009 to 31 December 2009	For the period 1 January 2008 to 31 December 2008
Share of profits of associates	270 072	267 579

36. Income tax

		For the period	
Income tax	**Note**	**1 January 2009 to 31 December 2009**	**1 January 2008 to 31 December 2008**
Current income tax		624 738	594 766
Deferred income tax	23	(92 555)	50 156
Adjustments to income tax from prior periods		12 798	(14 341)
Total		**544 981**	**630 581**

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

	For the period	
	1 January 2009 to 31 December 2009	**1 January 2008 to 31 December 2008**
Profit before tax	**2 904 151**	**3 396 447**
Tax calculated using the average weighted rates applicable to incomes in individual countries is 19.02% (2008: 19.04%)	**552 499**	**646 540**
Non-taxable income	(88 090)	(119 410)
Expenses not deductible for tax purposes	56 056	84 885
Utilisation of previously-unrecognised tax losses	(3 844)	(2 236)
Tax losses on which deferred tax assets were not recognised	13 884	33 171
Deductible temporary differences on which deferred tax assets were not recognised	1 678	1 972
Adjustments to income tax from prior periods	12 798	(14 341)
Income tax expense the average income tax rate applied was 18.76% (2008: 18.57%)	**544 981**	**630 581**

37. Earnings per share

	For the period	
	1 January 2009 to 31 December 2009	**1 January 2008 to 31 December 2008**
Profit attributable to shareholders of the Parent Entity	2 358 602	2 766 179
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	11.79	13.83

There are no dilutive potential ordinary shares.

38. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2009 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 16 June 2009 regarding the appropriation of Parent Entity profit for financial year 2008 and setting of the right to dividend date and dividend payment date, the amount of PLN 2 336 000 thousand, representing PLN 11.68 per share, was allocated as a shareholders dividend from profit for financial year 2008.
The right to dividend date was set at 16 July 2009, and dividend payment dates: at 6 August 2009 in the amount of PLN 1 432 000 thousand, i.e. PLN 7.16 per share, and at 6 November 2009 in the amount of PLN 904 000 thousand, i.e. PLN 4.52 per share.
All shares of the Parent Entity are ordinary shares.

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

39. Notes to the statement of cash flows

Adjustments to profit for the period

	For the period	
	1 January 2009 to 31 December 2009	**1 January 2008 to 31 December 2008**
Income tax from the income statement	544 981	630 581
Depreciation/amortisation	743 790	681 367
Impairment loss on goodwill	2 359	-
Losses on sales of property, plant and equipment and intangible assets	22 358	19 599
Gains on sale of available-for-sale financial assets and held-to-maturity investments	(7 500)	(3 510)
Gains from loss of control over a subsidiary and gains on sales of shares in subsidiaries and of investments in associates	(21 457)	(5 913)
Losses/(Gains) on sales and change in fair value of investment property	919	(1 566)
Impairment losses on property, plant and equipment, intangible assets, assets under construction, available-for-sale financial assets and loans	43 151	285 633
Share of profits of associates accounted for using the equity method	(270 072)	(267 579)
Interest and share in profits (dividends)	9 655	15 672
Foreign exchange losses/(gains)	19 001	(16 585)
Change in provisions	155 905	84 399
Change in derivative instruments	687 023	582 751
Realisation of derivative instruments recognised in equity	(433 187)	(579 992)
The balance of assets items and equity and liabilities items at the day of obtaining and at the day of loss of control	61 869	(3 657)
Other adjustments	(564)	3 860
Changes in working capital:	(563 445)	(378 988)
Inventories	(463 438)	136 028
Trade and other receivables	(36 292)	(531 608)
Trade and other payables	(63 715)	16 592
Adjustments to profit for the period	**994 786**	**1 046 072**

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

	For the period	
	1 January 2009 to 31 December 2009	**1 January 2008 to 31 December 2008**
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	48 783	38 443
Losses on sales of property, plant and equipment and intangible assets	(22 358)	(19 599)
(Positive)/negative change in receivables due to sales	(2 245)	369
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	(794)	(1 633)
Proceeds from sales of property, plant and equipment and intangible assets	**23 386**	**17 580**

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

40. Related party transactions

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

	For the period from 1 January 2009 to 31 December 2009		
Sales to related entities	**Sales of products**	**Sales of goods for resale and materials**	**Other transactions**
- to associates	4 011	33	19
- to other related entities*	53 782	18 724	1 304
Total sales to related entities	**57 793**	**18 757**	**1 323**

During the period from 1 January to 31 December 2009, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group earned revenues (5 largest items) during the period from 1 January to 31 December 2009:

1. WPEC w Legnicy SA	24 481
2. Fabryka Przewodów Energetycznych S.A.	19 948
3. CENTROZŁOM WROCŁAW S.A.	7 191
4. Zakłady Chemiczne ”POLICE” S.A.	4 353
5. Huta Cynku “MIASTECZKO ŚLĄSKIE” S.A.	3 908

Sales to the above-mentioned entities represent around 83% of sales to the State Treasury subsidiaries. The remaining 17% represent revenues earned from 104 entities – the remaining clients of the Group related to the State Treasury.

	For the period from 1 January 2008 to 31 December 2008		
Sales to related entities	**Sales of products**	**Sales of goods for resale and materials**	**Other transactions**
- to associates	3 134	138	8 560
- to other related entities	56 826	44 181	596
Total sales to related entities	**59 960**	**44 319**	**9 156**

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

40. Related party transactions (continuation)

Purchases from related entities	For the period from 1 January 2009 to 31 December 2009 Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
- from associates	12 603	80	38	-
- from other related entities*	386 523	367 318	6 822	1 350
Total purchases from related entities	**399 126**	**367 398**	**6 860**	**1 350**

*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group made purchases (5 largest items) during the period from 1 January to 31 December 2009:

1. EnergiaPro Gigawat sp. z o.o.	430 121
2. EnergiaPro Koncern Energetyczny S.A.	133 841
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	103 729
4. NITROERG S.A.	39 831
5. PPUP Poczta Polska	8 925

Purchases from the above-mentioned entities represent around 96% of purchases from State Treasury subsidiaries. The remaining 4% represent purchases from 83 entities - the remaining clients of the Group related to the State Treasury.

Purchases from related entities	For the period from 1 January 2008 to 31 December 2008 Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
- from associates	34 963	10 541	26	-
- from other related entities	634 579	99 943	12 432	1 808
Total purchases from related entities	**669 542**	**110 484**	**12 458**	**1 808**

Remuneration of the Management Board in 2009

	Period when function served in 2009	Wages	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits due to termination of employment relationship	Retirement rights	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 „Wages" includes wages during the termination period*

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

40. Related party transactions (continuation)

Remuneration of the Management Board in 2008

	Period when function served in 2008	Wages	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits due to termination of employment relationship	Retirement rights	Benefits, other earnings	Total earnings in 2008
Members of the Management Board as at 31 December 2008								
Mirosław Krutin	23.04-31.12.2008	346	47	141	-	-	55	589
Maciej Tybura	23.04-31.12.2008	282	38	63	-	-	59	442
Herbert Wirth	23.04-31.12.2008	282	38	91	-	-	50	461
Dismissed Members of the Management Board *								
Krzysztof Skóra	01.01-17.01.2008	293	126	74	600	-	56	1 149
Maksymilian Bylicki	-	171	79	-	460	-	45	755
Marek Fusiński	01.01-23.04.2008	342	139	51	448	-	65	1 045
Stanisław Kot	01.01-23.04.2008	342	170	32	448	198	26	1 216
Ireneusz Reszczyński	01.01-23.04.2008	342	139	56	448	-	34	1 019
Dariusz Kaśków	01.01-17.01.2008	239	-	-	293	-	7	539
Total		**2 639**	**776**	**508**	**2 697**	**198**	**397**	**7 215**

** the item „Wages" includes wages during the termination period*

Remuneration of the Supervisory Board in 2009

	Period when function served in 2009	Wages for the period when function served in the Supervisory Board	Earnings from other contracts	Earnings from subsidiaries and associates	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**

Remuneration of the Supervisory Board in 2008

	Period when function served in 2008	Wages for the period when function served in the Supervisory Board	Earnings from other contracts	Earnings from subsidiaries and associates	Total earnings in 2008
Marcin Dyl	14.02-31.12.2008	77	-	-	77
Arkadiusz Kawecki	14.02-31.12.2008	77	-	-	77
Jacek Kuciński	14.02-31.12.2008	87	-	-	87
Marek Panfil	14.02-31.12.2008	75	-	-	75
Marek Trawiński	14.02-31.12.2008	97	-	58	155
Marzenna Weresa	14.02-31.12.2008	75	-	-	75
Leszek Jakubów	01.01-14.02.2008	19	-	-	19
Stanisław Potycz	01.01-14.02.2008	14	-	-	14
Anna Mańk	01.01-14.02.2008	11	-	-	11
Remigiusz Nowakowski	01.01-14.02.2008	10	-	-	10
Marcin Ślęzak	01.01-13.02.2008	10	-	-	10
Jerzy Żyżyński	01.01-14.02.2008	15	-	-	15
Józef Czyczerski	01.01-31.12.2008	86	96	-	182
Leszek Hajdacki	01.01-31.12.2008	87	162	-	249
Ryszard Kurek	01.01-31.12.2008	89	134	-	223
Total		**829**	**392**	**58**	**1 279**

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

40. Related party transactions (continuation)

	At	
Trade receivables from related entities	**31 December 2009**	**31 December 2008**
- from associates	887	739
- from other related entities*	8 613	13 476
Total receivables from related entities	**9 500**	**14 215**

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

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

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

The amount of the allowance for impairment of receivables from related entities at the end of the reporting period is PLN 904 thousand and the amount of the allowance concerning related entities recognised in profit or loss during the period is PLN 921 thousand. The most important amount at the end of the reporting period is the allowance for impairment of receivables from Huta "Będzin" S.A. of PLN 879 thousand and allowance for impairment recognised in profit or loss of PLN 912 thousand.
In the comparable period the amount of the allowance for impairment of receivables from related entities was insignificant from the point of view of the consolidated financial statements.

	At	
Trade payables towards related entities	**31 December 2009**	**31 December 2008**
- towards associates	787	2 176
- towards other related entities *	66 765	70 430
Total liabilities towards related entities	**67 552**	**72 606**

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

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

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

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

Guarantees with related entities

In 2009 guarantees were neither received from, nor granted to, other related entities. In 2008 guarantees were granted to other related entities in the amount of PLN 12 thousand.

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

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

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Ernst & Young Audit Sp. z o.o.	**2 235**	**2 989**
From contract for the review and audit of financial statements, including:	1 999	2 153
- audit of annual financial statements	1 407	1 631
- review of financial statements	592	522
From realisation of other contracts	236	836
Other companies of the Ernst & Young Group in Poland	**1 355**	**1 882**
Contract of tax consultancy	1 124	1 399

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

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

Total value of future minimum payments	At	
	31 December 2009	31 December 2008
Up to one year	19 766	17 550
From one to five years	48 142	32 834
Over five years	6 454	9 462
Total:	**74 362**	**59 846**

Lease payments recognised in profit or loss	For the period	
	1 January 2009 to 31 December 2009	1 January 2008 to 31 December 2008
Value of minimum lease payments	33 784	36 380

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

The value of contingent assets was determined based on estimates.

	At	
	31 December 2009	31 December 2008
Contingent receivables	**131 064**	**54 408**
- contested State Budget issues	45 572	32 875
- guarantees received	62 569	21 533
- promissory note receivables	22 923	-
Other receivables not recognised in the statement of financial position	**31 235**	**25 195**
- inventions, implementation of projects	31 235	25 195
Contingent liabilities	**95 689**	**68 068**
- guarantees	15 050	15 390
- promissory note liabilities	62 514	18 094
- disputed issues, pending court proceedings	15 611	14 185
- contingent penalties	23	1 627
- preventive measures in respect of mine-related damages	2 491	8 000
- agreement on the acceptance of the offer and conditional transfer of shares in "PETROTEL" sp. z o.o.	-	10 772
Other liabilities not recognised in the statement of financial position	**730 866**	**670 657**
- liabilities due to implementation of projects, inventions and other unrealised contracts	105 792	86 583
- operating leases	74 362	59 846
- future payments due to perpetual usufruct of land	550 712	524 228

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

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

Potential liabilities due to offsetting of general service costs

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

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

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

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

44. Employment structure

Average employment in the Group was as follows:

	For the period	
	1 January 2009 to 31 December 2009	**1 January 2008 to 31 December 2008**
White-collar workers	8 957	8 747
Blue-collar workers	19 927	19 731
Total:	**28 884**	**28 478**

45. Social Fund assets and liabilities

The net balance of the Social Fund at 31 December 2009 amounted to PLN 2 227 thousand – liability towards Social Fund, and at 31 December 2008 amounted to PLN 1 245 thousand - liability towards Social Fund. The Group has netted the assets of the Fund with the liabilities towards the Fund.

Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
Social Fund assets and liabilities	**31 December 2009**	**31 December 2008**
Housing loans granted to employees	111 587	103 116
Other receivables	402	222
Cash and cash equivalents	17 263	29 207
Liabilities towards Social Fund	(131 479)	(133 790)
Net balance	**(2 227)**	**(1 245)**

The balance is settled in the following periods after refunding.

Transfers made to the Social Fund during the financial period	113 327	103 750

46. Government grants

The balance of government grants recognised in deferred income at 31 December 2009 is PLN 949 thousand (at 31 December 2008: PLN 1 633 thousand). These are cash grants received for the acquisition of property, plant and equipment, for the performance of development work, which result in capitalised intangible assets and for the subsidising of employee training.
The companies of the Group also receive government grants from the Voivodeship Fund for Environmental Protection and Water Management (Fundusz Ochrony Środowiska i Gospodarki Wodnej) in the form of preferential interest rates on loans, or annulment of loans.

47. Subsequent events

Changes in the Statutes of the Parent Entity
On 7 January 2010 the Parent Entity received the ruling of the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court of Registration dated 31 December 2009 on the registration of the changes in the Statutes of KGHM Polska Miedź S.A., approved by the Extraordinary General Meeting on 9 December 2009.

Change in the amount of shares held by the State Treasury
On 12 January 2010 the Parent Entity received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury 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., giving the same number of votes and representing 31.79% of the share capital of the Parent Entity and of the total number of votes.

Significant contract with MKM Mansfelder Kupfer und Messing GmbH
On 14 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2010. The estimated value of this contract is USD 522 872 608, i.e. PLN 1 460 383 thousand.

Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.
On 20 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2010 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 478 758 499, i.e. PLN 1 354 695 thousand to USD 579 026 934, i.e. PLN 1 638 414 thousand.

Budget of the Parent Entity for 2010
The Supervisory Board at its meeting on 1 February 2010 approved the Budget of KGHM Polska Miedź S.A. for 2010. The basis for preparation of the Budget were the anticipated results for 2009 and the assumptions contained in specific operating plans.
The accepted Budget assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million.

Foundation and registration of INTERFERIE Medical SPA Sp. z o.o.
On 1 February 2010 the founding act was signed for the newly-founded company INTERFERIE Medical SPA Sp. z o.o. with its registered head office in Lubin, whose founder was the company INTERFERIE S.A - an indirect subsidiary of KGHM Polska Miedź S.A. The share capital of INTERFERIE Medical SPA Sp. z o.o. is PLN 50 thousand, and is divided into 50 shares with a per-share nominal value of PLN 1 000 each. INTERFERIE S.A. acquired 100 % of the shares, covered by cash. The indirect share of KGHM Polska Miedź S.A. in the capital of INTERFERIE Medical SPA Sp. z o.o. is PLN 65.67 %.
The purpose for founding this company is to operate in the areas of hospitality, recreation, rehabilitation, health tourism and wellness. INTERFERIE Medical SPA Sp. z o.o. was registered on 18 February 2010 in the Regional Court for Wrocław Fabryczna in Wrocław, Economic Section IX of the National Court Register.

Contract between Capital Partners S.A. and KGHM Polska Miedź S.A.
On 3 March 2010 a contract was signed between Capital Partners S.A. and KGHM Polska Miedź S.A., in which Capital Partners S.A. committed itself to offer for tender no less than 879 501 shares of the company BIPROMET S.A. in response to an announced tender offer to subscribe to the sale or exchange of shares.
This commitment by Capital Partners S.A. to sell shares under a tender is binding, contingent upon meeting among others the following conditions: the subject of the tender will be the amount of shares granting the right to 66% of the votes at the General Meeting, with the per-share price in the tender to be no lower than PLN 7.50, with the tender to be announced no later than 19 March 2010.
Capital Partners S.A. owns 2 043 944 shares of BIPROMET S.A., representing 32.97% of the shares and the votes at the General Meeting.

Tender offer to subscribe for the sales of shares of BIPROMET S.A.
On 19 March 2010, KGHM Polska Miedź S.A. announced a tender offer for the sale of 4 091 868 shares of the company BIPROMET S.A., representing 66% of the share capital and of the votes at the General Meeting of the company, at PLN 7.50 per share. Subscriptions for these shares will take place during the period of 4 May to 2 June 2010. The tender offer was announced under the legal condition of the obtaining by KGHM Polska Miedź S.A. of the agreement of the President of the Office of Competition and Consumer Protection for the concentration of enterprises, based on obtaining control over the company.

Understanding on the construction of "Elektrownia Blachownia" power plant
On 23 March 2010, KGHM Polska Miedź S.A. signed an understanding on the Principles of cooperation with the company Tauron Polska Energia S.A. on the founding of the company „Elektrownia Blachownia Nowa". Prior to founding the target company the signing of a Shareholders Agreement is planned. The new company will build a 910 MW, coal-fired power plant on the grounds of PKE Elektrownia Blachownia in Kędzierzyn – Koźle. This understanding was signed by KGHM Polska Miedź S.A., and by Tauron Polska Energia S.A. and its subsidiary – Południowy Koncern Energetyczny S.A. This is the result of a Letter of Understanding signed by KGHM Polska Miedź S.A. and Tauron Polska Energia S.A. in April 2009. Based on this, the partners will prepare the necessary documentation to establish the target company. The development and signing of the articles of incorporation of the company and shareholders agreement, as well as the performance of necessary procedures with external institutions should be carried out this year.
Failure to sign the Shareholders Agreement by 30 July 2010 would result in termination of the Principles of cooperation, without financial consequences for the Parties.

