POLISH FINANCIAL SUPERVISION AUTHORITY

Half-year report P 2012

(In accordance with § 82, sec. 1 point 2 of the Decree of the Minister of Finance dated 19 February 2009 – Journal of Laws No. 33, point 259)

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

for the first half of financial year 2012 comprising the period from **1 January 2012** to **30 June 2012** containing the interim condensed financial statements according to IAS 34 in PLN.

publication date: 31 August 2012

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

Basic materials
(issuer branch title per the Warsaw Stock Exchange)

59 - 301
(postal code)

LUBIN
(city)

M. Skłodowskiej – Curie
(street)

48
(number)

(48 76) 74 78 200
(telephone)

(48 76) 74 78 500
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(e-mail)

www.kghm.pl
(website address)

692–000–00-13
(NIP)

390021764
(REGON)

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

SELECTED FINANCIAL DATA	in '000 PLN		in '000 EUR	
	half-year 2012 period from 1 January 2012 to 30 June 2012	**half-year 2011** period from 1 January 2011 to 30 June 2011	**half-year 2012** period from 1 January 2012 to 30 June 2012	**half-year 2011** period from 1 January 2011 to 30 June 2011
I. Sales	10 503 890	10 000 920	2 486 363	2 520 838
II. Operating profit	3 756 260	5 281 453	889 140	1 331 246
III. Profit before income tax	3 739 344	5 265 396	885 136	1 327 199
IV. Profit for the period	2 949 179	4 319 004	698 097	1 088 651
V. Other comprehensive income	(243 465)	187 443	(57 630)	47 247
VI. Total comprehensive income	2 705 714	4 506 447	640 467	1 135 898
VII. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII. Earnings per ordinary share (in PLN/EUR)	14.75	21.60	3.49	5.44
IX. Net cash generated from operating activities	2 259 057	3 987 760	534 739	1 005 157
X. Net cash used in investing activities	(10 374 841)	(1 004 847)	(2 455 816)	(253 282)
XI. Net cash used in financing activities	(32)	(2 982)	(8)	(752)
XII. Total net cash flow	(8 115 816)	2 979 931	(1 921 085)	751 123
	At 30 June 2012	**At 31 December 2011**	**At 30 June 2012**	**At 31 December 2011**
XIII. Non-current assets	21 726 399	11 696 705	5 098 538	2 648 231
XIV. Current assets	9 282 332	17 556 484	2 178 286	3 974 933
XV. Total assets	31 008 731	29 253 189	7 276 824	6 623 164
XVI. Non-current liabilities	2 328 793	2 249 946	546 498	509 406
XVII. Current liabilities	8 506 713	3 867 732	1 996 272	875 687
XVIII. Equity	20 173 225	23 135 511	4 734 054	5 238 071

Average PLN/EUR exchange rate applied to the calculation of the selected financial data

Selected data items	Exchange rate	30 June 2012	31 December 2011	30 June 2011
I - XII	exchange rate representing the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month during the period from January to June respectively of 2012 and 2011	4.2246	not applicable	3.9673
XIII - XVIII	current average exchange rate announced by the National Bank of Poland on the last day of June respectively of 2012 and 2011	4.2613	4.4168	not applicable

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

KGHM POLSKA MIEDŹ S.A.

HALF-YEAR REPORT P 2012 COMPRISES:

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

Lubin, August 2012

KGHM POLSKA MIEDŹ S.A.

AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2012

Lubin, August 2012

TRANSLATORS' EXPLANATORY NOTE

The following document is a free translation of the registered auditor's report of the below-mentioned Polish Company. In Poland statutory accounts must be prepared and presented in accordance with Polish legislation and in accordance with the accounting principles and practices generally used in Poland.

The accompanying translated report has not been reclassified or adjusted in any way to conform to accounting principles generally accepted in countries other than in Poland, but certain terminology current in Anglo-Saxon countries has been adopted to the extent practicable. In the event of any discrepancy in interpreting the terminology, the Polish version is binding.

Independent registered auditor's report on the review of the interim condensed financial statements for the period from 1 January to 30 June 2012

To the Shareholders and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have reviewed the accompanying interim condensed financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called *the Company*), with its registered office in Lubin,
M. Skłodowskiej-Curie 48 Street, comprising the interim statement of financial position as at 30 June 2012, the interim statement of comprehensive income, the interim statement of changes in equity, the interim statement of cash flows for the period from 1 January to 30 June 2012 and selected explanatory notes to the interim condensed financial statements.

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

We conducted our review in accordance with the requirements of the national standards of auditing issued by the National Chamber of Registered Auditors. These standards require us to plan and perform the review to obtain moderate assurance that the interim condensed financial statements are free of material misstatements. We conducted the review mainly by analysing the data in the interim condensed financial statements, inspecting the accounting records, and making use of information obtained from the Company's Management Board and persons responsible for financial and accounting matters in the Company.

Independent registered auditor's report
on the review of the interim condensed financial statements
for the period from 1 January to 30 June 2012

To the Shareholders and the Supervisory Board of
KGHM Polska Miedź Spółka Akcyjna (cont.)

The scope and methodology of the review of interim condensed financial statements is significantly different from the scope of an audit aimed at expressing an opinion on compliance of the financial statements with the applicable accounting policies and their fairness and clarity, therefore we cannot express an opinion on the attached financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 28 August 2012

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2012

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2012	Herbert Wirth	President of the Management Board	
28 August 2012	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2012	Wojciech Kędzia	Vice President of the Management Board	
28 August 2012	Dorota Włoch	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2012	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	

Translation from the original Polish version

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2012

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2012	Herbert Wirth	President of the Management Board	
28 August 2012	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2012	Wojciech Kędzia	Vice President of the Management Board	
28 August 2012	Dorota Włoch	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2012	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2012

Lubin, August 2012

Table of contents to the interim condensed financial statements

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

Interim statement of financial position

	Note	At 30 June 2012	At 31 December 2011
Assets			
Non-current assets			
Property, plant and equipment	5	7 582 791	7 277 903
Intangible assets	6	156 452	150 777
Shares and investment certificates in subsidiaries	7	11 608 140	2 012 209
Deferred tax assets	19	273 105	168 462
Available-for-sale financial assets	8	851 165	992 068
Mine closure financial assets	9	137 658	111 665
Derivatives	10	1 032 760	899 400
Trade and other receivables	11	84 328	84 221
		21 726 399	**11 696 705**
Current assets			
Inventories	12	2 855 652	2 355 741
Trade and other receivables	11	1 978 228	1 502 944
Mine closure financial assets	9	1 198	2 147
Derivatives	10	597 461	859 653
Cash and cash equivalents	13	3 849 793	12 835 999
		9 282 332	**17 556 484**
Total assets		**31 008 731**	**29 253 189**
Equity and liabilities			
Equity			
Share capital	14	2 000 000	2 000 000
Accumulated other comprehensive income	15	292 208	535 673
Retained earnings	16	17 881 017	20 599 838
Total equity		**20 173 225**	**23 135 511**
Liabilities			
Non-current liabilities			
Trade and other payables	17	47 155	11 579
Borrowings and finance lease liabilities	18	4	35
Derivatives	10	511 104	538 320
Employee benefits liabilities	20	1 260 761	1 216 355
Provisions for other liabilities and charges	21	509 769	483 657
		2 328 793	**2 249 946**
Current liabilities			
Trade and other payables	17	7 911 464	1 827 536
Borrowings and finance lease liabilities	18	61	58
Current corporate tax liabilities		311 095	1 587 847
Derivatives	10	167 070	330 347
Employee benefits liabilities	20	104 718	107 471
Provisions for other liabilities and charges	21	12 305	14 473
		8 506 713	**3 867 732**
Total liabilities		**10 835 506**	**6 117 678**
Total equity and liabilities		**31 008 731**	**29 253 189**

The selected explanatory information presented on pages 7 to 56 represent an integral part of these financial statements

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

Interim statement of comprehensive income

		For the period	
	Note	**from 1 January 2012 to 30 June 2012**	**from 1 January 2011 to 30 June 2011**
Sales	22	10 503 890	10 000 920
Cost of sales	23	(5 896 587)	(4 707 358)
Gross profit		**4 607 303**	**5 293 562**
Selling costs	23	(55 172)	(58 794)
Administrative expenses	23	(362 123)	(325 782)
Other operating income	25	894 772	914 974
Other operating costs	26	(1 328 520)	(542 507)
Operating profit		**3 756 260**	**5 281 453**
Finance costs	27	(16 916)	(16 057)
Profit before income tax		**3 739 344**	**5 265 396**
Income tax expense	30	(790 165)	(946 392)
Profit for the period		**2 949 179**	**4 319 004**
OTHER COMPREHENSIVE INCOME DUE TO:			
Available-for-sale financial assets	15	(140 903)	25 888
Cash flow hedging instruments	15	(159 671)	205 523
Income tax related to items presented in other comprehensive income	15	57 109	(43 968)
Other comprehensive net income for the financial period		**(243 465)**	**187 443**
TOTAL COMPREHENSIVE INCOME		**2 705 714**	**4 506 447**
Earnings per share for the half-year period (in PLN per share)	31		
- basic		14.75	21.60
- diluted		14.75	21.60

The selected explanatory information presented on pages 7 to 56 represent an integral part of these financial statements

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

Interim statement of changes in equity

	Note	Share capital	Accumulated other comprehensive income due to: Available-for-sale financial assets	Accumulated other comprehensive income due to: Cash flow hedging instruments	Retained earnings	Total equity
At 1 January 2012		**2 000 000**	**(38 610)**	**574 283**	**20 599 838**	**23 135 511**
Dividends for 2011 resolved but unpaid	16,17,32	**-**	**-**	**-**	(5 668 000)	**(5 668 000)**
Total comprehensive income		**-**	**(114 132)**	**(129 333)**	**2 949 179**	**2 705 714**
Profit for the period	16	-	-	-	2 949 179	**2 949 179**
Other comprehensive income	15	-	(114 132)	(129 333)	-	**(243 465)**
At 30 June 2012		**2 000 000**	**(152 742)**	**444 950**	**17 881 017**	**20 173 225**
At 1 January 2011		**2 000 000**	**121 385**	**89 774**	**12 245 318**	**14 456 477**
Dividends for 2010 resolved but unpaid	16	**-**	**-**	**-**	(2 980 000)	(2 980 000)
Total comprehensive income		**-**	**20 969**	**166 474**	**4 319 004**	**4 506 447**
Profit for the period	16	-	-	-	4 319 004	4 319 004
Other comprehensive income	15	-	20 969	166 474	-	187 443
At 30 June 2011		**2 000 000**	**142 354**	**256 248**	**13 584 322**	**15 982 924**

The selected explanatory information presented on pages 7 to 56 represent an integral part of these financial statements

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

Interim statement of cash flows

	Note	For the period from 1 January 2012 to 30 June 2012	For the period from 1 January 2011 to 30 June 2011
Cash flow from operating activities			
Profit for the period	16	2 949 179	4 319 004
Adjustments to profit for the period	33	1 424 330	571 694
Income tax paid		(2 114 452)	(902 938)
Net cash generated from operating activities		**2 259 057**	**3 987 760**
Cash flow from investing activities			
Purchase of shares of subsidiaries		(9 569 944)	(180 985)
Purchase of available-for-sale financial assets		-	(1 565 831)
Proceeds from sale of available-for-sale financial assets		-	1 028 023
Purchase of property, plant and equipment and intangible assets		(761 669)	(583 918)
Advances granted for purchase of property, plant and equipment and intangible assets		(17 612)	(41 397)
Proceeds from sale of property, plant and equipment and intangible assets		4 874	2 069
Purchase of mine closure financial assets		(25 044)	(23 500)
Establishment of deposits		-	(450 000)
Termination of deposits		-	800 000
Loans granted		(7 565)	-
Repayments of loans granted		2 582	2 515
Interest received		1 333	9 972
Other investment expenses		(1 796)	(1 795)
Net cash used in investing activities		**(10 374 841)**	**(1 004 847)**
Cash flow from financing activities			
Payments of finance leases liabilities		(28)	(2 976)
Interest paid		(4)	(6)
Net cash used in financing activities		**(32)**	**(2 982)**
Total net cash flow		**(8 115 816)**	**2 979 931**
Exchange (losses)/gains on cash and cash equivalents		(870 390)	53 504
Movements in cash and cash equivalents		**(8 986 206)**	**3 033 435**
Cash and cash equivalents at beginning of the period	13	**12 835 999**	**2 595 529**
Cash and cash equivalents at end of the period	13	**3 849 793**	**5 628 964**
including restricted cash and cash equivalents		1 481	1 413

The selected explanatory information presented on pages 7 to 56 represent an integral part of these financial statements

1. General information

Company name, registered office, business activities

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

The principal activities of the Company comprise:
- mining of other non-ferrous metals ore,
- excavation of gravel and sand, excavation of clay and kaolin, excavation of salt,
- production of technical gases, production of other primary inorganic chemicals,
- production of precious metals, production of lead, zinc and tin,
- production of copper, production of other non-ferrous metals,
- casting of copper and copper alloys, casting of other non-ferrous metals, if not elsewhere classified,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- repair and conservation of machinery, repair and conservation of electrical equipment,
- installation of industrial machinery, equipment and fittings,
- generation, transmission, distribution, trade in electricity,
- manufacture, distribution, trade in gaseous fuels
- generation and supply of steam, hot water and air for air conditioners,
- collection, purification and distribution of water, discharge and treatment of waste,
- collection of waste, treatment and removal of non-hazardous waste,
- cable-based telecom activities, other telecom activities,
- activities related to software, activities related to managing IT equipment, data processing; management of Internet sites (hosting) and related activities, Internet portal activities,
- financial holding activities,
- extraction of crude petroleum,
- support activities for petroleum and natural gas extraction.

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 (currently: Minister of the Environment), most of which expire on 31 December 2013. KGHM Polska Miedź S.A. in the current reporting period continued work on gaining licenses for future years. In the opinion of the Management Board, the licensing process, which occurs periodically, is of an administrative nature, while the probability of not obtaining a license is, in the opinion of the Management Board, minimal and does not threaten the continuation of the activities of KGHM Polska Miedź S.A. Detailed information on the process of obtaining licenses may be found in this report in the Report of the Management Board on the Company's activities in the first half of 2012 point 1.3 Production of point 1 Company profile.

Period of operation

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

Management Board

The 7th-term Management Board of KGHM Polska Miedź S.A. as at 1 January 2012 consisted of:

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

On 27 June 2012, the Supervisory Board of KGHM Polska Miedź S.A. appointed Herbert Wirth as President of the 8th-term Management Board, as well as the following Members of the Management Board: Włodzimierz Kiciński, Wojciech Kędzia, Dorota Włoch and from 1 September 2012 Adam Sawicki.
On 25 July 2012, the Supervisory Board appointed Włodzimierz Kiciński to the function of I Vice President of the Management Board, and the Management Board segregated its duties amongst the members of the Management Board in the following manner:

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

1. General information (continued)

- Herbert Wirth	President of the Management Board,
- Włodzimierz Kiciński	I Vice President of the Management Board (Finance),
- Wojciech Kędzia	Vice President of the Management Board (Production),
- Dorota Włoch	Vice President of the Management Board (Development).

The duties of Adam Sawicki, a member of the Management Board of KGHM Polska Miedź S.A., will be determined upon his assumption of this function on 1 September 2012.

Supervisory Board

The 8th-term Supervisory Board of KGHM Polska Miedź S.A. as at 1 January 2012 consisted of:

- Jacek Kuciński	Chairman
- Marcin Dyl	Deputy Chairman
- Marek Panfil	Secretary
- Franciszek Adamczyk	
- Arkadiusz Kawecki	
- Marzenna Weresa	
- Jan Rymarczyk	

as well as the following employee-elected members:

- Lech Jaroń
- Maciej Łaganowski
- Paweł Markowski.

During the period from 1 January 2012 to the date of authorisation of this report for issue, the bodies of the Company undertook the following decisions, which affected the composition of the Supervisory Board:

1) On 19 January 2012, the Extraordinary General Meeting resolved to:
   - dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,
   - appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.

2) On 13 February 2012, the Supervisory Board selected to serve in the function of:
   - Deputy Chairman - Marek Panfil,
   - Secretary - Mariusz Kolwas.

3) On 17 April 2012, Marek Panfil resigned from the function of Deputy Chairman and on the same day the Supervisory Board selected Aleksandra Magaczewska to serve in this function.

4) On 24 April 2012, Mariusz Kolwas resigned as a Member of the Supervisory Board.

5) On 25 April 2012, the Extraordinary General Meeting resolved to:
   - dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil,
   - appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk and Ireneusz Piecuch.

6) On 21 May 2012, the Supervisory Board selected to serve in the function of:
   - Chairwoman - Aleksandra Magaczewska,
   - Deputy Chairman - Krzysztof Kaczmarczyk,
   - Secretary - Dariusz Krawczyk.

7) On 28 June 2012, the Ordinary General Meeting, after reviewing the requests of employees regarding the dismissal of members of the Supervisory Board elected by the Company's employees, dismissed the following persons from the Supervisory Board: Lech Jaroń, Maciej Łaganowski and Paweł Markowski.

8) On 3 July 2012, Robert Oliwa submitted his resignation as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A., the subject of which will be changes in the composition of the Supervisory Board (the Extraordinary General Meeting was convened for 3 September 2012).

At 30 June 2012 the composition of the Supervisory Board was as follows:

- Aleksandra Magaczewska	Chairwoman
- Krzysztof Kaczmarczyk	Deputy Chairman
- Dariusz Krawczyk	Secretary
- Paweł Białek	
- Robert Oliwa	
- Ireneusz Piecuch	
- Jacek Poświata.	

1. General information (continued)

Signing of the interim condensed financial statements

These interim condensed financial statements (financial statements) do not require authorisation by an approving body pursuant to art. 53 of the Accounting Act dated 29 September 1994. The interim financial statements are signed by the head of the unit, i.e. the Management Board of KGHM Polska Miedź S.A. and by the person responsible for accounting. These financial statements were signed on 28 August 2012.

Going concern

The financial statements were prepared under the assumption that the Company will continue as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. At the date of signing of the financial statements the Management Board of the Company is not aware of any facts or circumstances that may cast doubt about the going concern in the foreseeable future. Expiry of the licenses (as mentioned on page 7) on which the Company bases its operations in terms of the extraction of copper ore and salt deposits along with associated minerals, does not represent an indication of a threat to continuation of the Company's activities, as in the opinion of the Management Board the licensing process, which occurs periodically, is of an administrative nature, while the probability of not receiving licenses is, in the opinion of the Management Board of the Company, minimal.

Seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

2. Basis of preparing financial statements

2.1. Accounting principles

These financial statements have been prepared in accordance with IAS 34 Interim financial reporting and, for a full understanding of the financial situation and the results of the Company, should be read together with the financial statements for the financial year ended 31 December 2011 which are an element of the Annual Report R 2011 available at the website www.kghm.pl. These financial statements have been prepared in accordance with the same principles for the current and comparable periods.

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

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

These financial statements have been prepared using the same principles for the current and comparable periods, restating the comparable period to changes in accounting and presentation principles binding in the current period. In the current period changes were made to the presentation of the item "Held-to-maturity investments". The change in presentation comprised a change in the name of the statement of financial position line item in which cash held in the Mine Closure Fund are presented. Considering the substantial amount of these assets and a better reflection of their nature and designation, the name of the item in assets was changed from „Held-to-maturity investments" to „Mine closure financial assets".

From 1 January 2012 the following standards and interpretations are binding for the Company:

- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets;
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates;
- Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets;
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of Other Comprehensive Income.

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

3. Important estimates and assumptions

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

3.1 Useful life of property, plant and equipment

The Management Board of the Company annually reviews the residual value, depreciation methods and useful lives of depreciable property, plant and equipment. At 30 June 2012, the Management Board determines that the useful lives of assets applied by the Company for purposes of depreciation reflect the expected period of future economic benefits from these assets.

3.2 Financial instruments

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

Embedded derivatives

At the end of each reporting period the Company analyses the materiality of the impact of separation of embedded derivatives on the financial statements. Following this analysis, the Company determined that separation of these instruments at 30 June 2012 would not have a significant effect on the financial statements.

3.3 Impairment of shares in subsidiaries and associates

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

3.4 Provisions

1. Future employee benefits, i.e. retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments is equal to the present value of a defined benefit obligation. The amount of obligations depends on many factors, which are used as assumptions in the actuarial method. Every change in these assumptions impacts the carrying amount of the provisions.

   One of the basic assumptions for setting the amount of these provisions is the discount rate. At the end of the reporting period, the Management Board of the Company, based on the opinion of an independent actuary, applies an appropriate discount rate used for setting the present value of estimated future cash flow due to these benefits. In setting the discount rate for the reporting period, the actuary analyses the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to the settlement dates of the benefits in question.

   Remaining macroeconomic assumptions used to measure liabilities due to future employee benefits, such as inflation or the minimum wage, are based in part on current market conditions. Other information and the assumptions applied may be found in note 20.

3. Important estimates and assumptions (continued)

3.4 Provisions (continued)

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

These provisions represent the discounted to present value estimated future decommissioning costs of mines and other facilities. Revaluation of this provision at the end of the reporting period is affected by the following indicators:
a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
b) the real discount rate calculated based on the profitability of treasury bonds with maturities nearest to the planned financial outflow (nominal discount rate) and the forecast rate of inflation.

Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year. At 30 June 2012, provisions were re-measured using the discount rate at the level of 5.5%.

3.5 Deferred tax assets/liabilities

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

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

4. Business segments

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

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to enrichment plants where it is enriched. As a result of this process, copper concentrate is produced, which is then supplied to the smelters. At the smelters, concentrate is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the processing of used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.

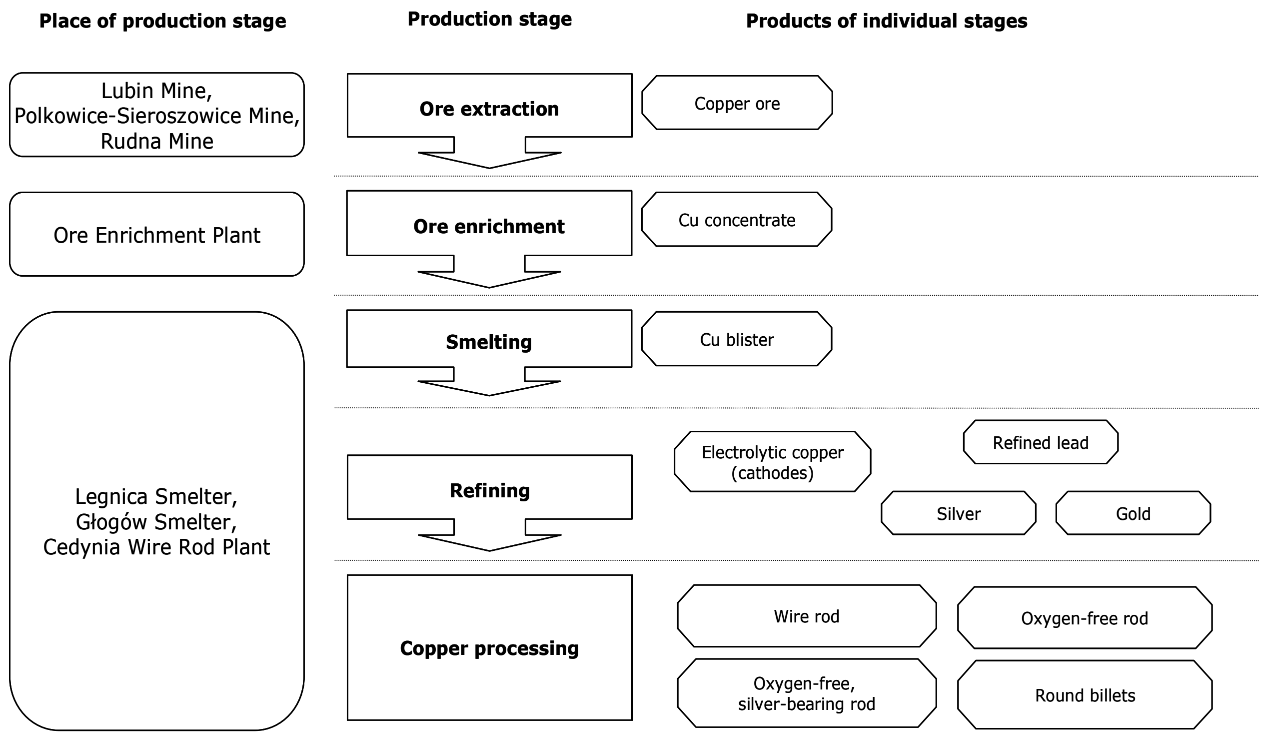
Settlements between further stages of the production process are based on valuation at cost, and as a result the internal organisational units (mines, processing plants, smelters) in the production cycle do not show a profit from sales. The financial data which are prepared for management accounting purposes are based on the same accounting principles which are used to prepare the financial statements. The body which performs regular reviews of the internal reports for purposes of making major operational decisions is the Management Board of the Company, as the body responsible for allocating resources and for the financial results of the Company. The internal reports of the Company on its results are prepared on a monthly basis, and do not contain profits/losses on the separate stages of the production process, concentrating on an analysis of costs of their realisation.
The organisational structure of KGHM Polska Miedź S.A. includes eleven divisions: mines, ore enrichment plants, smelters and a Head Office. The Head Office carries out marketing and sales of the Company's basic products - copper cathodes, round billets, wire rod and silver, the management of financial assets and centralisation of finance and accounting services.