SIGNATURES OF PERSONS REPRESENTING THE PARENT ENTITY			
DATE	**FIRST, LAST NAME**	**POSITION**	**SIGNATURE**
26 March 2010	*Herbert Wirth*	President of the Management Board	
26 March 2010	*Maciej Tybura*	I Vice President of the Management Board	
26 March 2010	*Ryszard Janeczek*	Vice President of the Management Board	

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

KGHM POLSKA MIEDŹ S.A. GROUP

REPORT ON THE ACTIVITIES OF THE GROUP IN 2009

Lubin, March 2010

Table of Contents of the Report on the Activities of the Group in 2009

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

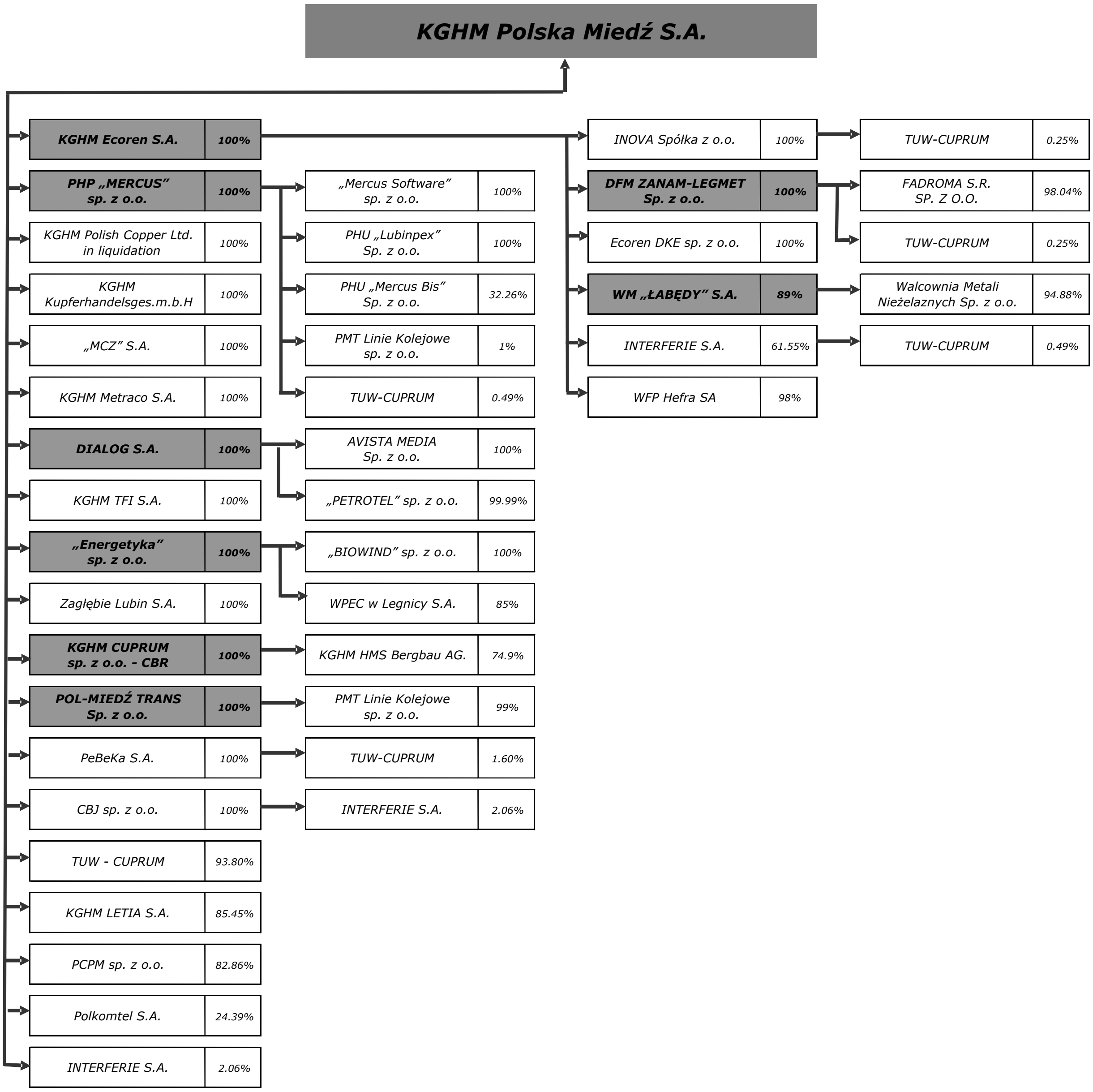
1.1. Composition of the Group

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

At 31 December 2009 the Group was composed of thirty three subsidiaries. Eight subsidiaries formed their own Groups: KGHM Ecoren S.A., PHP „MERCUS" sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., KGHM CUPRUM sp. z o.o. – CBR, „Energetyka" sp. z o.o., WM „ŁĄBĘDY" S.A. and DFM ZANAM-LEGMET Sp. z o.o. (shaded in diagram). At the end of the reporting period the Group owned a significant share of two associates.

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

Diagram 1. *Group structure at 31 December 2009*



In terms of the annual consolidated financial statements for 2009, three levels of consolidation may be distinguished within the KGHM Polska Miedź S.A. Group, with respect to which at the end of 2009 entities at every level were consolidated using the simultaneous method at the level of KGHM Polska Miedź S.A., regardless of whether they qualify for consolidation at lower levels of the Group.

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of a Group, consolidated 30 subsidiaries and accounted for one associate – Polkomtel S.A. – using the equity method.

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.1. Composition of the Group (continuation)

The following entities were not consolidated and were not accounted for using the equity method, as their impact is immaterial on the data of the consolidated statement of financial position and the consolidated statement of comprehensive income:

- PCPM sp. z o.o.,
- TUW – CUPRUM,
- „Mercus Software" sp. z o.o.,
- PHU „Mercus Bis" Sp. z o.o.

1.2. Changes in the structure of the Group

In 2009 the following changes occurred in the structure of the Group:

- Acquisition of shares of „BIOWIND" sp. z o.o.

  On 5 January 2009 an agreement for the acquisition of the shares of the company „BIOWIND" sp. z o.o. with its registered head office in Gdańsk was entered into between „Energetyka" sp. z o.o. and two physical persons. Based on this agreement, „Energetyka" sp. z o.o. acquired 1 000 shares with a nominal value of PLN 50 each, having a total nominal value of PLN 50 thousand, representing 100% of the shares of „BIOWIND" sp. z o.o. and granting 100% of the votes at the General Shareholders' Meeting of this company. The purchase price for the shares amounts to PLN 450 thousand and the total cost of acquisition amounted to PLN 455 thousand. The shares were paid for in cash. The acquisition of these assets was financed using the internal funds of „Energetyka" sp. z o.o. The net asset value of the company „BIOWIND" sp. z o.o. was PLN 50 thousand. As the value is immaterial the purchase price was not allocated and goodwill was set at PLN 405 thousand. No assets were identified which were not accounted for in the statement of financial position.

  The purchase of shares of „BIOWIND" sp. z o.o., holding a lease on property (around 300 hectares) in the Warmińsko-Mazurskie Voivodeship, enables the commencement of formal procedures aimed at realising an investment related to the construction of a wind farm. From the date of purchase to the end of the reporting period, „BIOWIND" sp. z o.o. had not generated revenues, and had incurred a loss of PLN (32) thousand.

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

  On 12 January 2009 DIALOG S.A. purchased from minority shareholders 2 009 shares of „PETROTEL" sp. z o.o. with a nominal value of PLN 1 000 per share, as a result of which the share of DIALOG S.A. in the share capital of „PETROTEL" sp. z o.o. increased to 99.56 %.

  On 20 March 2009 DIALOG S.A. purchased a further 35 shares, and currently owns 99.99% of the share capital of „PETROTEL" sp. z o.o. The total cost of acquisition of 24.93 % of the shares of „PETROTEL" sp. z o.o. amounted to PLN 10 895 thousand. The amount of equivalent net assets is PLN 10 796 thousand.

  In 2009 final settlement of the acquisition of „PETROTEL" sp. z o.o. was made, excluding from goodwill the intangible assets representing the PETROTEL brand and the subscriber base measured at fair value of PLN 11 400 thousand. Reflecting deferred tax on the measurement of net assets to fair value, initially-set goodwill was decreased by PLN 9 232 thousand, and at 31 December 2009 amounted to PLN 1 865 thousand.

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

  On 14 January 2009 an agreement for the acquisition of the shares of DKE sp. z o.o. was signed between KGHM Ecoren S.A. and SITA POLSKA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ. Based on this agreement, KGHM Ecoren S.A. acquired 380 shares of DKE sp. z o.o. having a total nominal value of PLN 380 thousand, representing 49.67% of the share capital of DKE sp. z o.o. and granting 49.67% of the votes at the General Shareholders' Meeting. At the end of 2009 KGHM Ecoren S.A. owned 100% of the share capital of DKE sp. z o.o. and 100% of the votes at the General Shareholders' Meeting. The shares were acquired for PLN 2 806 thousand and paid for in cash on the date of signing the agreement. The acquisition of these assets was financed using the internal funds of KGHM Ecoren S.A. The total cost of acquiring these shares amounts to PLN 2 829 thousand. Net assets acquired, representing 49.67% of the share capital, amounts to PLN 1 314 thousand. The effect of the transaction with minority shareholders was settled in the financial result.

  The acquisition from a minority shareholder of the shares of DKE sp. z o.o. was aimed at gaining full control over the entity, whose core business is convergent with that being developed by KGHM Ecoren S.A.

  On 19 February 2009 a change in the name of DKE sp. z o.o. to Ecoren DKE sp. z o.o. was registered.

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.2 Changes in the structure of the Group (continuation)

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

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

On 28 December 2009 an application for the voluntary liquidation of this company was submitted to the Commercial Court in Lubumbashi, based on a Resolution by the Extraordinary General Shareholders' Meeting of KGHM CONGO S.P.R.L. dated 17 December 2009. Liquidation commenced on 1 January 2010, in accordance with the laws in force in the Democratic Republic of Congo.

– Founding of KGHM HMS Bergbau AG

On 17 June 2009 KGHM CUPRUM Sp. z o.o. – CBR, together with HMS Bergbau AG, founded a company called KGHM HMS Bergbau AG. This entity was founded under German law, and its registered head office is in Berlin. KGHM CUPRUM Sp. z o.o. – CBR acquired 74.9% of the shares of the new entity, while HMS Bergbau AG acquired the remaining 25.1 %.

The share capital of KGHM HMS Bergbau AG amounts to EUR 50 thousand, i.e. PLN 225 thousand. The cost of acquiring these shares was PLN 168 thousand. At the acquisition date the minority interest amounted to PLN 57 thousand.

At 31 December 2009 KGHM HMS Bergbau AG had no revenues from sales, and had incurred a loss of PLN 77 thousand, resulting mainly from administrative expenses.

KGHM HMS Bergbau AG was founded for the purpose of exploration and evaluation of deposits of copper and other metals in Europe. The first project to be pursued by the company will involve exploration within the territory of Saxony in Germany. The foundation of KGHM HMS Bergbau AG is related to the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018 which was approved in February 2009. With respect to that part of the Strategy involving development of the resource base, it assumes among others exploring new deposits in the region.

– Founding of KGHM TFI S.A.

On 10 June 2009 KGHM Polska Miedź S.A. founded the company KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SPÓŁKA AKCYJNA (KGHM TFI S.A.), in which it acquired 100 % of the shares with a total nominal value of PLN 2 800 thousand, covered by cash. The issue price of the shares is equal to their nominal value. The company was court registered on 29 June 2009. The subject of activities of KGHM TFI S.A. is the creation and management of investment funds and the management of financial instruments portfolios. On 11 January 2010 KGHM TFI S.A. received a license from the Polish Financial Supervision Authority for the conduct of activities as an investment fund management company.

In 2009, KGHM TFI S.A. had no revenues from sales, and incurred a loss of PLN 964 thousand, resulting mainly from administrative expenses.

On 2 February 2010, KGHM TFI S.A. issued 10 000 Investment Certificates, series A. Of this amount, 2 095 Certificates were acquired by KGHM Polska Miedź S.A at the price of PLN 10 thousand per Certificate. The total amount paid for the Investment Certificates increased by handling charges amounted to PLN 21 998 thousand.

– Acquisition of FADROMA-SERWIS-REMONTY spółka z ograniczoną odpowiedzialnością

On 14 July 2009, DFM ZANAM-LEGMET Sp. z o.o. acquired 600 shares of the company FADROMA S.R. SP. Z O.O. with its registered head office in Wrocław, representing 90.09% of the share capital, for PLN 825 thousand. On 16 October 2009, DFM ZANAM-LEGMET Sp. z o.o. acquired a further 53 shares of FADROMA-S.R. SP. Z O.O. for the amount of PLN 73 thousand, representing 7.95% of the share capital.

The total share of DFM ZANAM-LEGMET Sp. z o.o. in FADROMA S.R. SP. Z O.O. at the end of 2009 was 98.05 %.

The carrying amount of the net assets of FADROMA S.R. SP. Z O.O. at the date of acquisition totalled PLN 416 thousand. The total cost was PLN 897 thousand. Goodwill provisionally set amounts to PLN 481 thousand. At the date of acquisition minority interest amounted to PLN 11 thousand.

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.2 Changes in the structure of the Group (continuation)

From the date of acquisition to 31 December 2009, FADROMA S.R. SP. Z O.O. generated revenues from sales in the amount of PLN 2 981 thousand and a loss of PLN 92 thousand.

The acquisition by DFM ZANAM-LEGMET Sp. z o.o. of shares of FADROMA S.R. SP. Z O.O. was aimed at acquiring an entity from the same business sector.

- Acquisition of WPEC w Legnicy S.A.

  On 29 December 2009, the subsidiary „Energetyka" sp. z o.o. acquired from the STATE TREASURY OF POLAND 10 030 thousand shares of the company Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej w Legnicy Spółka Akcyjna with a per-share face value of PLN 10 during the process of privatisation, representing 85% of the share capital of this company.

  The cost of acquisition was PLN 202 621 thousand. The carrying amount of the net assets of WPEC w Legnicy S.A. amounted to PLN 117 368 thousand, of which the carrying amount of the net assets attributable to the buyer amounted to PLN 99 762 thousand. Goodwill provisionally set amounts to PLN 102 859 thousand. At the date of acquisition minority interest amounted to PLN 17 605 thousand.

  The acquisition by „Energetyka" sp. z o.o. of shares of WPEC w Legnicy S.A. was aimed at achieving the effect of synergy arising from the combination of the existing resources of two significant on the market entities from the power sector.

In 2009, there were no changes in the basic management principles of the Group.

Acquisition of own shares

On 8 May 2009, Hefra S.A. for purposes of redemption, acquired 25 000 of its own shares in the total nominal amount of PLN 18 thousand, representing 0.5 % of the share capital, from the Industrial Development Agency. This acquisition was carried out at the request of this shareholder, in accordance with art. 418 of the Commercial Partnerships and Companies Code – Forced purchase of shares.

Redemption of the acquired shares took place on 30 October 2009, with court registration of the decrease in share capital on 18 November 2009.

The share capital of HEFRA S.A. following this decrease is PLN 3 508 thousand.

1.3. Equity investments

Equity investments within the Group

In 2009, the Parent Entity - KGHM Polska Miedź S.A. – carried out equity investments within the Group, through the acquisition of shares in the increased share capital of the below-mentioned Group companies.

- POL-MIEDŹ TRANS Sp. z o.o.

  In 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of POL-MIEDŹ TRANS Sp. z o.o. twice.

  On 10 February 2009 KGHM Polska Miedź S.A. acquired newly-created shares of the company and covered them, at their face value, by a contribution in kind in the form of perpetual usufruct of land with a carrying amount of PLN 150 thousand. This investment was aimed at regulating the legal status of the property.

  On 20 November 2009 KGHM Polska Miedź S.A. acquired newly-created shares of the company which will be covered, at their face value, by cash in the total amount of PLN 10 000 thousand. Payment for these shares was set in two instalments. The first instalment in the amount of PLN 8 000 thousand was paid in November 2009. The date for payment of the second instalment was set for May 2010. The company used the funds obtained from this increase in share capital for partial financing of the purchase of electric locomotives.

  The share capital of POL-MIEDŹ TRANS Sp. z o.o. following the above-mentioned increases amounts to PLN 150 568 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

- „MCZ" S.A.

  In 2009, KGHM Polska Miedź S.A. acquired shares in the increased share capital of „MCZ" S.A. twice.

  On 26 June 2009, KGHM Polska Miedź S.A. acquired shares of the new issue and covered them, at their face value, by cash in the total amount of PLN 900 thousand.

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.3. Equity investments (continuation)

On 16 November 2009, KGHM Polska Miedź S.A. acquired shares of the new issue and covered them, at their face value, by cash in the total amount of PLN 600 thousand.

The company used the funds obtained from this increase in share capital for the purchase of medical equipment. The share capital of „MCZ" S.A. following the above-mentioned increases amounts to PLN 53 718 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

– CBJ sp. z o.o.

On 23 December 2009, KGHM Polska Miedź S.A. acquired shares in the increased share capital of CBJ sp. z o.o. and covered them, at their face value, by cash in the total amount of PLN 2 205 thousand. The company used the funds obtained from this increase in share capital for realisation of investments related to automatisation of the processes of selecting samples for analysis.

The share capital of CBJ sp. z o.o. following the increase amounts to PLN 5 123 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

– „Energetyka" sp. z o.o.

On 22 December 2009, KGHM Polska Miedź S.A. acquired shares in the increased share capital of „Energetyka" sp. z o.o. and covered them, at their face value, by cash in the total amount of PLN 153 500 thousand. The company used the funds obtained from this increase in share capital for partial financing of the purchase of 85% of the shares of WPEC w Legnicy S.A.

The share capital of „Energetyka" sp. z o.o. following the registration of the increase (on 19 January 2010) amounts to PLN 402 293 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

– KGHM TFI S.A.

A description of this equity investment, beeing the foundation by KGHM Polska Miedź S.A. of KGHM TFI S.A., is included in point 1.2 of this report, „Changes in the structure of the Group".

Apart from the Parent Entity, equity investments within the Group were made by KGHM Ecoren S.A. It increased its equity investment in DKE Spółka z o.o. from 50.33 % to 100 % of the share capital, through the acquisition of shares from another shareholder. (A detailed description of this transaction is presented in point 1.2 „Changes in the structure of the Group").

All equity investments within the Group were financed from internal funds.

Other equity investments

In 2009 KGHM Polska Miedź S.A. continued to invest in the AIG Emerging Europe Infrastructure Fund. The fair value of the investment in this Fund at 31 December 2009 is PLN 7 930 thousand. In 2009 the company paid a management fee of PLN 99 thousand.

1.4. Scope of activities of Group companies

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

The following table lists the activities of individual Group companies.

Table 1. Scope of activities of Group companies

Item	Entity	Type of activity
1.	KGHM Polska Miedź S.A.	mining of other non-ferrous metals ore, excavation of salt, production of copper and other non-ferrous metals, production of precious metals, casting of copper and copper alloys and other non-ferrous metals, stamping and roll forming of metal, waste management, wholesale sales of metals, metal ores, chemical products and waste and scrap, and engineering and related technical consulting
2.	KGHM Ecoren S.A.	production of ammonium perrhenate and road-building material; sale of raw material for the production of abrasives; the processing and recovery of metals from ore, minerals and industrial waste; galvanisation services

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.4. Scope of activities of Group companies (continuation)

3.	DIALOG S.A.	cable and wireless telecom services; re-emission of television channels and rental/leasing of audio-visual content
4.	PeBeKa S.A.	mine construction with infrastructure; construction of roadway/railway tunnels, underground metro routes; underground and specialist construction
5.	„Energetyka" sp. z o.o.	generation, transmission and distribution of electrical and heating energy, water-sewage management
6.	POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport, passenger and cargo road transport; trade in fuels
7.	KGHM Metraco S.A.	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt; expediting services
8.	PHP „MERCUS" sp. z o.o.	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables
9.	KGHM Kupferhandelsges.m.b.H.	copper trade
10.	CBJ sp. z o.o.	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
11.	„MCZ" S.A.	hospital services; physician practice; activities related to protecting human health; occupational medicine
12.	KGHM CUPRUM sp. z o.o. - CBR	R&D activities; research and technical analysis; technological and construction design; maintaining technical and technological documentation archives; geological-exploratory work and geodesic and cartographic activities
13.	KGHM LETIA S.A.	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and leasing/rental
14.	KGHM TFI S.A.	creation and management of investment funds; management of portfolios comprising one or more financial instruments
15.	Zagłębie Lubin S.A.	management of a football club, organisation of professional sporting events
16.	TUW-CUPRUM	mutual insurance services for its members
17.	PCPM sp. z o.o.	promoting the development and expanding the use of copper and its alloys – market research, advertising; publishing
18.	DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery; machinery repairs; steel constructions
19.	FADROMA S.R. SP. Z O.O.	production of fittings for construction machinery; servicing of construction and mine loaders; steel constructions
20.	INOVA Spółka z o.o.	design and production of telecommunication systems and automated systems, measurement and control systems; lamphouse servicing; design and production of electrical machinery and equipment
21.	WM „ŁABĘDY" S.A.	coal and fine coal trading, railway scrap, smelter goods and steel grinding mediums
22.	Walcownia Metali Nieżelaznych spółka z o.o.	production of flat goods from copper and its alloys; rolling services
23.	WFP Hefra SA	production and sale of rust-proof, semi-silver-plated and silver-plated table settings
24.	Ecoren DKE sp. z o.o.	utilisation of used batteries and small-scale storage cells; the collection and processing of used electrical and electronic equipment
25.	„PETROTEL" sp. z o.o.	telecom operator
26.	AVISTA MEDIA sp. z o.o.	telephone central activities
27.	INTERFERIE S.A.	tourism services, including holiday resorts, health spas and hotels
28.	PHU „Lubinpex" Sp. z o.o.	food industry, trade, vending and catering services

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.4. Scope of activities of Group companies (continuation)

29.	„Mercus Software" sp. z o.o.	implementation of complex IT systems, management and administration of computer networks, sale and servicing of computer equipment and software
30.	PMT Linie Kolejowe Sp. z o.o.	management of railway lines, maintenance of railway infrastructure, repair services
31.	„BIOWIND" Sp. z o.o. *	generation, transmission and distribution of electricity
32.	WPEC w Legnicy S.A.	production of heat from its own sources, transmission and distribution of heat, servicing
33.	KGHM HMS Bergbau AG.	exploration and exploitation of deposits of copper and other minerals

„BIOWIND" Sp. z o.o. has not yet commenced operations within its planned scope

1.5. Employment in the Group

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

Table 2. Average employment by period (positions)

Description	2008	2009	Change 2008=100
White collar	8 747	8 957	102.4
Blue collar	19 731	19 927	101.0
Total	**28 478**	**28 884**	101.4

The highest employment is in the Parent Entity. In 2009 the average level of employment was 18 370 positions. Among the remaining Group companies the highest average number of employees in 2009 was recorded by:

- PeBeKa S.A. 1 604,
- POL – MIEDŹ TRANS Sp. z o.o. 1 369,
- DFM ZANAM – LEGMET Sp. z o.o. 1 163,
- DIALOG S.A. 942.

In 2009 average employment in the Group increased in comparison to 2008 by 406 positions. This was related to expansion of the Group by two subsidiaries, WPEC w Legnicy S.A. (523 positions) and FADROMA S.R. SP. Z O.O. (65 positions).

Excluding the change in employment in the Group related to the acquisition of new entities, in 2009 there was a decrease in employment. The greatest change was recorded by the Parent Entity (a decrease of 116 positions) and was in respect of white collar positions, followed by PeBeKa S.A. (a decrease of 94 positions) which was due among others to completion of realisation of a contract for construction of the Warsaw metro. There was a significant increase in employment in AVISTA MEDIA Sp. z o.o. (by 71.5 %, i.e. increase by 88 positions) due to commencement of a TeleCentrum in Legnica.

Relations with the trade unions in the Group

<u>KGHM Polska Miedź S.A.</u>

Negotiations by the Management Board of KGHM Polska Miedź S.A. with the trade unions regarding the setting of the average monthly wages increase index in the company for 2009 did not conclude with the reaching of an agreement. In accordance with the law on the negotiating system for setting wages and with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., the index was set separately by the Management Board of the company at 0%.

As a result of the lack of agreement as to the setting of the wages increase index for 2009, in April 2009 six trade unions issued wage demands: an increase in the wages increase index by 8%, an increase in contributions to the Employee Retirement Program by 2 percentage points, the introduction of a packet of additional medical services, and contributions to the Social Fund.

These demands led to meetings between representatives of the unions and the Management Board of KGHM Polska Miedź S.A. As a result, on 5 May 2009, after the following meeting, the parties signed an agreement with the following terms:

- the employees of KGHM Polska Miedź S.A. were paid a bonus of PLN 5 thousand in two instalments,
- the basic contribution to the Employee Retirement Program was increased by 2 percentage points, i.e. to 5% of wages,
- the employees of KGHM Polska Miedź S.A. were covered with a packet of additional medical services provided by Miedziowe Centrum Zdrowia S.A.,
- the trade unions declared that realisation of this agreement exhausted the wage demands for 2009.

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.5. Employment in the Group (continuation)

„MCZ" S.A.

In 2009 a collective dispute over wages in „MCZ" S.A. begun in 2007 continued. The wage increases carried out in the years 2007–2009 and the payment of a one-off bonus did not exhaust the wage demands which were set by the trade unions for individual professional health service groups. They nonetheless enabled the continuation of good relations with the trade unions. Representatives of the trade unions operating within „MCZ" S.A. committed themselves among others not to engage in strikes in 2009. As a result of the payment, together with the monthly wage for December 2009, of an annual bonus to all company employees, an agreement was reached concerning among others not engaging in strikes until June 2010 by the trade unions operating within „MCZ" S.A.

1.6. Remuneration of members of management and supervisory bodies of the Parent Entity

Remuneration of the Management Board

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, which is comprised of a basic monthly wage, variable wages, bonuses and additional benefits arising from the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. and sector regulations. Payment of the variable wage is contingent on the Management Board meeting the criteria set by the Supervisory Board, and amounts up to 40% of their annual basic wage. In addition the Supervisory Board, based on its assessment of the work of the Management Board, may grant the members of the Management Board up to 10% of their annual basic wage.

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 the amount of the premiums to an amount up to one monthly basic wage, with the principles and manner of settlement being agreed by the parties in a separate contract).

Contracts entered into between the Parent Entity and management personnel, providing for compensation in case of their resignation or dismissal from their position.

The employment contracts which are signed with Members of the Management Board also 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 equalling the 10 basic monthly wages. 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 foresee 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.

Remuneration of the Supervisory Board

The question of remuneration of the Supervisory Board members is regulated by Resolution No. 15/2003 of the Ordinary General Meeting regarding: changes in the principles of remuneration of the Supervisory Board members adopted on 29 May 2003.

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.

Presented below is information on the total amount of wages, bonuses or benefits paid or due to management and supervisory personnel of the Parent Entity, as well as information on the amount of wages and bonuses received by them, due to fulfilling a function in the bodies of subordinated entities.

Table 3. Remuneration of the Management Board of the Parent Entity ('000 PLN)

Description	2008	2009
Wages and other employee benefits	3 415	1 915
Earnings from related entities	508	117
Benefits due to termination of employment relationship	2 697	572
Retirement rights	198	-
Benefits, other earnings	397	256
Total	**7 215**	**2 860**

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.6. Remuneration of members of management and supervisory bodies of the Parent Entity (continuation)

Table 4. Remuneration of the Supervisory Board of the Parent Entity (‘000 PLN)

Description	2008	2009
Wages for the period when function served in the Supervisory Board	829	836
Earnings from other contracts	392	460
Earnings from related entities	58	-
Total	**1 279**	**1 296**

Information on wages, bonuses or benefits for supervisory and management personnel of the Parent Entity can be found in Note 40 of the consolidated financial statements.

1.7. Share capital and ownership structure of the Parent Entity

At 31 December 2009, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 billion and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. The company has not issued preference shares. Each share grants the right to one vote at the General Meeting.

In 2009 there was no change either in registered share capital or in the number of issued shares. Based on information held by the Management Board of the Parent Entity there were also no changes of ownership of significant blocks of shares of KGHM Polska Miedź S.A.

At 31 December 2009, the shareholder structure of KGHM Polska Miedź S.A. was as follows:

- State Treasury 83 589 900 shares (41.79%),
- other shareholders 116 410 100 shares (58.21%).

On 12 January 2010 the Parent Entity received an announcement from the Minister of the State Treasury on the sale by the State Treasury on 8 January 2010, on a regulated market, of 20 million shares of KGHM Polska Miedź S.A. directed to qualified investors.

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 2009, based on information held by the Management Board of KGHM Polska Miedź S.A., among management and supervisory personnel only Ryszard Kurek – a Member of the Supervisory Board – owned shares of KGHM Polska Miedź S.A. (10 shares with a total nominal value of PLN 100).

At 31 December 2009, the members of the Management Board and Supervisory Board of the company did not own shares of the remaining related entities of the company.

The company does not have an employee share incentive program.

1.8. Parent Entity quotations on the Securities Markets

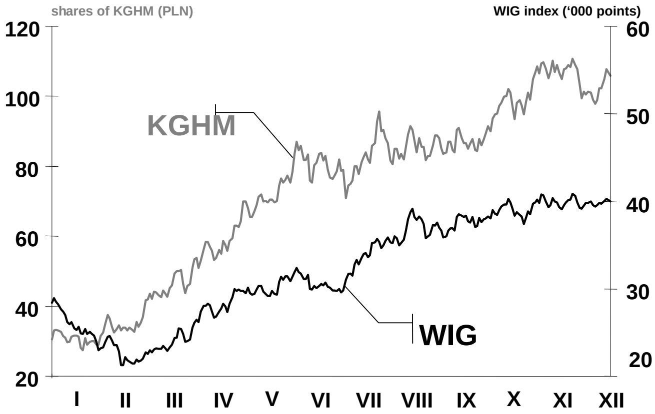
In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the company are traded on the primary market in a continuous trading system, and are a component of the WIG, WIG20 and RESPECT indices. This latter index was listed for the first time on the Warsaw Stock Exchange on 19 November 2009. KGHM Polska Miedź S.A. was included in the group of 16 listed companies which comprised the RESPECT Index – an index of socially responsible companies. These companies were the most highly assessed according to the RESPECT Rating, and became the leaders of this ranking, as confirmed by the project’s auditor.

2009 was a very successful year for the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange. The Parent Entity’s share price rose by 277%, from PLN 28.12 on the last trading session of 2008 to PLN 106.00 on 31 December 2009. During the year the WIG index of the Warsaw Stock Exchange rose by 47%, and the WIG20 by 33%.

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.8. Parent Entity quotations on the Securities Markets (continuation)

Diagram 2. *Share price of KGHM Polska Miedź S.A. versus the WIG index in 2009*



In 2009, KGHM Polska Miedź S.A. was among leading companies in terms of turnover value on the Warsaw Stock Exchange. An average trading volume of the Company's shares per session on the Warsaw Stock Exchange in 2009 amounted to 1 222.1 thousand.

Key share data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2007-2009 is presented in the following table:

Table 5. Key share data of the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

	Unit	2008	2009
Number of shares issued	million	200	200
Closing price from the last day of trading in the year	PLN	28.12	106.00
Market value of the company at year's end	million PLN	5 624	21 200
Highest closing price in the year	PLN	112.00	110.70
Lowest closing price in the year	PLN	21.40	27.50
Average trading volume per session	'000	1 124.3	1 222.1
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	9.00	11.68

The global depositary receipts (GDRs) of the Parent Entity had been listed since July 1997 on the London Stock Exchange (LSE). Recently, investors' interest in this form of investment in the shares of KGHM Polska Miedź S.A. had diminished. The number of issued GDRs of the Parent Entity fell to around 0.5% of the share capital of KGHM Polska Miedź S.A., and for many months remained at this level. The GDR program ceased to be effective. As of 22 December 2009, at the Parent Entity's request, the GDRs were withdrawn from the list of securities admitted to trading on the LSE, and the GDR program of KGHM Polska Miedź S.A. was ended.

1.9. Information on the contract with and the remuneration of the entity entitled to audit the financial statements

The entity entitled to audit the separate and consolidated financial statements of the Parent Entity is Ernst & Young Audit Sp. z o.o. with its registered head office in Warsaw, Rondo ONZ 1, 00-124 Warsaw. The contract with Ernst & Young Audit Sp. z o.o. was signed on 30 April 2007, and is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2007, 2008 and 2009.

Ernst & Young Audit sp. z o.o. was also selected to audit the financial statements of the following subsidiaries: KGHM Ecoren S.A., DIALOG S.A., „Energetyka" sp. z o.o., KGHM Metraco S.A., PeBeKa S.A., POL-MIEDŹ TRANS Sp. z o.o., ZANAM-LEGMET Sp. z o.o. and Zagłębie Lubin S.A.

The amount of remuneration due for the review and audit of the financial statements and remuneration for other services is shown in the table below.

1. Organisation of the KGHM Polska Miedź S.A. Group (continuation)

1.9. Information on the contract with and the remuneration of the entity entitled to audit the financial statements (continuation)

Table 6. Remuneration of the entity entitled to audit financial statements and its related entities (‘000 PLN)

Company	2008	2009
Ernst & Young Audit Sp. z o.o.	**2 989**	**2 235**
Due to contract for the review and audit of financial statements, of which:	2 153	1 999
- audit of annual financial statements	1 631	1 407
- review of financial statements	522	592
Due to other contracts	836	236
Other companies from the Ernst & Young Group in Poland	**1 882**	**1 355**
tax consultancy contracts	1 399	1 124

2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A.

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 of the Warsaw Stock Exchange dated 4 July 2007 and which came into force on 1 January 2008. 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 Parent Entity (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 2009 the company decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and made them immediately available on the company website in both Polish and English, and is available under the section Investor Zone/Transmissions.

At present KGHM Polska Miedź S.A. is not planning to conduct live transmissions of its General Meetings, but will continue to register these meetings and make them available on its website.

In accordance with principle II.1.4 of the “Code of Best Practice for WSE Listed Companies”, KGHM Polska Miedź S.A. should publish on its corporate website items such as proposed General Meeting resolutions together with justifications, at least 14 days prior to the date set for the meeting.

The proposed resolution on the appropriation of profit for financial year 2008 for the Ordinary General Meeting was provided at a later date than indicated by this principle. The Management Board had earlier informed shareholders (in current reports 18/2009 and 21/2009) of a planned change in the recommendation to the General Meeting regarding the appropriation of profit from financial year 2008 owing to an analysis of the financial position of the company carried out at that time. The proposed resolution on the appropriation of profit from financial year 2008 was published by the Parent Entity immediately after the Management Board had taken appropriate decisions, i.e. 11 days prior to the date set for the Ordinary General Meeting.

2.1. 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 Regulations of the General Meeting. The company’s corporate documents are available on the website of KGHM Polska Miedź S.A. (www.kghm.pl).

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 report of the group of the company, 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,

2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continuation)

2.1. General Meetings (continuation)

- 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 establishment 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 KGHM Polska Miedź S.A. 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 statutory 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 2009 the General Meeting of the Parent Entity made changes to the Statutes of the company arising from changes to the act dated 15 September 2000 respecting the Commercial Partnerships and Companies Code (CPCC), which came into force on 3 August 2009 and related to the Decree of the Council of Ministers dated 24 December 2007 regarding the Polish Classification of Activities (PCA).

The updating of the CPCC has fundamentally altered the process of organising General Meetings and has assigned new rights to shareholders. Certain regulations are of an obligatory nature, while others are optional for companies.

From the new regulations of the CPCC, KGHM Polska Miedź S.A. 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 website and the adoption of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication were, however, not adopted.

Apart from those changes arising from adaptation of the Statutes to the updated CPCC, changes were made to the Statutes relating to:
- realisation of the right to redeem shares. Regulations were refined which only allow for the voluntary (i.e. by shareholder permission) redemption of shares, and not their forced and automatic redemption;
- the possibility to make an interim dividend payment to shareholders on the anticipated dividend at the financial year's end. The Management Board of the company has been authorised to adopt resolutions on the matter of an interim dividend payment to shareholders on the anticipated dividend at the financial year's end, if the company is in possession of sufficient funds for said payment. The payment of an interim dividend requires the approval of the Supervisory Board;
- expanding the list of rights assigned to the General Meeting, in respect of which resolutions should be passed by a qualified majority of votes cast;
- decreasing the quorum from 1/3 to 1/4 in order to ensure that, in the case of the presence at the General Meeting of the shareholder representing 1/4 of the share capital, it will still be possible to pass resolutions;
- the right of the State Treasury to convene General Meetings in specified cases.

Due to the changes in the CPCC, the Parent Entity intends to submit a motion to the next General Meeting on the passage of new Regulations for the General Meeting of KGHM Polska Miedź S.A.

2.2. Shareholders and their rights

At 1 January as well as at 31 December 2009, the only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting was the Polish State Treasury, which - based on an announcement dated 16 May 2007 - held 83 589 900 shares, representing 41.79% of the share capital of the company.

The remaining shareholders held shares representing less than 5% of the share capital – a total of 116 410 100 shares, representing 58.21% of the share capital and the same number of votes at the General Meeting.

On 12 January 2010 the Parent Entity received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury, represented by the Minister of 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.

Shareholders of the Parent Entity exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the company and the Regulations of the General Meeting.

2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continuation)

2.2. Shareholders and their rights (continuation)

Shareholders are entitled to exercise their voting during General Meetings either personally or through a representative. 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 proprietary rights in respect of the Parent Entity.

Until 22 December 2009 KGHM Polska Miedź S.A. had a depositary receipts program. The representative of the owners of GDRs at the General Meeting was the Depositary Bank, which executed its voting rights through its representative, in accordance with the instructions issued by the owners of the said GDRs and in accordance with the principles of the Depositary Agreement entered into with the Parent Entity. Due to the low effectiveness of the depositary receipts program of KGHM Polska Miedź S.A., the Depositary Agreement was terminated on 22 December 2009.

2.3. 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 from 1 January to 31 December 2009 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. The cause of the decision of Marek Trawiński is the possibility that actions, which may be taken in the near future by a company in which he serves as a member of the management board, may create the potential risk of a conflict of interest with KGHM Polska Miedź S.A.

Supervisory Board Committees

Under the auspices of the Supervisory Board are 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 preparation of 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 KGHM Polska Miedź S.A. and the Group, and training and other benefits provided by the Parent Entity, 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 Parent Entity, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles applied in the Parent Entity,
- 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 Parent Entity 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,

2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continuation)

2.3. Supervisory Board (continuation)

- continuous co-operation with the independent auditor 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 Parent Entity bodies and other administrative institutions,
- providing an opinion on the internal auditing plan and the internal auditing regulations of the Parent Entity, and of changes of the director of internal auditing,
- analysis of the conclusions reached and the recommendations made by an internal audit of the Parent Entity, with monitoring of the degree of implementation of these recommendations by the Management Board of the company, and
- the monitoring of decrees and Parent Entity's regulations as regards accounting, finances and hedging against trade and financial risks, and exposure of the Parent Entity 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, which came into force in December 2009, 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. in 2009:

- 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 contingent pay 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. in 2009:

- 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.

2.4. Management Board

The Management Board conducts the business of the Parent Entity and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the Parent Entity 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 Parent Entity 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, 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 does not have the authority to increase the share capital or issue the shares 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.

2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continuation)

2.4. Management Board (continuation)

During the period from 1 January 2009 to 16 June 2009 the composition of the Management Board, and the respective segregation of duties amongst the members of the Management Board, was as follows:

– Mirosław Krutin President of the Management Board,
– Herbert Wirth I Vice President of the Management Board (Production),
– Maciej Tybura Vice President of the Management Board (Finance).

On 15 June 2009 Mirosław Krutin submitted a statement to the Chairman of the Supervisory Board, in which he announced that he would not be a candidate for the position of President of the 7th-term Management Board.

On 15 June 2009 the Supervisory Board resolved that the subsequent (7th) term Management Board of KGHM Polska Miedź S.A., commencing on 16 June 2009, would be composed of two members of the Management Board, and appointed the following persons thereto:

– Herbert Wirth – granting him the responsibilities of the President of the Management Board,
– Maciej Tybura – granting him the function of Vice President of the Management Board.

Simultaneously the Supervisory Board decided to commence the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. for the 7th term.

On 20 July 2009 the Supervisory Board appointed Herbert Wirth to the position of President of the Management Board of KGHM Polska Miedź S.A. for the 7th term.

On 24 August 2009 the Supervisory Board appointed Ryszard Janeczek to the position of Vice President of the Management Board of KGHM Polska Miedź S.A. for the 7th term and granted Maciej Tybura the function of I Vice President of the Management Board.

At 31 December 2009 the composition of the Management Board, and the respective segregation of duties amongst the members of the Management Board, was as follows:

– 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).