Production of basic products

In the first half of 2012 the Company produced approx. 273 thousand tonnes of electrolytic copper (in comparable period of the prior year, 284 thousand tonnes) and 653 tonnes of silver (in the first half of 2011, 609 tonnes).

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

4. Business segments (continued)



Segment assets and liabilities

	At	
	30 June 2012	**31 December 2011**
Assets	**31 008 731**	**29 253 189**
Liabilities	**10 835 506**	**6 117 678**

In the process of making decisions on the allocation of resources, reports are prepared for managing purposes on capital expenditures, which are presented with a breakdown by expenditures on development and replacements.

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

	For the period	
	from 1 January 2012 to 30 June 2012	**from 1 January 2011 to 30 June 2011**
Development	**366 528**	**235 528**
in mining	258 470	114 528
in metallurgy	44 494	10 884
in other divisions	63 564	110 116
Replacement	**306 435**	**214 182**
in mining	246 962	172 175
of which mining machinery	124 497	90 714
in metallurgy	55 066	33 448
in other divisions	4 407	8 559
Uncompleted capitalised development	**78**	**399**
Total	**673 041**	**450 109**

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

4. Business segments (continued)

Segment profit or loss

	For the period	
	from 1 January 2012 to 30 June 2012	**from 1 January 2011 to 30 June 2011**
Sales	**10 503 890**	**10 000 920**
Interest income	101 236	73 721
Interest cost	2 164	532
Amortisation/depreciation	391 241	331 239
Revaluation of provisions for employee benefits	41 653	9 257
Other operating income on measurement and realisation of derivatives	711 999	530 497
Other operating costs on measurement and realisation of derivatives	751 871	453 598
Income tax	(790 165)	(946 392)
Profit for the period	**2 949 179**	**4 319 004**
ROA* - return on assets (%)	9.5	18.2
ROE** - return on equity (%)	14.6	27.0
EBITDA *(operating profit + amortisation/depreciation)*	**4 147 501**	**5 612 692**

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

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

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

4. Business segments (continued)

Geographical areas

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

	Note	For the period from 1 January 2012 to 30 June 2012	For the period from 1 January 2011 to 30 June 2011
Germany		2 315 457	2 324 110
Poland		2 041 834	2 084 240
The United Kingdom		1 929 596	1 203 295
China		1 014 422	796 436
The Czech Republic		701 821	618 344
Italy		693 066	642 600
France		482 654	326 971
Hungary		396 021	259 162
Switzerland		220 878	123 288
Austria		159 624	293 195
Belgium		116 470	143 597
Finland		9 300	23 472
Other countries (dispersed sale)		422 747	1 162 210
Total	**22**	**10 503 890**	**10 000 920**

Main clients

In the first half of 2012, the revenues from sales from one customer in the amount of PLN 1 107 193 thousand achieved 10% of the revenues of KGHM Polska Miedź S.A. (respectively in the first half of 2011 revenues from sales from one customer achieved 10% of the revenues of KGHM Polska Miedź S.A. in the amount of PLN 1 025 845 thousand).

5. Property, plant and equipment

	At 30 June 2012	At 31 December 2011
Land	17 637	17 637
Buildings	2 719 907	2 666 018
Technical equipment and machinery	2 919 595	2 768 464
Motor vehicles	69 869	65 413
Other fixed assets	14 514	15 104
Fixed assets under construction	1 841 269	1 745 267
	7 582 791	**7 277 903**

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

5. Property, plant and equipment (continued)

Major investment projects recognised under fixed assets under construction

	At 30 June 2012
Construction of the SW-4 shaft	506 604
Construction of Głogów Głęboki – Przemysłowy shaft	348 116
Construction of gas-steam blocks in Głogów and Polkowice Power plants	239 466
Program of Pyrometallurgy Modernisation	124 094
Investments in the Ore Enrichment Plants – preparation of floatation process, floatation and preparation and receipt of concentrate	110 307
Equipping and infrastructure in the mining divisions	109 347
Ventilation and air conditioning equipment in the mines	101 059
Power and communications infrastructure	56 733
Expenditures on exploration	45 167
Conformatory work to currently binding standards	43 125
Purchase of mine machinery and other purchase	36 618
Expenditure on fixed assets components	33 499
Conveyor belt and pipeline transport investments	22 005
Investments in the Żelazny Most tailings pond – tailings management and facility development	12 846
Total	**1 788 986**

	At 31 December 2011
Construction of the SW-4 shaft	471 432
Construction of Głogów Głęboki – Przemysłowy shaft	295 997
Construction of gas-steam blocks in Głogów and Polkowice Power plants	179 593
Ventilation and air conditioning equipment in the mines	136 399
Investments related to mining region infrastructural development in mines	111 431
Program of Pyrometallurgy Modernisation	78 226
Sulphuric Acid Plant in Głogów I Smelter, Głogów II Smelter and Legnica Smelter	69 294
Exchange of floatation machinery in the Ore Enrichment Plants	69 252
Purchase of mine machinery and technical equipment	50 781
Conformatory work to currently binding standards	42 366
Power and communications infrastructure	36 557
Investments in power and communications infrastructure, related buildings and other investments in the Ore Enrichment Plants	32 031
Shafts and primary equipment in mines	23 009
Conveyor belt and pipeline transport investments	20 064
Total	**1 616 432**

Purchase and sale of property, plant and equipment

	For the period		
	from 1 January 2012 to 30 June 2012	from 1 January 2011 to 31 December 2011	1 January 2011 to 30 June 2011
Purchase	639 028	1 417 772	418 987
Net sale	256	21	-

6. Intangible assets

	At	
	30 June 2012	31 December 2011
Development costs	2 140	684
Software	2 107	1 545
Acquired concessions, patents, licenses	15 923	20 025
Other intangible assets	50 274	50 705
Assets used in the exploration for and evaluation of mineral resources	61 996	53 647
Intangible assets not yet available for use	24 012	24 171
Total	**156 452**	**150 777**

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

7. Investments in subsidiaries

	Shares and investment certificates in subsidiaries	Investments in associates
At 1 January 2012		
Amount at cost	2 113 800	-
Impairment losses	(101 591)	-
Net carrying amount at 1 January 2012	**2 012 209**	**-**
Changes in the first half of 2012		
- purchase of shares	93 286	-
- acquisition of newly-issued shares	9 502 645	-
At 30 June 2012		
Amount at cost	11 709 731	-
Impairment losses	(101 591)	-
Net carrying amount at 30 June 2012	**11 608 140**	**-**
At 1 January 2011		
Amount at cost	3 963 824	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 1 January 2011	**2 643 046**	**1 159 947**
Changes in 2011		
- purchase of shares	122 726	-
- acquisition of newly-issued shares	78 596	-
- adjustment of cost	(330)	-
- reclassification of shares of a subsidiary and an associate to non-current assets held for sale	(824 926)	(1 159 947)
- liquidation of KGHM Polish Copper Ltd.	(6 903)	-
At 31 December 2011		
Amount at cost	2 113 800	-
Impairment losses	(101 591)	-
Net carrying amount at 31 December 2011	**2 012 209**	**-**
At 1 January 2011		
Amount at cost	3 963 824	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 1 January 2011	**2 643 046**	**1 159 947**
Changes in the first half of 2011		
- purchase of shares, certificates	121 807	-
- acquisition of newly-issued shares	59 061	-
- sale of shares	(331)	-
- reclassification of shares of a subsidiary and an associate to non-current assets held for sale	-	(1 159 947)
At 30 June 2011		
Amount at cost	4 144 361	-
Impairment losses	(1 320 778)	-
Net carrying amount at 30 June 2011	**2 823 583**	**-**

In the first half of 2012, KGHM acquired for cash newly-issued shares in the following companies:
- Miedziowe Centrum Zdrowia S.A. in the amount of PLN 9 114 thousand,
- KGHM Metraco S.A. in the amount of PLN 5 000 thousand, and
- Energetyka sp. z o.o. in the amount of PLN 67 288 thousand (transaction paid in 3 instalments: PLN 19 000 thousand was paid on 30 March 2012, PLN 22 300 thousand was paid on 29 June 2012 , and PLN 25 988 thousand is planned to be paid on 21 September 2012).

In addition, the Company acquired shares in Fermat 1 S.à r.l. as part of the process of establishing a holding structure in respect of the acquisition of Quadra FNX Mining LTD (currently KGHM INTERNATIONAL LTD.). in the amount of PLN 9 421 243 thousand. The payment was transferred to the Depositary, Kingsdale Shareholder Services Inc. The funds were used by Fermat 1 S.à r.l. to purchase a controlling interest in Quadra FNX Mining LTD.

The shares purchased of KGHM INTERNATIONAL LTD. represent 100% of the share capital of the company and 100% of the votes at the General Meeting of this company. 5 March 2012 was assumed as the date of obtaining control. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the Quadra FNX shares were listed on the TSX Venture Exchange in Toronto.

The operations of KGHM INTERNATIONAL LTD. are focused on mine production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, and McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada.

7. Investments in subsidiaries (continued)

Activities also include mining projects at the pre-operational stage at various stages of development, including Sierra Gorda in Chile (the company's major development project, involving one of the largest new copper and molybdenum deposits in the world), and the pursuit of exploration projects.

The purchases of shares of KGHM INTERNATIONAL LTD. is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production.

In the first half of 2012, the Company exercised a call option for the cash purchase of an additional 29 % of the shares of KGHM AJAX MINING INC. in the amount of PLN 93 286 thousand, increasing its interest in KGHM AJAX MINING INC. to 80% (the total carrying amount of investment in KGHM AJAX MINING INC. was PLN 203 049 thousand).

In the first half of 2012, the Company transferred all of its shares held in KGHM AJAX MINING INC. to the indirect subsidiary 0929260 B.C.U.L.C. in Canada in exchange for the newly-issued shares of this company. Subsequently the Company also transferred all of its shares held in 0929260 B.C.U.L.C. to Fermat 1 S.à r.l. in exchange for the newly-issued shares of this company. The value of the transferred shares amounted to PLN 203 049 thousand. This transaction did not affect profit or loss as the additional newly-issued shares in Fermat 1 S.à r.l. were recognised in an amount equivalent to the carrying amount of the transferred shares of KGHM AJAX MINING INC. As a result of these transactions the carrying amount of shares in Fermat 1 S.à r.l. amounts to PLN 9 624 347 thousand.

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

7. Investments in subsidiaries (continued)

Investments in subsidiaries (direct share)
As at 30 June 2012

Entity	Head office	Subject of activities	% of share capital held	% of voting power	Carrying amount of shares/ investment certificates
Fermat 1 S.á r.l.	Luxembourg	holding activity	100	100	9 624 347
„Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	469 593
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	387 287
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	347 814
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	150 569
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitrocet	85	85	121 272
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	98 076
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	84 122
KGHM Kupfer AG	Berlin	copper and other deposits exploring and mining	100	100	55 429
„MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	49 880
DFM ZANAM – LEGMET Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	48 631
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	33 470
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	32 133
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	30 812
KGHM LETIA S.A	Legnica	promotion of innovation	85.45	85.45	23 552
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	13 185
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	11 822
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100	8 506
KGHM II FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	7 350
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	5 000
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	2 800
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	1 565
KGHM Kupferhandelsges. m.b.H.i.L.	Vienna	copper trading	100	100	925
					11 608 140

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

7. Investments in subsidiaries (continued)

Investments in subsidiaries (direct share)
As at 31 December 2011

	Head office	Subject of activities	% of share capital held	% of voting power	Carrying amount of shares/ investment certificates
„Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	402 305
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	387 287
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	347 814
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	150 569
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitrocet	85	85	121 272
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	51	51	109 763
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	98 076
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	84 122
KGHM Kupfer AG (until 15 May 2011 – KGHM HMS Bergbau AG)	Berlin	copper and other deposits exploring and mining	100	100	55 429
DFM ZANAM – LEGMET Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	48 631
„MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	40 766
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	32 133
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	30 812
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	28 470
KGHM LETIA S.A	Legnica	promotion of innovation	85.45	85.45	23 552
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	13 185
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	11 822
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100	8 506
KGHM II FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	7 350
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	5 000
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	2 800
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	1 565
KGHM Kupferhandelsges. m.b.H.i.L.	Vienna	copper trading	100	100	925
Fermat 1 S.á r.l.	Luxembourg	holding activity	100	100	55
					2 012 209

As at 30 June 2012 and 31 December 2011 KGHM Polska Miedź S.A. did not hold investments in associates.

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

8. Available-for-sale financial assets

	Note	At	
		30 June 2012	**31 December 2011**
Shares in unlisted companies		9 500	9 500
Shares in listed companies		841 665	982 568
Non-current available-for-sale financial assets	**28.1**	**851 165**	**992 068**

The change in the amount of PLN 140 903 thousand is due to the fair value measurement of available-for-sale financial assets at the end of the reporting period.

9. Mine closure financial assets

	Note	At	
		30 June 2012	**31 December 2011**
Cash held in the Mine Closure Fund		137 658	111 665
Non-current mine closure financial assets		**137 658**	**111 665**
Cash held in the Mine Closure Fund		1 198	2 147
Current mine closure financial assets		**1 198**	**2 147**
Total mine closure financial assets	**28.1**	**138 856**	**113 812**

The Company is required by the Law on Geology and Mining, dated 9 June 2011 (Journal of Laws No. 163 item 981) to accumulate cash in a separate bank account called the Mine Closure Fund (MCF) to cover future decommissioning costs of mines and other facilities.

As at 30 June 2012 the balance of mine closure financial assets comprised MCF bank deposits in the amount of PLN 138 850 thousand and cash on MCF bank account in the amount of PLN 6 thousand.

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

10. Derivatives

	Note	At 30 June 2012	At 31 December 2011
Non-current assets			
hedging instruments		1 032 760	896 375
trade instruments		-	3 025
Non-current assets due to derivatives, total		**1 032 760**	**899 400**
Current assets			
hedging instruments		597 388	850 530
trade instruments		73	9 123
Current assets due to derivatives, total		**597 461**	**859 653**
Total assets due to derivatives	**28.1**	**1 630 221**	**1 759 053**
Non-current liabilities			
hedging instruments		437 374	427 049
trade instruments		73 730	111 064
instruments initially designated as hedging instruments excluded from hedge accounting		-	207
Non-current liabilities due to derivatives, total		**511 104**	**538 320**
Current liabilities			
hedging instruments		60 777	125 754
trade instruments		106 292	204 184
instruments initially designated as hedging instruments excluded from hedge accounting		1	409
Current liabilities due to derivatives, total:		**167 070**	**330 347**
Total liabilities due to derivatives	**28.1**	**678 174**	**868 667**

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

11. Trade and other receivables

	Note	At 30 June 2012	At 31 December 2011
Trade and other non-current receivables			
Payment to subsidiaries		50 583	47 948
Loans granted		32 695	35 210
Other financial receivables		1 043	1 055
Total loans and financial receivables, net	**28.1**	**84 321**	**84 213**
Non-financial receivables, net		7	8
Total trade and other non-current receivables, net		**84 328**	**84 221**
Trade and other current receivables			
Trade receivables		1 468 893	1 114 611
Loans granted		14 124	7 261
Payment to subsidiaries		16 167	16 167
Other financial receivables		138 337	39 352
Receivables due to unsettled derivatives*		41 922	29 834
Impairment allowances		(34 319)	(34 560)
Total loans and financial receivables, net	**28.1**	**1 645 124**	**1 172 665**
Non-financial receivables		342 568	340 412
Impairment allowances		(9 464)	(10 133)
Total non-financial current receivables, net		**333 104**	**330 279**
Total trade and other current receivables, net		**1 978 228**	**1 502 944**
Total trade and other current and non-current receivables, net		**2 062 556**	**1 587 165**

*The amount of receivables due to unsettled derivatives represents the derivatives whose date of settlement falls on 3 July 2012 for the balance from 30 June 2012 and 4 January 2012 for the balance from 31 December 2011.

12. Inventories

	At 30 June 2012	At 31 December 2011
Materials	464 007	190 103
Half-finished products and work in progress	1 877 317	1 618 890
Finished goods	510 492	544 506
Merchandise	3 836	2 242
Total carrying amount of inventories	**2 855 652**	**2 355 741**

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

13. Cash and cash equivalents

	Note	At	
		30 June 2012	**31 December 2011**
Cash in hand		76	80
Cash at bank		9 326	8 374
Debt securities		49 787	-
Other financial assets with a maturity of up to 3 months from the date of acquisition		3 790 604	12 827 545
Total cash and cash equivalents	**28.1**	**3 849 793**	**12 835 999**

As at 30 June 2012 the Company held debt securities in the amount of PLN 49 787 thousand, composed of high credit quality commercial bonds with maturity of up to three months.

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 3 779 047 thousand (as at 31 December 2011: PLN 12 811 794 thousand), and deposit interest in the amount of PLN 11 557 thousand (as at 31 December 2011: PLN 15 751 thousand).

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

14. Share capital

At 30 June 2012, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares.
Each share gives the right to one vote at the General Meeting. The Company does not have treasury shares. Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A.
In the first half of 2012 and in the first half of 2011 there were no changes in the registered share capital or in the number of shares.

Ownership structure
At 30 June 2012, the only shareholder of the Company holding shares granting the right to at least 5% of the total number of votes at the General Meeting was the Polish State Treasury, which - based on an notification dated 12 January 2010 - held 63 589 900 shares, representing 31.79% of the share capital and the same number of votes at the General Meeting.
The remaining shareholders held shares representing less than 5% of the total number of votes at the General Meeting – a total of 136 410 100 shares, representing 68.21% of the share capital and the same number of votes at the General Meeting.

In the first half of 2012 and in the first half of 2011 there were no changes in significant blocks of shares of KGHM Polska Miedź S.A. Up to the date of signing of these financial statements by the Management Board of KGHM Polska Miedź S.A. this has not changed.

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

15. Accumulated other comprehensive income

	Note	Accumulated other comprehensive income due to: Available-for-sale financial assets	Accumulated other comprehensive income due to: Cash flow hedging financial instruments	Total accumulated other comprehensive income
At 1 January 2012		**(38 610)**	**574 283**	**535 673**
Fair value losses on available-for-sale financial assets		(140 903)	-	(140 903)
Impact of effective cash flow hedging transactions entered into		-	(18 558)	(18 558)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments		-	(141 113)	(141 113)
Deferred income tax	19	26 771	30 338	57 109
Other comprehensive income		**(114 132)**	**(129 333)**	**(243 465)**
At 30 June 2012		**(152 742)**	**444 950**	**292 208**
At 1 January 2011		**121 385**	**89 774**	**211 159**
Fair value losses on available-for-sale financial assets		(186 833)	-	(186 833)
Impact of effective cash flow hedging transactions entered into		-	839 725	839 725
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(10 692)	-	(10 692)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments		-	(241 565)	(241 565)
Deferred income tax	19	37 530	(113 651)	(76 121)
Other comprehensive income		**(159 995)**	**484 509**	**324 514**
At 31 December 2011		**(38 610)**	**574 283**	**535 673**
At 1 January 2011		**121 385**	**89 774**	**211 159**
Fair value gains on available-for-sale financial assets		30 209	-	30 209
Impact of effective cash flow hedging transactions entered into		-	289 100	289 100
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(4 321)	-	(4 321)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments		-	(83 577)	(83 577)
Deferred income tax		(4 919)	(39 049)	(43 968)
Other comprehensive income		**20 969**	**166 474**	**187 443**
At 30 June 2011		**142 354**	**256 248**	**398 602**

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

16. Retained earnings

	Note	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Profit/(loss) from prior years	Retained earnings, total
At 1 January 2012		**660 000**	**8 605 318**	**11 334 520**	**20 599 838**
Profit for the period		**-**	**-**	**2 949 179**	**2 949 179**
Transfer to reserve capital		-	5 666 520	(5 666 520)	-
Dividend approved but unpaid	17, 32	-	-	(5 668 000)	(5 668 000)
At 30 June 2012		**660 000**	**14 271 838**	**2 949 179**	**17 881 017**
At 1 January 2011		**660 000**	**7 016 729**	**4 568 589**	**12 245 318**
Profit for the period		**-**	**-**	**11 334 520**	**11 334 520**
Transfer to reserve capital		-	1 588 589	(1 588 589)	-
Dividend approved and paid		-	-	(2 980 000)	(2 980 000)
At 31 December 2011		**660 000**	**8 605 318**	**11 334 520**	**20 599 838**
At 1 January 2011		**660 000**	**7 016 729**	**4 568 589**	**12 245 318**
Profit for the period		**-**	**-**	**4 319 004**	**4 319 004**
Transfer to reserve capital		-	1 588 589	(1 588 589)	-
Dividend approved but unpaid		-	-	(2 980 000)	(2 980 000)
At 30 June 2011		**660 000**	**8 605 318**	**4 319 004**	**13 584 322**

Based on the Commercial Partnerships and Companies Code, the Company is required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 30 June 2012 the statutory reserve capital in the Company amounts to PLN 660 000 thousand, and is recognised in equity under Retained earnings.

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

17. Trade and other payables

	Note	At 30 June 2012	At 31 December 2011
Trade and other non-current payables			
Trade payables		56	90
Other financial liabilities		46 308	10 595
Total financial liabilities (scope of IFRS7)	**28.1**	**46 364**	**10 685**
Deferred income		791	894
Total non-financial liabilities		**791**	**894**
Total trade and other non-current payables		**47 155**	**11 579**
Trade and other current payables			
Trade payables		966 500	914 076
of which payables due to purchase, construction of property, plant and equipment and intangible assets		209 214	384 966
Payables due to unsettled derivatives*		17 070	17 073
Other financial liabilities		5 692 473	11 267
of which liabilities due to unpaid dividends		5 668 000	-
Total financial liabilities (scope of IFRS7)	**28.1**	**6 676 043**	**942 416**
Other financial liabilities (IAS 19 – Employee benefits)		75 002	148 090
Total financial liabilities		**6 751 045**	**1 090 506**
Liabilities due to taxes and social security		493 683	214 093
Other non-financial liabilities		89 578	41 162
Special funds		151 331	136 600
Deferred income		4 257	8 924
Accruals		421 570	336 251
Total non-financial liabilities		**1 160 419**	**737 030**
Total trade and other current payables		**7 911 464**	**1 827 536**
Total trade and other non-current and current payables		**7 958 619**	**1 839 115**

*The amount of payables due to unsettled derivatives represents the derivatives whose date of settlement falls on 3 July 2012 for the balance at 30 June 2012 and 4 January 2012 for the balance at 31 December 2011.