2.5. Description of the basic characteristics of internal control and risk management systems with respect to the process of preparing financial statements and consolidated financial statements applied in the Group

The Management Board is responsible for the internal control system and its effectiveness in the preparation of financial reports of the Parent Entity. The management of 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, including set 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 KGHM Polska Miedź S.A. and subsidiaries of the Group, based on fixed principles, and the generation on their basis of high-quality financial data for presentation, the following has been introduced for continuous use:

– an Accounting Policy for KGHM Polska Miedź S.A. and the Group and a Sector Chart of Accounts, in accordance with International Financial Reporting Standards,
– Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets,
– Sector Inventorisation Instructions

and in addition, for KGHM Polska Miedź S.A.:

– Principles for Financial Management and for an Economic System,
– Documentation for an IT system for the processing of accounting data

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of KGHM Polska Miedź S.A. 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. The Parent Entity and its subsidiaries 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 Parent Entity. 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.

2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continuation)

2.5. Description of the basic characteristics of internal control and risk management systems with respect to the process of preparing financial statements and consolidated financial statements applied in the Group (continuation)

In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically updated and confirmed by the head of the units, i.e. the Management Board of the Parent Entity and the management boards of subsidiaries.

KGHM Polska Miedź S.A. 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. 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.

One of the primary elements of control as respects the preparation of separate and consolidated financial statements of KGHM Polska Miedź S.A. is the verification of financial statements of the Parent Entity and financial statements of subsidiaries by external independent certified auditors. The tasks of the auditors include in particular: review of the half-year financial statements and preliminary audit and final audit of the annual financial statements. Selection of the certified auditor in the key companies of the Group is carried out from amongst renowned auditing firms, guaranteeing high standards of services and the required level of independence. In KGHM Polska Miedź S.A. the selection of the certified auditor is carried out by the Supervisory Board, and in subsidiaries by their Supervisory Boards or General Meetings.

The body which supervises the process of financial reporting in KGHM and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board. 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 auditing 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 the internal control carried out by internal auditing and internal control.

Internal auditing operates based on the „Regulations for internal auditing in KGHM Polska Miedź S.A." approved by the Management Board of the company and on the „Code of ethics for internal auditors in KGHM Polska Miedź S.A." – developed based on International Professional Standards in Internal Auditing Practice published by the Institute of Internal Auditors. The Internal Audit Department has complete, assured independence in its auditing activities.

In performing auditing tasks in 2009, risk associated with the audited processes was identified and assessed, and the adequacy and effectiveness of control mechanisms, aimed among others at the reliability and uniformity of financial data being the basis for the preparation of financial statements required by law as well as management reports, was assessed. The Parent Entity is also undertaking actions to include companies from the Group.

Internal control of the Parent Entity operates 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 – the Department Internal Control. 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. Additionally, 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.

Organisation of the process of market risk management in the Group, with respect to the preparation of consolidated financial statements in terms of entering into and realising transactions on the derivative instruments market is based on proxy authority granted by the management boards of Group companies.

2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continuation)

2.5. Description of the basic characteristics of internal control and risk management systems with respect to the process of preparing financial statements and consolidated financial statements applied in the Group (continuation)

Organisation of the market risk management process in the Parent Entity separates the functions of units responsible for entering transactions on the derivative instruments market 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 derivative instruments transactions unauthorised by the Management Board.

The effectiveness of the control and risk management procedures in the process of preparing financial statements of KGHM Polska Miedź S.A. may be seen in the form of the high quality of these statements, as confirmed by the opinions put forth thus far by certified auditors from their auditing of the financial statements and by the high evaluations of the recipients of these statements. In addition, KGHM Polska Miedź S.A. regularly participates in the competition The Best Annual Report organised by the Institute of Accounting and Taxation under the patronage of the Warsaw Stock Exchange, gaining leading positions amongst listed companies.

The companies of the KGHM Polska Miedź S.A. Group, as well as the Parent Entity, register, process and present economic and financial data based on their own procedures for the identification, documentation and control of economic operations.

The Accounting Policy approved by KGHM Polska Miedź S.A., based on International Financial Reporting Standards, is obligatory for the entities of the Group, with respect to the preparation of data packets for the preparation of the consolidated financial statement. Each company prepares its own principles of economic and financial management and chart of accounts.

In addition, the companies apply their own internal procedures with respect to control systems and the evaluation of risk related to their activities.

The scope and principles of financial reporting are set by the Parent Entity.

The decided majority of Group entities maintain their accounts within an integrated IT system. Some companies are preparing to implement such systems. Documentation of the IT accounting system is periodically verified and updated.

The companies implement 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. These entities develop their own security policies in the form of internal regulations on access to resources, the granting of authorisations, and of control over each stage of preparation of financial statements.

All of the Group's companies have supervisory boards, which in accordance with art. 4a of the Accounting Act dated 29 September 1994, are responsible for ensuring the conformance of the financial statements and the reports on the activities of the company with the laws in force.

Internal control in the Group's companies functions on the basis of regulations approved by the management boards of the entities. In most companies, internal control has an institutional character, i.e. it is realised by a separate organisational unit. The companies themselves regulate their internal control systems, depending on the scale of activities and the needs of the management board. Control activities have a direct or indirect impact on the accuracy of the financial statements.

3. Economic activities of the KGHM Polska Miedź S.A. Group

3.1. Basic products, goods for resale and services

Amongst the most important products produced by the companies of the Group, simultaneously representing the largest share in Group sales, are the basic products produced by the Parent Entity, i.e. copper and copper products, silver and gold. The sales share of these products in total Group sales is around 88 %. The value and volume of the sales of the basic products of KGHM Polska Miedź S.A. are presented in the following table.

Table 7. Value of sales of the basic products of KGHM Polska Miedź S.A.* ('000 PLN)

Product	2008	2009	Change 2008=100
Copper and copper products	9 442 761	8 815 919	93.4
Silver	1 348 511	1 731 718	128.4
Gold	62 652	84 721	135.2

** Reflecting the impact of commodity hedging transactions*

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.1. Basic products, goods for resale and services (continuation)

Table 8. Volume of sales of the basic products of KGHM Polska Miedź S.A.

Product	Unit	2008	2009	Change 2008=100
Copper and copper products	'000 t	537.3	509.9	94.9
Silver	t	1 175	1 198	102.0
Gold	kg	924	818	88.5

In 2009 KGHM Polska Miedź S.A. sold 509.9 thousand tonnes of copper and copper products, meaning a decrease in the volume of sales by 27.4 thousand tonnes (5%), mainly due to a decrease by 30.4 thousand tonnes (15%) in wire rod sales. The decrease in the volume of copper sales is due to the global financial crisis. Silver sales amounted to 1 198 t and were higher by 2% (23 t) versus the comparable prior period. Gold sales also decreased, by 12% (106 kg) and amounted to 818 kg.

Revenues from the sale of copper and copper products in the Parent Entity decreased by 7%, while revenues from silver and gold sales, in comparison to their level in 2008, were higher respectively by 28% and 35%. This is due to the increase in precious metals prices against the backdrop of the global crisis in financial markets.

Revenues from the sale of products of the Parent Entity in 2009 reflect the positive result from the settlement of commodity hedging instruments in the amount of PLN 425 402 thousand (in 2008 PLN 569 132 thousand) and currency hedging instruments in the amount of PLN 7 785 thousand (in 2008 there was no adjustment of revenues in this regard). In 2009 there was no adjustment of revenues due to exchange differences related to the hedging of foreign-denominated credit, which in 2008 was recognised in revenue from cathode exports in the amount of +PLN 10 859 thousand.

Sales of the basic products, goods for resale and services of the remaining Group companies is a diverse part of the sales of the Group. Taking into consideration the share of these products in the sales of individual Group companies, the basic products, goods for resale and services were chosen which are presented in the table below.

Table 9. Sales of basic products, goods for resale and services of the remaining significant Group companies ('000 PLN)

Company / product, good, service	2008	2009	Change 2008=100
KGHM Metraco S.A.			
trade in copper scrap	686 015	1 201 883	175.2
PHP „MERCUS" sp. z o.o.			
sales of goods for resale and materials	643 374	585 242	91.0
DIALOG S.A.			
telecom services	548 034	493 778	90.1
KGHM Kupferhandelsges. m.b.H			
copper trade	322 672	288 153	89.3
PeBeKa S.A.			
horizontal tunnelling work – excavation of drifts	249 123	214 059	85.9
vertical tunnelling work – building of shafts	39 264	57 180	145.6
„Energetyka" sp. z o.o.			
production of heat	85 312	97 744	114.6
production of electricity	45 383	53 332	117.5
POL-MIEDŹ TRANS Sp. z o.o.			
railway cargo transport	128 649	135 395	105.2
roadway transport of cargo and passengers	77 534	65 732	84.8
sales of fuels	252 945	216 545	85.6
Walcownia Metali Nieżelaznych spółka z o.o.			
production of products from copper and its alloys	87 659	69 708	79.5
KGHM Ecoren S.A.			
production of ammonium perrhenate	78 615	53 356	67.8
ZANAM-LEGMET Sp. z o.o.			
production of self-propelled mining machinery	84 634	65 441	77.3
„MCZ" S.A.			
medical services	78 852	87 611	111.1

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.1. Basic products, goods for resale and services (continuation)

Table10. Sales volume of basic products, goods for resale and services of the remaining significant Group companies

Company / product, good, service	Unit	2008	2009	Change 2008=100
KGHM Metraco S.A.				
trade in copper scrap	t	45 613	79 119	173.5
KGHM Kupferhandelsges. m.b.H				
copper trade	t	18 736	16 886	90.1
PeBeKa S.A.				
horizontal tunnelling work – excavation of drifts	meters	27 178	24 313	89.5
vertical tunnelling work – building of shafts	meters	142	420	295.8
„Energetyka" sp. z o.o.				
production of heat	GJ	3 028 206	3 148 618	104.0
production of electricity	kWh	258 055	264 850	102.6
POL-MIEDŹ TRANS Sp. z o.o.				
railway cargo transport	ntkm	618 889 016	719 126 133	116.2
roadway transport services	km	11 739 313	7 984 980	68.0
sales of fuels	kg	63 439 408	62 397 712	98.4
Walcownia Metali Nieżelaznych sp. z o.o.				
production of products from copper and its alloys	t	4 782	4 042	84.5
KGHM Ecoren S.A.				
production of ammonium perrhenate	kg	3 914	3 589	91.7
ZANAM-LEGMET Sp. z o.o.				
production of mining machinery	units	105	75	71.4

In the table above, sales volume was not presented for the companies PHP „MERCUS" sp. z o.o., DIALOG S.A. and „MCZ" S.A., due to the application of differing quantitative measures for the presented services.

Virtually 100 % of the trade in copper scrap is with KGHM Polska Miedź S.A. The share of copper scrap in the total sales of KGHM Metraco S.A. was as follows: in 2009 73%, in 2008 52%. The significant increase in 2009 (by 75 %) of revenues from the sale of copper scrap was due to the need to ensure increased deliveries to the Parent Entity. KGHM Metraco S.A. is one of the strategic trade entities of KGHM Polska Miedź S.A. It supplies materials and raw materials to guarantee the uninterrupted work of the divisions of KGHM Polska Miedź S.A., and also sells the by-products of the core business of KGHM Polska Miedź S.A. on external markets.

87 % of the sales of goods for resale and materials by PHP „MERCUS" sp. z o.o. are to KGHM Polska Miedź S.A. This company fulfils a strategic role for KGHM Polska Miedź S.A., as logistical coordinator for the core business in materials and spare parts. The share of sales of goods for resale and materials in the total sales of PHP „MERCUS" sp. z o.o. in 2009 amounted to 91%, and was unchanged versus 2008.

The telecom services performed by DIALOG S.A. are mainly provided to an external market, and account for around 100 % of the revenues of this company.

Copper trade – the company KGHM Kupferhandelsges.m.b.H. with its registered head office in Vienna sells the products of KGHM Polska Miedź S.A., i.e. wire rod, cathodes and round billets. This accounts for 100 % of the company's turnover. KGHM Kupferhandelsges.m.b.H. operates on the central- and southern-European market. Its main area of operations is Austria.

Mining services are provided mainly on behalf of KGHM Polska Miedź S.A. PeBeKa S.A specialises in mine construction. On the KGHM market it is the main contractor for mine tunnels and shafts, and also plays a significant role as a contractor in accessing a new deposit (Głogów Głęboki). The sale of mine tunnelling and shaft construction services in the total sales of PeBeKa S.A. was as follows: in 2009 83 %, in 2008 49 %.

Electricity and heat - „Energetyka" sp. z o.o. generates electricity together with heat. Around 96 % of revenues from the sale of electricity and 61 % from the sale of heat are from KGHM Polska Miedź S.A. In 2009 electricity sales accounted for around 23 % of the total sales of „Energetyka" sp. z o.o. for 2009, and from heat around 40 %. This relationship did not change in respect of 2008.

Transport services - POL-MIEDŹ TRANS Sp. z o.o. is a leading railway and roadway carrier, and the direct supplier of fuels to the divisions of KGHM Polska Miedź S.A. From 61 % to 73 % of revenues from the sale of these services is from the KGHM Polska Miedź S.A. market. The largest share in total sales of POL-MIEDŹ TRANS Sp. z o.o. is from the sale of fuels (52%) and roadway transport (32%).

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.1. Basic products, goods for resale and services (continuation)

Ammonium perrhenate is the main product of KGHM Ecoren S.A. It is sold by the company beyond the Group. The share of revenues from the sale of ammonium perrhenate in total sales of this company amounted to 52% in 2009 (in 2008 61%). This product is used and purchased by companies which process it into metallic rhenium for the producers of alloys, which are used mainly in the aircraft and petrochemical industries. In 2009 revenues from the sale of ammonium perrhenate decreased by 32 %, due to a decrease in sales volume and to decrease in prices from the second half of 2009. This situation was caused by the general global economic slowdown, which directly affected the difficult situation in the airline industry.

Mining machinery - ZANAM-LEGMET Sp. z o.o. is a significant supplier and service provider for the mining machinery and equipment of KGHM Polska Miedź S.A. The company produces machines designed to work in deep, non-methanic, non-ferrous metals ore and salt mines. Amongst the products produced by the company which determine its position are mining machines (loaders, haulers, drilling-bolting rigs and auxiliary machines) and conveyor belts. Around 75 % of revenues from the sale of self-propelled mining machinery is from KGHM Polska Miedź S.A. The share of revenues from the sale of these products in the company's total sales is around 30% (a decrease of 8 % versus 2008).

Medical services account for nearly 100 % of the sales of „MCZ" S.A. Sales to KGHM Polska Miedź S.A. account for approx. 14% of the company's total sales (occupational medicine).

The production of products from copper and its alloys accounts for nearly 100% of the revenues of Walcownia Metali Nieżelaznych sp. z o.o., earned on an external market (no change versus 2008).

3.2. Sales markets

Geographical structure of sales markets

The largest portion, i.e. 28% of revenues from the sale of products, goods for resale and services achieved by the KGHM Polska Miedź S.A. Group, in 2009 came from the domestic market. The largest foreign recipients of the products, goods for resale and services offered by the Group companies are Germany - 17 %, and China - 14%.

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

Table 11. Group sales by market

	2008	Structure %	2009	Structure %	Change 2008=100
Poland	4 484 809	35.4	3 374 310	27.8	75.2
Germany	1 398 163	11.0	2 053 935	16.9	146.9
China	1 264 189	10.0	1 674 758	13.8	132.5
United Kingdom	955 703	7.6	1 298 036	10.7	135.8
France	809 686	6.4	752 682	6.2	93.0
Czech Republic	870 895	6,9	563 983	4.7	64.8
Hungary	176 711	1.4	240 215	2.0	135.9
Austria	225 360	1.8	190 944	1.6	84.7
Other countries	2 469 369	19.5	1 971 047	16.3	79.8
Total	**12 654 885**	**100.0**	**12 119 910**	**100.0**	**95.8**

During the analysed period, in comparison to 2008, the following was recorded:
- a decrease by 25 % of sales on the Polish market,
- an increase by 47 % of sales on the German market,
- an increase of 33 % – 36 % of sales on the Chinese, British and Hungarian markets.

Export sales and sales to the EU countries

Around 94 % of revenues from Group sales for export and to European Union countries in 2009 were realised by the Parent Entity.

The sales volume of copper and copper products for export and to European Union countries represented 77% of total copper sales. During the analysed period, the largest foreign recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, France and the Czech Republic.

Silver export sales and sales to European Union countries represented 96% of the total volume of silver sales. The largest foreign recipients of silver were the United Kingdom, Belgium, Germany and the USA.

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.2. Sales markets (continuation)

Amongst the remaining Group entities, export sales and sales to European Union countries in 2009 were realised by:

- KGHM Kupferhandelsges.m.b.H. – company share in Group sales – 3 %, the company sold copper mainly to the Austrian market,
- KGHM Metraco S.A. - company share in Group sales – 2 %, the company mainly sold lead to the Czech Republic, and lead and copper sulphate to Germany,
- KGHM Ecoren S.A. – export sales of ammonium perrhenate to the United Kingdom accounted for just less than 1 % of Group sales.

Domestic sales

Sales of the Parent Entity on the domestic market in 2009 accounted for around 62 % of sales of the entire Group. The sales volume of copper and copper products on the domestic market accounted for 23% of total copper sales. Silver sales on the domestic market accounted for 4% of the total volume of silver sold.

Significant share of the revenues of other companies in the Group revenues on the domestic market:

- DIALOG S.A. (15 % share) – sales of telecom services,
- KGHM Metraco S.A. (5 % share) - sales mainly of refined lead and salt.

Suppliers to and customers of Group companies

In 2009 revenues from no single contracting party exceeded 10 % of Group revenues.

There was no instance in 2009 of dependence by KGHM Polska Miedź S.A., as the entity realising the largest sales of the Group, on a single or multiple customers or suppliers. Customers whose share in revenues from sales exceeds 10% are Tele-Fonika Kable S.A. and MKM Mansfelder Kupfer und Messing GmbH, whose share in the revenues from sales of KGHM Polska Miedź S.A. are respectively, 11% and 10%.

The Parent Entity is a significant customer as well as supplier of most of the companies of the Group. KGHM Polska Miedź is a supplier to entities such as KGHM Kupferhandelsges.m.b.H,, Walcownia Metali Nieżelaznych sp. z o.o., KGHM Metraco S.A. and KGHM Ecoren S.A., and a customer for the companies KGHM CUPRUM sp. z o.o. – CBR, KGHM Metraco S.A., „MCZ" S.A., „Energetyka" sp. z o.o., CBJ sp. z o.o., POL-MIEDŹ TRANS Sp. z o.o., PeBeKa S.A., PHP „MERCUS" sp. z o.o. and TUW-CUPRUM.

Significant external suppliers and customers of the remaining Group companies:

- Telekomunikacja Polska S.A. – is both a supplier to and customer of the services of DIALOG S.A,
- DROP S.A. – a supplier of copper scrap to KGHM Metraco S.A.,
- Kompania Węglowa S.A. – a supplier of coal to „Energetyka" sp. z o.o.

Market position of significant Group companies

<u>KGHM Polska Miedź S.A. on the copper and silver markets</u>

In 2009 global copper mine production amounted to 15 095 thousand tonnes (estimated data from CRU International Ltd). KGHM Polska Miedź S.A. produced 439 thousand tonnes of copper in concentrate, representing 3% of global production. Global production of refined copper amounted to 17 395 thousand tonnes. Refined copper production in KGHM Polska Miedź S.A. amounted to 502 thousand tonnes, also representing 3% of global production.

During this same period global silver mine production amounted to 17 614 t (estimated data from CPM Silver Yearbook 2009). The company produced 1 206 tonnes of silver in concentrate, representing 7% of global production.

<u>DIALOG S.A. on the domestic telecom services market</u>

DIALOG S.A. operates in three segments of the electronic communications market:

- fixed-line voice telephony,
- DLISP – internet access, data transmission and connection leasing services,
- pay-tv services.

In 2009 the company prepared to commence operations in a fourth segment – mobile telecommunication services, which was introduced in February 2010.

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.2. Sales markets (continuation)

Table 12. Share of DIALOG S.A. by segment in 2009

Segment of market / indicator	Polish national market	local market *
Fixed-line voice services	3.79%	22.28%
DLISP	1.59%	9.38%
Pay-tv	0.10%	0.58% **

Source: internal estimates based on Audytel, „State and perspectives for growth of the telecoms market in Poland to 2015 (February 2010)

* *local market means the area of eight numeric zones (formerly licensed areas)*
** *excluding TV services in Warsaw – respecting the Marina neighbourhood*

With respect to fixed-line telephony services, in 2009 DIALOG S.A. operated on the basis of its own network infrastructure, and offered services using the Telekomunikacja Polska network (WLR). In the case of voice services using its own network, the main competitors of DIALOG S.A. were Telekomunikacja Polska S.A. (TP S.A.) and CaTV networks. The company also competed with substitute voice services offered by mobile network operators (PTK Centertel/Orange, Polkomtel/Plus, PTC/Era, P4/Play). In the WLR network, the main competitor for DIALOG S.A. was Netia.

In the DLISP segment the largest competitor for DIALOG S.A. in 2009 was TP S.A. In internet access services using its own infrastructure, the company also competed with large cable network operators, such as Vectra, Multimedia Polska and UPC, as well as local ISP networks (local internet suppliers). With respect to internet access services using the TP S.A. network (BSA), the largest competitor was Netia.

In the pay-tv segment DIALOG S.A. competed mainly with large digital platform operators (such as Cyfrowy Polsat) and large CaTV networks (such as Multimedia Polska, UPC, Vectra), and to a lesser degree with IPTV service providers (TP S.A.). The share of the company in this segment is minimal, due to the fact that 2008 was the market debut year of DIALOGmedia. Also of note is the high rate of increase of customers using IPTV DIALOG S.A., which in 2009 amounted to nearly 500%.

3.3. Contracts of significance for the Group

In 2009 the Parent Entity entered into the following significant trade contracts (value of contracts based on data current at the time contract signed):

- contract for the sale-purchase of copper concentrate in the years 2012-2016 entered into on 29 May 2009 between KGHM Polska Miedź S.A. and SALOBO METAIS S.A. in Brazil. The estimated value of this contract is from USD 639 million (i.e. around PLN 2 072 million) to USD 969 million (i.e. around PLN 3 141 million),
- contracts for the sale of silver and gold entered into with HSBC Bank USA N.A., London Branch.
  On 1 December 2009, KGHM Polska Miedź S.A. entered into a contract with HSBC Bank USA N.A., London Branch for the sale of silver, as a result of which the total estimated value of contracts entered into between the parties over the last twelve months preceding its signing exceeded 10 % of the equity of KGHM Polska Miedź S.A. (criteria for a significant contract). The total estimated value of contracts entered into with HSBC Bank USA N.A., London Branch amounted to PLN 1 010 million. The highest-value contract was entered into on 27 March 2009, with an estimated value of PLN 671 million.

3.4. Information on significant transactions entered into between related entities, under other than arm's length conditions

In 2009 the companies of the KGHM Polska Miedź S.A. Group did not enter into significant transactions between related entities under other than arm's length conditions.

3.5. Investments in property, plant and equipment

In 2009 the highest expenditures on property, plant and equipment in the Group were incurred by the Parent Entity. The amount and structure of expenditures on property, plant and equipment by KGHM Polska Miedź S.A. is presented in the following table.

Table 13. Investment expenditures by KGHM Polska Miedź S.A. ('000 PLN)

	2008	2009	Change 2008=100
Development-related investments	492 015	513 195	104.3
Replacement-related investments	647 860	556 617	85.9
Total	**1 139 875**	1 069 812	93.9

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.5. Investments in property, plant and equipment (continuation)

Major projects and facilities realised by KGHM Polska Miedź S.A. in 2009:

- **Construction of the SW-4 shaft –** work continued on freezing and excavating the shaft, which was deepened by 567.5 meters. Work was also carried out on surface infrastructure and on drift tunnelling (1 168.5 meters of was performed);
- **Głogów Głęboki Przemysłowy deposit** – work continued on drift tunnelling to access the Głogów Głęboki Przemysłowy mining area. During the reporting period 5 874 meters of tunnels were dug (altogether since 2005, 32 thousand meters of the planned 130 thousand meters of tunnels have been developed). Work continued on developing the technical infrastructure with respect to: the underground power grid, dewatering system, horizontal transport system and ventilation. With respect to preparatory work on excavating the GG-1 shaft, work was completed on drilling test holes, geological documentation was developed and other design work was performed;
- **Investments related to developing the infrastructure of the excavation sections of the mines** - conveyor belts and retention tanks were developed, underground electrical switching gear and power lines were built and heavy machinery cells were built and outfitted;
- **Modernisation and replacement of the machinery park in the mines** – pursuant to plan, 198 mining machines were purchased for PLN 195 million;
- Replacement-related investments in the smelters;
- Investments related to improving and maintaining the safety of the **Żelazny Most** tailings pond, and eliminating its environmental impact;
- **Power and communications facilities** – realisation of investment respecting electrical switching gear and power lines, and transformer stations, power supply units and electrical installations were modernised;
- **Ventilation and air conditioning equipment** – investments related to ventilation equipment (ventilation belts, mine ventilators) and air conditioning equipment (air conditioning piping) in the mines were realised;
- Investments related to conveyor belt and pipe transport in the mines;
- Modernisation of pirometallurgy in the Głogów II smelter;
- **Construction of a 4th Doerschel furnace at the Głogów smelter** – project documentation was developed, bidding was held to select a contractor for the construction-assembly work and a supplier for the furnace's power system was chosen;
- Pirometallurgy Modernisation Program at the Głogów I smelter – preparation of a program;
- **Construction of gas-steam blocks in the powerplants in Głogów and Polkowice** – expenditures incurred by "Energetyka" sp. z o.o. to develop a technical-economic analysis for the selection of gas-steam blocks were reimbursed. A technical advisor was selected to develop technical documentation and to prepare tender procedures. Negotiations were held in November and December 2009 on the conditions for a contract respecting the supply of natural gas from PGNiG S.A. and the submission of bids to supply gas turbines. The signing of a contract with PGNiG S.A. which is planned by the end of April 2010 is a necessary condition for the signing of contracts for the supply of equipment. During the last period actions were also taken with respect to obtaining project financing from EU funds.

Significant investments realised by the remaining companies of the Group in 2009:

Zagłębie Lubin S.A.

- construction of a football stadium – expenditures of PLN 37 760 thousand incurred,

„Energetyka" Sp. z o.o.

- continuation of conception on developing power-generating capacity – expenditures of PLN 33 719 thousand incurred,

POL-MIEDŹ TRANS Sp. z o.o.

- purchase of fuel-burning locomotives - expenditures of PLN 22 986 thousand incurred,

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.5. Investments in property, plant and equipment (continuation)

DIALOG S.A.

- purchase and implementation of an MVNO platform (enabling the offering of mobile telephone services) – realisation of the final stage prior to commercially providing mobile voice services and data transmission), FUT testing – mobile services functioning. Expenditures incurred in 2009 amount to PLN 17 987 thousand;
- an IPTV project (interactive digital television) – the purchase of STB subscriber equipment, modems and licenses directly related to the new subscribers of DialogMedia services. Expenditures incurred in 2009 amount to PLN 13 218 thousand;

KGHM Ecoren S.A.

- an installation for the production of rhenium eluates at the Głogów I smelter – expenditures incurred amount to PLN 17 267 thousand,
- recycling of AGD – RTV waste - expenditures incurred amount to PLN 17 130 thousand;

PeBeKa S.A.

- purchase of heavy mining machinery – expenditures incurred amount to PLN 15 485 thousand.

3.6. Research and development

KGHM Polska Miedź S.A.

R&D work in KGHM Polska Miedź S.A. is closely connected to the company's strategy and is aimed at development and expansion of the core business, diversifying activities and supporting the development of KGHM Polska Miedź S.A.

External funding for R&D work in 2009 in KGHM Polska Miedź S.A. and the development of feasibility studies and analyses in the R&D amounted in total to PLN 16 141 thousand, and was slightly less than in 2008 (PLN 17 845 thousand). The decrease in expenditures was mainly in respect of R&D work - in 2009 they amounted to PLN 4 274 thousand (versus PLN 5 886 thousand in 2008).

In 2009 efforts focused on preparations to carry out the strategic R&D projects described in the new „Strategy of KGHM Polska Miedź SA for the years 2009–2018".

R&D work is mainly financed by the Parent Entity's internal funds. In certain cases are made use of public funds. In 2009 KGHM Polska Miedź S.A. received information from the Polish Agency for Enterprise Development on the granting of a development subsidy under the auspices of the Innovative Economy Operational Programme for the years 2007-2013, actions 1.4-4.1., 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". Support amounted to PLN 39 560 thousand, i.e. 32% of planned expenditures on the entire project. An applicable agreement is being developed which will be realised by 2015.

KGHM Polska Miedź S.A. is pursuing new forms of cooperation with R&D facilities and scientific institutions. The Parent Entity has participated in the initiation of several R&D projects of significance financed by the National Centre for Research and Development under the auspices of the IniTech program, in which KGHM Polska Miedź S.A. has declared its role as an end-user for the developed methods. An important initiative of this type is the R&D project titled „Technology for hydrometallurgical treatment of semi-products and copper concentrates by the Lubin Ore Enrichment Plant", which is being realised by the Chemical Department of the Wrocław University of Technology.

Examples of activity in international sector projects with respect to R&D of a private-government initiative character are: company participation in EFRB (EXPLOSIVE - FREE ROCK BREAKAGE INITIATIVE) projects, 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.

Amongst the main directions in the search for innovative technology in future years will be the following:

- work on developing mining technology – excavation and drift work in the mines of KGHM Polska Miedź S.A.– using mining combines,
- development of modified and/or new technology for the mining of deep deposits,
- research into automatisation, visualisation and controlling mining processes,
- improving safety during mining operations under conditions of associated 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 aimed at reducing the costs of this process,

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.6. Research and development (continuation)

- development of technology enabling a reduction in the amount of stored waste using the hydrotechnical method,
- ensuring the safe operation of the Żelazny Most tailings pond,
- research into the usefulness of new technology for the smelters of KGHM Polska Miedź S.A. in order to reduce processing costs,
- searching for technology to enable the full use of individual concentrate smelting units,
- comparative research into various technological methods for realising the copper scrap smelting circuit at the Legnica smelter,
- searching for ways to improve the parameters of currently-applied copper electrorefining technology,
- minimalisation of the impact of the Parent Entity's smelting operations on the environment,
- searching for possibilities to manufacture new products.

DIALOG S.A.

In 2009 carried out work on the realisation of an MVNO project - the introduction of mobile telephone services using the infrastructure of another operator. The most important part of the MVNO project is the implementation and integration of technology platforms (comprising several new and existing IT systems as well as Telco) for providing MVNO services. Mobile telephony services are one of the strategic projects of the company. Its realisation is the answer to the growing need for mobile telephony services in Poland, and serves to enhance the attractiveness and scope of the company's telecom offer. Expenditures related to MVNO charged to R&D work in 2009 amounted to PLN 1 719 thousand.

KGHM Ecoren S.A.

The activities of this company with respect to R&D in 2009 focused on three basic directions of development:
- the production of rhenium and related products,
- the management of industrial waste,
- the management of post-user waste and the production of metals and their compounds.

Expenditures on R&D work incurred by the company in 2009 amounted to PLN 1 846 thousand.

3.7. Environmental protection

Parent Entity

KGHM Polska Miedź S.A. carries out its production tasks while endeavouring to protect the natural environment. This adherence to strict environmental standards, as determined by law, is possible thanks to the systematic modernisation of existing environmental protection equipment, as well as to new investments in this area. In 2009 the company spent PLN 47 807 thousand on the realisation of projects related to environmental protection.

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2009 amounted to PLN 26 140 thousand. This decrease in the amount of fees versus 2008 (PLN 68 612 thousand) is due to changes in the law on mining waste. The law eliminates the payment of fees by economic entities which treat their mining waste through storage, and the floatation tailings from ore enrichment falls into this category.

In 2009 the largest fees paid by the company were for waste discharge: PLN 18 021 thousand, including PLN 18 017 thousand for the drainoff of excess water from the Żelazny Most tailings pond.

KGHM Polska Miedź S.A. operates eight installations whose functioning depends on 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 - the Głogów smelter,
- an installation titled The Biechów industrial waste storage facility - the Głogów smelter,
- an installation titled The Biechów II industrial waste storage facility - the Głogów smelter,
- the Legnica smelter - an installation for the production of refined lead,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electrical processes, the tailings waste facility „Polowice", a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the smelter - the Legnica smelter,
- an installation for the melting, continuous casting and drawing of copper rod - the Cedynia Wire Rod Plant,
- an installation for the storage of tailings from the floatation of copper ore - the Tailings Plant, and
- an installation for the neutralisation of sulphuric acid waste - the Ore Enrichment Plants.

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.7. Environmental protection (continuation)

The remaining Divisions of the Parent Entity possess sector administrative decisions permitting use of the environment.

In 2009 the procedure was begun 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 KGHM Polska Miedź S.A. is required to adapt its status to the provisions of this law.

In 2009 in the Głogów smelter an audit was performed to certify the system for managing workplace safety and hygiene. Acquisition of a certificate confirming implementation of the standard PN 18001 caps years of effort by the Głogów smelter to achieve an Integrated Management System. This also marked the completion of the certification stage in the smelting divisions, which will operate in accordance with management systems in the areas of environment, quality and workplace safety and hygiene.

The Parent Entity 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 in KGHM Polska Miedź S.A. compliant with the law. In addition, it will be necessary to modernise 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:

- beginning the process of implementing an Integrated Management System in the Parent Entity,
- work related to securing the Żelazny Most tailings pond, including strengthening of the dam,
- continued modernisation of atmospheric protection equipment at the Głogów II smelter – a desulphurisation installation for the convertor furnaces,
- modernisation of the electrolyte treatment equipment at the Głogów I smelter,
- construction of a fourth Doerschel furnace with infrastructure at the lead section of the Głogów smelter to increase the management of lead-bearing waste,
- continued construction of a copper concentrate warehouse at the charge preparation section of the Głogów II smelter,
- modernisation of the sulphuric acid plant at the Głogów I smelter,
- documentation work related to the restoration of land following liquidation of a shaft at the Polkowice – Sieroszowice mine.

Other Group companies

The remaining companies operate while maintaining a balanced impact on the natural environment. They continually update the required permits, incur those expenses required by law for use of the environment, and undertake actions aimed at restricting their environmental impact.

Total expenditures incurred by other Group companies in 2009 due to environmental fees amounted to PLN 2 825 thousand. This amount did not differ significantly from that incurred in 2008. The highest environmental fees were incurred by:

- „Energetyka" sp. z o.o. PLN 2 478 thousand,
- POL-MIEDŹ TRANS Sp. z o.o. PLN 268 thousand.

Fees incurred by „Energetyka" sp. z o.o. are primarily in respect of fees for the intake of water and the discharging of sewage (PLN 1 461 thousand) and for the emission of atmospheric pollutants (PLN 644 thousand). Most of the fees incurred by POL-MIEDŹ TRANS Sp. z o.o. are due to the discharge of atmospheric waste.

KGHM Ecoren S.A., as a producer of ammonium perrhenate, is required by EU law (the REACH decree) and transposed Polish law, to register this product with the European Chemicals Agency (ECHA) with its registered head office in Helsinki. Due to the high costs of registration, KGHM Ecoren S.A. has joined the Precious Metals and Rhenium Consortium, whose goal is the mutual registration of ammonium perrhenate. In 2009 the company incurred costs of participating in the consortium (the costs of preparing documentation for proper registration) in an amount of approx. PLN 123 thousand. It is assumed that the process of proper registration will conclude at the turn of 2010/2011.

Amongst the most important actions of Group companies aimed at adhering to environmental standards and at reducing the level of environmental impact are:

- the updating by „Energetyka" sp. z o.o. of 9 integrated and water-related permits and the acquisition of two new permits,
- the commencement by „Energetyka" sp. z o.o. of actions related to growing biofuel willows – the company leased from the Głogów Division of KGHM Polska Miedź S.A. nearly 23 hectares of land. In the spring of 2009 it carried out planting over an area of over 21 hectares. Total costs incurred in this regard in 2009 amounted to PLN 115 thousand,

3. Economic activities of the KGHM Polska Miedź S.A. Group (continuation)

3.7. Environmental protection (continuation)

- an investment by ZANAM-LEGMET Sp. z o.o. to restrict emissions of dust and gas to the atmosphere, based on the assembly of a 10 t vibration grid in the casting unit with a highly-effective cassette dedusting filter; expenditures on this investment amounted to PLN 742 thousand,
- CBJ sp. z o.o. installed a sewage treatment facility at its Polkowice unit, to eliminate particularly hazardous substances, as well as to modernise the acid vapours utilisation system.

The companies of the Group also undertake minor actions aimed at environmental protection - segregating waste (Pebeka S.A. gives to recycling 74% of its waste), installing solar facilities for heating useable water.

4. Current and projected financial situation

4.1. Assets

In comparison to the end of 2008, total assets decreased by less than 1% (PLN 102 560 thousand). There were significant changes to individual items of the statement of financial position.

Table 14. Assets ('000 PLN)

ASSETS	31.12.2008	31.12.2009	Structure %	Change 2008=100
Non-current assets	**9 113 159**	**9 807 639**	**65.8**	**107.6**
Property, plant and equipment	7 136 307	7 673 437	51.5	107.5
Intangible assets	151 581	268 195	1.8	176.9
Investment property	18 083	17 164	0.1	94.9
Investments in associates	1 498 116	1 346 272	9.0	89.9
Deferred tax assets	188 992	347 395	2.3	183.8
Available-for-sale financial assets	31 213	19 412	0.1	62.2
Held-to-maturity investments	59 592	67 144	0.5	112.7
Derivative financial instruments	6 501	58 034	0.4	x8.9
Trade and other receivables	22 774	10 586	0.1	46.5
Current assets	**5 856 959**	**5 083 112**	**34.2**	**86.8**
Inventories	1 608 369	2 072 434	13.9	128.9
Trade and other receivables	1 469 959	1 531 341	10.3	104.2
Current corporate tax receivables	1 741	9 329	0.1	x5.4
Available-for-sale financial assets	-	8 976	0.1	x
Held-to-maturity investments	-	580	0.0	x
Derivative financial instruments	711 127	263 375	1.8	37.0
Cash and cash equivalents	2 065 763	1 197 077	8.0	57.9
Non-current assets held for sale	**29 987**	**6 674**	**0.0**	**22.3**
TOTAL ASSETS	**15 000 105**	**14 897 425**	**100.0**	**99.3**

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

Property, plant and equipment was the largest item in assets. At the end of 2009 they represented 52% of total assets. Their value increased in 2009 by PLN 537 130 thousand. The largest capital expenditures were incurred by the Parent Entity. They amounted to PLN 1 069 812 thousand, and were twice as much as depreciation on property, plant and equipment. The most important of these were the construction of the SW-4 shaft (PLN 301 116 thousand), and Głogów Głęboki – Przemysłowy deposit (PLN 145 461 thousand).

In 2009, Zagłębie Lubin S.A. recognised an impairment loss on a non-current asset – a football stadium, due to the occurrence of reasons to believe that the economic results achieved by the football stadium will not cover the costs incurred to date on the construction of the stadium. To determine the amount of the impairment losses the value in use of the stadium was estimated at PLN 59 289 thousand, based on the discounted cash flow which may be expected from its further use. As a result, an impairment loss on this asset was recognised in the consolidated financial statements of PLN 37 593 thousand (the amount of the impairment loss after consolidation adjustment in the Group).

At the end of the reporting period the value of an investment in an associate was decreased by PLN 151 844 thousand, arising from an excess of paid dividends in 2009 over the share in the financial result of Polkomtel S.A.