Capital commitments, not recognised in the statement of financial position

	At 30 June 2012	At 31 December 2011
For the purchase of property, plant and equipment	1 636 722	1 367 401
For the purchase of intangible assets	44 469	19 211
Total capital commitments	**1 681 191**	**1 386 612**

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

18. Borrowings and finance lease liabilities

	Note	At	
		30 June 2012	31 December 2011
Non-current finance lease liabilities		4	35
Current finance lease liabilities		61	58
Borrowings and finance lease liabilities	**28.1**	**65**	**93**

19. Deferred tax

	Note	For the period	
		from 1 January 2012 to 30 June 2012	from 1 January 2011 to 31 December 2011
Deferred tax assets at the beginning of the reporting period		978 128	865 443
Deferred tax liabilities at the beginning of the reporting period		(809 666)	(505 610)
Net deferred tax assets at the beginning of the reporting period		**168 462**	**359 833**
Changes during the year			
Charged to profit for the period	30	(385 607)	(469 838)
Credited to profit for the period	30	433 141	354 588
Decrease in accumulated other comprehensive income	15	(252 285)	(574 234)
Increase in accumulated other comprehensive income	15	309 394	498 113
Net deferred tax assets at the end of the reporting period, of which:		**273 105**	**168 462**
Deferred tax assets at the end of the reporting period		1 158 121	978 128
Deferred tax liabilities at the end of the reporting period		(885 016)	(809 666)

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

19. Deferred tax (continued)

Deferred tax assets prior to offsetting

	At 1 January 2012 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences	Increase in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2012 based on the rate of 19%**
Provision for decommissioning of mines and other facilities	94 695	4 314	-	**99 009**
Measurement of forward transactions	423 961	106 367	-	**530 328**
Re-measurement of hedging instruments	79 470	-	13 207	**92 677**
Depreciation differences	28 019	(880)	-	**27 139**
Future employee benefits liabilities	251 527	7 914	-	**259 441**
Measurement of available-for-sale financial assets	25 140	-	26 771	**51 911**
Other	75 316	22 300	-	**97 616**
Total	**978 128**	**140 015**	**39 978**	**1 158 121**

	At 1 January 2011 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences	Increase in accumulated other comprehensive income due to change in the balance of temporary differences	**At 31 December 2011 based on the rate of 19%**
Provision for decommissioning of mines and other facilities	101 797	(7 102)	-	**94 695**
Measurement of forward transactions	428 480	(4 519)	-	**423 961**
Re-measurement of hedging instruments	-	-	79 470	**79 470**
Depreciation differences	20 814	7 205	-	**28 019**
Future employee benefits liabilities	232 045	19 482	-	**251 527**
Measurement of available-for-sale financial assets	9 713	1 331	14 096	**25 140**
Other	72 594	2 722	-	**75 316**
Total	**865 443**	**19 119**	**93 566**	**978 128**

	At 1 January 2011 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences	Increase in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2011 based on the rate of 19%**
Provision for decommissioning of mines and other facilities	101 797	(12 455)	-	**89 342**
Measurement of forward transactions	428 480	786	-	**429 266**
Re-measurement of hedging instruments	-	-	17 305	**17 305**
Depreciation differences	20 814	5 917	-	**26 731**
Future employee benefits liabilities	232 045	1 759	-	**233 804**
Measurement of available-for-sale financial assets	9 713	2 700	-	**12 413**
Other	72 594	19 188	-	**91 782**
Total	**865 443**	**17 895**	**17 305**	**900 643**

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

19. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At 1 January 2012 based on the rate of 19%	Charged/(Credited) to profit for the period due to a change in the balance of temporary differences	Increase in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2012 based on the rate of 19%**
Measurement of forward transactions	180 100	76 669	-	**256 769**
Re-measurement of hedging instruments	214 179	-	(17 131)	**197 048**
Depreciation differences	405 887	16 318	-	**422 205**
Measurement of available-for-sale financial assets	5 039	-	-	**5 039**
Other	4 461	(506)	-	**3 955**
Total	**809 666**	**92 481**	**(17 131)**	**885 016**

	At 1 January 2011 based on the rate of 19%	Charged to profit for the period due to a change in the balance of temporary differences	(Increase)/Decrease in accumulated other comprehensive income due to change in the balance of temporary differences	**At 31 December 2011 based on the rate of 19%**
Measurement of forward transactions	66 539	113 561	-	**180 100**
Re-measurement of hedging instruments	21 058	-	193 121	**214 179**
Depreciation differences	387 770	18 117	-	**405 887**
Measurement of available-for-sale financial assets	28 473	-	(23 434)	**5 039**
Other	1 770	2 691	-	**4 461**
Total	**505 610**	**134 369**	**169 687**	**809 666**

	At 1 January 2011 based on the rate of 19%	Charged/(Credited) to profit for the period due to a change in the balance of temporary differences	Decrease in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2011 based on the rate of 19%**
Measurement of forward transactions	66 539	69 556	-	**136 095**
Re-measurement of hedging instruments	21 058	-	56 354	**77 412**
Depreciation differences	387 770	(514)	-	**387 256**
Measurement of available-for-sale financial assets	28 473	-	4 919	**33 392**
Other	1 770	788	-	**2 558**
Total	**505 610**	**69 830**	**61 273**	**636 713**

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

20. Employee benefits

Changes in future employee benefits

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Post-mortem benefit
Present value of obligations - at 1 January 2012	**24**	**1 328 043**	**235 812**	**210 619**	**855 274**	**26 338**
Interest costs		**37 909**	6 770	6 017	24 361	761
Current service cost		**19 024**	7 364	5 141	6 103	416
Benefits paid		**(60 772)**	(12 166)	(11 439)	(36 534)	(633)
Actuarial losses		**44 649**	16 216	2 594	22 551	3 288
Present value of obligations - at 30 June 2012	**24**	**1 368 853**	**253 996**	**212 932**	**871 755**	**30 170**
Past service cost unrecognised at the end of the reporting period	**24**	**(3 374)**	-	(3 374)	-	-
Carrying amount of liabilities in statement of financial position - as at 30 June 2012		**1 365 479**	**253 996**	**209 558**	**871 755**	**30 170**
of which:						
Carrying amount of non-current liabilities		**1 260 761**	221 463	180 663	830 937	27 698
Carrying amount of current liabilities		**104 718**	32 533	28 895	40 818	2 472
Present value of obligations - at 1 January 2011		**1 227 190**	**237 276**	**200 033**	**764 059**	**25 822**
Interest costs		**66 428**	12 649	10 977	41 376	1 426
Current service cost		**36 990**	14 911	10 279	11 010	790
Benefits paid		**(75 814)**	(29 478)	(11 203)	(34 546)	(587)
Actuarial losses/(gains)		**73 249**	454	533	73 375	(1 113)
Present value of obligations - at 31 December 2011		**1 328 043**	**235 812**	**210 619**	**855 274**	**26 338**
Past service cost unrecognised at the end of the reporting period	**24**	**(4 217)**	-	(4 217)	-	-
Carrying amount of liabilities in statement of financial position – as at 31 December 2011		**1 323 826**	**235 812**	**206 402**	**855 274**	**26 338**
of which:						
Carrying amount of non-current liabilities		**1 216 355**	202 530	175 337	814 546	23 942
Carrying amount of current liabilities		**107 471**	33 282	31 065	40 728	2 396
Present value of obligations - at 1 January 2011	**24**	**1 227 190**	**237 276**	**200 033**	**764 059**	**25 822**
Interest costs		**33 317**	6 500	5 478	20 625	714
Current service cost		**18 527**	7 455	5 140	5 537	395
Benefits paid		**(49 829)**	(9 283)	(6 789)	(33 623)	(134)
Actuarial losses/(gains)		**6 399**	(5 562)	1 969	9 594	398
Present value of obligations - at 30 June 2011	**24**	**1 235 604**	**236 386**	**205 831**	**766 192**	**27 195**
Past service cost unrecognised at the end of the reporting period		**(5 060)**	-	(5 060)	-	-
Carrying amount of liabilities in statement of financial position - as at 30 June 2011		**1 230 544**	**236 386**	**200 771**	**766 192**	**27 195**
of which:						
Carrying amount of non-current liabilities		**1 131 189**	206 946	170 928	728 573	24 742
Carrying amount of current liabilities		**99 355**	29 440	29 843	37 619	2 453

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

20. Employee benefits (continued)

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

	Note	For the period	
		from 1 January 2012 to 30 June 2012	from 1 January 2011 to 30 June 2011
Interest costs		37 909	33 317
Current service cost		19 024	18 527
Actuarial losses		44 649	6 399
Past service cost	24	843	843
		102 425	**59 086**

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

Main actuarial assumptions at 30 June 2012:	**2012**	**2013**	**2014**	**2015**	**2016 and beyond**
- discount rate	5.50%	5.50%	5.50%	5.50%	5.50%
- rate of increase in coal prices	0.00%	3.30%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	3.10%	2.80%	2.50%	2.50%	2.50%
- future expected increase in salary	1.40%	3.80%	3.50%	3.50%	3.50%

Main actuarial assumptions at 30 June 2011:	**2011**	**2012**	**2013**	**2014**	**2015 and beyond**
- discount rate	6.00%	6.00%	6.00%	6.00%	6.00%
- rate of increase in coal prices	0.00%	4.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	5.20%	4.00%	4.00%	4.00%	4.00%
- expected inflation	4.00%	3.50%	2.50%	2.50%	2.50%
- future expected increase in salary	4.60%	5.00%	4.00%	4.00%	4.00%

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

21. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2012		**498 130**	**475 606**	**4 919**	**2 324**	**15 281**
Provisions recognised in other operating costs	26	**1 141**	-	350	438	353
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	25,26	**(8 120)**	(951)	**-**	-	(7 169)
Changes in provisions arising from updating of estimates recognised in fixed assets		**31 079**	31 079	**-**	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	27	**16 613**	16 516	49	-	48
Utilisation of provisions		**(2 515)**	(1 150)	**-**	(505)	(860)
Release of provisions and recognition in other operating income	25	**(1 484)**	-	(181)	(1 303)	-
Adjustment to provision due to transfer to Mine Closure Fund		**(12 770)**	(12 770)	**-**	-	-
Provisions at 30 June 2012		**522 074**	**508 330**	**5 137**	**954**	**7 653**
of which:						
Non-current provisions		**509 769**	**501 604**	**2 779**	**-**	**5 386**
Current provisions		**12 305**	**6 726**	**2 358**	**954**	**2 267**

	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2011	**535 533**	**514 006**	**5 600**	**1 975**	**13 952**
Provisions recognised in other operating costs	**3 064**	-	-	2 688	376
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	**(493)**	(2 654)	(32)	-	2 193
Changes in provisions arising from updating of estimates recognised in fixed assets	**(41 253)**	(41 253)	-	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	**32 052**	31 491	216	-	345
Utilisation of provisions	**(6 428)**	(3 118)	(699)	(1 036)	(1 575)
Release of provisions and recognition in other operating income	**(1 479)**	-	(166)	(1 303)	(10)
Adjustment to provision due to transfer to Mine Closure Fund	**(22 866)**	(22 866)	-	-	-
Provisions at 31 December 2011	**498 130**	**475 606**	**4 919**	**2 324**	**15 281**
of which:					
Non-current provisions	**483 657**	**467 680**	**2 730**	**-**	**13 247**
Current provisions	**14 473**	**7 926**	**2 189**	**2 324**	**2 034**

	Note	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2011		**535 533**	**514 006**	**5 600**	**1 975**	**13 952**
Provisions recognised in other operating costs	26	**1 355**	-	-	1 265	90
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	25,26	**(1 405)**	(1 123)	(32)	-	(250)
Changes in provisions arising from updating of estimates recognised in fixed assets		**(56 041)**	(56 041)	-	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	27	**15 806**	15 515	117	-	174
Utilisation of provisions		**(3 508)**	(2 109)	(236)	(415)	(748)
Release of provisions and recognition in other operating income	25	**(1 021)**	-	-	(1 010)	(11)
Adjustment to provision due to transfer to Mine Closure Fund		**(11 435)**	(11 435)	-	-	-
Provisions at 30 June 2011		**479 284**	**458 813**	**5 449**	**1 815**	**13 207**
of which:						
Non-current provisions		**463 847**	**447 594**	**4 630**	**-**	**11 623**
Current provisions		**15 437**	**11 219**	**819**	**1 815**	**1 584**

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

21. Provisions for other liabilities and charges (continued)

As at 30 June 2012 the largest item of provisions for other liabilities is the assessment for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying value of PLN 508 330 thousand (as at 31 December 2011: PLN 475 606 thousand). The assessment was calculated in accordance with the methodology defined in the International Financial Reporting Standards.

22. Sales

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

	Note	For the period	
		from 1 January 2012 to 30 June 2012	**from 1 January 2011 to 30 June 2011**
Copper, precious metals, smelter by-products		10 279 468	9 869 504
Salt		25 801	36 735
Merchandise		126 495	33 058
Services		33 074	29 171
Scrap and production materials		33 303	25 729
Other goods		5 652	6 566
Other materials		97	157
Total	**4**	**10 503 890**	**10 000 920**

	For the period	
	from 1 January 2012 to 30 June 2012	**from 1 January 2011 to 30 June 2011**
Average copper price on LME (USD/t)	8 097	9 398
Average exchange rate (USD/PLN) per NBP	3.27	2.82

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

23. Expenses by nature

	Note	For the period from 1 January 2012 to 30 June 2012	For the period from 1 January 2011 to 30 June 2011
Depreciation of property, plant and equipment and amortisation of intangible assets		391 241	331 239
Employee benefits expenses		1 500 994	1 365 620
Materials and energy		3 299 363	2 802 068
External services		633 604	582 702
Taxes and charges*		605 035	158 206
Advertising costs and representation expenses		21 541	17 494
Property and personal insurance		12 028	11 390
Research and development costs not capitalised in intangible assets		2 004	2 335
Other costs, of which:		**11 818**	**8 747**
Write-down of inventories		1 146	360
Reversal of write-down of inventories		(63)	(125)
Allowance for impairment of receivables	28.2	-	297
Reversal of allowance for impairment of receivables	28.2	-	(855)
Losses from the disposal of financial instruments	28.2	4 485	1 899
Business trips		5 182	3 257
Other operating costs		1 068	3 914
Total expenses by nature		**6 477 628**	**5 279 801**
Merchandise and materials sold (+)		151 476	52 368
Change in inventories of finished goods and work in progress (+/-)		(225 294)	(170 800)
Cost of manufacturing products for internal use (-)		(89 928)	(69 435)
Total cost of sales, selling costs and administrative expenses		**6 313 882**	**5 091 934**

* Starting from April 2012, a new significant item of operating costs is the minerals extraction tax. This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012.

The amount of the tax, recognised in operating costs in the current reporting period, amounted to PLN 442 569 thousand.

The mineral extraction tax is calculated from the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under manufacturing costs and is not deductible for tax purposes, and therefore does not decrease the taxable base.

24. Employee benefits expenses

	Note	For the period from 1 January 2012 to 30 June 2012	For the period from 1 January 2011 to 30 June 2011
Remuneration		1 042 139	984 157
Costs of social security and other benefits		417 202	372 206
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:		41 653	9 257
Present value of obligation		40 810	8 414
Past service cost	20	843	843
Employee benefits expenses		**1 500 994**	**1 365 620**

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

25. Other operating income

	Note	For the period	
		from 1 January 2012 to 30 June 2012	from 1 January 2011 to 30 June 2011
Income and gains from financial instruments classified under other operating activities, resulting from:	28.2	814 568	616 388
Measurement and realisation of derivatives		711 999	530 497
Interest		101 235	71 517
Gains from measurement of non-current liabilities		181	204
Gains from the sale of financial instruments		1 064	14 145
Reversal of allowance for impairment of other receivables		89	25
Gain from the sale of property, plant and equipment and intangible assets		873	-
Non-financial interest		1	2 204
Reversal of allowance for impairment of non-financial receivables		670	750
Dividends received		57 477	277 330
Release of unused provisions due to:		10 531	3 685
Decommissioning of mines		1 620	2 382
Disputed issues and court proceedings		1 303	1 010
Liabilities towards municipal authorities due to a signed agreement in respect of expansion of the Żelazny Most tailings pond		7 427	250
Other		181	43
Penalties and compensation		3 460	11 649
Other operating income/gains		7 192	2 968
Total other operating income		**894 772**	**914 974**

26. Other operating costs

	Note	For the period	
		from 1 January 2012 to 30 June 2012	from 1 January 2011 to 30 June 2011
Costs and losses on financial instruments classified under other operating activities, resulting from:	28.2	1 225 453	508 281
Measurement and realisation of derivatives		751 871	453 598
Interest		145	84
Foreign exchange losses		473 367	49 871
Allowance for impairment of loans		7	6
Allowances for impairment of other receivables		63	4 722
Losses on the sale of property, plant and equipment and intangible assets		-	5 931
Donations granted		85 859	12 517
Interest on overdue non-financial liabilities		2 015	405
Provisions for:		2 070	2 614
Decommissioning of mines		669	1 259
Costs of scrapping property, plant and equipment and fixed assets under construction		350	-
Disputed issues, pending court proceedings		438	1 265
Liabilities towards municipal authorities due to a signed agreement in respect of expansion of the Żelazny Most tailings pond		258	-
Other		355	90
Penalties and compensation paid		336	515
Contributions to a voluntary organisation		6 214	5 496
Other operating costs/losses		6 573	6 748
Total other operating costs		**1 328 520**	**542 507**

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

27. Finance costs

	Note	For the period	
		from 1 January 2012 to 30 June 2012	**from 1 January 2011 to 30 June 2011**
Interest expense	28.2	4	43
Net foreign exchange losses on borrowings	28.2	-	70
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	21	16 613	15 806
Measurement of provisions for decommissioning of mines		16 516	15 515
Measurement of other provisions		97	291
Changes in liabilities arising from the approach of the maturity date of a liability (unwinding of the discount)	28.2	299	138
Total finance costs		**16 916**	**16 057**

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

28. Financial instruments

28.1 Carrying amount

At 30 June 2012

Categories of financial instruments

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss*	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities excluded from the scope of IAS 39	Hedging instruments	Total
Debt securities	13	-	-	49 787	-	-	-	-	**49 787**
Listed shares	8	841 665	-	-	-	-	-	-	**841 665**
Unlisted shares	8	9 500	-	-	-	-	-	-	**9 500**
Trade receivables (net)	11	-	-	1 443 777	-	-	-	-	**1 443 777**
Cash and cash equivalents and deposits	9,13	-	-	3 938 862	-	-	-	-	**3 938 862**
Other financial assets (net)	11	-	-	285 668	-	-	-	-	**285 668**
Derivatives - Currency	10	-	-	-	(25 004)	-	-	144 253	**119 249**
Derivatives - Commodity contracts - Metals	10	-	73	-	(155 019)	-	-	987 744	**832 798**
Trade payables	17	-	-	-	-	(966 556)	-	-	**(966 556)**
Other financial liabilities	17,18	-	-	-	-	(5 755 851)	(65)	-	**(5 755 916)**
		851 165	**73**	**5 718 094**	**(180 023)**	**(6 722 407)**	**(65)**	**1 131 997**	**798 834**

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

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

28. Financial instruments (continued)

28.1 Carrying amount (continued)

At 31 December 2011

Categories of financial instruments

Classes of financial instruments	**Note**	Available-for-sale financial assets	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 excluded from the scope of IAS 39		
Listed shares	8	982 568	-	-	-	-	-	-	**982 568**
Unlisted shares	8	9 500	-	-	-	-	-	-	**9 500**
Trade receivables (net)	11	-	-	1 089 286	-	-	-	-	**1 089 286**
Cash and cash equivalents and deposits	9, 13	-	-	12 949 811	-	-	-	-	**12 949 811**
Other financial assets (net)	11	-	-	167 592	-	-	-	-	**167 592**
Derivatives - Currency	10	-	-	-	(62 887)	-	-	59 138	**(3 749)**
Derivatives - Commodity contracts - Metals	10	-	12 148	-	(252 977)	-	-	1 134 964	**894 135**
Trade payables	17	-	-	-	-	(914 166)	-	-	**(914 166)**
Other financial liabilities	17,18	-	-	-	-	(38 935)	(93)	-	**(39 028)**
		992 068	**12 148**	**14 206 689**	**(315 864)**	**(953 101)**	**(93)**	**1 194 102**	**15 135 949**

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

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

28. Financial instruments (continued)

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

For the period from 1 January 2012 to 30 June 2012	Note	Financial assets/ liabilities measured at fair value through profit or loss	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities excluded from the scope of IAS 39	Hedging instruments	**Total financial instruments**
Interest income/(costs) recognised in:		**-**	**101 235**	**(145)**	**(4)**	**-**	**101 086**
Other operating income	25	-	101 235	-	-	-	101 235
Other operating costs	26	-	-	(145)	-	-	(145)
Finance costs	27	-	-	-	(4)	-	(4)
Exchange gains/(losses) recognised in other operating costs	26	-	(392 365)	(81 002)	-	-	**(473 367)**
Gains/(Losses) on measurement of non-current liabilities recognised in:		-	-	**(118)**	-	-	**(118)**
Other operating income	25	-	-	181	-	-	181
Finance costs	27	-	-	(299)	-	-	(299)
Impairment allowances recognised in other operating costs	26	-	(70)	-	-	-	**(70)**
Reversal of impairment allowances recognising in other operating income	25	-	89	-	-	-	**89**
Adjustment to sales due to hedging transactions	29	-	-	-	-	141 113	**141 113**
Gains/(losses) from disposal of financial instruments recognised in:		-	**(3 421)**	-	-	-	**(3 421)**
Expenses by nature	23	-	(4 485)	-	-	-	(4 485)
Other operating income	25	-	1 064	-	-	-	1 064
Gains on measurement and realisation of derivatives	25	711 999	-	-	-	-	**711 999**
Losses on measurement and realisation of derivatives	26	(751 871)	-	-	-	-	**(751 871)**
Total net gain/(loss)		**(39 872)**	**(294 532)**	**(81 265)**	**(4)**	**141 113**	**(274 560)**

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

28. Financial instruments (continued)

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

For the period from 1 January 2011 to 30 June 2011	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities excluded from the scope of IAS 39	Hedging instruments	**Total financial instruments**
Interest income/(costs) recognised in:		**-**	**-**	**71 517**	**(88)**	**(39)**	**-**	**71 390**
Other operating income	25	-	-	71 517	-	-	-	71 517
Other operating costs	26	-	-	-	(84)	-	-	(84)
Finance costs	27	-	-	-	(4)	(39)	-	(43)
Exchange gains/(losses) recognised in:		**-**	**-**	**21 536**	**(71 407)**	**(70)**	**-**	**(49 941)**
Other operating costs	26	-	-	21 536	(71 407)	-	-	(49 871)
Finance costs	27	-	-	-	-	(70)	-	(70)
Gains/(losses) on measurement of non-current liabilities recognised in:		-	-	-	**66**	-	-	**66**
Other operating income	25	-	-	-	204	-	-	204
Finance costs	27	-	-	-	(138)	-	-	(138)
Impairment allowances recognised in:		-	-	**(5 025)**	-	-	-	**(5 025)**
Expenses by nature	23	-	-	(297)	-	-	-	(297)
Other operating costs	26	-	-	(4 728)	-	-	-	(4 728)
Reversal of impairment allowances		-	-	**880**	-	-	-	**880**
Expenses by nature	23	-	-	855	-	-	-	**855**
Other operating income	25	-	-	25	-	-	-	**25**
Adjustment to sales due to hedging transactions	29	-	-	-	-	-	83 577	**83 577**
Profit/(losses) from disposal of financial instruments recognised in:		-	**14 145**	**(1 899)**	-	-	-	**12 246**
Expenses by nature	23	-	-	(1 899)	-	-	-	(1 899)
Other operating income	25	-	14 145	-	-	-	-	14 145
Gains on measurement and realisation of derivatives	25	530 497	-	-	-	-	-	**530 497**
Losses on measurement and realisation of derivatives	26	(453 598)	-	-	-	-	-	**(453 598)**
Total net gain/(loss)		**76 899**	**14 145**	**87 009**	**(71 429)**	**(109)**	**83 577**	**190 092**

28. Financial instruments (continued)
28.3 Fair value hierarchy

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

29. Financial risk management

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

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

The Company is predominantly exposed to the following financial risks:

- market risks:
  - risk of changes in commodity prices,
  - risk of changes in foreign exchange rates (Currency Risk),
  - price risk related to investments in debt securities and participation units in investment funds,
  - price risk related to investments in shares of listed companies,
  - risk of changes in interest rates (Interest Rate Risk),
- credit risk.
- liquidity risk,

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

29.1 Market risk

29.1.1 Commodity risk

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

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

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

Exposure of the Company to commodity risk is presented below:

	For the period			
	from 1 January 2012 to 30 June 2012		from 1 January 2011 to 30 June 2011	
	Sales	Purchases	Sales	Purchases
Copper [‘000 tonnes]	287	24	282	71
Silver [tonnes]	644	20	599	12

29.1.2 Currency risk

The Company is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD. However, the base (functional) currency for the Company is the PLN.