4. Curent and projected financial situation (continuation)

4.1. Assets (continuation)

Current assets amounted to PLN 5 083 112 thousand and are more than twice as much as current liabilities. In the structure of current assets the highest-value item was inventories. The increase in inventories by PLN 464 065 thousand (29%) was mainly in respect of semi-products, including copper concentrate in the Parent Entity. Due to maintenance performed on the flash furnace at the Głogów II smelter, at the end of 2009 concentrate inventories in the smelters increased to 217 thousand t (dry weight), i.e. three times as much as at the start of the year.

An important item in the structure of current assets was current receivables in the amount of PLN 1 531 341 thousand, of which:

- trade receivables PLN 1 266 369 thousand,
- other receivables PLN 264 972 thousand.

During 2009 trade receivables increased by PLN 498 900 thousand (65%). Other receivables decreased by PLN 438 068 thousand (62%), mainly due to receivables on unsettled derivative instruments, of which there were none at 31 December 2009, but at the end of 2008 amounted to PLN 287 146 thousand.

Cash and cash equivalents amounted to PLN 1 197 077 thousand, and during the year decreased by PLN 868 686 thousand (42%), mainly due to the payment of a shareholders dividend in the Parent Entity in the amount of PLN 2 336 000 thousand.

Current assets due to derivative financial instruments amounted to PLN 263 375 thousand, which means a decrease in comparison to their carrying amount at the end of 2008 by PLN 447 752 thousand (63%).

4.2. Equity and liabilities

In 2009 the basic source for financing assets was equity, exceeding by 8 % the amount of non-current assets. The share of equity in total assets was 71 % and was slightly lower than at the end of 2008 (73 %).

Table 15. Equity and liabilities ('000 PLN)

Equity and liabilities	31.12.2008	31.12.2009	Structure %	Change 2008=100
EQUITY	**10 982 865**	**10 623 827**	**71.3**	**96.7**
Share capital	2 000 000	2 000 000	13.4	100.0
Accumulated other comprehensive income	517 456	126 301	0.8	24.4
Retained earnings	8 407 049	8 429 651	56.6	100.3
Equity attributable to shareholders of the Parent Entity	**10 924 505**	**10 555 952**	**70.8**	**96.6**
Minority interest	**58 360**	**67 875**	**0.5**	**116.3**
Non-current liabilities	**1 849 264**	**1 970 994**	**13.2**	**106.6**
Trade and other payables	44 289	36 230	0.3	81.8
Borrowings and finance lease liabilities	98 055	120 854	0.8	123.3
Derivative financial instruments	-	61 354	0.4	x
Deferred tax liabilities	68 182	41 785	0.3	61.3
Liabilities due to employee benefits	1 039 423	1 183 350	7.9	113.8
Provisions for other liabilities and charges	599 315	527 421	3.5	88.0
Current liabilities	**2 167 976**	**2 302 604**	**15.5**	**106.2**
Trade and other payables	1 756 752	1 575 896	10.6	89.7
Borrowings and finance lease liabilities	192 923	219 816	1.5	113.9
Current corporate tax liability	65 952	79 104	0.5	119.9
Derivative financial instruments	4 930	273 717	1.9	x55.5
Liabilities due to employee benefits	83 531	106 704	0.7	127.7
Provisions for other liabilities and charges	63 888	47 367	0.3	74.1
TOTAL LIABILITIES	**4 017 240**	**4 273 598**	**28.7**	**106.4**
Total equity and liabilities	**15 000 105**	**14 897 425**	**100.0**	**99.3**

Equity at the end of 2009 decreased versus the end of 2008 by PLN 359 038 thousand.

The balance of equity was affected by:

- a decrease in accumulated other comprehensive income by PLN 391 155 thousand, mainly an adjustment due to the reclassification of hedging instruments (reclassified to profit or loss),
- payment of a dividend for 2008 by KGHM Polska Miedź S.A. in the amount of PLN 2 336 000 thousand, and
- current period profit in the amount of PLN 2 359 170 thousand.

4. Curent and projected financial situation (continuation)

4.2. Equity and liabilities (continuation)

At the end of 2009 the share of total liabilities in the asset financing structure increased by 2%. The value of liabilities increased versus the end of the prior year by PLN 256 358 thousand.

The largest item was trade and other payables in the amount of PLN 1 612 126 thousand, comprised of:
– trade payables in the amount of PLN 470 363 thousand (a decrease by 11% versus the end of 2008),
– payables due to the purchase and construction of fixed assets and intangible assets in the amount of PLN 159 588 thousand (a decrease by 38% versus the end of 2008),
– other payables in the amount of PLN 982 175 thousand, of which: taxation and social security PLN 258 135 thousand, accruals, PLN 340 051 thousand, mainly respecting the settlement of wages in the Parent Entity. Payables in this regard did not significantly change during the year.

A significant item is the liabilities due to employee benefits in the total amount of PLN 1 290 054 thousand. Their value versus the end of the prior year increased by PLN 167 100 thousand (15%).

Liabilities due to employee benefits are mainly comprised of:

– the coal equivalent payment PLN 753 305 thousand,
– jubilee bonuses PLN 288 191 thousand,
– retirement and disability benefits PLN 211 414 thousand.

Liabilities due to derivative financial instruments amounted in total to PLN 335 071 thousand, and during the year increased by PLN 330 141 thousand.

The prevailing part of provisions for other liabilities (PLN 574 788 thousand - total non-current and current) is a revalued provision for decommissioning costs of mines and other facilities (PLN 511 384 thousand).

Liabilities due to borrowings at the end of 2009 amounted to PLN 299 285 thousand.

4.3. Borrowings

Total debt of the Group due to borrowings at the end of 2009 amounted to PLN 299 285 thousand, and increased versus 2008 by 16 %.

Table 16. Borrowings as at 31 December 2009 ('000 PLN)

	2008	2009	Change 2008=100
Non-current borrowings	**71 916**	**90 055**	**125.0**
of which:			
- bank loans	63 605	86 340	135.7
- other loans	8 311	3 715	44.7
Current borrowings	**186 789**	**209 230**	**112.0**
of which:			
- bank loans	181 031	204 442	112.9
- other loans	5 758	4 788	83.2
Total	**258 705**	**299 285**	**115.7**

The most important item in borrowings is the bank loan of the subsidiary DIALOG S.A., which at 31 December 2009 amounted to PLN 100 034 thousand (PLN 130 652 thousand at 31 December 2008).

In May 2009, DIALOG S.A. signed a bank loan agreement with the consortium of banks Pekao SA and PKO BP SA, as a result of which it acquired:
– a bank loan in the amount of PLN 100 000 thousand, with repayment by May 2010, to be used for refinancing existing financial debt,
– a bank loan in the amount of PLN 10 000 thousand, with repayment by November 2009, to be used for financing current activities.

The significant bank loans drawn in 2009 by the remaining Group companies are presented below:

KGHM Ecoren S.A.

In 2009 the company drew three bank loans from the bank PKO BP SA:
– a bank overdraft in the amount of PLN 18 000 thousand, with repayment by March 2012,
– a working bank loan in the amount of PLN 27 000 thousand, with repayment by March 2012,
– an investment bank loan in the amount of PLN 24 388 thousand, with repayment by September 2014.

At the end of 2009 the borrowings of the company amounted to PLN 55 901 thousand.

4. Curent and projected financial situation (continuation)

4.3. Borrowings (continuation)

ZANAM-LEGMET Sp. z o.o.

- a bank overdraft in the amount of PLN 20 000 thousand, drawn from Raiffaisen Bank Polska S.A., with repayment by June 2010,
- a bank overdraft in the amount of PLN 5 000 thousand, drawn from BRE Bank S.A., with repayment by July 2010.

At the end of 2009 the borrowings of the company amounted to PLN 26 600 thousand.

KGHM Metraco S.A.

- a bank overdraft in the amount of PLN 20 000 thousand, drawn from Deutsche Bank, with repayment by July 2010,
- a bank overdraft in the amount of PLN 10 000 thousand, drawn from Citi Handlowy, with repayment by June 2010,
- a bank overdraft in the amount of PLN 5 000 thousand, drawn from PeKao SA, with repayment by March 2010.

At the end of 2009 the borrowings of the company amounted to PLN 2 844 thousand.

In 2009 Parent Entity did not make use of external sources of financing in the form of bank loans.

At 31 December 2009 the Parent Entity had a liability in the amount of PLN 3 005 thousand due to a loan received in November 2003 from the Regional Fund for Environmental Protection and Water Management in Wrocław. Interest on this loan is fixed and amounts to an annual rate of 4%. Repayment on the final instalment of this loan in the amount of PLN 1 000 thousand is September 2010.

In 2009 KGHM Polska Miedź S.A. held no credit facilities.

The interest on the majority of bank loans drawn by companies of the Group is based on variable interest rates. In the case of borrowings drawn in PLN, most bear an interest rate based on the WIBOR 1M reference rate, plus a credit margin, based on the creditworthiness of the borrower, within a range of 0.35% to 2.5%, with interest payable monthly. Interest on loans expressed in EUR is mainly based on the EURIBOR 1M reference rate, plus a credit margin of 1% to 2%.

Owner loans granted

At 31 December 2008 the balance of loans granted by KGHM Polska Miedź S.A. to three Group companies, including the subsidiaries KGHM CONGO S.P.R.L. and Zagłębie Lubin S.A. and the related entity Polskie Centrum Promocji Miedzi sp. z o.o., amounted to PLN 9 323 thousand. By the end of 2009 the balance of receivables due to loans granted increased to PLN 76 814 thousand, comprised of loans to the following entities.

„Energetyka" sp. z o.o.

In December 2009 the Parent Entity granted the company 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 will be made in forty equal instalments of PLN 1 257.5 thousand, payable at quarter's end. Repayment of the first instalment will be made on 31 March 2010. At 31 December 2009 the balance of granted loans was PLN 50 362 thousand.

Zagłębie Lubin S.A.

At 31 December 2009 the balance of granted loans was PLN 26 452 thousand. A loan in the amount of PLN 7 000 thousand was granted in April 2008, with interest based on WIBOR 1M + a margin of 1.2% and payable monthly, and a date of repayment of the principal of 31 December 2010. A subsequent loan of PLN 19 132 thousand was granted in July 2009, with interest based on WIBOR 3M + a margin of 3% and payable quarterly, and a repayment date of 31 December 2011.

In addition, in 2009 the following occurred with respect to loans granted by KGHM Polska Miedź S.A. to related entities.

KGHM CONGO S.P.R.L.

Due to the arising of a high level of credit risk associated with the loans granted to KGHM CONGO S.P.R.L., the Management Board of KGHM Polska Miedź S.A. on 7 April 2009 resolved to record as at 31 March 2009 an allowance for impairment on receivables due to loans granted to KGHM CONGO S.P.R.L. in the total amount of PLN 2 643 thousand.

As a result of actions taken aimed at recovering these receivables, an agreement was signed ceding to KGHM Polska Miedź S.A. the receivables of KGHM CONGO S.P.R.L. from a contracting party. During the year the amount of receivables due to loans granted by KGHM Polska Miedź S.A. to KGHM CONGO S.P.R.L. decreased by PLN 1 413 thousand.

4. Curent and projected financial situation (continuation)

4.3. Borrowings (continuation)

PCPM spółka z o.o.

In February 2009, Polskie Centrum Promocji Miedzi sp. z o.o. repaid in entirety a loan granted in December 2008 in the amount of PLN 100 thousand.

Financial guarantees granted

In 2009 the Group companies granted no financial guarantees.

4.4. Contingent receivables and liabilities and other items not recognised in the statement of financial position

At 31 December 2009, contingent receivables amounted to PLN 131 064 thousand and related primarily to contested State budget issues, guarantees received and promissory note receivables. Receivables not recognised in the statement of financial position amounted to PLN 31 235 thousand and related entirely to implementation of projects and inventions.

Contingent liabilities at the end of 2009 amounted to PLN 95 689 thousand, including due to:

- promissory note payables PLN 62 514 thousand,
- disputed issues, pending court proceedings PLN 15 611 thousand,
- guarantees granted PLN 15 050 thousand,
- preventive safety measures in respect of mine-related damage PLN 2 491 thousand.

Liabilities not recognised in the statement of financial position – disputed issues due to contracts for the implementation of projects and inventions, and other unrealised contracts in the amount of PLN 105 792 thousand.

4.5. Income statement

Table 17. Consolidated income statement ('000 PLN)

INCOME STATEMENT	2008	2009	Change 2008=100
Sales	12 654 885	12 119 910	95.8
Cost of sales	(8 489 581)	(7 923 233)	93.3
Gross profit	**4 165 304**	**4 196 677**	**100.8**
Selling costs	(225 540)	(230 159)	102.0
Administrative expenses	(778 127)	(783 444)	100.7
Other operating income	1 043 759	495 572	47.5
Other operating costs	(1 019 034)	(999 308)	98.1
Operating profit	**3 186 362**	**2 679 338**	**84.1**
Finance costs - net	(57 494)	(45 259)	78.7
Share of profits of associates accounted for using the equity method	267 579	270 072	100.9
Profit before income tax	**3 396 447**	**2 904 151**	**85.5**
Income tax expense	(630 581)	(544 981)	86.4
Profit for the period	**2 765 866**	**2 359 170**	**85.3**

The sales revenues of the Group in 2009 were lower compared to those in 2008 by PLN 4% (i.e. by PLN 534 975 thousand). A significant cause was the decrease in revenues of the Parent Entity, due to the low level of copper prices at the start of 2009 and the decrease in the volume of copper sales. The sales revenues of KGHM Polska Miedź S.A. represented around 85% of the revenues of the entire Group.

The costs of sales decreased during the analysed period by PLN 566 348 thousand. This was affected by the decrease in sales and lower impairment losses on property, plant and equipment and intangible assets by PLN 265 813 thousand.

Profit on sales in 2009 did not significantly change versus the comparable prior period.

The loss on other operating activities was mainly due to a loss on the measurement and realisation of derivative instruments in the amount of PLN 532 380 thousand.

Adjustment of the result for 2009, due to accounting using the equity method of shares of an associate, caused a decrease in profit by PLN 151 844 thousand (share in profit of PLN 270 072 thousand, dividends received (PLN 418 222 thousand)).

Finally, profit for the period in the analysed period decreased versus the prior period by 15 %, i.e. by PLN 406 696 thousand.

4. Curent and projected financial situation (continuation)

4.5. Income statement (continuation)

The results of individual Group entities are presented in the following table.

Table 18. Structure of the profit for the period ('000 PLN)

Details	Profit for 2009
KGHM Polska Miedź S.A.	**2 540 185**
Subsidiaries	**(53 986)**
including the most important:	
DIALOG S.A.	7 030
KGHM Metraco S.A.	5 850
„MCZ" S.A.	5 971
„PETROTEL" sp. z o.o.	5 953
PHP „MERCUS" sp. z o.o.	3 426
INTERFERIE S.A.	2 891
PeBeKa S.A.	2 242
Walcownia Metali Nieżelaznych spółka z o.o.	(2 460)
AVISTA MEDIA Sp. z o.o.	(2 672)
KGHM CONGO S.P.R.L. (until 28 February 2009)	(5 674)
DFM ZANAM-LEGMET Sp. z o.o.	(14 734)
Zagłębie Lubin S.A.	(60 623)
Total profit of Group entities	**2 486 199**
Consolidation adjustments	(127 597)
Profit of the Group attributable to shareholders of the Parent Entity	**2 358 602**
Profit attributable to the minority interest	568
Total profit for the period	**2 359 170**

A significant loss for 2009 was recorded by the subsidiary Zagłębie Lubin S.A. This is mainly due to the recognition by the company of an impairment loss on assets – a football stadium. In the separate financial statements of Zagłębie Lubin S.A. this caused a loss in the amount of PLN (49 959) thousand, and a loss in the consolidated financial statements of the Group in the amount of PLN (37 593) thousand.

4.6. Results of major Group entities

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

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

KGHM Polska Miedź S.A.

In 2009, 99 % of the revenues from sales of KGHM Polska Miedź S.A. represented sales of products, of which: 48 % - from the sale of cathodes and their parts, 30 % - from wire rod, 16 % - from metallic silver. Revenues from the sale of products, excluding hedging transactions, were lower by PLN 108 057 thousand, i.e. by 1 % versus the comparable prior period.

Table 19. Financial data of KGHM Polska Miedź S.A. ('000 PLN)

	2008	2009	Change 2008=100
Sales	11 302 913	11 060 540	97.9
Profit on sales	3 392 376	3 196 905	94.2
Operating profit	3 596 364	3 098 092	86.1
EBITDA	4 077 740	3 645 745	89.4
Profit before income tax	3 553 629	3 066 569	86.3
Profit for the period	2 920 378	2 540 185	87.0

4. Curent and projected financial situation (continuation)

4.6. Results of major Group companies (continuation)

Profit before income tax in 2009 amounted to PLN 3 066 569 thousand and was lower by 14% versus the comparable prior period. The following affected this result:

- profit on sales PLN 3 196 905 thousand,
- the loss on other operating activities PLN (98 813) thousand,
- net finance costs PLN (31 523) thousand.

As compared to 2008, profit on sales decreased by PLN 195 471 thousand, primarily due to:

- weakening of the PLN exchange rate from 2.41 to 3.12 USD/PLN PLN 2 911 915 thousand,
- lower average prices of copper products by 23% PLN (2 525 923) thousand,
- a decrease by 27.4 thousand t in the volume of sales of copper products PLN (453 141) thousand,
- and a lower positive adjustment of revenues due to the hedging of copper and silver prices PLN (143 730) thousand.

The loss on other operating activities of PLN 98 813 thousand was mainly due to the following:

- income from dividends PLN 454 848 thousand,
- loss on measurement and realisation of derivative instruments PLN (538 637) thousand,
- interest income on financial instruments PLN 79 787 thousand,
- foreign exchange losses PLN (61 664) thousand,
- impairment losses on shares in a subsidiary PLN (49 959) thousand,
- release of unused provisions, recognition of provisions PLN 35 369 thousand.

DIALOG S.A.

DIALOG S.A. is the parent entity of the DIALOG S.A. Group, which at 31 December 2009 was composed of subsidiaries:

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

Table 20. Financial data of the DIALOG S.A. Group ('000 PLN)

	2008	2009	Change 2008=100
Sales	554 004	520 896	94.0
Result on sales	(273 158)	32 540	x
Operating profit /(loss)	(301 620)	34 682	x
EBITDA*	83 394	135 382	162.3
Profit /(loss) before taxation	(310 245)	27 043	x
Profit /(loss) for the period	(284 086)	10 436	x

** EBITDA calculated as the result on operating activities increased by depreciation/amortisation and impairment loss*

Table 21. Financial data of DIALOG S.A. ('000 PLN)

	2008	2009	Change 2008=100
Sales	548 034	493 800	90.1
Result on sales	(272 842)	31 486	x
Operating profit /(loss)	(305 406)	32 650	x
EBITDA*	76 301	122 974	161.2
Profit /(loss) before taxation	(313 839)	25 452	x
Profit /(loss) for the period	(292 139)	9 808	x

** EBITDA calculated as the result on operating activities increased by depreciation/amortisation and impairment loss*

In 2009 the sales of the DIALOG S.A. Group were lower than those in the comparable prior period by PLN 33 108 thousand. This decrease in revenues was due to restriction of low-margin transit services. After excluding these transit services, the sales of the DIALOG S.A. Group, despite the general downward market trend in fixed-line telephony, were higher by PLN 24 414 thousand, i.e. by 5% versus 2008. The increase in sales was mainly in respect of services provided based on external infrastructure (WLR, 1011 and BSA), which in comparison to revenues achieved in regard of these services 2008 amounted to PLN 23 633 thousand.

Despite this decrease in revenues, the DIALOG S.A. Group achieved better financial results in 2009 than in 2008. A higher result on operating activities and higher EBITDA (respectively by PLN 336 302 thousand and PLN 51 988 thousand) was recorded. The loss incurred by the Group in 2008 was mainly due to an impairment loss on property, plant and equipment in the amount of PLN 268 270 thousand.