As a result, the Company receives the equivalent in PLN or exchanges the USD it receives for PLN. Such exchanges lead to the risk associated with fluctuations in the USD/PLN exchange rate during the period from the moment of entering into the trade contract to the moment of determining the exchange rate. In a situation wherein foreign clients pay in local currency for the copper or precious metals which they have imported, the Company is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN, GBP/PLN.

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

29. Financial risk management (continued)

29.1 Market risk (continued)

29.1.3 Commodity and currency risk management

In the first half of 2012 strategies hedging the copper price represented approx. 36% (in the first half of 2011: 28%) of the sales of metals realised by the Company. With respect to silver sales, this figure amounted to approx. 26% (in the first half of 2011: 9%). In the case of the currency market, hedged revenues from sales represented approx. 18% (in the first half of 2011: 18%) of total revenues from sales realised by the Company during this period.

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

In the first half of 2012, the Company implemented copper price hedging strategies with a total volume of 126 thousand tonnes and a time horizon falling in the years 2013-2015. The Company made use of seagull option strategies (Asian options). During the analysed period, the Company did not implement any transactions on the silver market.

In the case of the forward currency market, in the first half of 2012 the Company implemented transactions hedging revenues from sales in the total nominal amount of USD 720 million and a time horizon falling in the years 2014-2015. The Company made use of collar option strategies (European options).

The Company remains hedged for a portion of copper sales planned in the second half of 2012 (102.75 thousand tonnes), in 2013 (103.5 thousand tonnes), in 2014 (42 thousand tonnes) and in 2015 (42 thousand tonnes). A portion of silver sales planned in the second half of 2012 (5.4 million troz), and in 2013 (3.6 million troz) is also hedged. With respect to revenues from sales (currency market) the Company holds a hedging position in the second half of 2012 (USD 420 million), in 2013 (USD 960 million), in 2014 (USD 720 million) and in 2015 (USD 360 million).

Following is presented condensed information on hedging positions, by type of hedged asset and instruments used as at 30 June 2012. The hedged nominal/volume in the months included in the presented periods is equally balanced.

HEDGING POSITION (condensed information) – COPPER MARKET

Period	Instrument		Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
II half of 2012	Collar[1]	Sold call option	19 500	9 300	(454)	6 446 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 000	(459)	6 341 participation restricted to 9 000
		Purchased put option		6 800		
	Collar[1]	Sold call option	19 500	9 500	(453)	6 747 participation restricted to 9 500
		Purchased put option		7 200		
		Producer's puts[2]	19 500	8 500	8.74%[3]	minimal effective hedging price 7 817
		Producer's puts[2]	24 750	8 300	8.66%[3]	minimal effective hedging price 7 639
		Total	102 750			
		II half of 2012, TOTAL	102 750			
I half of 2013	Seagull[4]	Sold call option	19 500	9 500	(383)	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
	Collar	Sold call option	10 500	11 500	(333)	7 867 participation restricted to 11 500
		Purchased put option		8 200		
	Seagull[4]	Sold call option	6 000	10 200	(332)	7 368 restricted to 4 500 participation restricted to 10 200
		Purchased put option		7 700		
		Sold put option		4 500		
	Seagull[4]	Sold call option	15 000	10 300	(368)	7 432 restricted to 4 500 participation restricted to 10 300
		Purchased put option		7 800		
		Sold put option		4 500		
		Total	61 500			

[1] Tables presenting the condensed list of open hedging positions, include restructured items: the type of instrument was changed from seagull to collar. The cost of restructuring (premium for repurchase of options) was added to the cost of implementation (i.e. the average weighted premium) and the effective hedge price/exchange rate was changed.
[2] Due to current hedge accounting laws, transactions embedded within a producer's put – a purchased put option – are shown in the table containing a detailed list of derivatives positions -„Hedging instruments", while sold call options are shown in the table „Trade instruments".
[3] Payable at the moment of settlement.
[4] Due to current hedge accounting laws, transactions embedded within a seagull – a purchased put option and a sold call option – are shown in the table -„Hedging instruments", while sold put options are shown in the table „Trade instruments".

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

29. Financial risk management (continued)

29.1 Market risk (continued)

29.1.3 Commodity and currency risk management (continued)

HEDGING POSITION (condensed information) – COPPER MARKET (continued)

Period	Instrument		Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
II half of 2013	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
	Collar	Sold call option	10 500	11 500	(333)	7 867 participation restricted to 11 500
		Purchased put option		8 200		
	Seagull[4]	Sold call option	6 000	10 200	(332)	7 368 restricted to 4 500 participation restricted to 10 200
		Purchased put option		7 700		
		Sold put option		4 500		
	Seagull[4]	Sold call option	15 000	10 300	(368)	7 432 restricted to 4 500 participation restricted to 10 300
		Purchased put option		7 800		
		Sold put option		4 500		
		Total	**42 000**			
TOTAL 2013			**103 500**			
I half of 2014	Seagull[4]	Sold call option	6 000	10 200	(332)	7 368 restricted to 4 500 participation restricted to 10 200
		Purchased put option		7 700		
		Sold put option		4 500		
	Seagull[4]	Sold call option	15 000	10 300	(368)	7 432 restricted to 4 500 participation restricted to 10 300
		Purchased put option		7 800		
		Sold put option		4 500		
		Total	**21 000**			
II half of 2014	Seagull[4]	Sold call option	6 000	10 200	(332)	7 368 restricted to 4 500 participation restricted to 10 200
		Purchased put option		7 700		
		Sold put option		4 500		
	Seagull[4]	Sold call option	15 000	10 300	(368)	7 432 restricted to 4 500 participation restricted to 10 300
		Purchased put option		7 800		
		Sold put option		4 500		
		Total	**21 000**			
TOTAL 2014			**42 000**			
I half of 2015	Seagull[4]	Sold call option	6 000	10 200	(332)	7 368 restricted to 4 500 participation restricted to 10 200
		Purchased put option		7 700		
		Sold put option		4 500		
	Seagull[4]	Sold call option	15 000	10 300	(368)	7 432 restricted to 4 500 participation restricted to 10 300
		Purchased put option		7 800		
		Sold put option		4 500		
		Total	**21 000**			
II half of 2015	Seagull[4]	Sold call option	6 000	10 200	(332)	7 368 restricted to 4 500 participation restricted to 10 200
		Purchased put option		7 700		
		Sold put option		4 500		
	Seagull[4]	Sold call option	15 000	10 300	(368)	7 432 restricted to 4 500 participation restricted to 10 300
		Purchased put option		7 800		
		Sold put option		4 500		
		Total	**21 000**			
TOTAL 2015			**42 000**			

HEDGING POSITION (condensed information) – SILVER MARKET

Period	Instrument		Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
II half of 2012		Purchased put option	1.80	30.00	(2.89)	27.11
	Put spread[5]	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option[2]		19.80		
	Collar	Sold call option	1.80	62.00	(1.63)	35.37 participation restricted to 62.00
		Purchased put option		37.00		
		Total	**5.40**			
II half of 2012, total			**5.40**			

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5 Due to current hedge accounting laws, transactions embedded within a put spread – a purchased put option– are shown in the table containing a detailed list of derivatives positions -„Hedging instruments", while sold put options are shown in the table „Trade instruments".

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

29. Financial risk management (continued)

29.1 Market risk (continued)

29.1.3 Commodity and currency risk management (continued)

HEDGING POSITION (condensed information) – SILVER MARKET (continued)

Period	Instrument		Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
I half of 2013	Seagull[4]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	1.80			
II half of 2013	Seagull[4]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	1.80			
		TOTAL 2013	3.60			

HEDGING POSITION (condensed information) – CURRENCY MARKET

Period	Instrument		Notional [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
II half of 2012	Seagull[4]	Sold call option	90	4.4000	(0.0767)	3.2233 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Collar	Sold call option	90	4.5000	(0.1473)	3.2527 participation restricted to 4.50
		Purchased put option		3.4000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	420			
		II half of 2012, TOTAL	420			
I half of 2013	Seagull[4]	Sold call option	240	4.0000	(0.0332)	3.1168 restricted to 2.60 participation restricted to 4.00
		Purchased put option		3.1500		
		Sold put option		2.6000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	480			
II half of 2013	Seagull[4]	Sold call option	240	4.0000	(0.0230)	3.1270 restricted to 2.60 participation restricted to 4.00
		Purchased put option		3.1500		
		Sold put option		2.6000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	480			
		TOTAL 2013	960			
I half of 2014	Seagull[4]	Sold call option	180	4.5000	(0.0506)	3.4494 restricted to 2.70 participation restricted to 4.50
		Purchased put option		3.5000		
		Sold put option		2.7000		
	Collar	Sold call option	180	4.5000	(0.0093)	3.3907 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	360			
II half of 2014	Seagull[4]	Sold call option	180	4.5000	(0.0345)	3.4655 restricted to 2.70 participation restricted to 4.50
		Purchased put option		3.5000		
		Sold put option		2.7000		
	Collar	Sold call option	180	4.5000	(0.0093)	3.3907 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	360			
		TOTAL 2014	720			
I half of 2015	Collar	Sold call option	180	4.5000	(0.0080)	3.3920 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	180			
II half of 2015	Collar	Purchased put option	180	4.5000	(0.0080)	3.3920 participation restricted to 4.50
		Sold put option		3.4000		
		Total	180			
		TOTAL 2015	360			

29. Financial risk management (continued)

29.1 Market risk (continued)

29.1.3 Commodity and currency risk management (continued)

At 30 June 2012, the net fair value of open positions in derivatives amounted to PLN 952 047 thousand, of which PLN 1 131 997 thousand related to the positive fair value of hedging instruments, PLN 179 949 thousand related to the negative fair value of trade instruments, and PLN 1 thousand related to the negative fair value of instruments initially designated as hedging instruments excluded from hedge accounting. The fair value of open positions in derivatives varies, depending on changes in market conditions, and the final result on these transactions may vary significantly from the measurements described above.

Detailed information on positions in derivatives at 30 June 2012 is presented below in the tables "Trade instruments", "Hedging instruments" and "Instruments initially designated as hedging instruments excluded from hedge accounting".

TRADE INSTRUMENTS **At 30 June 2012**

Type of derivative	**Volume/ Notional** Cu [t] Ag ['000 troz] Currency ['000 USD]	**Avg. weighted price/ex. rate** Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	**Financial assets**		**Financial liabilities**	
			Current	**Non-current**	**Current**	**Non-current**
Derivatives - Metals – Copper:						
Options						
Sold call options	3 848	1			(100 004)	
Purchased put options	58 500	4 633	72			
Sold put options	204 000	4 557			(1 137)	(42 735)
TOTAL:			**72**		**(101 141)**	**(42 735)**
Derivatives - Metals – Silver:						
Options						
Purchased call options	1 800	62.00	1			
Sold put options	5 400	19.93			(3 156)	(7 986)
TOTAL:			**1**		**(3 156)**	**(7 986)**
Derivatives – Currency contracts – USD/PLN:						
Options						
Sold put options	930 000	2.6484			(1 995)	(23 009)
TOTAL:					**(1 995)**	**(23 009)**
Total trade instruments			**73**		**(106 292)**	**(73 730)**

HEDGING INSTRUMENTS **At 30 June 2012**

Type of derivative	**Volume/ Notional** Cu [t] Ag ['000 troz] Currency ['000 USD]	**Avg. weighted price/ ex. rate** Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	**Maturity/ settlement period**		**Period of profit/loss impact**		**Financial assets**		**Financial liabilities**	
			From	**To**	**From**	**To**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Metals- Copper										
Options										
Collar	42 000	8 350 - 11 750	Jan-13	Dec-13	Feb-13	Jan-14	67 466	112 238	(2 219)	(9 863)
Collar - seagull	204 000	7 486 - 9 910	July-12	Dec-15	Aug-12	Jan-16	100 275	480 291	(29 870)	(184 524)
Purchased put options- producer's puts	44 250	8 388	July-12	Dec-12	Aug-12	Jan-13	129 383			
TOTAL:							**297 124**	**592 529**	**(32 089)**	**(194 387)**
Derivatives – Metals - Silver										
Options										
Purchased put options	3 600	35.00	July-12	Dec-12	Aug-12	Jan-13	100 763			
Collar - seagull	1 800	37.00-62.00	July-12	Dec-12	Aug-12	Jan-13	60 724		(1)	
Collar - seagull	3 600	40.00-65.00	Jan-13	Dec-13	Feb-13	Jan-14	66 476	97 308	(44)	(659)
TOTAL:							**227 963**	**97 308**	**(45)**	**(659)**
Derivatives – Currency contracts										
Options										
Collar	1 530 000	3.3059-4.3588	July-12	Dec-15	July-12	Dec-15	45 010	212 925	(11 478)	(159 048)
Seagull	930 000	3.3000-4.2323	July-12	Dec-14	July-12	Dec-14	27 291	129 998	(17 165)	(83 280)
TOTAL:							**72 301**	**342 923**	**(28 643)**	**(242 328)**
TOTAL HEDGING INSTRUMENTS							**597 388**	**1 032 760**	**(60 777)**	**(437 374)**

29. Financial risk management (continued)
29.1 Market risk (continued)
29.1.3 Commodity and currency risk management (continued)

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING — **At 30 June 2012**

Type of derivative	Notional	Avg. weighted ex. rate	Maturity/ settlement period		Period of profit/loss impact		Financial assets		Financial liabilities	
	Ag [‘000 troz]	Ag [USD/troz]	From	To	From	To	Current	Non-current	Current	Non-current
Derivatives – Metals – Silver:										
Options										
Sold call options	1 800	62.00	July-12	Dec-12	Aug-12	Jan-13			(1)	
TOTAL									**(1)**	
Total instruments initially designated as hedging instruments excluded from hedge accounting									**(1)**	

The fair values of derivatives and other receivables and liabilities due to unsettled derivatives with a settlement date of 3 July 2012, as at 30 June 2012, are presented in the table below:

	Total: fair value of derivatives and of other receivables and liabilities due to unsettled derivatives	Fair value of derivatives	Fair value of other receivables and liabilities due to unsettled derivatives
Financial assets	**1 672 143**	1 630 221	41 922
Financial liabilities	**(695 244)**	(678 174)	(17 070)
Net fair value	**976 899**	952 047	24 852

In the first half of 2012, the result on derivatives amounted to PLN 101 241 thousand, of which the amount of PLN 141 113 thousand was recognised in revenues from sales (the amount transferred from accumulated other comprehensive income to profit or loss in the reporting period), the amount of PLN 39 872 thousand decreased the result on other operating activities, of which PLN 85 798 thousand represented loss from realisation of derivatives, while PLN 45 926 thousand represented gain on measurement of derivatives. The gain on the measurement of derivative transactions recognised in other operating activities results mainly from the change in the time value of options which, in accordance with the hedge accounting policy, are recognised in profit or loss.

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

	For the period from 1 January 2012 to 30 June 2012	**For the period from 1 January 2011 to 30 June 2011**
Impact on sales	**141 113**	**83 577**
Impact on other operating activities	**(39 872)**	**76 899**
Gains / (losses) from realisation of derivatives	(85 798)	25 320
Gains / (losses) from measurement of derivatives	45 926	51 579
Total impact of derivatives on profit or loss:	**101 241**	**160 476**

In the first half of 2012, the amount recognised in profit or loss of the Company - in other operating costs due to the ineffective portion of cash flow hedges – amounted to PLN (153 913) thousand, of which PLN 69 031 thousand is a loss on the measurement of hedging instruments and PLN 84 882 thousand is a loss on the realisation of the ineffective portion of hedging instruments.

In the first half of 2011, the amount recognised in profit or loss of the Company - in other operating income due to the ineffective portion of cash flow hedges – amounted to PLN 32 164 thousand, of which PLN 8 935 thousand was a gain on the measurement of hedging instruments and PLN 23 229 thousand was a gain on the realisation of the ineffective portion of hedging instruments.

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

29. Financial risk management (continued)
29.1 Market risk (continued)
29.1.3 Commodity and currency risk management (continued)

At 30 June 2012, accumulated other comprehensive income (excluding the deferred tax effect) due to cash flow hedging instruments amounted to PLN 549 321 thousand. The entire amount related to the effective portion of the result from the measurement of transactions hedging metals price risk.

At 31 December 2011, accumulated other comprehensive income (excluding the deferred tax effect) due to cash flow hedging instruments amounted to PLN 708 992 thousand. The entire amount related to the effective portion of the result from the measurement of transactions hedging metals price risk.

During the first half of 2012 there was a decrease in other comprehensive income by PLN 159 671 thousand (excluding the deferred tax effect), comprised of:

- changes in fair value during the period recognised as a decrease in other comprehensive income due to the effective portion of hedging transactions entered into, in the amount of PLN 18 558 thousand,
- the amount of PLN 141 113 thousand, decreasing accumulated other comprehensive income transferred to increase revenues from sales, due to the settlement of the effective portion of hedging transactions.

	At	
Accumulated other comprehensive income	**30 June 2012**	**31 December 2011**
Commodity price risk hedging transactions (copper and silver) – derivatives	549 321	708 992
Currency risk hedging transactions – derivatives	-	-
Total accumulated other comprehensive income - financial instruments hedging future cash flows (excluding deferred tax effects)	**549 321**	**708 992**

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

At 30 June 2012, the Company held corporate bonds with a carrying amount equivalent to PLN 49 787 thousand. The maturity of these bonds does not exceed 90 days from the purchase date, with interest based on the variable interest rate WIBOR 1M plus a margin.

At 30 June 2012, the Company did not hold participation units in open-end liquidity investment funds.

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

At 30 June 2012, the carrying amount of shares of companies listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 841 665 thousand. These investments expose the Company to the risk of a substantial change in accumulated other comprehensive income due to changes in the share prices of these companies, caused by the current macroeconomic situation.

29.1.6 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the financial position of the Company. The Company is exposed to this risk due to loans granted with interest based on a variable interest rate of WIBOR 1M (balance at 30 June 2012: PLN 45 321 thousand, of which long-term loans amount to PLN 32 695 thousand, short-term to PLN 12 626 thousand). The decrease in market interest rates results in a decrease in the expected amount of income due to decreased cash flow due to loans granted.

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

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

29. Financial risk management (continued)

29.2 Credit risk

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

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

Areas of Company's activities in which credit risk exposure has different characteristics from those mentioned above:

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

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

All entities with which deposit transactions are entered into by the Company operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest[6] (16% of deposits), medium-high[7] (45% of deposits) and medium[8] credit ratings (39% of deposit), an appropriate level of equity and a strong, stable market position. As at 30 June 2012, the maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounts to 16%.

29.2.2 Credit risk related to derivative transactions

All entities with which derivative transactions are entered into by the Company operate in the financial sector. These are financial institutions (mainly banks), with the highest (5.9%), medium-high (76.5%) or medium (17.6%) credit ratings. Taking into consideration fair value at 30 June 2012, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Company amounted to 20.1%.

Measurement of transactions in derivatives entered into by the Company[9]

	At	
	30 June 2012	**31 December 2011**
Balance from measurement of derivatives	**976 899**	**903 147**
Financial assets	1 672 143	1 788 887
Financial liabilities	(695 244)	(885 740)

[6] By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moody's.
[7] By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's.
[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 Moody's.
[9] The measurement of transactions involves both measurement of open positions as well transactions with a settlement date of:
- 3 July 2012, which were shown in the Company's statement of financial position, in the item other receivables and payables due to unsettled derivatives – as at 30 June 2012.
- 4 January 2012, which were shown in the Company's statement of financial position at 31 December 2011 in the item other financial receivables and payables – as at 31 December 2011.

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

29. Financial risk management (continued)

29.2 Credit risk (continued)

29.2.2 Credit risk related to derivative transactions (continued)

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

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

29.2.3 Credit risk related to trade and other financial receivables

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

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

	At					
	30 June 2012			31 December 2011		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	32.8%	52.6%	14.6%	23.1%	49.5%	27.4%

The Company makes the majority of its sales transactions based on prepayments. The Company monitors the creditworthiness of all its customers[10] on an on-going basis, in particular those to whom buyer's credit has been granted.

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always secured. The Company has secured the majority of its receivables by promissory notes[11], frozen funds on bank accounts, registered pledges[12], bank guarantees, corporate guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain[13].

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, at 30 June 2012 the Company had secured 85.1% of its trade receivables.

The total value of the Company's net trade receivables as at 30 June 2012, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 443 777 thousand (at 31 December 2011: PLN 1 089 286 thousand).

The concentration of credit risk in the Company results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 30 June 2012 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 65.3% of the balance of trade receivables (at 31 December 2011: 51.5%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

29.2.4 Credit risk related to loans granted

At 30 June 2012 the carrying amount of loans granted by the Company amounted to PLN 45 321 thousand. The loans were granted to the companies:

- Energetyka Sp. z o.o., the carrying amount of the loan: PLN 37 766 thousand,
- KGHM LETIA S.A., the carrying amount of the loan: PLN 7 555 thousand.

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

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

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

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

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

29. Financial risk management (continued)

29.2 Credit risk (continued)

KGHM Polska Miedź S.A. continuously monitors the assets and financial results of the borrowers. At present credit risk of the loans is immaterial.

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

At 30 June 2012, the Company held corporate bonds with a carrying amount of PLN 49 787 thousand and a maturity of 3 months. The issuer of the bonds purchased by the Company holds a medium-high rating.

29.3 Liquidity risk and capital management

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

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

In the first half of 2012, as well as in the comparable period, due to positive cash flow and the significant amount of cash balances, the Company did not make use of external financing in the form of bank and other loans from financial institutions and settled all of its liabilities in a timely manner.

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

In accordance with market practice, the Company monitors its capital, among others based on the *equity ratio* and the *ratio of Net Debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of *Net Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities minus unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation and amortisation).

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

The above-described ratios as at 30 June 2012, 31 December 2011 and 30 June 2011 are presented below:

	30 June 2012	31 December 2011	30 June 2011
Equity	20 173 225	23 135 511	15 982 924
Less: intangible assets	156 452	150 777	101 844
Net assets	20 016 773	22 984 734	15 881 080
Total assets	31 008 731	29 253 189	23 701 137
Equity ratio	**0.65**	**0.79**	**0.67**
Operating profit*	12 162 447	13 687 640	8 155 123
Plus: depreciation/amortisation*	732 375	672 373	640 581
EBITDA*	12 894 822	14 360 013	8 795 704
Borrowings and finance lease liabilities	65	93	8 584
Unallocated cash and cash equivalents	3 881 371	12 832 963	5 627 551
Ratio of net debt/EBITDA	**0.00**	**0.00**	**0.00**

*For data at 30 June of the given year, the amounts presented are accrued for the last 12 months.

Due to the lack of Company debt as at 30 June 2012, the *ratio of net debt/EBITDA* amounted to 0.00.

The equity ratio was above the assumed minimum level and amounted to 0.65 at 30 June 2012.

In the first half of 2012 and in 2011 there were no external equity requirements imposed on the Company.

29. Financial risk management (continued)

29.3 Liquidity risk and capital management (continued)

In the first half of 2012, the Company implemented cash management services in the KGHM Polska Miedź S.A. Group - zero-balance cash-pool. This service provides for optimisation of finance costs and effective management of the current cash liquidity of the KGHM Polska Miedź S.A. Group.

KGHM Polska Miedź S.A. serves as a coordinator in this service. This function is based on ensuring coverage of borrowing limits granted to participants of the system, establishing the conditions for functioning of the system, particularly including representation of the participants in bank relations with respect to services and the principles for calculating interest.

Liquidity risk related to the implemented cash management service in the Group is immaterial, due to the amount committed by the Company at the end of the reporting period in the amount of PLN 32 998 thousand (a receivable of KGHM Polska Miedź S.A. from the other participants of the system).