4. Curent and projected financial situation (continuation)

4.6. Results of major Group companies (continuation)

During the analysed period the DIALOG S.A. Group increased its customer base, in both voice and data transmission services. At the end of December 2009 it had 445.2 thousand ringing lines in its own network and 250.3 thousand WLR lines (an increase of 54% versus the end of 2008). The number of customers using data transmission services amounted to 157.2 thousand.

The DIALOGmedia package introduced in 2008, combining fixed-line telephony, Internet access and digital TV and video on demand, gained customer interest, with their number increasing to 21 thousand at the end of December 2009 (an increase in 2009 by 17.5 thousand, of which 6.8 thousand were in the 4th quarter alone).

In the 2009 the DIALOG S.A. Group continued to realise a project on the introduction of mobile telephone services as a so-called virtual operator (MVNO) - commercial commencement of these services took place in February 2010. Thanks to the acquisition in November 2009 of the bankrupt company Nyska Sieć Informatyczna Sp. z o.o., DIALOG S.A. gained access to the infrastructure of a new geographical region with great sales potential, and became the owner of a modern telecommunications network using ETTH technology.

At present DIALOG S.A. is carrying out the strategy of the company for the years 2009 – 2015, which assumes investments in the development of infrastructure based on the most modern technology, new services and selective acquisitions. Work is currently underway in the company related to the development of an operational plan for implementation of the strategy, which in particular will include definition of the following: a product development map in terms of realisation of the company's strategy, a sales strategy, pricing policy and a marketing strategy, as well as an operational plan to implement strategic initiatives will be prepared.

In November 2009 DIALOG S.A. signed an agreement respecting financing from the European Regional Development Fund (in the amount of 40% of expenditures) to realise a project titled „Implementation of innovative services based on an access network using passive optical network (PON) technology". It is the largest project of its type in Poland. Realisation of this project will enhance the possibility of increasing company sales through the sale of larger service packages. The project encompasses 70 thousand housing units in the following voivodeships: dolnośląskie, lubuskie and łódzkie.

Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. in the consolidated financial statements at 31 December 2009 accounted for using the equity method is PLN 1 346 273 thousand.

Table 22. Financial data of Polkomtel S.A. ('000 PLN)

	2008	2009	Change 2008=100
Revenues from operating activities	8 547 427	8 104 367	94.8
Operating profit	1 889 180	1 532 943	81.1
EBITDA	3 105 925	2 840 732	91.5
Profit before tax	1 678 319	1 385 161	82.5
Profit for the period	1 361 239	1 107 237	81.3

On 9 June 2009 the Ordinary General Meeting of Polkomtel S.A. resolved to allocate profit for 2008. In accordance with the decision of the shareholders, the amount of PLN 1 250 295 thousand was allocated as a dividend. KGHM Polska Miedź S.A. received, proportionally to its shareholding, the amount of PLN 304 966 thousand. The dividend was paid in two instalments, the first in the amount of PLN 76 204 thousand in June 2009, the second in the amount of PLN 228 762 thousand in September 2009.

On 18 November 2009 the Supervisory Board of Polkomtel S.A. adopted a resolution in which it gave its consent to the payment of an interim shareholder dividend towards the dividend for 2009 in the total amount of PLN 464 325 thousand. KGHM Polska Miedź S.A., proportionally to its shareholding, consequently received in December 2009 the amount of PLN 113 256 thousand.

4.7. Risk management

The KGHM Polska Miedź S.A. Group is exposed to the following types of financial risk:
- market risk,
- liquidity risk,
- credit risk.

The Group actively manages that market risk to which it is exposed. The process of managing market risk is regulated by unified principles applied in the companies of the Group.

The main technique applied in managing market risk is the use of hedging strategies with derivative instruments. Natural hedging is also used.

In the Group, only the Parent Entity applies hedging strategies (as understood by hedge accounting). To reduce market risk the company primarily uses derivative instruments.

4. Curent and projected financial situation (continuation)

4.7. Risk management (continuation)

The Group is exposed to the risk of changes in exchange rates and KGHM Polska Miedź S.A. is also exposed to the risk of changes in copper, silver and gold prices.

In addition the Group is exposed to interest rate risk. At 31 December 2009 the Group held borrowings in the amount of PLN 299 285 thousand (at 31 December 2008, PLN 258 705 thousand) with interest based on variable and fixed rates. At the end of the reporting period the Group did not hold instruments hedging against interest rate risk.

In 2009 copper price hedging strategies represented approx. 34% (in 2008 35%) of sales of this metal realised by the Parent Entity. In the case of silver sales they amounted to approx. 25% (in 2008 32%). In the case of the currency market, hedged revenues from sales represented approx. 34% (in 2008 11%) of total revenues from sales realised by the Parent Entity.

In 2009 the result on derivative instruments was at the level of PLN (99 193) thousand (in 2008, PLN 367 596 thousand), of which:

- revenues from sales were increased by PLN 433 187 thousand (in 2008, PLN 562 520 thousand) – reclassified from accumulated other comprehensive income to revenues from sales in the reporting period,
- PLN (187 486) thousand (in 2008, PLN (81 191) thousand) adjusted other operating costs – loss from the realisation of derivative instruments,
- PLN (344 894) thousand (in 2008, PLN (113 733) thousand) adjusted other operating costs - loss from the measurement of derivative instruments. The adjustment of other operating costs due to the measurement of derivative transactions results mainly from changes in the time value of options which are to be settled in future periods. Due to the existing hedge accounting of the Parent Entity, changes in the time value of options are not accounted for in other comprehensive income.

In 2009, the Parent Entity implemented copper price hedging strategies of a total volume of 264 thousand tonnes and a time horizon falling in the second half of 2009, 2010 and in the first half of 2011. The Parent Entity made use of options (Asian options) including puts, corridors, seagulls and producer puts. Additionally, the Parent Entity performed a restructurisation, implemented during the analysed period, of its seagull options strategy for 2010 of a total volume of 58.5 thousand tonnes through the buyback of sold puts. During the analysed period the Parent Entity did not implement adjustment hedge transactions.

In the case of the silver market, during the analysed period strategies for hedging the price of this metal were implemented of a total volume of 7.2 million troz and a time horizon falling in 2010. The Parent Entity made use of puts (Asian options). In 2009, there were no adjustment hedge transactions implemented on the silver market.

In the case of the forward currency market, in 2009 the Parent Entity implemented strategies hedging the USD/PLN rate for an amount of USD 1 410 million and a time horizon falling in the second half of 2009 and the entire year 2010. The Parent Entity made use of options (European options) including puts, corridors and producer puts. Additionally, the Parent Entity performed a restructurisation, implemented in prior periods as well as in the analysed period, of its option strategies for 2009 and 2010 of a total nominal amount of USD 630 million through the sale of purchased puts and the sale of corridors. These operations were recognised in accumulated other comprehensive income in the amount of PLN 147 912 thousand, which will adjust in plus revenues from sales in 2010. During the analysed period there were no adjustment hedge transactions implemented on the currency market.

The Parent Entity remains hedged for a portion of copper sales planned in the first half of 2010 (78 thousand tonnes), in the second half of 2010 (58.5 thousand tonnes) and in the first half of 2011 (19.5 thousand tonnes), and for a portion of silver sales planned in 2010 (7.2 million troz). With respect to revenues from sales (currency market) the Parent Entity holds a hedging position for 2010 (USD 600 million).

At 31 December 2009, the fair value of open positions in derivative instruments amounted to PLN (13 662) thousand, of which financial assets represented PLN 321 409 thousand, and financial liabilities, PLN 335 071 thousand. The fair value of transactions settled on 5 January 2010, in the amount of PLN (30 611) thousand was recognised in trade and other payables as a liability due to unsettled derivative instruments. The fair value of open positions in derivative instruments varies in dependence on changes in market conditions, and the final result on these transactions may vary significantly from the amounts described above.

At 31 December 2009, accumulated other comprehensive income in respect of future cash flow hedging instruments amounted to PLN 155 233 thousand and was in respect of commodity price risk hedging transactions (copper and silver) in the amount of PLN (3 937) thousand and currency risk hedging transactions in the amount of PLN 159 170 thousand.

At the end of 2008, accumulated other comprehensive income on future cash flow hedging instruments in the Parent Entity amounted to PLN 627 757 thousand.

4. Curent and projected financial situation (continuation)

4.7. Risk management (continuation)

During 2009, the change in accumulated other comprehensive income in respect of future cash flow hedging instruments (a decrease) amounted to PLN (472 524) thousand. This amount is comprised of changes recognised in the reporting period due to hedging transactions, i.e. a decrease of accumulated other comprehensive income in respect of future cash flow hedging instruments in the amount of PLN 39 337 thousand, and the amount reclassified from accumulated other comprehensive income to revenues from sales, i.e. a decrease of accumulated other comprehensive income by PLN 433 187 thousand (an adjustment in plus of revenues from sales for 2009).

Details of the risk management policy in the Group together with identification of the main types of risk can be found in Notes 12, 33 and 34 of the financial statements.

4.8. Financial ratios

Basic ratios describing the economic activities of the Group are presented below.

Ratios calculated according to methodology in APPENDIX A of the report.

Table 23. Assets effectiveness ratios

	2008	2009
Assets turnover ratio	0.8	0.8
Non-current assets turnover ratio	1.4	1.2
Current assets turnover ratio	2.2	2.4
Liquid assets turnover ratio	3.6	4.4

The increase in the liquid assets turnover ratio was mainly due to a decrease in cash and cash equivalents. The remaining assets effectiveness ratios were at similar levels to those achieved in 2008.

Table 24. Assets financing ratios

	2008	2009
Coverage of assets by equity	0.7	0.7
Coverage of non-current assets by equity	1.2	1.1
Coverage of non-current assets by long-term capital	1.4	1.3
Coverage of current assets by current liabilities	0.4	0.5

The ratios describing the relationship between assets and equity did not change significantly versus 2008.

Table 25. Ratios describing economic activity

	2008	2009
Current liquidity	2.7	2.2
Quick liquidity	2.0	1.3
ROA - return on assets (%)	18.4	15.8
ROE - return on equity (%)	25.2	22.2
Debt ratio (%)	26.8	28.7
Durability of financing structure (%)	85.5	84.5

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in the liquidity ratios was mainly due to a decrease in cash and cash equivalents.

The decrease in the financial result resulted in the deterioration of the return on assets (ROA) and the return on equity (ROE) ratios.

The increase in the debt ratio is due to the increase in liabilities, mainly with respect to derivative financial instruments and to liabilities due to employee benefits, alongside a decrease in equity.

The decrease in equity was the main cause of the decrease in the durability of financing structure ratio.

4. Curent and projected financial situation (continuation)

4.9. Contested issues

At 31 December 2009, the value of receivables due to ongoing court proceedings, in which KGHM Polska Miedź S.A. and its subsidiaries are parties, amounted to PLN 117 279 thousand, of which: PLN 48 698 thousand relates to the issues of the Parent Entity and PLN 68 581 thousand – to subsidiaries.

The largest proceedings being pursued by KGHM Polska Miedź S.A. and its subsidiaries at the end of 2009 related to the following:

- **payment of royalties for use of invention project no. 1/97/KGHM**

  Value of amount under dispute: PLN 42 413 thousand. A 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 from the use of this project achieved by KGHM Polska Miedź S.A.

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

- **return of 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. 1/07/KGHM. The court has combined both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 413 thousand with the claims of the company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 195 thousand, for mutual hearing. Proceedings are in progress. In the company's opinion the payment of royalties to the project's authors was unfounded.

- **return of costs of protecting against mining damage**

  Value of amount under dispute: PLN 16 409 thousand. A claim was filed 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.

- **setting the amount of corporate income tax liabilities for KGHM Polska Miedź S.A. for the year 2003**

  On 10 July 2009 the company submitted an appeal to the Director of the Tax Chamber in Wrocław of a decision of the Legnica branch of the Director of the Tax Inspection Office in Wrocław dated 30 June 2009, calling for a decrease in the amount of liabilities set by the Director of the Tax Inspection Office by PLN 13 915 thousand.

  The appeal involves what the company considers as the unfounded decision by the tax authority not to recognise as tax deductible costs a portion of expenses incurred by the company related to a business activity and income earned, as well as refusal of the right to deduct subsidies related to environmental protection, health, etc., for which the tax law (as worded and in force in 2003) allowed deduction. Proceedings are in progress.

- **return of excise tax**

  Value of amount under dispute: PLN 12 531 thousand. A claim was filed with the Voivodeship Administrative Court by POL-MIEDŹ TRANS Sp. z o. o. - a subsidiary of KGHM Polska Miedź S.A. - against a decision of the Director of the Customs Office setting excise taxation for the months from March to December 2003. The proceedings were suspended at the mutual request of the parties until the receipt, in other proceedings on this same matter being heard by the Supreme Administrative Court, of an answer from the Constitutional Tribunal to a legal question of the Supreme Administrative Court with respect to the conformance of standards set forth in the act on VAT and the act on excise tax with the decree regarding excise tax, with respect to the level of excise taxation rates in the sale of furnace fuel for heating purposes.

  If the Constitutional Tribunal declares that the legal solutions set forth by the decree are unconstitutional, the amount of excise tax in question, which was paid based on this decision, should be returned to the company in whole or part.

- **return of receivables for unrealised delivery of tubing**

  Value of amount under dispute: USD 4 222 thousand. Denominated in the Polish zloty, according to the NBP exchange rate from 31 December 2009, the amount of the dispute is PLN 12 034 thousand. The claim was filed with the Regional Court in Legnica on 2 April 2009 by ZANAM-LEGMET Sp. z o. o. in Polkowice, a subsidiary of KGHM Ecoren S.A., which in turn is a subsidiary of KGHM Polska Miedź S.A., against a company with its registered head office in Dniepropietrowsk in Ukraine, for failure to uphold the conditions of a contract entered into in May 2007.

4. Curent and projected financial situation (continuation)

4.9. Contested issues (continuation)

The amount of the claim includes contractual penalties for late deliveries of tubing, and for failures to adhere to the contract by the plaintiff, as well as the return of the prepayment. Multiple actions are underway aimed at satisfying the claims of ZANAM-LEGMET Sp. z o. o. Simultaneous proceedings are underway at the Regional Court in Legnica, the Regional Court in Dniepropietrowsk and the Court of Appeals in Dniepropietrowsk, as well as actions aimed at determining the possibility of holding conciliatory negotiations between the parties. Proceedings are in progress.

– **royalties for use of patent no. 174450 for the period from 1 January 1997 to 31 December 2002**

Value of amount under dispute: PLN 10 602 thousand. A claim was filed by TKW Combustion Sp. z o. o. in Głowno at the Regional Court in Legnica on 30 July 2003. Court proceedings were suspended until the resolution of proceedings involving annulment of patent no. 174450, initiated at the request of KGHM Polska Miedź S.A. on 6 November 1998. The Regional Court, by a ruling dated 13 January 2004, suspended the proceedings until the resolution of the matter of the patent for invention.

The matter of annulment of patent no. 174450 will be re-heard by the Patent Office of the Republic of Poland due to the reversal by the Regional Administrative Court in Warsaw dated 27 December 2007 of a decision of the Patent Office of the Republic of Poland on annulment of the disputed patent. The company filed a cassation appeal of the decision of the Regional Administrative Court at the Supreme Administrative Court. Proceedings are in progress.

In the opinion of KGHM Polska Miedź S.A. the claim for payment of royalties for the use of a patent is unfounded, as the company has regulated all of the receivables payable to TKW Combustion Sp. z o. o. with respect to licensing fees arising from the licensing contract, as well as to the fact that TKW Combustion Sp. z o. o. did not receive patent protection for inventions being the subject of the licensing contract signed by the parties.

4.10. Realisation of projected financial results

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

The Parent Entity publishes its projections of results. In a current report dated 23 February 2009, KGHM Polska Miedź S.A. published its Budget assumptions for 2009 as accepted by the Supervisory Board on the same day. The Budget assumed the achievement in 2009 of revenues from sales in the amount of PLN 7 048 million and profit of PLN 488 million. Together with the improvement in macroeconomic conditions during the year, KGHM Polska Miedź S.A. updated its forecast. The final projection of financial results was published in a current report dated 12 November 2009.

In addition, on 18 February 2010 the Parent Entity published a current report on the estimated results in 2009, in which it announced achievement of a profit for the period in the amount of PLN 2.5 billion and revenues from sales at the level of PLN 11.1 billion.

Basic assumptions, projected results and their realisation are shown in the following table.

Table 26. Assumptions and realisation of the KGHM Polska Miedź S.A. Budget for 2009 (‘000 PLN)

		Budget 2009 (23.02.2009)	Updated projection (14.05.2009)	Adjusted Budget (24.08.2009)	Adjusted projection (12.11.2009)	Execution 2009	Execution %
Sales	**million PLN**	**7 048**	**9 065**	**9 662**	**10 829**	**11 061**	**102.1**
Profit for the period	**million PLN**	**488**	**1 906**	**1 950**	**2 249**	**2 540**	**112.9**
Average annual copper price	USD/t	3 200	3 800	4 500	5 045	**5 164**	102.4
	PLN/t	9 280	12 350	13 950	15 791	**15 781**	99.9
Average annual silver price	USD/troz	10.00	12.60	13.00	14.53	**14.67**	101.0
USD/PLN exchange rate	USD/PLN	2.90	3.25	3.10	3.13	**3.12**	99.7
Electrolytic copper production	‘000 t	512.0	496.0	500.9	500.9	**502.5**	100.3
Silver production	t	1 125	1 159	1 203	1 203	**1 203**	100.0
Total unit cost of electrolytic copper production	PLN/t	10 466	10 659	11 160	11 254	**11 170**	99.3
Capital expenditure	million PLN	1 235	1 235	1 235	1 235	**1 070**	86.6
Equity investments *	million PLN	939	939	369	369	**220**	59.6

** Includes purchase /sale of shares, increases /decreases of capital and owner loans and payments to capital*

The higher-than-expected profit is mainly the result of better-than-expected copper prices, alongside a lower-than-expected level of impairment losses on the measurement of assets at the end of 2009.

4. Curent and projected financial situation (continuation)

4.11. Projected Group financial situation

As mentioned above, forecasts of the consolidated results of the Group are not prepared. Each company develops its own budget and multi-year plans. The subsidiaries of the Group follow unified principles for budgeting and planning. The structure of annual budgets and five-year plans is based on separate centers of responsibility. The plans of Group entities are evaluated based on their conformance with the Strategy of the Parent Entity and Group, from which in turn arise basic questions associated with the directions of equity investment, the development of specific areas of activities and with the dividend policy. A significant role in Group planning is played by the effective management of cash flow, the optimal financing of current activities, risk management and controlling costs.

Execution of these plans of the subsidiaries is continuously monitored by the supervisory boards of these entities as well as by the equity supervision unit of the Parent Entity. The KGHM Polska Miedź S.A. Group also applies unified reporting principles. The financial and economic condition of Group entities is evaluated in detail on a quarterly basis, with monthly monitoring. Planning and budgeting in Group entities is supported by the integrated IT systems which have been implemented in these companies.

The financial results of subsidiaries do not substantially impact the consolidated results of the Group. The budgets of the subsidiaries for 2010 are correlated with the Budget of the Parent Entity, mainly with respect to the directions of development of the Group. They reflect the results of realisation of projects included in the equity investment plan of KGHM Polska Miedź S.A. and of the cash flow between entities within the Group. Analysis of the projected financial results of subsidiaries for 2010, does not indicate any threat to their functioning.

The Budget of the Parent Entity for 2010, approved by the Supervisory Board of the company on 1 February 2010, assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million. The basis for preparation of the Budget were the preliminary results for 2009 and the assumptions contained in specific operating plans.

Details of the basic assumptions of the Budget of KGHM Polska Miedź S.A. for 2010 are presented in the following table.