30. Income tax

Income tax	Note	For the period from 1 January 2012 to 30 June 2012	 from 1 January 2011 to 30 June 2011
Current income tax		840 431	898 127
Tax settlement adjustments for prior periods		(2 732)	(3 670)
Deferred income tax	19	(47 534)	51 935
Total		**790 165**	**946 392**

The rate applied to the taxation of income in accordance with corporate income tax law in force in the first half of 2012 amounted to 19% (in the first half of 2011: 19%). The effective interest rate in the first half of 2012 was 21.13% (in the first half of 2011: 17.97%). The increase in the effective interest rate in the first half of 2012 was mainly due to the introduction of minerals extraction tax, which is not a deductible cost for tax purposes.

31. Earnings per share

	For the period from 1 January 2012 to 30 June 2012	 from 1 January 2011 to 30 June 2011
Profit for the period	2 949 179	4 319 004
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	14.75	21.60

There are no dilutive ordinary shares.

32. Dividend resolved but unpaid

In accordance with Resolution No. 5/2012 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2012 regarding the appropriation of Company's profit for financial year 2011, the amount of PLN 5 668 000 thousand, representing PLN 28.34 per share, was allocated as a shareholders dividend.
The right to dividend date was set at 16 July 2012, the dividend payment dates: 1st instalment in the amount of PLN 3 400 000 thousand: 20 August 2012, 2nd instalment in the amount of PLN 2 268 000 thousand: 16 November 2012.
All Company shares are ordinary shares.

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

33. Adjustments to profit for the period in interim statement of cash flows

	Note	For the period from 1 January 2012 to 30 June 2012	For the period from 1 January 2011 to 30 June 2011
Income tax recognised in profit or loss		790 165	946 392
Depreciation/amortisation	23	391 241	331 239
(Gains)/Losses on sales of property, plant and equipment and intangible assets		(873)	5 931
Gains on sales of available-for-sale financial assets		-	(14 145)
Interest and share in profits (dividends)		(58 181)	(286 471)
Foreign exchange (gains)/losses		872 219	(52 389)
Change in provisions		34 520	9 050
Change in derivatives		(80 220)	(219 006)
Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives		(141 113)	(83 577)
Other adjustments		22	335
Changes in working capital:		**(383 450)**	**(65 665)**
Inventories		(499 842)	(478 260)
Trade and other receivables		(452 966)	425 417
Trade and other payables		569 358	(12 822)
Total adjustments to profit for the period		**1 424 330**	**571 694**

34. Related party transactions

Revenues from sales	For the period from 1 January 2012 to 30 June 2012		
	Sales of products	Sales of merchandise and materials	Other transactions
To subsidiaries	286 118	35 687	5 342
Total sales to related entities	**286 118**	**35 687**	**5 342**

During the period from 1 January 2012 to 30 June 2012, KGHM Polska Miedź S.A. recognised in other operating income dividend from a subsidiary in the amount of PLN 1 023 thousand.

In the comparable period from 1 January 2011 to 30 June 2011, KGHM Polska Miedź S.A. recognised in other operating income dividends from an associate in the amount of PLN 250 013 thousand, there were no dividends from subsidiaries.

During the period from 1 January 2012 to 30 June 2012, no sales of property, plant and equipment, intangible assets and investment property between the Company and related entities were reported.

Revenues from sales	For the period from 1 January 2011 to 30 June 2011		
	Sales of products	Sales of merchandise and materials	Other transactions
To subsidiaries	328 723	34 223	2 015
To other related entities	51	19	8
Total sales to related entities	**328 774**	**34 242**	**2 023**

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

34. Related party transactions (continued)

	For the period from 1 January 2012 to 30 June 2012			
Purchases	**Purchase of services**	**Purchase of merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
From subsidiaries	409 119	2 092 256	333 638	8 896
Total purchases from related entities	**409 119**	**2 092 256**	**333 638**	**8 896**

	For the period from 1 January 2011 to 30 June 2011			
Purchases	**Purchase of services**	**Purchase of merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
From subsidiaries	394 700	1 548 817	209 757	1 769
From other related entities	662	34	5	-
Total purchases from related entities	**395 362**	**1 548 851**	**209 762**	**1 769**

	At	
Trade and other receivables from related entities	**30 June 2012**	**31 December 2011**
From subsidiaries	249 752	269 922
Total receivables from related entities	**249 752**	**269 922**

	At	
Trade and other payables towards related entities	**30 June 2012**	**31 December 2011**
Towards subsidiaries	424 225	431 871
Total payables towards related entities	**424 225**	**431 871**

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

34. Related party transactions (continued)

	For the period	
Remuneration of the Supervisory Board	**from 1 January 2012 to 30 June 2012**	**from 1 January 2011 to 30 June 2011**
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	838	750
Total	**838**	**750**

	For the period	
Remuneration of the Management Board	**from 1 January 2012 to 30 June 2012**	**from 1 January 2011 to 30 June 2011**
Salaries and other current employee benefits	1 966	2 033
Benefits due to termination of employment	42	-
Total	**2 008**	**2 033**

During the current financial period, no individual transactions were identified between KGHM Polska Miedź S.A. and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Company and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions involved the purchase by the Company of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the current reporting period amounted to PLN 380 816 thousand (for the period from 1 January to 30 June 2011 – PLN 343 757 thousand), the unsettled balance of liabilities from these transactions at 30 June 2012 amounted to PLN 41 539 thousand (at 31 December 2011: PLN 45 968 thousand), and the unsettled balance of receivables at 30 June 2012 amounted to PLN 59 801 thousand (at 31 December 2011: PLN 1 414 thousand). Revenues from sales from entities with State Treasury equity participation amounted to PLN 28 640 thousand (for the period from 1 January to 30 June 2011, PLN 27 808 thousand).

35. Contingent assets and liabilities

	At	
	30 June 2012	**31 December 2011**
Contingent assets	**396 149**	**373 223**
Guarantees received	171 303	167 018
Disputed State Budget issues	7 101	7 093
Promissory notes receivables	93 200	77 007
Inventions, implementation of projects	38 228	36 595
Real estate tax on mining facilities	86 296	85 489
Other	21	21
Contingent liabilities	**303 381**	**141 430**
Guarantees	5 000	5 000
Disputed issues, pending court proceedings	14 119	13 769
Liabilities due to implementation of projects and inventions	119 309	113 967
Liabilities towards municipal authorities due to a signed agreement in respect of expansion of the Żelazny Most tailings pond	156 268	-
Other	8 685	8 694

The value of contingent assets and liabilities was determined based on estimates.

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

36. Employment structure

	For the period	
	from 1 January 2012 to 30 June 2012	**from 1 January 2011 to 30 June 2011**
White-collar employees	4 608	4 554
Blue-collar employees	13 942	14 018
Total:	**18 550**	**18 572**

37. Subsequent events

Resignation of a Member of the Supervisory Board

On 3 July 2012, Robert Oliwa submitted his resignation, to take effect from the date of convening of the next General Meeting of the Company, from fulfilment of the duties of Member of the Supervisory Board of KGHM Polska Miedź S.A.

Signing of a framework agreement on the exploration for and extraction of shale gas

On 4 July 2012, the Management Board of KGHM Polska Miedź S.A. signed a framework agreement on the exploration for and extraction of shale gas (the "Agreement"). The parties to the Agreement are KGHM Polska Miedź S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A. (hereafter jointly referred to as the "Parties").

The subject of cooperation of the Parties based on the Agreement will be the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG (the "Wejherowo Concession"). With respect to the Wejherowo Concession, there will be close cooperation involving an area of approximately 160 km^2 (the "Area of Cooperation"). The Agreement also provides for preferential treatment of the Parties with regard to the possibility of cooperation in relation to the remaining area of the Wejherowo Concession (with the exception of a situation where PGNiG on its own engages in exploration, evaluation or extraction of shale gas and excluding the area in the vicinity of Opalino and Lubocino where PGNiG is already conducting exploratory work).

The Agreement provides for cooperation based on the targeted structure of a limited partnership that, following a successful exploration, will extract shale gas. The Parties foresee the transfer of the concession for the extraction of shale gas to such limited partnership after it has been obtained by PGNiG. Each of the Parties participates in control over the realisation of the project, in particular through participation in the operating committee formed for this purpose. Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are projected to be in the amount of PLN 1 720 000 thousand. Details regarding the terms of cooperation, including a detailed project budget and timeline, the shares of the Parties in financing the expenditures arising from the agreed-on budget, shares in the project's profits and the principles of responsibility, including contractual penalties in the case of the failure, in particular by PGNiG, to fulfil certain obligations resulting from the Agreement, will be determined by the Parties within four months from the date the Agreement is signed. Should such specific arrangements not be forthcoming, the Agreement may be terminated by each of the Parties. If within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by 30 December 2012 the required antimonopoly clearances have not been received, the Agreement will expire.

Convening of the Extraordinary General Meeting of KGHM Polska Miedź S.A.

On 20 July 2012 the Management Board of KGHM Polska Miedź S.A. announced the convening of the Extraordinary General Meeting of KGHM Polska Miedź S.A. for 17 August 2012, 11.00 AM, at the head office of the Company in Lubin.

The purpose of convening an Extraordinary General Meeting of KGHM Polska Miedź S.A. is adoption of resolutions on changes to the composition of the Supervisory Board of KGHM Polska Miedź S.A.

On 7 August 2012, the Management Board of KGHM Polska Miedź S.A. announced that at the request of the State Treasury – a Shareholder representing at least one-twentieth of the share capital – it has decided to change the date of the Extraordinary General Meeting convened for 17 August 2012, and set a new date for the Extraordinary General Meeting of 3 September 2012. The Management Board also announced that there is no change to the existing agenda.

37. Subsequent events (continued)

Construction of an electrical power plant using natural gas on the grounds of the Blachownia Power Plant

On 23 July 2012 the Company received the permission of the European Commission (the applicable anti-monopoly body) with respect to concentration based on the founding of a company, Elektrownia Blachownia Nowa sp. z o.o. The new shares of the special purpose vehicle which will operate the venture will be acquired by KGHM (50%) and TAURON Wytwarzanie S.A. (50%).

At present, work is being performed on the preparation of documents required for the founding of the company under an agreement entered into on 20 January 2010 with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. In this agreement, the parties expressed their desire for cooperation, as a result of which it would be possible to make a decision on the mutual realisation of an investment based on the construction of a power plant on grounds of Elektrownia Blachownia in Kędzierzyn-Koźle belonging to TAURON Wytwarzanie S.A.

Realisation of this project is one of the elements of realisation of the Strategy of KGHM Polska Miedź S.A. with respect to diversification of sources of income.

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

SIGNATURES OF PERSONS REPRESENTING THE COMPANY			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
28 August 2012	Herbert Wirth	President of the Management Board	
28 August 2012	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2012	Wojciech Kędzia	Vice President of the Management Board	
28 August 2012	Dorota Włoch	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
28 August 2012	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES IN THE FIRST HALF OF 2012

Lubin, August 2012

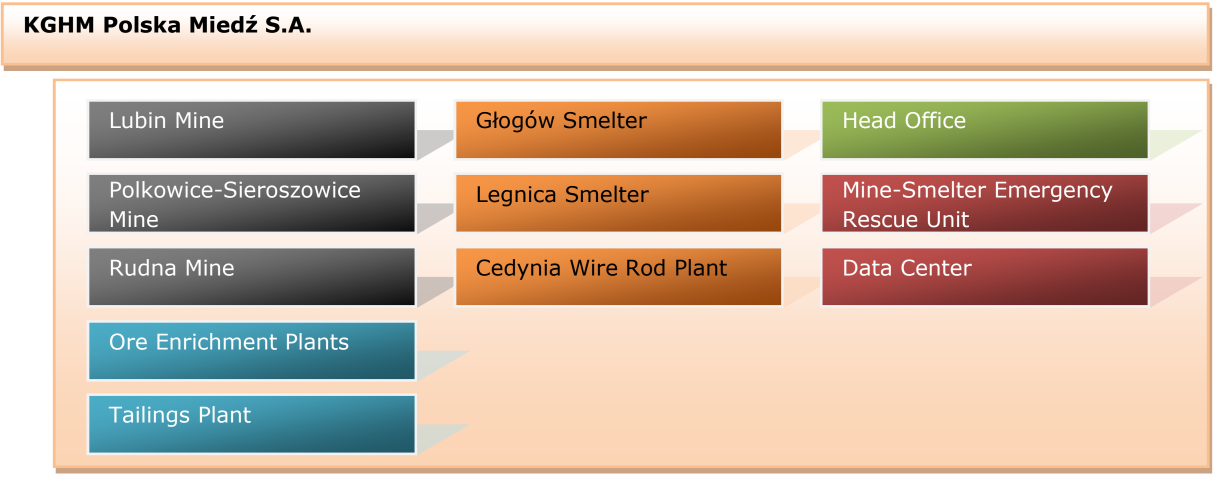
Contents of the Report of the Management Board on the Company's Activities

1. Company profile

1.1. Company organisation

In the first half of 2012 the multi-divisional enterprise, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions.

Diagram 1. Organisational structure of the Company as at 30 June 2012



Supervisory Board of the Company

Under the Company's Statutes, the Members of the Supervisory Board are appointed and dismissed by the General Meeting. The composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. at 1 January 2012 was as follows:

- Jacek Kuciński – Chairman
- Marcin Dyl – Deputy Chairman
- Marek Panfil – Secretary
- Franciszek Adamczyk
- Arkadiusz Kawecki
- Marzenna Weresa
- Jan Rymarczyk

as well as the following employee-elected members:

- Lech Jaroń
- Maciej Łaganowski
- Paweł Markowski

Table 1. Decisions by Company bodies regarding the composition of the Supervisory Board in the first half of 2012 *

Date	Event
19.01.2012	The Extraordinary General Meeting resolved to: – dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa, – appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.
13.02.2012	The Supervisory Board selected to serve in the function of: – Deputy Chairman - Marek Panfil, – Secretary - Mariusz Kolwas.
17.04.2012	Marek Panfil resigned from the function of Deputy Chairman. The Supervisory Board selected Aleksandra Magaczewska to serve in the function of Deputy Chairman
24.04.2012	Mariusz Kolwas submitted his resignation as a Member of the Supervisory Board.
25.04.2012	The Extraordinary General Meeting resolved to: – dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil, – appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk, Ireneusz Piecuch.
21.05.2012	The Supervisory Board selected to serve in the function of: – Chairwoman - Aleksandra Magaczewska, – Deputy Chairman - Krzysztof Kaczmarczyk, – Secretary - Dariusz Krawczyk.

28.06.2012	The Ordinary General Meeting, after reviewing the requests of employees regarding the dismissal of members of the Supervisory Board elected by the Company's employees, dismissed the following persons from the Supervisory Board: Lech Jaroń, Maciej Łaganowski, Paweł Markowski.
3.07.2012	Robert Oliwa submitted his resignation as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A., the subject of which will be changes in the composition of the Supervisory Board (the General Meeting was convened for 3 September 2012).

** Including decisions taken after the end of the reporting period to the date of preparation of this report*

At 30 June 2012 the composition of the Supervisory Board was as follows:

– Aleksandra Magaczewska Chairwoman
– Krzysztof Kaczmarczyk Deputy Chairman
– Dariusz Krawczyk Secretary
– Paweł Białek
– Robert Oliwa
– Ireneusz Piecuch
– Jacek Poświata

Management Board of the Company

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board. The composition of the 7th-term Management Board of KGHM Polska Miedź S.A. at 1 January 2012 was as follows:

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

Table 2. Decisions of Company bodies on the composition of the Management Board in the first half of 2012 *

Date	Description of event
27.06.2012	Due to the expiry of the 7th-term Management Board, the Supervisory Board appointed Herbert Wirth as President of the 8th-term Management Board, as well as the following members of the Management Board: Włodzimierz Kiciński, Wojciech Kędzia, Dorota Włoch and Adam Sawicki (from 1 September 2012) The 7th-term Management Board expired on 28 June 2012.
25.07.2012	The Supervisory Board appointed Włodzimierz Kiciński to the function of I Vice President of the Management Board.

** Including decisions taken after the end of the reporting period to the date of preparation of this report*

The Management Board segregated its duties amongst the members of the Management Board in the following manner:

– Herbert Wirth President of the Management Board
– Włodzimierz Kiciński I Vice President of the Management Board (Finance)
– Wojciech Kędzia Vice President of the Management Board (Production)
– Dorota Włoch Vice President of the Management Board (Development)

The duties of Adam Sawicki, a member of the Management Board of KGHM Polska Miedź S.A., will be determined upon his assumption of this function on 1 September 2012.

1.2. Employment and remuneration

Level and structure of employment

Employment at 30 June 2012 was lower by 77 than at the end of the first half of 2011, and by 136 lower than employment at 31 December 2011. During the first half of 2012 there were no significant changes in the level and structure of employment.

Table 3. End-of-period employment

	31.12.2011	30.06.2011	30.06.2012	Change 31.12.11=100
Mines	12 604	12 556	12 513	99.3
Smelters	3 810	3 833	3 770	99.0
Other divisions	2 201	2 167	2 196	99.8
Total	**18 615**	**18 556**	**18 479**	**99.3**

Average remuneration

With respect to remuneration policy, in the first half of 2012 activities continued on increasing the motivational aspect of remuneration. The increase in remuneration was due to an increase in basic salary rates by 2.45% from 1 January 2012 and to individual increases in employees' salary categories based on evaluations by their superiors.

Table 4. Total average monthly remuneration

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Mines	9 371	8 504	8 984	105.6
Smelters	7 429	7 260	7 606	104.8
Total	**8 980**	**8 244**	**8 690**	**105.4**

Relations with the trade unions

On 21 March 2012, the Management Board of KGHM Polska Miedź S.A. and the trade unions as a party to the Collective Labour Agreement signed Additional Protocol No. 13 to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. increasing basic salary rates from 1 January 2012 and introducing to the Agreement provisions regarding the Employee Retirement Plan in force in the Company.

1.3. Production

With respect to mine production, in the first half of 2012 there was an increase in ore extraction (dry weight) versus the comparable prior year period due to an increase in daily extraction and to optimisation of work in the mines on holidays. The content of copper in ore fell from 1.62% to 1.60%. As a result of these factors, the production of copper in ore remained at a similar level (an increase by 1.3 thousand t, i.e. 0.5%). Production of copper in concentrate versus the first six months of 2011 was slightly lower by 0.5 thousand t.

With respect to smelter production, given comparable consumption of copper-bearing materials (own and purchased), the decrease in electrolytic copper production by 10.9 thousand t (4%) was mainly due to the need to build up anode inventories due to planned shut-downs: for technological reasons at the Głogów II smelter in the second half of 2012 and for maintenance at the Legnica smelter in 2013. Other significant changes in smelter production in the first half of 2012 versus the comparable prior year period were:

- higher production of silver and gold due to improved content of these metals in processed imported concentrates and blister copper, and
- due to market demand, a change in the level of production of copper products: wire rod, round billets, oxygen-free rod and copper grains.

Table 5. Mine production

	Unit	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Copper ore extraction*	M t	29.7	14.9	15.3	102.7
Copper content in ore	%	1.61	1.62	1.60	98.8
Copper content in ore	'000 t	479.3	242.4	243.7	100.5
Silver content in ore	t	1 356	685	694	101.3
Copper content in concentrate	'000 t	426.7	215.8	215.3	99.8
Silver content in concentrate	t	1 167	585	593	101.4

** Dry weight*

Table 6. Smelter production

	Unit	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Electrolytic copper	'000 t	571.0	283.8	272.9	96.2
of which from purchased copper-bearing materials	'000 t	124.6	58.9	68.7	116.6
Wire rod, OFE and CuAg rod	'000 t	242.7	126.0	122.4	97.1
Round billets	'000 t	20.3	8.3	10.8	130.1
Metallic silver	t	1 259.6	609.3	653.3	107.2
Metallic gold	kg	704	317	445	140.4
Crude lead	'000 t	30.0	14.1	14.7	104.3
Refined lead	'000 t	25.2	12.1	14.0	115.7

Process of obtaining licenses for mining areas currently in use

In December 2013 the 20-year licenses for the extraction of copper ore from 5 of the mining areas currently in use by KGHM Polska Miedź S.A. will expire. As a result, the Company has submitted applications for the granting of licenses for these areas for the maximum period provided for by law, which is 50 years.

As part of the procedure to obtain new mining licenses, with respect to information published in the report for the first quarter of 2012, there occurred a change in the expected date for receiving an environmental decision, due to the procedure for providing an opinion on environmental reports by the National Commission for Environmental Impact Assessment. Following a meeting by the Commission, the Company was requested to complete the documentation by additional subjects. Following the submission by the Company of the completed documentation to the Regional Directorate for Environmental Protection this procedure is continuing, which due to possible appeals and community participation will extend the assumed date for receiving this decision, and as a result the submission of licensing applications to the Minister of the Environment – probably to the fourth quarter of 2012.

In the Company's opinion, the change in the above dates does not represent a threat to the continuity of the mining activities of KGHM Polska Miedź S.A.

Agreement with local governments regarding the planned expansion of the Żelazny Most Mining Waste Treatment Facility (MWTF).

On 7 March 2012, the Company entered into agreements with the municipalities (gminas) of Grębocice, Polkowice and Rudna (hereinafter "Gminas"), with respect to the granting of financial support by KGHM Polska Miedź S.A. to the Gminas due to economic use of the environment. At the same time the Gminas committed themselves to cooperate with respect to the Company's activities, in particular with respect to enabling the planned expansion of the Żelazny Most Mining Waste Treatment Facility (MWTF).

In accordance with the signed agreements, the Company foresees financial support for the Gminas in the years 2012-2042 in the total amount of PLN 258 million, of which PLN 72 million charged other operating activities in the first quarter of 2012 (execution of these liabilities will occur in the years 2012-2014).

The Żelazny Most MWTF operated by KGHM Polska Miedź S.A. is currently the only site at which waste from the floatation of copper ore from the Company's mines is stored, and therefore this site represents a crucial element in the production chain, without which the production of metals would be impossible. Currently the Żelazny Most MWTF is at the development stage, consisting of formation of the retention walls to a crown height of 180 m above sea level, which ensures the possibility of storing waste to the year 2016. Expansion of the facility is planned in the years 2012-2042 to a crown height of 195 m above sea level.

The adopted solution requires changes to the Study into the conditions and directions of terrain management, followed by changes to the local area development plans for the Gminas of Rudna, Polkowice and Grębocice. These planning procedures are being conducted by local governmental bodies with community participation, and are finalised by resolutions of the Municipal Councils of the Gminas.

The Agreements entered into are aimed at satisfying the interests of all interested parties and at effectively resolving the question of waste management in KGHM Polska Miedź S.A., whilst simultaneously minimising the environmental and social impact of the aforementioned plans.

1.4. Product sales structure

In the first half of 2012, versus the comparable prior year period, the Company recorded a slight increase in the volume of copper sales by 2% (4.7 thousand t). There was a change in the sales structure, i.e. copper wire rod sales increased by 8% (8.9 thousand t) alongside slightly lower cathode sales by 2% (3.7 thousand t).

The volume of sales of precious metals was higher versus the comparable prior year period, and increased for silver by 8% (45.5 t) with sales of gold being tripled, i.e. by around 313 kg. The higher level of gold sales in the first half of 2012 versus the comparable period of 2011 was due to the higher production of gold and increased market demand in the first half of 2012.

Table 7. Sales volume for basic products

	Unit	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Copper and copper products	'000 t	566.9	282.4	287.1	101.7
- of which export*	'000 t	445.8	220.8	229.5	103.9
Silver	t	1 179.4	599.2	644.3	107.5
- of which export *	t	1 147.0	582.7	633.2	108.7
Gold	kg	660	148	461	x 3.1
- of which export *	kg	435	-	253	x

** including sales to European Union countries*

Table 8. Revenues from the sale of products and services (in '000 PLN)

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Copper and copper products	15 179 193	7 660 870	7 810 735	102.0
- of which export *	11 942 097	5 994 377	6 219 907	103.8
Silver	4 066 646	1 969 454	2 186 896	111.0
- of which export *	3 959 755	1 919 257	2 150 269	112.0
Gold	111 866	18 913	78 387	x 4.1
- of which export *	80 297	-	43 302	x
Other products and services	619 361	292 739	267 977	91.5
- of which export *	6 214	3 046	5 759	189.1
Total	**19 977 066**	**9 941 976**	**10 343 995**	**104.0**
- of which export *	**15 988 363**	**7 916 680**	**8 419 237**	**106.3**

** including sales to European Union countries*

Total revenues from the sale of KGHM Polska Miedź S.A. products and services in the first half of 2012 amounted to PLN 10 343 995 thousand, and were higher by 4% than revenues achieved in the comparable period of 2011, mainly due to:

- an increase in the USD/PLN and EUR/PLN exchange rates,
- lower copper and silver prices,
- an increase in the sales volumes of copper, silver and gold.

With respect to sales of copper and copper products, revenues increased by 2%. Revenues from silver sales versus the comparable period of 2011 were higher by 11%, due to an increase in the volume sold by 7% and an increase in the average sale price by 3%. Revenues from gold sales were more than four times higher due to a more-than-triple increase in the volume sold and an increase in the average sale price by 33%.

Revenues from sales in the first half of 2012 reflect the positive result from the settlement of hedging instruments in the amount of PLN 141 113 thousand (in the first half of 2011, PLN 83 577 thousand).

Geographical structure of product sales

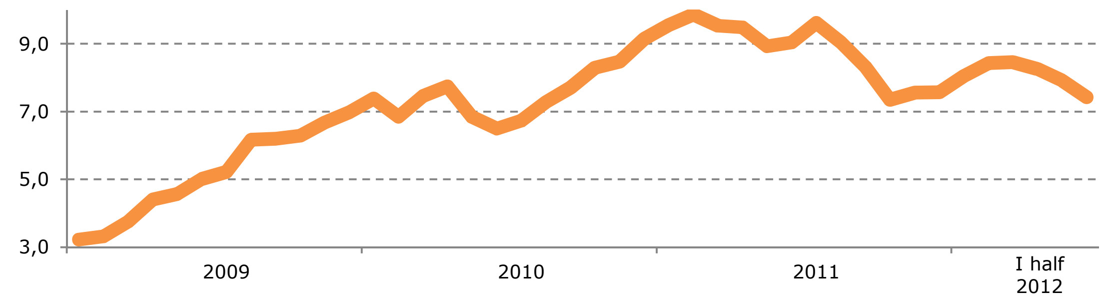
In the first half of 2012, the volume of domestic sales of copper and copper products represented 20% of total copper sales, with export and European Union sales accounting for 80%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, Italy and the Czech Republic. During the first six months of 2012, the volume of domestic silver sales amounted to 2% of the total volume of silver sales, while export and European Union sales accounted for 98% of sales volume. The largest foreign customers for silver were the United Kingdom, Belgium and Switzerland.

Macroeconomic sales conditions

For most of the first half of 2012, copper prices remained in the range of 8 200 – 8 650 USD/t, although a clear decrease in prices in the second half of May caused a decrease in the average for the period below the lowest amount in the range. The deterioration of conditions in the financial markets in May, related to another phase of the debt crisis in Europe, caused the price of copper to fall below 8 000 USD/t. On the silver market, following increases at the start of the year and a peak price on 29 February 2012 (37.46 USD/ounce) silver prices systematically decreased, and at the end of May were below 30 USD/ounce.

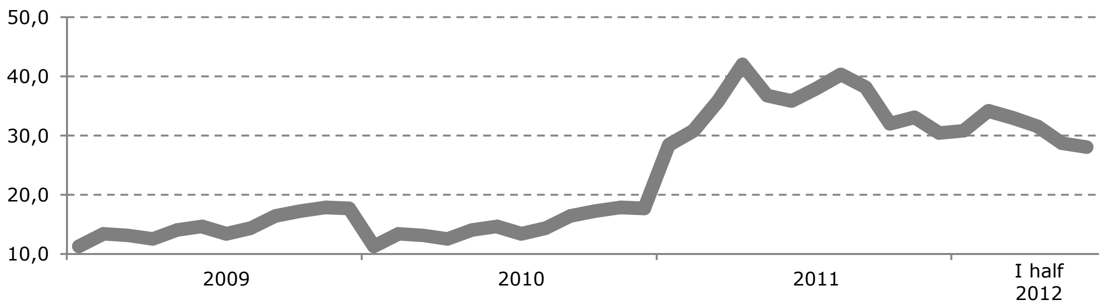
The average electrolytic **copper price** in the first half 2012 on the London Metal Exchange (LME) amounted to 8 097 USD/t and was 14% lower than in the first half of 2011, when it reached 9 398 USD/t.

Chart 1. Copper prices on the LME ('000 USD/t)



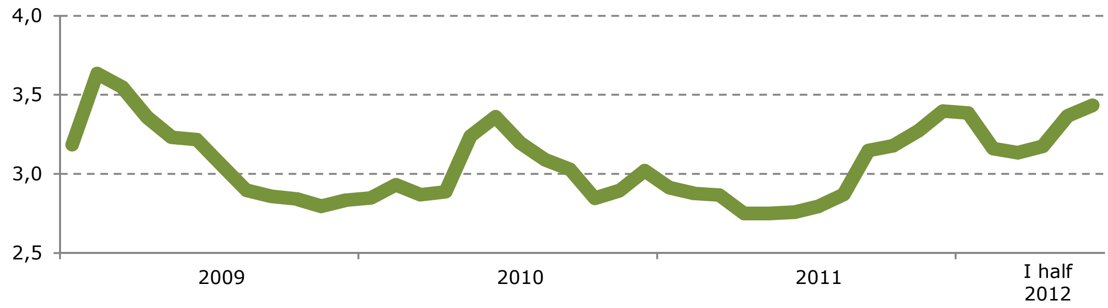
The average **silver price** according the London Bullion Market Association (LBMA) in the first half 2012 amounted to 31.06 USD/troz (999 USD/kg), meaning a decrease by PLN 11% versus the average price in the first half of 2011 – 34.84 USD/troz (1 120 USD/kg).

Chart 2. Silver prices per the LBMA (USD/troz)



The first half of 2012 brought high volatility to the currency market. In January the Polish zloty underwent rapid appreciation versus the USD, from 3.50 to 3.15, and over the subsequent three months the USD/PLN exchange rate fluctuated in the range of 3.05 – 3.25. However, at the beginning of May, as a result of the growing aversion to risk, the Polish currency began to lose in value versus the main world currencies, and the USD/PLN exchange rate returned to levels observed at the start of the year. On 1 June 2012 the highest exchange rate since 2009 was recorded in continuous trading (3.60 USD/PLN). **The average USD/PLN exchange rate** (per the NBP) in the first half 2012 amounted to 3.27 USD/PLN and was higher versus the first half of the prior year by 16% (2.82 USD/PLN).

Chart 3. USD/PLN exchange rate per the NBP



The macroeconomic factors of greatest importance for the Company's operations are presented in Table 9.

Table 9. Significant metals and currency prices for the Company's operations

	Unit	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Average copper price on the LME	USD/t	8 811	9 398	8 097	86.2
Average silver price on the LBMA	USD/troz	35.12	34.84	31.06	89.2
Average NBP USD/PLN exchange rate	USD/PLN	2.96	2.82	3.27	116.0

1.5. Significant contracts for the activities of the Company

In the first half of 2012 the Company entered into one significant contract for the Company's activities – an agreement to acquire an additional 29% of the shares (exercise of a call option) of KGHM AJAX MINING INC. with its registered head office in Vancouver („Ajax") from Abacus Mining & Exploration Corporation („Abacus"), based on the shareholders agreement of KGHM AJAX MINING INC. dated 12 October 2010. As a result of this agreement the Company increased its share of Ajax from 51% to 80%. The shares were acquired for the amount of USD 29 907 880.85 (the equivalent of PLN 92 765 274.03, according to the average rate of the National Bank of Poland for USD/PLN of 2 April 2012).

In addition, on 5 March 2012 the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver („0929260 B.C. U.L.C."), as an indirect subsidiary of KGHM, purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 193 334 154 shares of Quadra FNX („Shares"), for the price of CAD 15.00 per share (representing the equivalent of PLN 47.31 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012), and the total price of CAD 2 900 012 310 (representing the equivalent of PLN 9 147 218 828 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The shares purchased by the company 0929260 B.C. U.L.C. represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company. The purchase price of the Shares was paid in cash obtained by 0929260 B.C. U.L.C. based on financing agreements entered into within the KGHM Polska Miedź S.A. Group. The cash was derived from the Company's own funds.

Detailed descriptions of the economic nature of these transactions are presented in section 2.1 Equity investments of this report.

1.6. Disputed issues

As at 30 June 2012, the total value of ongoing disputed issues both by and against KGHM Polska Miedź S.A. does not exceed 10% of equity and amounted to PLN 237 685 thousand, including receivables of PLN 58 618 thousand and liabilities of PLN 179 067 thousand.

In addition, in the subsidiaries of the Company the value of proceedings amounted to PLN 89 382 thousand, including receivables of PLN 55 239 thousand and liabilities of PLN 34 143 thousand.

Table 10. Largest proceedings involving the liabilities and receivables of KGHM Polska Miedź S.A. at the end of the first half of 2012

Relating to liabilities due to:	
Setting additional royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3rd quarter of 2011	The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted requests to the Minister of the Environment to open administrative proceedings to set additional royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings. The municipalities have noted that the Company lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 442 thousand, including that portion payable to the municipalities in the amount of PLN 54 265 thousand, with the remainder representing payments to the National Fund for Environmental Protection and Water Management. The Minister of the Environment, in decisions dated 11 April 2012, dismissed the proceedings on the grounds that they were unfounded. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings. The Company, in its replies in June 2012 to the appeals of the municipalities, requested that the decisions of the Minister of the Environment dated 11 April 2012 under appeal by the municipalities be upheld.
Royalties for use of invention project no. 1/97/KGHM	Value of amount under dispute: PLN 42 413 thousand. The claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received a summons on 14 January 2008. Each of the plaintiffs in this complaint is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006). In accordance with a decision of the Regional Court in Legnica, in June 2012 a court expert issued a further opinion regarding the methodology for calculating the economic effects by the plaintiffs and the Company for 2006, being the basis for setting potential royalties. The Company questioned the opinion, and requested that a supplementary opinion be prepared. As at the date of preparation of this report, the request for a supplementary opinion had not been reviewed. In the Company's opinion the royalties being pursued by the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.
Return of costs of protecting against mining damage	A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 409 thousand due to the return of costs of work to protect against mine damages 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.
Relating to receivables due to:	
Return of undue royalties for use of invention project no. 1/97/KGHM	In January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 195 thousand for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). 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.

2. Investments and development

2.1. Equity investments

At 30 June 2012, KGHM Polska Miedź S.A. directly owned shares of 22 subsidiaries, 2 other companies (in which the share is less than 20%) and investment certificates in 3 closed-end non-public investment funds. Seven direct subsidiaries (KGHM Ecoren S.A., PHP „MERCUS" sp. z o.o., POL-MIEDŹ TRANS Sp. z o.o., „Energetyka" sp. z o.o., BIPROMET S.A., Fermat 1 S.à r.l. and KGHM I FIZAN) have their own capital groups.

KGHM Polska Miedź S.A. has equity investments in entities engaged in various businesses. They offer mainly products and services both related to the core business of KGHM Polska Miedź S.A., including the mine production of metals (such as copper, nickel, gold, platinum and palladium), exploring for and mining deposits of copper ore and other metals, mine construction, power generation and heat production, mining machinery and equipment, production of explosives and research and development. The remaining activities, unrelated to the core business of the Company, include the providing of services in areas such as transportation, tourism, health and cash investing.

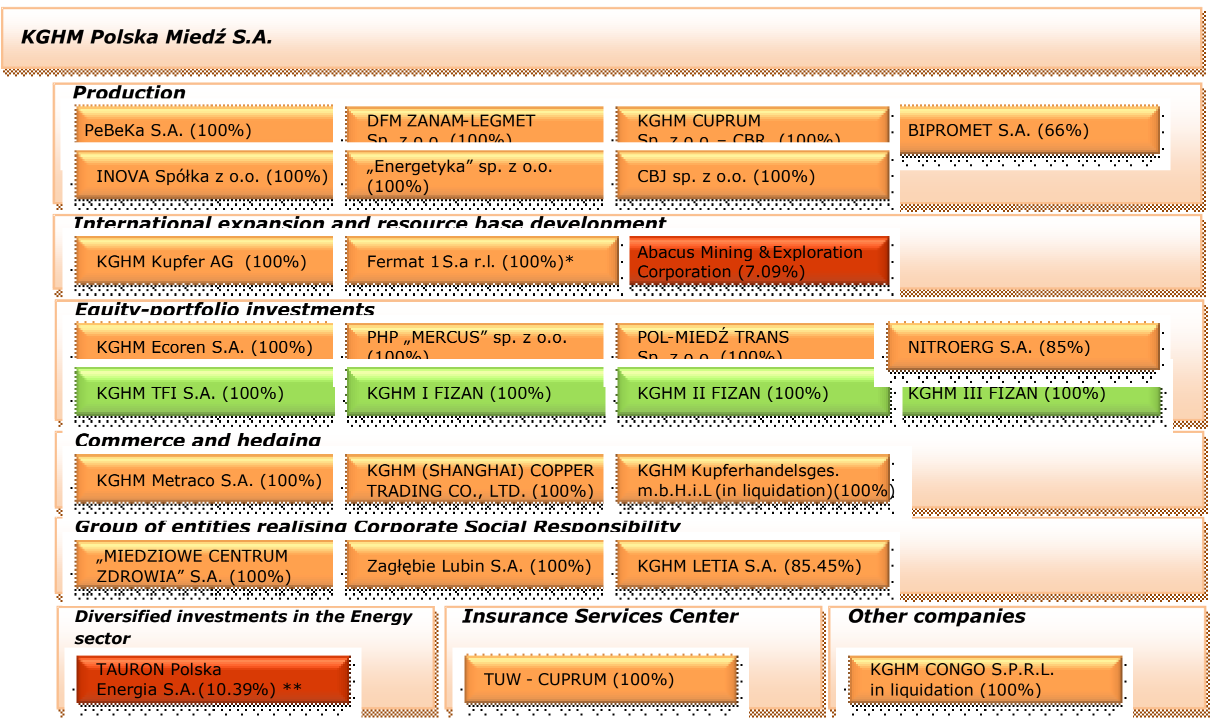
On 5 March 2012, the subsidiary Fermat 1 S.à r.l., of which KGHM Polska Miedź S.A. owns 100% of the shares, entered into a significant transaction under other than arm's length conditions with Fermat 3 S.à r.l. – a company in which Fermat 1 S.à r.l. owns 100% of the shares. This transaction relates to the granting by Fermat 1 S.à r.l. of an interest-free loan to Fermat 3 S.à r.l. in the amount of USD 1 873 100 thousand (PLN 5 873 105 thousand at the average exchange rate of the National Bank of Poland from the transaction date). This loan was granted for the purpose of optimising the structure to acquire KGHM INTERNATIONAL LTD.

With the exception of the transactions described above, in the first half of 2012 neither KGHM Polska Miedź S.A. nor its subsidiaries entered into significant transactions with related entities under other than arm's length conditions.

In the first half of 2012 there were no changes in the management principles of the KGHM Polska Miedź S.A. Group. The management of the Group was performed in accordance with the model introduced in 2011 related to the planned increase of activities by the Group with respect to acquisitions. This model assumes management of the Group based on separate business supervision units.

Those entities in which KGHM Polska Miedź S.A. directly held shares and investment certificates as at 30 June 2012, broken down by individual business supervision unit, are presented in Diagram 2.

Diagram 2. Entities in which as at 30 June 2012 KGHM Polska Miedź S.A. directly held shares and investment certificates



** Fermat 1 S.à r.l. is the indirect owner of KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC.*
*** share of KGHM Polska Miedź S.A. according to current report dated 23 March 2011*

Significant changes in the KGHM Polska Miedź S.A. Group

In the first half of 2012, KGHM Polska Miedź S.A. realised the largest equity investment in the Company's history. Total expenditure amounted to PLN 9 595 931 thousand, mainly incurred on development of the resource base in terms of international expansion. The largest enterprise was the acquisition by KGHM Polska Miedź S.A. of the Canadian mining company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD).

Purchase of the shares of KGHM INTERNATIONAL LTD. (previously QUADRA FNX MINING LTD.) with its registered head office in Vancouver

On 5 March 2012, the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver, as an indirect subsidiary of KGHM Polska Miedź S.A., purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 100% of the shares of Quadra FNX, representing 100% of the votes at the General Meeting. The amount of the payment recognised in the consolidated financial statements for purchase price allocation amounted to PLN 9 707 million and comprises:

- the purchase of ordinary shares for the amount of PLN 9 362.4 million,
- the purchase of warrants for the amount of PLN 39.4 million,
- the realisation of purchased warrants in the amount of PLN 305.2 million.

The shares were purchased in execution of the agreement dated 6 December 2011 signed by KGHM Polska Miedź S.A. and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX.

Following the obtaining of control, the decision was taken to delist the shares of Quadra FNX from the trade on the Toronto Stock Exchange and to change the company's name to KGHM INTERNATIONAL LTD.

The focus of operations of the KGHM INTERNATIONAL LTD. Group is the mined production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, and McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada. Its portfolio of assets also includes pre-operational mining projects at various stages of development, including Sierra Gorda in Chile (the company's major development project, involving one of the largest new copper and molybdenum deposits in the world), Victoria in Canada and Malmbjerg in Greenland, as well as exploration projects.

In the first half of 2012, the KGHM INTERNATIONAL LTD. Group continued realisation of projects in its mining portfolio, including its largest project at the pre-operational stage - the world-class mine project Sierra Gorda, located in northern Chile. This is a joint venture (under the company named Sierra Gorda SCM) of KGHM INTERNATIONAL LTD. (55%) and companies from the Sumitomo Group - Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%).

The Sierra Gorda project comprises the construction of an open-pit mine on one of the largest new deposits of copper and molybdenum in the world. The start of production at Sierra Gorda is planned for 2014. Planned annual production: approx. 220 thousand tonnes of copper, 11 thousand tonnes of molybdenum and 2 tonnes of gold for over 20 years.

At the end of the first half of 2012, with respect to realisation of the project, over 320 contracts had been signed (over 90% of those planned) for the supply of machinery, equipment and services, including design services. The deadlines for the most important deliveries remain on schedule.

With respect to the exploration projects being realised by the KGHM INTERNATIONAL LTD. Group, the most important project is Victoria (the subsidiary FNX Mining Company Inc. owns 100% of the project). The Company continues technical and economic analyses into the feasibility of mining the deposit of copper, nickel and precious metals located in the Sudbury Basin in Canada. Their results will indicate the course of future exploration work and the shape of the future mine. In the first half, discussions continued with Vale regarding ownership of the future project (Vale holds a back-in right to the Victoria project). Activities were also continued aimed at obtaining required permissions, including discussions with First Nations.

This acquisition will increase annual mined copper production in the KGHM Polska Miedź S.A. Group by over 100 thousand tonnes beginning from 2012, and in 2018 by over 180 thousand tonnes. In addition, following the start-up of production in Sierra Gorda in Chile in 2014 and Victoria in Canada, the transaction will lead to a substantial decrease in average unit copper production costs in the entities directly and indirectly managed by KGHM Polska Miedź S.A. As a result of the acquisition of KGHM INTERNATIONAL LTD., the KGHM Polska Miedź S.A. Group advanced to fourth place in the world in terms of documented copper resources, and eighth place in terms of copper production volume.

In order to optimise the transaction structure for the purchase of the shares of Quadra FNX:

- on 30 December 2011, KGHM Polska Miedź S.A. founded the company Fermat 1 S.à r.l. with its registered head office in Luxembourg. KGHM Polska Miedź S.A. acquired 100% of the share capital of Fermat 1 S. à r.l.,
- on 30 December 2011, Fermat 1 S.à r.l. founded the company Fermat 2 S.à r.l. with its registered head office in Luxembourg. Fermat 1 S. à r.l. acquired 100% of the share capital of Fermat 2 S.à r.l.,
- at the start of 2012, Fermat 2 S.à r.l. founded the special purpose company 0929260 B.C. Unlimited Liability Company in Canada, while Fermat 1 S.à r.l. founded a company under the name Fermat 3 S.à r.l. in Luxembourg.

Purchase of the shares of KGHM AJAX MINING INC. with its registered head office in Vancouver

On 2 April 2012 KGHM Polska Miedź S.A. exercised the option to purchase an additional 29% of the shares of KGHM AJAX MINING INC. with its registered head office in Vancouver from Abacus Mining & Exploration Corporation, based on the shareholders agreement dated 12 October 2010.

As a result of the signing of this agreement, KGHM Polska Miedź S.A. increased its share in KGHM AJAX MINING INC. from 51% to 80%. The shares were acquired for the amount of USD 29 908 thousand (the equivalent of PLN 93 286 thousand, according to the average rate of the National Bank of Poland for USD/PLN of 2 April 2012). Under the agreement of shareholders of KGHM AJAX MINING INC., when KGHM Polska Miedź S.A. exercised its option to purchase an additional 29% of the company's shares, the commitment arose by KGHM Polska Miedź S.A. to arrange financing for the project.

The decision to exercise this option was taken following analysis of the Bankable Feasibility Study for the Afton–Ajax project, received in December 2011, prepared in accordance with the Canadian standard NI 43-101 by a consortium of independent consultants under the direction of Tetra Tech WEI (Wardrop). This document describes the specific technical and economic conditions related to the construction and operation of the future copper and gold mine located in the vicinity of the town of Kamloops, in British Columbia, Canada.

KGHM AJAX MINING INC. will operate the copper and gold mine on the Afton – Ajax deposit in Canada.

Measured & Indicated mineral resources amount to 512 million tonnes of ore containing 0.31% copper and 0.19 g/t of gold. Proven & Probable mineral reserves were calculated at 1.34 million tonnes of copper and 2.75 million troz of gold. Average annual production of copper and gold in concentrate amounts respectively to 50 thousand tonnes of copper and 100 thousand troz of gold. Mine life was calculated at 23 years.

Under the base scenario, the investment payback period is approx. 8 years, while at current metals prices this period is less than 3 years.

Capital expenditure is estimated at USD 795 million (the equivalent of PLN 2 466 million, according to the average USD/PLN exchange rate of the National Bank of Poland of 2 April 2012).

The cost of producing one tonne of copper was calculated in the range of USD 1 740 – USD 2 800. Mine construction will last two years. Considering the progress to date and the time needed to obtain further permits and administrative approval, the start-up date for the mine has been set at 2015.

KGHM AJAX MINING INC. is currently engaged in activities aimed at obtaining environmental permitting to construct the mine. The timeframe for gaining these permits is not under the company's control. However, it is assumed that the permissions which are required to begin the mine's construction will be received by 30 June 2013, and consequently it will allow the completion of the construction of the Afton-Ajax mine and the start of Cu-Au concentrate production in 2015.

As part of the process of reorganising the structure of the KGHM Polska Miedź S.A. Group, ownership changes were carried out, as a result of which:

- KGHM AJAX MINING INC. – a direct subsidiary of KGHM Polska Miedź S.A. became an indirect subsidiary of the Parent Entity and a direct subsidiary of 0929260 B.C. UNLIMITED LIABILITY COMPANY by acquiring shares of KGHM AJAX MINING INC. in exchange for the issuance of its own shares acquired by KGHM Polska Miedź S.A. in the amount of PLN 203 049 thousand,
- the company Fermat 2 S.a r.l. acquired new shares in the increased share capital of 0929260 B.C. UNLIMITED LIABILITY COMPANY,
- the company Fermat 1 S.a r.l. acquired new shares in the increased share capital of Fermat 2 S.a r.l.,
- KGHM Polska MIEDŹ S.A. acquired new shares in the increased share capital of Fermat 1 S.a r.l. in the amount of PLN 203 049 thousand,

Main equity investments of KGHM Polska Miedź S.A.

The main equity investments include the following:

- Investments with respect to expanding the resource base and increasing copper production, in which the KGHM INTERNATIONAL LTD. Group under Fermat 1 S.a r.l. holds the leading position. This is a major investment, both in terms of the size of the amount invested and its share in realisation of the strategy of the KGHM Polska Miedź S.A. Group.
- Companies engaged in production, primarily on behalf of the core business of KGHM Polska Miedź S.A., whose task is to ensure the continuity of its operations (presented in Diagram 2 under production). With respect to this area, in the first half of 2012, KGHM Polska Miedź S.A. realised an equity investment in the amount of PLN 67 288 thousand through the acquisition of shares in the increased share capital of „Energetyka" sp. z o.o. The funds obtained by this company were mainly used to finance investment projects. The share capital of „Energetyka" sp. z o.o. following the increase amounted to PLN 469 580 thousand.