Table 27. Budget assumptions of KGHM Polska Miedź S.A. for 2010 (‘000 PLN)

	Unit	2009	Budget 2010	Change 2009=100
Sales	million PLN	**11 061**	**11 736**	**106.1**
Profit for the period	million PLN	**2 540**	**2 898**	**114.1**
Average annual copper price	USD/t	5 164	**6 700**	129.7
	PLN/t	15 781	**18 090**	114.6
Average annual silver price	USD/troz	14.67	**17.00**	115.9
USD/PLN exchange rate	USD/PLN	3.12	**2.70**	86.5
Electrolytic copper production	‘000 t	502.5	**512.0**	101.9
- of which from external copper-bearing materials	‘000 t	103.8	**84.0**	80.9
Silver production	t	1 203	**1 100**	91.4
Total unit cost of electrolytic	PLN/t	11 170	**12 548**	112.3
copper production	USD/t	3 582	**4 648**	129.8
Capital expenditure	million PLN	1 070	**1 633**	152.6
Equity investments *	million PLN	220	**1 635**	x 7.4

** Includes purchase /sale of shares, increases /decreases of capital and owner loans and payments to capital*

The expected increase in electrolytic copper production in 2010 is mainly due to an increase in production from internal concentrates (utilisation of concentrate inventories created during the maintenance halt in the Głogów smelter in 2009) and due to initiatives undertaken with respect to realisation of the "Effectiveness" project.

The change in the level of the planned total unit copper production cost in 2010 results mainly from an increase in labour costs, higher depreciation and the utilisation of internal semi-products inventories, alongside an unfavourable valuation of anode slimes.

The investment program assumed in the Budget is aimed at realisation of the following goals:

- replacing worn-out assets and maintaining production over the long term from domestic resources (the technical infrastructure of new mining regions),
- improving productivity through realisation of projects resulting in reducing core business costs, and
- additional revenues from new production.

4. Curent and projected financial situation (continuation)

4.11. Projected Group financial situation (continuation)

The main elements in planned equity investments are:
- the acquisition of a foreign mining entity, in order to expand the resource base of KGHM Polska Miedź S.A.,
- the acquisition of investment certificates of Close-end Funds, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A., and
- investments within the KGHM Polska Miedź S.A. Group.

With respect to the "Effectiveness" project, which has been in effect since February 2009 and is aimed at reducing the unit copper production cost, over 70 programs are planned in all operating areas of KGHM Polska Miedź S.A. The potential for improving effectiveness/reducing costs has been initially estimated at over PLN 700 million on an average annual basis after the implementation of all programs.

In the 4th quarter of 2009 the project team presented an update of the result of work, comprising the entire copper production process, from excavation of the copper ore through enrichment to final smelting, and indicated an identified potential for improving effectiveness/reducing costs at an average annual level of over PLN 600 million. The change in the level of identified savings, in respect of earlier assumptions, is due to the updating of detailed plans respecting exhaustion of the deposit, and reflects projected macroeconomic conditions.

The first effects from realisation of this project are expected in 2010.

Realisation of this forecast will be monitored by the Parent Entity on an on-going basis. Evaluation of realisation of this forecast will be made quarterly. Should there occur significant deviation from the amounts forecasted, the company will perform an adjustment to the forecast and will publish it in the form of a current report.

4.12. Investment intentions of the Group

Capital expenditure

The intentions of the Group with respect to capital expenditures arise from the core business of the Parent Entity and comprise the following key activities:

1) Development and increased effectiveness of the core business:
   - increasing the resource base, including maintaining the level of copper production from domestic sources, by: replacing production-related assets in the divisions, developing the technical infrastructure of new mining regions, construction of the SW-4 shaft, realisation of the Głogów Głęboki Przemysłowy project, which will enable continuation of the current level of copper production over the long term, and exploring the possibility of mining the Radwanice–Gaworzyce deposit;
   - improving effectiveness, including restriction of basic operating costs and modernisation of production-related assets by: replacing floatation machinery, modernising pirometallurgy, constructing gas-steam blocks, more rapid exchange of mining machinery, and other investments related to reducing costs, which are currently being analysed;
2) Diversification of activities and supporting the development of KGHM – increasing the production of salt associated with the copper ore, increasing the production of crude and refined lead and the production of copper from scrap.

Equity investments

The intentions of the Parent Entity with respect to equity investments are primarily aimed at:
- investments in the core business – mining,
- investments within the KGHM Polska Miedź S.A. Group, and
- the acquisition of investment certificates of Close-end Funds, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A.,

Investments in mining are aimed at expanding the resource base. This comprises the acquisition of a foreign mining entity and investments in entities involved in exploration.

The intentions of KGHM Polska Miedź S.A. with respect to investments within the Group are aimed at realising investments supporting the core business, among others 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. have developed investment plans aimed at these aspects.

Investments planned within the Group are also aimed at developing and increasing the productivity of Group entities. In realising the strategy of increasing its value through investing in development-related areas, KGHM Polska Miedź S.A. also provides equity support to other investments by the entities of the Group, aimed at strengthening their positions in those sectors in which they operate. A significant part in the realisation of development-related investment plans will be played by POL-MIEDŹ TRANS Sp. z o.o., in which expenditures are planned for realising investments aimed at increasing its expertise in railway transport. The first expenditures on realisation of these investments were incurred in 2009. Investments within its sector are also planned by „Energetyka" sp. z o.o. These involve the acquisition of new, alternative sources of energy. The strategy of increasing the productivity of the Group will also be realised by investing in the property sector.

4. Curent and projected financial situation (continuation)

4.12. Investment intentions of the Group (continuation)

In addition, actions taken within the Group in 2010 will aim at liquidating selected entities. This involves liquidation procedures begun in the prior year. The liquidation of KGHM Polish Copper Ltd. is related to assuming the activities of this company by KGHM Polska Miedź S.A. The decision to liquidate KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi was made due to the termination by this company of an investment project in the Democratic Republic of Congo.

In realising the strategy of responsibility to the local community, KGHM Polska Miedź S.A. provides equity support for investments of social significance. Support by KGHM Polska Miedź S.A. in 2010 will involve the development of medical activities by „MCZ" S.A. and completion of the construction of a football stadium by Zagłębie Lubin S.A.

In order to diversify investment risk, KGHM Polska Miedź S.A. intends to acquire investment certificates for Closed-End Investment Funds 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., will have complete say as to the investment strategy of the created funds.

The level of expenditures related to equity investments which KGHM Polska Miedź S.A. intends to realise in 2010 is similar to the capital expenditures planned during this period. In order to fully realise the investment plan, the Budget for 2010 assumes the use of both internal funds as well as external financing.

5. Development strategy of the Group

Strategy of the Parent Entity

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, the company intends to become a major, global copper producer and will increase copper production to approx. 700 thousand tonnes annually.

The Strategy for the years 2009-2018 based on five pillars:

I. Improving productivity, aimed at halting increases in the unit cost of production, including:
   - investments in new technology, including combines for the mechanical mining of ore and the construction of a flash furnace,
   - modernisation of existing infrastructure, including intensifying the replacement of machinery, and
   - optimalisation of production procedures and organisation.

In 2009 realisation of a project was completed related to the centralisation of procurement, which has substantially promoted optimisation of processes in KGHM Polska Miedź S.A.

II. Developing the resource base, aimed at increasing the production of copper in concentrate to approx. 700 thousand tonnes annually, which assumes:
   - further work on accessing and mining the Głogów Głęboki–Przemysłowy deposit,
   - developing the system for mining ore at depths below 1200 meters,
   - investments in foreign mining assets,
   - searching for new local deposits: further exploration of the possibilities of mining the region of Radwanice–Gaworzyce,
   - exploring and documenting the region of Weisswasser (Germany), exploratory work in regions adjacent to the deposits of KGHM, and
   - intensifying the processing of scrap.

Realisation of the assumptions of the Strategy in this regard has included the foundation, together with a German partner, of the company KGHM HMS Bergbau AG, involved in the exploration of deposits of copper and other metals throughout Europe. The first project to be realised by this company will be exploration of deposits in the Weisswasser region of Germany.

III. Diversifying sources of revenues, which assumes:
   - continued investment in the telecoms sector, and
   - gradual entrance into the power sector.

KGHM Polska Miedź S.A. increased its stake in Polkomtel S.A. through acquisition of the company's shares from TDC Mobile International A/S. Currently KGHM owns 24.39% of the share capital of Polkomtel S.A.
The goal is to have around 30% of the revenues come from non-core business activities.

IV. Regional support to help solidify the local importance of the company, which assumes:
   - creating jobs and developing social activities,
   - developing regional entrepreneurship,
   - protecting the environment as well as the health of employees and of the local community, and
   - supporting local sport and local development of the arts and sciences.

5. Development strategy of the Group (continuation)

V. Developing organisational know-how and capabilities, which assumes:
- introducing management through goals,
- staff development programs, and
- creating a transparent Group structure.

In realising the adopted Strategy with respect to creating a transparent Group structure, KGHM Polska Miedź S.A. founded the company KGHM Towarzystwo Funduszy Inwestycyjnych S.A. The goal of KGHM TFI S.A. is to create and manage close-end sector investment funds. The activities of KGHM TFI S.A. create the possibility of obtaining external investment capital. In addition, it creates the possibility for the independent and rapid assessment of investment projects as well it diversifies investment risk for KGHM Polska Miedź S.A.

In the short term, the adopted Strategy aims at improving the costs competitiveness of KGHM on the global copper market. In the medium term (up to 10 years), as a result of expansion of its resource base, the company will become a major, global copper producer. In the long term, diversification and investments in the power sector will enable KGHM Polska Miedź S.A. to become an international copper group with diversified revenue sources.

Directions of development of the Group

The Strategy of the Group distinguishes four investment portfolios, to which the existing companies of the Group and new projects have been assigned. The following criteria were used in dividing the portfolio:

1) criteria referring to the relationship of these companies with the core business of KGHM Polska Miedź S.A.:
   - the dependence of the core business on a given company and the possibility of its substitution,
   - the share of turnover of the core business in total revenues of a given company,
   - the degree of risk to the core business if control over a given company is lost (the existence of an actual market in a given segment in the environment of KGHM),
   - the possibility of utilising a given company's offer, as an element for stabilising „market games" in making purchases on behalf of the core business;
2) criteria referring to the role of a given company in performing the task „responsible business":
   - the significance of the role of a given company in the Group (apart from its relationship with the core business) from the point of view of realisation of the concept of corporate social responsibility (CSR),
   - the potential for generating jobs in the region;
3) criteria referring to the potential for enhancing the value of a given company for the owner:
   - confirmed possibility for development in the market and achievement of the required return on committed capital,
   - existing and potential synergy with the core business and/or other companies of the Group,
   - diversification – conformity with the general strategic directions for diversification of KGHM Polska Miedź S.A.,
   - activities aimed at managing the waste and associated products / raw materials of the core business,
   - activities based on property arising from restructurisation of the core business,
   - the impact of KGHM on key decisions taken in the company,
   - the potential for development beyond the Group – in another ownership / business form,
   - the degree of preparation for eventual sale / defined exit path.

Based on these criteria, the following portfolios were distinguished:

Portfolio (IS) - (strategic investment – long term) – equity investment critical for diversifying the activities of KGHM Polska Miedź S.A.:
- investment with respect to sector diversification – power and telecom projects,
- investment with respect to geographic diversification – mining resource projects.

Sector diversification with respect to telecommunications is realised by the investment in Polkomtel S.A.

Sector diversification also includes power projects realised by KGHM Polska Miedź S.A. and its subsidiary „Energetyka" sp. z o.o.

Geographic diversification comprised planned equity investments in foreign mining assets to increase the production of copper by KGHM Polska Miedź S.A.

Portfolio (A) (strategic investment for the core business and realisation of the social mission):
- companies of strategic significance for the core business (with a quasi-monopolistic position on the core business market, no substitutes, and posing a significant risk if control over a given company is lost),
- companies with a critical social role / mission for KGHM Polska Miedź S.A.

5. Development strategy of the Group (continuation)

The following companies, considered to be of strategic significance for the core business, have been assigned to this portfolio: PeBeKa S.A., „Energetyka" sp. z o.o., KGHM CUPRUM sp. z o.o.-CBR., KGHM Metraco S.A., TUW-CUPRUM, ZANAM-LEGMET Sp. z o.o. and INOVA Spółka z o.o.

Companies fulfilling a social mission: „MCZ" S.A., KGHM LETIA S.A., Zagłębie Lubin S.A.

Management directions for Portfolio (A):

- cost management,
- ensuring the activities of (deliveries to) KGHM - minimising risk with respect to the core business by investments aimed at reducing costs and increasing the quality of the offer prepared for KGHM Polska Miedź S.A.,
- utilising the offers of companies of this group in creating the market environment,
- ensuring the highest-quality supporting services, realisation of business responsibility tasks, including the generation of new jobs in the region.

Portfolio (B) (medium- and long-term investments):
- companies increasing their value, investing in development (mainly in the environment of KGHM Polska Miedź S.A.), achieving the required rate of return on invested capital.

Management directions of Portfolio (B):

- realisation of medium- and long-term investments, aimed at increasing companies value,
- internal investments in companies in assets / projects generating a high return on committed capital,
- Fund-type management (strategic goal – increased shareholder value, alternative – an aggressive dividend strategy),
- investments in innovative development projects, generated in the direct environment of the core business (the recovery of metals from the waste and semi-products of the core business using innovative „metals chemistry" technology, economic utilisation of other waste of the core business for the production of marketable products),
- investments in the takeover of companies with desirable technology and the production potential to ensure synergetic effects with existing activities;
- equity investments in totally new projects.

In a case of failure to achieve expected equity effects and the lack of potential for development and growth, companies are classified to Portfolio C.

The following Group companies have been classified to Portfolio B: KGHM TFI S.A., KGHM Ecoren S.A., companies of the POL-MIEDŹ TRANS Sp. z o.o. Group, companies of the PHP „MERCUS" sp. z o.o. Group, CBJ sp. z o.o. and Ecoren DKE sp. z o.o.

Portfolio (C) (companies for sale beyond the Group or for liquidation)

Management directions of Portfolio C:
- defining of path and exit horizon (eventual liquidation),
- minimisation of liquidation costs,
- maximisation of the economic effect of sale while taking into account social conditions.

Group companies which are currently in the process of liquidation: KGHM Polish Copper Ltd. and KGHM CONGO S.P.R.L.

The remaining companies of the Group assigned to Portfolio C are WM „Łabędy" S.A., Hefra S.A., PCPM sp. z o.o. and KGHM Kupferhandelsges.m.b.H.

6. Significant subsequent events

Changes in the Statutes of the Parent Entity

On 7 January 2010, the Parent Entity received the ruling of the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court of Registration dated 31 December 2009 on the registration of the changes in the Statutes of KGHM Polska Miedź S.A., approved by the Extraordinary General Meeting on 9 December 2009.

Change in ownership of shares by the State Treasury

On 12 January 2010, the Parent Entity received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury carried out a sale on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors.

Following this sale, the State Treasury owns 63 589 900 shares of KGHM Polska Miedź S.A. giving the same number of votes and representing 31.79% of the Parent Entity share capital and of the total number of votes.

6. Significant subsequent events (continuation)

Significant contract with MKM Mansfelder Kupfer und Messing GmbH

On 14 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2010. The estimated value of this contract is USD 522 872 608, i.e. PLN 1 460 383 thousand.

Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.

On 20 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2010 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 478 758 499, i.e. PLN 1 354 695 thousand, to USD 579 026 934, i.e. PLN 1 638 414 thousand.

Budget of the Parent Entity for 2010

At its meeting on 1 February 2010, the Supervisory Board approved the Budget of KGHM Polska Miedź S.A. for 2010. The basis for preparation of the Budget were the anticipated results for 2009 and the assumptions contained in specific operating plans.

The accepted Budget assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million.

Foundation and registration of INTERFERIE Medical SPA Sp. z o.o.

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

The purpose of founding this company is to operate in the areas of hospitality, recreation, rehabilitation, health tourism and wellness. INTERFERIE Medical SPA Sp. z o.o. was registered on 18 February 2010 in the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court of Registration.

Contract between Capital Partners S.A. and KGHM Polska Miedź S.A.

On 3 March 2010 a contract was signed between Capital Partners S.A. and KGHM Polska Miedź S.A., in which Capital Partners S.A. committed itself to offer for tender no less than 879 501 shares of the company BIPROMET S.A. in response to an announced tender offer to subscribe to the sale or exchange of shares.

This commitment by Capital Partners S.A. to sell shares under a tender is binding, contingent upon meeting among others the following conditions: the subject of the tender will be the amount of shares granting the right to 66% of the votes at the General Meeting, with the per-share price in the tender to be no lower than PLN 7.50, with the tender to be announced no later than 19 March 2010.

Capital Partners S.A. owns 2 043 944 shares of BIPROMET S.A., representing 32.97% of the shares and the votes at the General Meeting.

Tender offer to subscribe for the sales of shares of BIPROMET S.A.

On 19 March 2010, KGHM Polska Miedź S.A. announced a tender offer for the sale of 4 091 868 shares of the company BIPROMET S.A., representing 66% of the share capital and of the votes at the General Meeting of the company, at PLN 7.50 per share. Subscriptions for these shares will take place during the period of 4 May to 2 June 2010. The tender offer was announced under the legal condition of the obtaining by KGHM Polska Miedź S.A. of the agreement of the President of the Office of Competition and Consumer Protection for the concentration of enterprises, based on obtaining control over the company.

Understanding on the construction of "Elektrownia Blachownia" power plant

On 23 March 2010, KGHM Polska Miedź S.A. signed an understanding on the Principles of cooperation with the company Tauron Polska Energia S.A. on the founding of the company „Elektrownia Blachownia Nowa". Prior to founding the target company the signing of a Shareholders Agreement is planned. The new company will build a 910 MW, coal-fired power plant on the grounds of PKE Elektrownia Blachownia in Kędzierzyn – Koźle. This understanding was signed by KGHM Polska Miedź S.A., and by Tauron Polska Energia S.A. and its subsidiary – Południowy Koncern Energetyczny S.A. This is the result of a Letter of Understanding signed by KGHM Polska Miedź S.A. and Tauron Polska Energia S.A. in April 2009. Based on this, the partners will prepare the necessary documentation to establish the target company. The development and signing of the articles of incorporation of the company and shareholders agreement, as well as the performance of necessary procedures with external institutions should be carried out this year.
Failure to sign the Shareholders Agreement by 30 July 2010 would result in termination of the Principles of cooperation, without financial consequences for the Parties.

APPENDIX A: Methodology of calculating ratios used in the report

Assets effectiveness ratios

Assets turnover ratio = $\frac{\text{sales}}{\text{total assets}}$

Non-current assets turnover ratio = $\frac{\text{sales}}{\text{non-current assets}}$

Current assets turnover ratio = $\frac{\text{sales}}{\text{current assets}}$

Liquid assets turnover ratio = $\frac{\text{sales}}{\text{short term receivables + cash and cash equivalents}}$

Assets financing ratios

Coverage of assets by equity = $\frac{\text{equity}}{\text{total assets}}$

Coverage of non-current assets by equity = $\frac{\text{equity}}{\text{non-current assets}}$

Coverage of non-current assets by long-term capital = $\frac{\text{equity + non-current liabilities}}{\text{non-current assets}}$

Coverage of current assets by current liabilities = $\frac{\text{current liabilities}}{\text{current assets}}$

Economic activity ratios

Current liquidity = $\frac{\text{current assets}}{\text{current liabilities}}$

Quick liquidity = $\frac{\text{current assets - inventories}}{\text{current liabilities}}$

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

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

Debt ratio = $\frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$

Durability of financing structure = $\frac{\text{equity + non-current liabilities}}{\text{equity and liabilities}} \times 100$

APPENDIX B: List of tables and diagrams

TABLES

DIAGRAMS

SIGNATURES OF PERSONS REPRESENTING THE COMPANY			
Date	**First name, surname**	**Position/Function**	**Signature**
26 March 2010	Herbert Wirth	President of the Management Board	
26 March 2010	Maciej Tybura	I Vice President of the Management Board	
26 March 2010	Ryszard Janeczek	Vice President of the Management Board	