In terms of capital committed, another important equity investment is in the shares of TAURON Polska Energia S.A. (carrying amount PLN 832 245 thousand at 30 June 2012). This investment is important in realisation of the strategy of diversification in the energy sector.

Direction of the equity investments

The direction of KGHM Polska Miedź S.A. concerning equity investments are mainly aimed at:

- development of the resource base, aimed at increasing mined copper production in the Group,
- realisation of investments in the energy sector, and
- diversification of investment risk through participation in the Closed-End Investment Funds managed by KGHM TFI S.A.

Development of the resource base is the main assumption of the strategy realised by KGHM Polska Miedź S.A. Equity investments in this regard are aimed at financing the development of exploration work, mine investments and acquisitions of mining entities.

Equity investments realised in the energy sector are aimed at diversifying income sources and becoming less dependent of changes in energy prices.

With respect to these activities, on 4 July 2012, KGHM Polska Miedź S.A. signed a framework agreement with Polskie Górnictwo Naftowe i Gazownictwo S.A. („PGNiG"), ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A. the exploration for and extraction of shale gas. The subject of cooperation of the Parties based on the Agreement will be the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG (the "Wejherowo Concession"). With respect to the Wejherowo Concession, there will be close cooperation involving an area of approximately 160 km^2 (the "Area of Cooperation").

The agreement provides for cooperation based on the targeted structure of a limited partnership whose subject of activities, assuming positive results at the stage of exploration and analysis of the deposits, will be the extraction of shale gas. The parties foresee the transfer of the concession for the extraction of shale gas to such limited partnership after it has been obtained by PGNiG. Each of the parties participates in control over the realisation of the project, in particular through participation in the operating committee formed for this purpose. Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are projected to be in the amount of PLN 1 720 000 thousand.

Details regarding the terms of cooperation will be determined by the parties within four months from the date the agreement is signed. Should such specific arrangements not be agreed, the agreement may be terminated by each of the parties. If within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by 30 December 2012 the required antimonopoly clearances have not been received, the agreement will expire.

In addition, KGHM Polska Miedź S.A., in cooperation with TAURON Wytwarzanie S.A., intends to found the company Elektrownia Blachownia Nowa sp. z o.o. (each having a 50% interest), which will realise an investment based on the construction of a power plant on the grounds of the power plant Elektrownia Blachownia in Kędzierzyn Koźle belonging to TAURON Wytwarzanie S.A. This is the result of realisation of an agreement signed on 20 January 2010 by KGHM Polska Miedź S.A. with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., in which the parties expressed their readiness to cooperate, as a result of which realisation of this joint investment is possible.

On 23 July 2012, KGHM Polska Miedź S.A. received the approval of the European Commission (the appropriate anti-monopoly body) regarding concentration based on the setting up of a company. Work being performed presently is related to the preparation of documents required to found the special purpose company "Elektrownia Blachownia Nowa" sp. z o.o.

Plans with respect to equity investments include also acquisitions of the investment certificates of Closed-End Investment Funds (managed by KGHM TFI S.A. – a wholly-owned subsidiary of KGHM Polska Miedź S.A.). This investment is of a long-term nature, is not related with the core business and does not require operational involvement in the activities of Fund companies. The Funds are of a sector nature, and their chief areas of present and future focus are: protection of health and spa activities, renewable energy sources, new technology and property.

Realising a strategy of responsibility towards local communities, KGHM Polska Miedź S.A. intends to continue investments of social importance.

In addition, activities will be continued aimed at liquidating the company KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi in the Democratic Republic of Congo, and at liquidating KGHM Kupferhandelsges. m.b.H.i.L in Vienna.

2.2. Capital expenditure

In the first half of 2012, capital expenditures amounted to PLN 673 041 thousand and were higher than in the comparable prior period by 50%.

Investments in the Company's Divisions in the first half 2012 were realised pursuant to the approved budget. As a result of project reviews performed in the first half of 2012, project schedules were updated, resulting from signed contracts and preparatory work performed. The changes carried out do not threaten realisation of the most important projects planned for realisation in the current year.

Table 11. Structure of capital expenditure in the Divisions ('000 PLN)

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Mining	1 056 553	286 703	505 432	176.3
Smelting	218 404	44 332	99 560	× 2.2
Other activities	238 941	118 675	67 971	57.3
Capitalised uncompleted development	4 611	399	78	19.5
Total	**1 518 509**	**450 109**	**673 041**	**149.5**

In terms of development-related investments, capital expenditures amounted to PLN 366 528 thousand, representing 54% of expenditures incurred.

Investment activities were aimed at realisation of local and central investments:

- **centralised-realised investments** – development- and replacement-related investments of greater difficulty, size and risk, having a substantial impact on the Company's development and the realisation of its strategy, which in the first half of 2012 amounted to 41%. The most important of these are: Głogów Głęboki – Przemysłowy (Deep Głogów), the Pyrometallurgy Modernisation Program, and the construction of Gas-Steam Blocks at the power plants in Głogów and Polkowice,
- **locally-realised investments** – these are replacement-related projects, and typical/repeatable development projects, minor conformatory and purchases, which in the first half of 2012 amounted to 59%. They include among others the purchase of underground machinery and investments related to development of infrastructure of the mining sections.

Table 12. Structure of capital expenditure by type of project ('000 PLN)

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Locally- realised investments	901 591	268 124	396 254	147.8
Centralised-realised investments	616 918	181 985	276 009	151.7
Reserves – Investments at the study and analysis stage	-	-	778	x
Total	**1 518 509**	**450 109**	**673 041**	**149.5**

Table 13. Major projects and facilities realised in the first half of 2012

Mining
Construction of the SW-4 shaft – work continued on sinking the shaft and main drifts – since work started the depth of the shaft has reached 982 meters, while 542 meters of drifts have been excavated, representing 65% of the planned amount.
Głogów Głęboki – Przemysłowy – work continued on realisation of temporary and permanent facilities and main drifts with infrastructure – since 2005, 40.2 thousand meters of drifts have been excavated, representing 31% of the planned amount.
With respect to modernisation and replacement of the machinery park in the mines, 124 mining machines were purchased, representing 58% of the amount of mining machines planned for purchase in 2012.
In the mining divisions, work was carried out on investments related to development of the infrastructure of the mining sections, ventilation and cooling equipment and investments in the conveyor belts and pipelines.
With respect to the replacement of floatation machinery, of the 113 machines planned for replacement, since 2009 58 machines have been replaced (13 in the reporting period).
Work began on realisation of the project „Modernisation of classification units" - modernisation of hydrocyclone batteries with new-generation equipment. The project foresees the exchange of a total of 78 hydrocyclone batteries throughout the Ore Enrichment Plants.
As part of the exploration project Investigation and documentation of the Synklina Grodziecka region of the „Niecka Grodziecka" deposit, in the first half of 2012 work was completed on the drilling of the 8th drillhole, and on the development and submission of a request to the Minister of the Environment on a change to the existing license for the exploration of and research into copper ore deposits in the Synklina Grodziecka region (issuance of a decision on conduct of stage II of the geological work – execution of 7 drillholes).
Facilities were realised related to improving and maintaining the safe operation of the Żelazny Most Mining Waste Treatment Facility (MWTF) and to elimination of its environmental impact.
Realisation was continued on the project „Development of the Żelazny Most Mining Waste Treatment Facility to ensure the ability to store floatation tailings after 2016": – an agreement was signed between KGHM Polska Miedź S.A. and the Municipalities (Gminas) regarding expansion of the Żelazny Most MWTF once a level of 180 m above sea level is achieved; – work began on drilling and the installation of control-measurement equipment (Southern quarter).
Realisation was continued on the project „Achieving rock salt production of 1 million tonnes/year".
As part of the project „Development and implementation in the mines of KGHM Polska Miedź S.A. of technology for the mechanical extraction of ore" (automated extraction machinery): – infrastructure for a pilot section was installed with all components required for the section to conduct trials of the ACT Mining Complex, – the ACT cutting head and ACT Mining Machine were installed and tested at the test site, and tests were performed on the component parts of the ACT Mining Complex, – approvals were obtained from mining authorities for the conduct of trials at the pilot section as well as a positive opinion from the Committee for Natural Hazards of the State Mining Authority.
Smelting
As part of the Pyrometallurgy Modernisation Program, construction-assembly work continued on preparing infrastructure for construction of the Flash Furnace: – trestle bridges for power supply, ground pipes, narrow railways, roads and work sites, underground pipes, a xanthenol station, and electrical and communication cable networks, – work related to development of the slag pouring and processing station of the Electric Furnace with infrastructure, – a contract was signed to build the foundations of Flash Furnace Hall Complex No. 2, Electric Furnace No. 2 and the Recovery Boiler and Power Building. In addition, tenders are being held for the purchase of key equipment for the flash and electrical furnaces.
Realisation began on the project „Intensification of smelting at the Głogów II smelter": – key design contracts were signed, – contracting continued for the supply of materials, machinery, equipment and construction-assembly work.
Other
As part of the project Construction of Gas-Steam Blocks in the Power plants in Głogów and Polkowice, during the reporting period work was performed in respect of construction, assembly, installation and electrical work based on current projects. Deliveries of major electrical and installation equipment were arranged by the General Contractor.

3. Review of financial position

3.1. Assets

As at 30 June 2012, total assets amounted to PLN 31 008 731 thousand, meaning an increase by PLN 1 755 542 thousand (6%) versus the end of 2011.

Table 14. Current and non-current assets ('000 PLN)

	31.12.2011	30.06.2011	30.06.2012	Change 31.12.11=100	Structure
Property, plant and equipment	7 277 903	6 590 422	7 582 791	104.2	24.5
Shares and investment certificates in subsidiaries	2 012 209	2 823 583	11 608 140	x5.8	37.4
Deferred tax asset	168 462	263 930	273 105	162.1	0.9
Available-for-sale financial assets	992 068	1 732 816	851 165	85.8	2.7
Mine closure financial assets	113 812	111 744	138 856	122.0	0.4
Derivatives	1 759 053	790 975	1 630 221	92.7	5.3
Trade and other receivables	1 587 165	2 007 112	2 062 556	130.0	6.7
Inventories	2 355 741	2 489 797	2 855 652	121.2	9.2
Cash and cash equivalents	12 835 999	5 628 964	3 849 793	30.0	12.4
Other assets*	150 777	1 261 794	156 452	103.8	0.5
Total assets	**29 253 189**	**23 701 137**	**31 008 731**	**106.0**	**100.0**

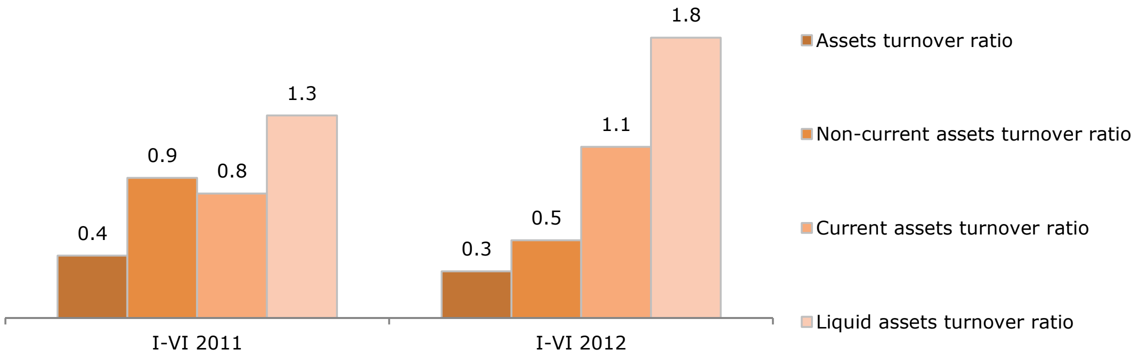
** intangible assets and non-current assets held for sale (in June 2011 mainly the shares of Polkomtel S.A.)*

The most important changes in assets in the first half 2012 involved the following major items:

- Shares and investment certificates – an increase by PLN 9 595 931 thousand, mainly due to the purchase of the Canadian company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.). In addition, in April 2012, KGHM Polska Miedź S.A. increased its interest in KGHM AJAX MINING INC. from 51% to 80%, exercising the call option provided for in the shareholders agreement. As part of the process of reorganising the structure of the KGHM Polska Miedź S.A. Group, ownership changes were carried out, as a result of which KGHM AJAX MINING INC. - a direct subsidiary of KGHM Polska Miedź S.A. became an indirect subsidiary of the Parent Entity and a direct subsidiary of 0929260 B.C. UNLIMITED LIABILITY COMPANY.
- Cash and cash equivalents – a decrease by PLN 8 986 206 thousand due to expenditures incurred on realisation of equity investments (mainly on the purchase of Quadra FNX Mining Ltd. shares). Total expenditures on the purchase of shares amounted to PLN 9 569 944 thousand.
- Inventories – an increase by PLN 499 911 thousand, as a result of the increase in inventory volume due to planned shut-downs: for technological reasons at the Głogów II smelter in the second half of 2012 and for maintenance at the Legnica smelter in 2013, and of the higher unit cost of copper production, representing the basis for inventory valuation.
- Receivables – an increase by PLN 475 391 thousand. The main item in receivables is current trade and other receivables in the amount of PLN 1 443 777 thousand (70% of total receivables). Their level versus that recorded at the end of 2011 increased by PLN 354 491 thousand, and is the result of an increase in revenues in June 2012 versus revenues in December 2011. Remaining receivables were not substantially different from the levels recorded in 2011.
- Property, plant and equipment – an increase by PLN 304 888 thousand, mainly due to realisation of investments – expenditures in this regard amounted to PLN 673 041 thousand, of which replacement-related investments amounted to PLN 306 435 thousand.
- Derivatives – a decrease by PLN 128 832 thousand, due to a change in the forward prices of metals, the settlement of derivatives and the opening of new transactions on the copper and currency markets.
- Available-for-sale financial assets – a decrease by PLN 140 903 thousand in respect of non-current assets, and mainly the result of valuation of the shares of Tauron Polska Energia S.A. (a fall in the share price on the Warsaw Stock Exchange).

The decrease in the non-current assets turnover ratios alongside an increase in the current assets turnover ratio is due to a change in the assets structure resulting mainly from the realisation of equity investments using the Company's own funds alongside a substantially unchanged level of sales.

Chart 4. Assets effectiveness ratios



Ratios calculated based on end-of-year balances, pursuant to methodology described in Appendix A.

3.2. Equity and liabilities

In the first half of 2012, similarly as in 2011, the Company did not make use of borrowing. At the end of June 2012, there were only finance lease liabilities. The basic source for financing assets is equity, whose share in equity and liabilities amounted to 65%.

Table 15. Equity and liabilities ('000 PLN)

	31.12.2011	30.06.2011	30.06.2012	Change 31.12.11=100	Structure
Equity	**23 135 511**	**15 982 924**	**20 173 225**	**87.2**	**65.1**
Share capital	2 000 000	2 000 000	2 000 000	100.0	6.4
Accumulated other comprehensive income	535 673	398 602	292 208	54.5	0.9
Retained earnings	20 599 838	13 584 322	17 881 017	86.8	57.7
Current and non-current liabilities	**6 117 678**	**7 718 213**	**10 835 506**	**177.1**	**34.9**
Trade and other payables	1 839 115	4 560 919	7 958 619	x4.3	25.7
Borrowings and finance lease liabilities	93	8 584	65	69.9	0.0
Derivatives	868 667	778 439	678 174	78.1	2.2
Current corporate tax liability	1 587 847	660 443	311 095	19.6	1.0
Employee benefits liabilities	1 323 826	1 230 544	1 365 479	103.1	4.4
Provisions for other liabilities and charges	498 130	479 284	522 074	104.8	1.7
Total equity and liabilities	**29 253 189**	**23 701 137**	**31 008 731**	**106.0**	**100.0**

There were significant changes in the following items of equity and liabilities versus 2011:

– Equity – a decrease by PLN 2 962 286 thousand, due to the following factors:
  - Profit for the first half of 2012 + PLN 2 949 179 thousand,
  - The dividend from profit for 2011 PLN (5 668 000) thousand,
  - A decrease in other comprehensive income PLN (243 465) thousand

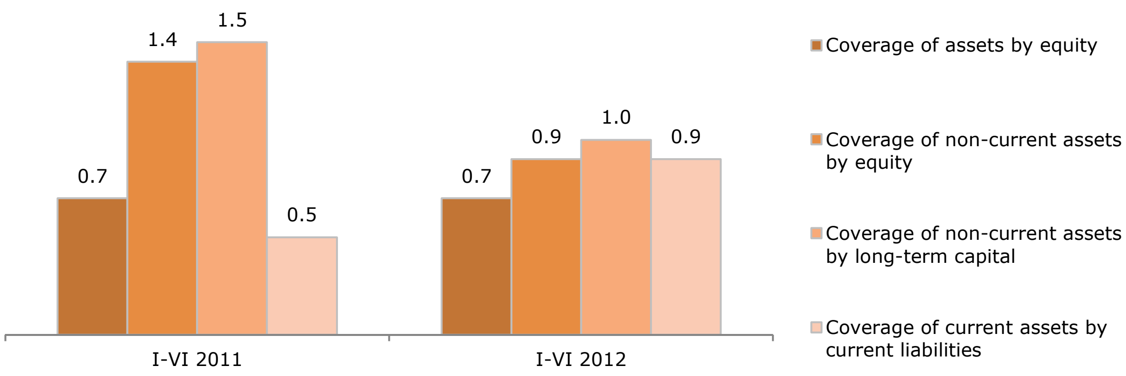
  (mainly due to the result on the measurement of hedging instruments and assets classified as available for sale)

– Trade and other payables – an increase by PLN 6 119 504 thousand, mainly due to liabilities due to the shareholder dividend (PLN 5 668 000 thousand), which pursuant to the decision of the General Meeting will be paid in the second half of 2012 (PLN 3 400 000 thousand on 20 August and PLN 2 268 000 thousand on 16 November).

- Current corporate tax liability – a decrease by PLN 1 276 752 thousand, due to payment of the difference between prepayments on income tax paid in 2011 and tax liabilities resulting from the CIT 2 form for 2011 (in 2011 the Company made use of fixed monthly prepayments on income tax based on the tax result for 2009).
- Derivatives – a decrease by PLN 190 493 thousand, due to a change in the forward prices of metals, the forward USD/PLN exchange rate, the settlement of instruments during the year and the opening of new transactions on the copper and currency markets. For the copper market there was a decrease in liabilities of PLN 60 927 thousand, and for the silver market by PLN 22 169 thousand; for the currency market there was a decrease in liabilities of PLN 107 397 thousand.

With respect to assets financing ratios, the largest change versus the first half of 2011 concerned the ratios describing the coverage of non-current assets by equity and long-term capital. The decrease in these ratios is due to an increase in the value of non-current assets by PLN 10 104 038 thousand (an increase by 87%) alongside an increase in equity of PLN 4 190 301 thousand, (an increase by 26%).

Chart 5. Assets financing ratios



Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A.

Contingent assets and liabilities

As at 30 June 2012, contingent assets of the Company amounted to PLN 396 149 thousand and related mainly to guarantees received (in the amount of PLN 171 303 thousand), related to securities to cover potential claims by the Company due to the non-execution or improper execution of agreements by contractors. Other contingent assets primarily involve promissory note receivables (PLN 93 200 thousand) and overpayment of the tax on underground mines (PLN 86 296 thousand).

Contingent liabilities at the end of June 2012 amounted to PLN 303 381 thousand, including PLN 156 268 thousand due to the signing of an agreement with municipalities relating to development of the Żelazny Most Mining Waste Treatment Facility and PLN 119 309 thousand due to implementation of projects and inventions.

3.3. Financial resources of the Company

The structure of the Company's cash and cash equivalents is presented in the table below:

Table 16. Structure of cash and cash equivalents ('000 PLN)

	31.12.2011	30.06.2011	30.06.2012	Change 31.12.11=100
Cash*	8 454	17 454	9 402	111.2
Debt securities	-	-	49 787	x
Other financial assets with a maturity up to 3 months from the purchase date	12 827 545	5 611 510	3 790 604	29.6
Total	**12 835 999**	**5 628 964**	**3 849 973**	**30.0**

** in hand and on-demand bank deposits*

Financial income from the depositing of periodically unallocated cash and cash equivalents and financial investments is presented below:

Table 17. Income from the depositing of periodically unallocated cash and cash equivalents and short-term investments ('000 PLN)

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
On-demand bank deposits	1 820	1 069	488	45.7
Securities and participation units	16 855	14 145	1 064	7.5
Fixed term bank deposits	171 172	66 629	97 821	146.8
Total	**189 847**	**81 843**	**99 373**	**121.4**

Periodically unallocated cash and cash equivalents generated income in the amount of PLN 99 373 thousand.

Zero-balance cash pool service

In the first half of 2012, the Company implemented a cash management service in the KGHM Polska Miedź Group – zero-balance cash pool. This service enables optimisation of finance costs and effective management of current cash liquidity in the Group.

The coordinator of this service is KGHM Polska Miedź S.A. This function is based on ensuring coverage of borrowing limits granted to participants of the system, establishing the conditions for functioning of the system, particularly including representation of the participants in bank relations with respect to services and the principles for calculating interest.

Bank and other loans received

In the first half of 2012, KGHM Polska Miedź S.A. did not make use of financing in the form of bank loans. As at 30 June 2012, the Company did not hold financing in the form of loans.

Loans granted and received and financial guarantees

On 21 December 2009, KGHM Polska Miedź S.A. granted a loan to „Energetyka" sp. z o.o. in the amount of PLN 50 300 thousand. Interest on the loan is based on WIBOR 1M + a margin of 1.49%, with interest payable monthly. Repayment is in forty equal instalments in the amount of PLN 1 258 thousand payable at the end of each quarter, beginning from 31 March 2010. In the first half of 2012, „Energetyka" sp. z o.o. made partial repayment on the loan in the amount of PLN 2 515 thousand. As at 30 June 2012, the balance of the loan granted was PLN 37 766 thousand.

On 8 May 2012, KGHM Polska Miedź S.A. granted a loan to KGHM LETIA S.A. in the amount of PLN 7 500 thousand. The loan was granted in two instalments. The first instalment in the amount of PLN 5 000 thousand was granted on 22 May 2012, and the second instalment in the amount of PLN 2 500 thousand on 1 June 2012. Interest on the loan is based on WIBOR 1M + a margin of 2.5%, with interest on the loan capitalised monthly. Repayment of the loan principal with interest will occur on 31 December 2012. As at 30 June 2012 the loan balance amounts to 7 555 thousand.
The total amount of loans and guarantees does not exceed 10% of the Company's equity.

Evaluation of investment goals realisation versus the resources held, reflecting possible changes in the structure of financing these activities

The cash and cash equivalents currently held by the Company and its creditworthiness enable realisation of the capital expenditures and equity investments foreseen in the Company strategy. Depending on the macroeconomic conditions, the USD/PLN and on copper prices, in order to guarantee the availability of funds required to realise its investment goals, the Company is considering the drawing of bank and other loans or the issuance of bonds, with a finance cost based on a variable or fixed interest rate, depending on market conditions, the financial condition of the Company and the type of financing.

3.4. Statement of comprehensive income

During the period January-June 2012, the Company realised a profit for the period in the amount of PLN 2 949 179 thousand, meaning a decrease by PLN 1 369 825 thousand (by 32%) versus the comparable prior period.

Table 18. Statement of comprehensive income – basic items ('000 PLN)

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Sales	20 097 392	10 000 920	10 503 890	105.0
Operating costs	10 733 839	5 091 934	6 313 882	124.0
Profit from operations	**9 363 553**	**4 908 986**	**4 190 008**	**85.4**
Profit on other operating activities	4 324 087	372 467	(433 748)	(116.5)
– Profit on the sale of companies	2 662 245	-	-	x
– Exchange differences	895 164	(49 871)	(473 367)	× 9.5
– Measurement and realisation of derivatives	320 919	76 899	(39 872)	x
– Dividends	277 330	277 330	57 477	20.7
– Other	168 429	68 109	22 014	32.3
Operating profit (EBIT)	**13 687 640**	**5 281 453**	**3 756 260**	**71.1**
Finance costs	34 043	16 057	16 916	105.3
Profit before income tax	13 653 597	5 265 396	3 739 344	71.0
Profit for the period	**11 334 520**	**4 319 004**	**2 949 179**	**68.3**
EBITDA (EBIT + depreciation/amortisation)	14 360 013	5 612 692	4 147 501	73.9

The most important factors impacting the change in the profit for the first half of 2012 versus the first half of 2011 are presented in Table 19.

Table 19. Basic factors impacting the change in profit for the period

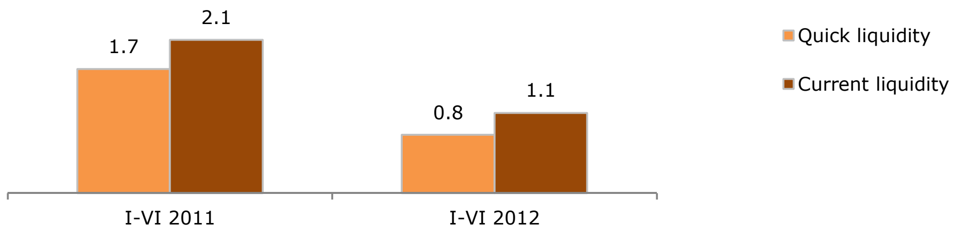
Item	Impact on change in profit for the period ('000 PLN)	Description
Change in prices of basic products (Cu, Ag)*	(1 540 003)	Copper prices lower by 14% and silver by 11%
Change in exchange rate*	+1 598 566	A change in the exchange rate from 2.82 USD/PLN to 3.27 USD/PLN (a weakening of the PLN by 16%)
Operating costs	(1 221 948)	An increase in the total unit cost of electrolytic copper production in PLN/t by 19%.
Exchange differences	(423 496)	The high level of cash and cash equivalents in foreign currencies accumulated at the turn of 2011/12 due to investment expenditures in the first quarter of 2012 and changes in the exchange rate led to foreign exchange losses, which amounted to PLN (473 367) thousand (PLN (49 871) thousand in the first half 2011)
Change in volume of sales of basic products (Cu, Ag, Au)*	+310 682	An increase in the volume of copper sold by 4.7 thousand tonnes, silver by 45.2 t and gold by 313 kg
Income tax	+156 226	Lower tax due to a smaller taxable base
Impact of hedging transactions	(59 235)	Includes the change in the result on other operating activities due to measurement and realisation of derivatives (PLN (116 771) thousand) and the change in adjustment of revenue due to hedging (+PLN 57 536 thousand)

* *Impact on sales*

Financial ratios

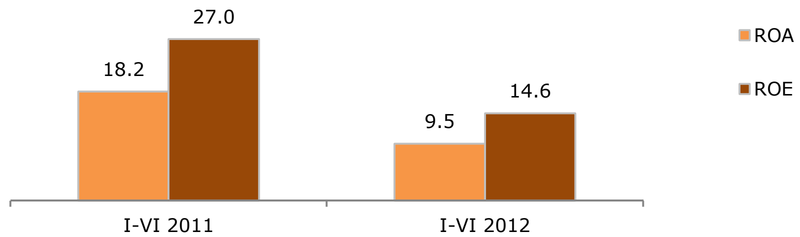
The levels of the basic liquidity, the assets and equity profitability and the financing ratios are presented in Charts 6, 7 and 8.

Chart 6. Liquidity ratios



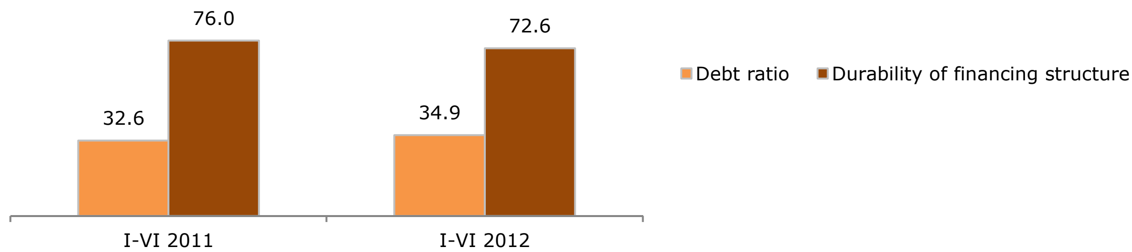
Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in the ratios is mainly due to a lower level of cash, related to expenditures on investments for the purchase of KGHM INTERNATIONAL LTD. (formerly Quadra FNX). On the other hand, current liabilities increased due to the approved but unpaid dividend which was resolved at a higher level than in 2011.

Chart 7. Profitability ratios



The increase in costs, the reason for which is described later in this report, was the basic factor responsible for the decrease in profit, as well as the decrease in the ratios describing return on assets (ROA) and equity (ROE). The increase in assets and equity as at 30 June 2012 versus 30 June 2011 was also of significance.

Chart 8. Financing ratios



The financing ratios show a change in the assets financing structure, including an increase in liabilities, mainly due to the dividend.

Capital market ratios

The activities of the Company are described by the following ratios:

Table 20. Capital market ratios

		I-VI 2011	I-VI 2012
EPS (PLN)	Profit for the period / number of shares	21.6	14.7
P/CE	Price per share / financial surplus per share *	8.5	8.7
P/E	Price per share / earnings per share	9.1	9.8
MC/S	Market capitalisation**/ revenues from sales	3.9	2.8
P/BV	Price per share / book value per share ***	2.5	1.4

* *Financial surplus = profit for the period + depreciation/amortisation*

** *Market capitalisation represents total shares outstanding times share price from the last day of the reporting period (200 million shares x PLN 197.00 in the first half of 2011; PLN 145.00 in the first half of 2012)*

*** *Carrying amount of the equity at the end of the reporting period*

In comparison to the first half of 2011, the capital market ratios were substantially impacted by the lower profit earned by the Company and by the fall in the share price of KGHM from PLN 197.00 at the end of June 2011 to PLN 145.00 at the end of June 2012.

3.5. Operating costs

The Company's operating costs are decisively impacted by the costs of electrolytic copper production, whose share in the Company's costs is around 94%.

Table 21. Unit cost of electrolytic copper production - total (PLN /t)

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Pre-precious metals credit unit cost of copper production	17 534	16 939	19 664	116.1
Value of anode slimes	3 968	3 589	3 807	106.1
Total unit cost of copper production	13 566	13 350	15 856	118.8
Electrolytic copper production ('000 t)	571.0	283.8	272.9	96.2

The pre-precious metals credit unit cost of copper production (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) in the first half of 2012 versus the first half of 2011 increased by 2 725 PLN/t, i.e. by 16%, mainly due to:

- the impact of the minerals extraction tax, and
- an increase in the value of purchased copper-bearing materials used, due to a higher consumption volume by 17% (10.1 thousand tonnes of copper) at a similar purchase price.

Table 22. Unit cost of electrolytic copper production – from own concentrate (PLN/t)

	2011	I-VI 2011	I-VI 2012	Change I-VI'11=100
Pre-precious metals credit unit cost of copper production	14 875	14 353	17 019	118.6
Value of anode slimes	4 576	4 345	4 742	109.1
Total unit cost of copper production	10 299	10 008	12 277	122.7
Electrolytic copper production from own concentrate ('000 t)	446.4	224.9	204.2	90.8

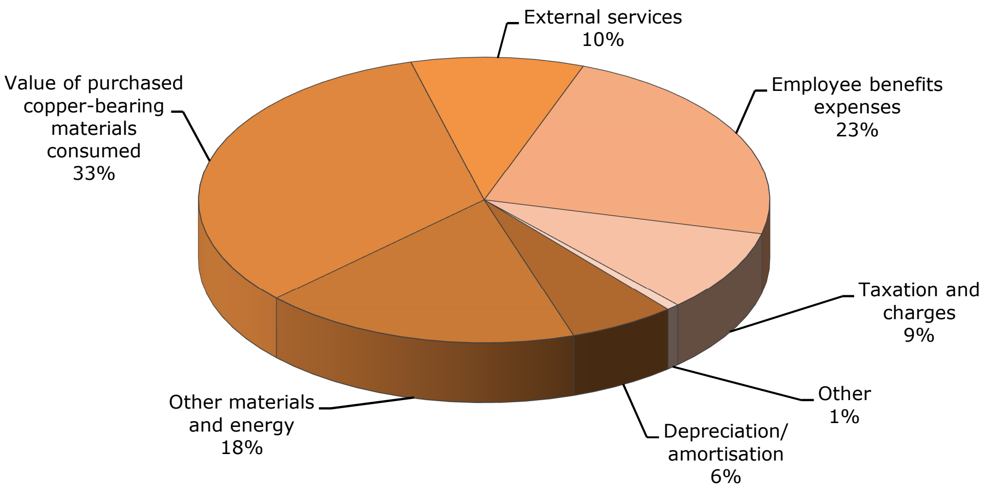
The pre-precious metals credit unit cost of copper production from own concentrate increased by 2 666 PLN/t, i.e. by 19%, mainly due to a lower volume of production from own concentrate and to an increase in expenses by nature, mainly due to the minerals extraction tax.

In the first half of 2012, total expenses by nature increased by PLN 1 197 827 thousand, i.e. by 23%, mainly due to:

- the minerals extraction tax (PLN 442 569 thousand),
- the higher value of purchased copper-bearing materials used (PLN 389 946 thousand) due to an increase in volume consumed by 13.9 thousand tonnes of copper (of which 10.1 thousand tonnes of copper relates to electrolytic copper production) at an unchanged purchase price,
- labour costs (PLN 135 374 thousand) – mainly due to an increase in: wages by 6%, charges by 17% (due to an increase in the disability contribution by 2 percentage points) and due to the provisions for future employee benefits by PLN 32 396 thousand.

The structure of expenses by nature in the first half 2012 is presented in Chart 9. In the comparable prior period, the change in the structure was mainly due to taxation and charges (in the first half 2011: 3%, in 2012: 9%) with a decrease in the share of labour costs (respectively by 26% and 23%)

Chart 9. Structure of expenses by nature in the first half 2012



Act on the minerals extraction tax

A significant new element in costs, starting from April 2012, is the minerals extraction tax. This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012.

The mineral extraction tax is calculated from the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under manufacturing costs and is not deductible for tax purposes, and therefore does not decrease the taxable base.

3.6. Risk management in the Company in the first half of 2012

The goal of financial risk management in KGHM Polska Miedź S.A. is to restrict the undesired impact of financial factors on cash flow and Company results in the short and medium terms and to build Company value over the long term. Financial risk management includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures applied in the Company.

In the first half of 2012, KGHM Polska Miedź S.A. was exposed to many types of financial risk, and in particular to market risks (risk of changes in metal prices and exchange rates), credit risk and liquidity risk.

Market risk

In the first half of 2012, the Company was mainly exposed to the risk of changes in the prices of metals sold on the market: copper and silver. In addition, of major significance for KGHM Polska Miedź S.A. was the risk of changes in currency rates, in particular the USD/PLN exchange rate. To restrict market risk, the Company, to the extent possible, uses natural hedging (incurring costs in USD), however the basic technique in market risk management involves hedging strategies utilising derivatives.

Similarly as in prior years, in the first half 2012 the Company applied a consistent and step-by-step approach to market risk management. In January, strategies hedging the copper price were implemented in the years 2013-2015. In addition, the dynamic depreciation of the Polish zloty versus the USD in May was used to hedge the USD/PLN exchange rate in the years 2014-2015.

In the first half of 2012, the result on derivatives was PLN 101 241 thousand. The effective portion of the measurement of hedging instruments transferred from accumulated other comprehensive income to profit or loss in the reporting period as a reclassification adjustment caused an increase in revenues from sales by PLN 141 113 thousand. Gain due to the measurement of derivatives amounted to PLN 45 926 thousand, while the loss due to realisation of derivatives amounted to PLN 85 798 thousand. The adjustment of other operating income due to the measurement of derivatives results mainly from changes in the time value of options which are to be settled in future periods. In accordance with the hedge accounting principles applied by the Company, changes in the time value of options are not recognised in accumulated other comprehensive income.

In the first half of 2012, the Company was exposed to a limited degree to interest rate risk because of loans granted with interest based on a variable interest rate of WIBOR 1M (balance as at 30 June 2012: PLN 45 321 thousand, of which long-term loans amounted to PLN 32 695 thousand, short-term to PLN 12 626 thousand). A fall in market interest rates may result in lower expected income due to loans granted. In the first half of 2012, the Company did not make use of interest rate risk hedging instruments.

Credit risk

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations. In the first half of 2012, KGHM Polska Miedź S.A. was exposed to this risk, mainly in three areas of credit risk, related to:

- trade receivables,
- cash and cash equivalents and bank deposits, and
- hedging transactions.

For many years the Company has sold its products to a large number of geographically diversified clients. The Company makes the majority of its sales transactions based on prepayments. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always secured. The Company continuously monitors the creditworthiness of its customers, in particular those to whom buyer's credit is provided. In the first half of 2012, the Company secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages and documentary collection. In addition, the majority of customers which hold buyer's credit on contracts have ownership rights confirmed by a date certain.

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 30 June 2012, the Company had secured 85% of its trade receivables (at 30 June 2011 respectively, 81%).

The concentration of credit risk in the Company results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 30 June 2012 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 65% of the trade receivables balance (at 31 December 2011 respectively, 52%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

All of the entities with whom the Company entered into depositary transactions in the first half 2012 operated in the financial sector. These are exclusively banks registered in Poland or operating in Poland as branches of foreign banks, belonging to European and American financial institutions with high (16% of deposits), medium-high (45% of deposits) and medium (39% of deposits) ratings, and having an appropriate level of equity and strong and stable market positions. As at 30 June 2012, the maximum share of a single entity with respect to the amount of funds deposited by the Company amounted to 16%.

All of the entities with whom the Company enters derivative transactions operate in the financial sector. These are financial institutions (mainly banks), with the high and medium ratings. According to fair value as at 30 June 2012, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Company amounted to 20%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into. To restrict cash flow and simultaneously restrict credit risk, the Company performs net settlement (based on framework agreements entered into with customers) to the level of positive balance of fair value measurement of hedging transactions with the given counterparty.

Liquidity risk

The Company is exposed to financial liquidity risk, where financial liquidity is understood as the ability to settle financial liabilities on time. The Company manages its financial liquidity in accordance with the policy „Financial Liquidity Management Policy" approved by the Management Board, which describes in a comprehensive manner the process of managing financial liquidity in the Company, based on best practice for such procedures and instruments.

In the first half of 2012 as well as in the comparable period, due to positive cash flow and the significant amount of cash balances, the Company did not make use of external financing in the form of bank and other loans from financial institutions and settled all of its liabilities in a timely manner.

In accordance with market practice, the Company monitors its capital, among others based on the equity ratio and the ratio of Net Debt/EBITDA. The equity ratio is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of Net Debt/EBITDA is calculated as the relation of borrowings and finance lease liabilities minus unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (EBITDA is operating profit plus depreciation and amortisation).

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

Due to the lack of Company debt as at 30 June 2012, the ratio of Net Debt/EBITDA amounted to 0.00. The equity ratio was above the assumed minimum level and as at 30 June 2012 amounted to 0.65. Neither in the first half 2012 nor in 2011 were any external equity requirements imposed on the Company.

3.7. Realisation of projected financial results

On 27 March 2012, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2012. The basis for preparing the Budget were the results of 2011 and the assumptions of operating plans. The basic assumptions of the Budget for 2012 are presented in Table 23.

Table 23. Company Budget assumptions for 2012

	Unit	Execution I-VI'12	Budget 2012	Realisation of Budget (%)
Sales	**M PLN**	**10 504**	**19 418**	**54.1**
Profit for the period	**M PLN**	**2 949**	**3 804**	**77.5**
Average copper price	USD/t	8 097	8 000	101.2
Average silver price	USD/troz	31.06	30	103.5
Exchange rate	USD/PLN	3.27	3.09	105.8
Unit cost of electrolytic copper production from own concentrate	PLN/t	12 277	15 729	78.1
Electrolytic copper production	'000 t	272.9	562.0	48.6
- including from purchased Cu-bearing materials	'000 t	68.7	147.3	46.6
Silver production	t	653.3	1 098	59.5

The relatively low cost of copper production from own concentrate in the first half 2012, versus the level planned for 2012, is due to the impact of the minerals extraction tax, which has increased the cost of copper production since April 2012.

The high advance on realisation of the Budget is mainly due to the more favourable than planned USD/PLN exchange rate. The Company is currently reviewing the published financial forecast.

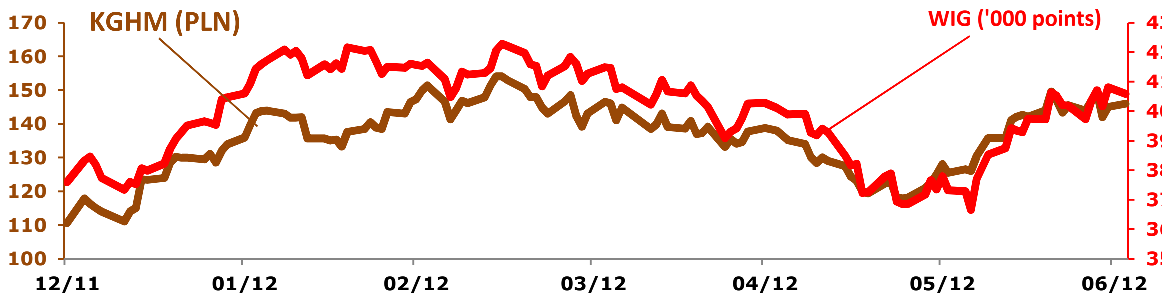
4. Ownership structure and Company quotations

4.1. The Company on the stock exchange

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Company are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indices; the WIG-SUROWCE index, comprising companies classified as operating in the „basic materials" sector; the RESPECT Index, comprising socially responsible companies; and the WIGdiv index, comprising companies with the highest dividend payout ratios, and which regularly pay dividends to their shareholders.

The Company's share price in the first half of the year systematically rose, reaching its maximum on 14 March 2012 of PLN 154.00. Thereafter the Company's shares were in a downward trend which lasted until the end of May 2012. During the past half year the share price rose by 31%, from PLN 110.60 on the last trading day of 2011 to PLN 145.00 on the last trading day of the first half of 2012. During this same time the Warsaw Stock Exchange's WIG index rose by 9%, and the WIG20 index by 6%.

Chart 10. Share price of KGHM Polska Miedź S.A. versus the WIG index



The shares of KGHM Polska Miedź S.A. in the first half of 2012 were among the most liquid. The Company's share of turnover in value terms amounted to 17%. The average per-session trading volume of the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the first half 2012 amounted to 980 346.

Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in Table 24:

Table 24. Key share quotation data of the Company on the Warsaw Stock Exchange

	Unit	2011	I-VI 2011	I-VI 2012
Number of shares issued	million	200	200	200
Closing price from the last trading day of the period	PLN	110.60	197.00	145.00
Market value of the Company at period end	million	22 120	39 400	29 000
Highest closing price in the period	PLN	198.40	198.40	154.00
Lowest closing price in the period	PLN	104.60	161.40	111.10
Average trading volume per session	'000	1 070	901	980

4.2. Information on the ownership structure and on the issued shares of the Company

As at 30 June 2012, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the General Meeting.

In the first half of 2012 there was no change either in registered share capital or in the number of issued shares.

As at 30 June 2012, and at the date of preparation of this report, as far as the Company is aware, the only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the total number of votes at the General Meeting was the Polish State Treasury, which held 63 589 900 shares, representing 31.79% of the share capital of the Company and the total number of votes.

The remaining shareholders of the Company, at 30 June 2012 and at the date of preparation of this report, held shares granting the right to less than 5% of the total number of votes at the General Meeting - altogether 136 410 100 shares, representing 68.21% of the share capital and the total number of votes at the General Meeting.

During the period from 1 January 2012 to the date of preparation of this report, as far as the Company is aware, there was no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A.

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.

Based on information held by the Company, members of the Company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A. or rights to them, either at 30 June 2012, 31 March 2012 or 31 December 2011. During the first half of 2012, Members of the Company's Supervisory Board and Management Board neither sold nor purchased the shares of KGHM Polska Miedź S.A. or rights to them.

In the first half of 2012 the Company did not have an employee share incentive program.

Appendix A: Methodology of calculating ratios used in the report

Assets effectiveness ratios

$$\text{Assets turnover ratio} = \frac{\text{sales}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{sales}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{sales}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{sales}}{\text{current receivables + cash and cash equivalents}}$$

Assets financing ratios

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity + non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

Economic activity ratios

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets - inventories}}{\text{current liabilities}}$$

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

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

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity + non-current liabilities}}{\text{equity and liabilities}} \times 100$$

Appendix B: Current reports of the Company published in 2012 – to the date of preparation of the half-year report

Signing of a Framework Agreement on the Exploration for and Extraction of Shale Gas (4 July 2012)

On 4 July 2012, KGHM Polska Miedź S.A. signed a framework agreement on the exploration for and extraction of shale gas (the "Agreement"). The parties to the Agreement are KGHM Polska Miedź S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A. (hereafter jointly referred to as the "Parties"). Detailed information on the above agreement is presented on page 71 of this report.

Other information published:

- list of shareholders at the Ordinary General Meeting on 28 June 2012 (2 July 2012),
- resignation of a Member of the Supervisory Board (3 July 2012),
- information on Members of the Management Board appointed by the Supervisory Board of KGHM Polska Miedź S.A. for another term (10 July 2012),
- answers to shareholder questions raised during the Ordinary General Meeting on 28 June 2012 (12 July 2012),
- registration of changes in the Company Statutes (19 July 2012),
- convening of an Extraordinary General Meeting of KGHM Polska Miedź S.A. on 17 August 2012 (20 July 2012),
- proposed resolutions to the aforementioned Extraordinary General Meeting (20 July 2012),
- change in the publication date of the consolidated Q2 report 2012 (24 July 2012),
- publication of the Uniform text of the Statutes of the Company (26 July 2012).
- change in date of Extraordinary General Meeting of KGHM Polska Miedź S.A. (7 August 2012),
- proposed resolutions to the aforementioned Extraordinary General Meeting (7 August 2012).

Appendix C: List of tables, diagrams and charts

TABLES

CHARTS

DIAGRAM

Appendix D: Major events affecting the Company's activities in 2012 *

Date	Description
19.01.2012	Extraordinary General Meeting of KGHM Polska Miedź S.A. – changes in the composition of the Supervisory Board
14.02.2012	Approval of the draft Act on the minerals extraction tax by the parliamentary Committee of Public Finance
20.02.2012	General Meeting of Quadra FNX Mining Ltd. – approving the transaction purchase of Quadra FNX Mining Ltd. by KGHM Polska Miedź S.A.
2.03.2012	Adoption by the Parliament of Act on the minerals extraction tax
5.03.2012	Conclusion of purchase of 100% of the shares of Quadra FNX Mining Ltd
12.03.2012	Change of the name of Quadra FNX Mining Ltd. to KGHM INTERNATIONAL LTD.
14.03.2012	Approval by the Senate of the Act on the minerals extraction tax
27.03.2012	Forecast of results for 2012
2.04.2012	Exercise of call option on an additional 29% of the shares of KGHM AJAX MINING INC.
25.04.2012	Extraordinary General Meeting of KGHM Polska Miedź S.A. – changes in the composition of the Supervisory Board
27.06.2012	Appointment of the Management Board for a subsequent term
28.06.2012	Ordinary General Meeting of KGHM Polska Miedź S.A. – changes in the composition of the Supervisory Board, appropriation of Company profit for financial year 2011, approval of the financial statements, changes in the Statutes
4.07.2012	Signing of a framework agreement on the exploration for and extraction of shale gas
23.07.2012	Approval of the European Commission for the founding of the joint venture company Elektrownia Blachownia Nowa sp. z o.o.
7.08.2012	The Company published a current report regarding a change in the date of Extraordinary General Meeting of KGHM Polska Miedź S.A. – changes in the Supervisory Board
20.08.2012	Payment of the first instalment of the shareholder dividend (PLN 3.4 billion)

** Including events to the date of preparation of the report*

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2012	Herbert Wirth	President of the Management Board	
28 August 2012	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2012	Wojciech Kędzia	Vice President of the Management Board	
28 August 2012	Dorota Włoch	Vice President of the Management Board	