

POLISH FINANCIAL SUPERVISION AUTHORITY

Half-year report P 2011

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

publication date: 31 August 2011

KGHM Polska Miedź Spółka Akcyjna (name of the issuer)	
KGHM Polska Miedź S.A. (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)
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692-000-00-13 (NIP)	390021764 (REGON)

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

SELECTED FINANCIAL ITEMS	in '000 PLN		in '000 EUR	
	half-year 2011 period from 1 January 2011 to 30 June 2011	half-year 2010 period from 1 January 2010 to 30 June 2010	half-year 2011 period from 1 January 2011 to 30 June 2011	half-year 2010 period from 1 January 2010 to 30 June 2010
I. Sales	10 000 920	7 199 551	2 520 838	1 798 000
II. Operating profit	5 281 453	2 764 478	1 331 246	690 395
III. Profit before income tax	5 265 396	2 747 857	1 327 199	686 244
IV. Profit for the period	4 319 004	2 226 638	1 088 651	556 076
V. Other comprehensive income	187 443	173 076	47 247	43 224
VI. Total comprehensive income	4 506 447	2 399 714	1 135 898	599 300
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)	21.60	11.13	5.44	2.78
IX. Net cash generated from operating activities	3 987 760	2 007 059	1 005 157	501 238
X. Net cash used in investing activities	(1 004 847)	(956 113)	(253 282)	(238 778)
XI. Net cash used in financing activities	(2 982)	(5 153)	(752)	(1 287)
XII. Total net cash flow	2 979 931	1 045 793	751 123	261 173
	At 30 June 2011	At 31 December 2010	At 30 June 2011	At 31 December 2010
XIII. Non-current assets	11 622 361	12 125 041	2 915 357	3 061 647
XIV. Current assets	12 078 776	7 704 255	3 029 844	1 945 372
XV. Total assets	23 701 137	19 829 296	5 945 201	5 007 019
XVI. Non-current liabilities	2 024 522	2 380 314	507 832	601 044
XVII. Current liabilities	5 693 691	2 992 505	1 428 207	755 626
XVIII. Equity	15 982 924	14 456 477	4 009 162	3 650 349

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 2011 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**
-

KGHM POLSKA MIEDŹ S.A.

**AUDITOR'S REVIEW REPORT
ON THE INTERIM CONDENSED
FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2011**

Lubin, August 2011

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

We have reviewed the attached condensed interim financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called *the Company*), with its registered office in Lubin, 48 M. Skłodowskiej-Curie Street, comprising:

- (a) the interim statement of financial position as at 30 June 2011, showing total assets and total liabilities and equity of PLN 23.701.137 thousand;
- (b) the interim statement of comprehensive income for the period from 1 January to 30 June 2011, showing a total comprehensive income of PLN 4.506.447 thousand;
- (c) the interim statement of changes in equity for the period from 1 January to 30 June 2011, showing an increase in equity of PLN 1.526.447 thousand;
- (d) the interim statement of cash flows for the period from 1 January to 30 June 2011, showing a net increase in cash and cash equivalents of PLN 2.979.931 thousand;
- (e) additional information on adopted accounting policies and other explanatory notes.

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

We conducted the review in accordance with National Standards of Auditing issued by the National Chamber of Registered Auditors. We planned and performed the review to obtain reasonable assurance that the condensed interim financial statements are free of material misstatements. We conducted the review by analyzing the condensed interim financial statements, inspecting the accounting records, and making use of information obtained from the Company's Management Board and the employees.

TRANSLATION ONLY

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

The scope of the work performed was significantly narrower than the scope of an audit of the financial statements, because the review was not aimed at expressing an opinion on the compliance with the required accounting principles (policy) and the truth and fairness of the interim financial statements. This report does not constitute an audit opinion within the meaning of the Accounting Act of 29 September 1994 (uniform text, *Journal of Laws* of 2009, No. 152, item 1223 with further amendments).

Our review did not indicate the need for any significant changes to the attached condensed interim financial statements to ensure that they have been prepared, in all material aspects, in accordance with the International Financial Reporting Standard 34 "Interim Financial Reporting".

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 26 August 2011

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2011

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
26 August 2011	Herbert Wirth	President of the Management Board	
26 August 2011	Maciej Tybura	I Vice President of the Management Board	
26 August 2011	Wojciech Kędzia	Vice President of the Management Board	

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

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2011

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 half-year financial statements, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this review, have met the conditions for issuing an impartial and independent report on their review, in compliance with appropriate legal provisions and professional standards.

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

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

KGHM POLSKA MIEDŹ S.A.

**INTERIM
CONDENSED FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2011**

Lubin, August 2011

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Interim statement of financial position

		At	
	Note	30 June 2011	31 December 2010
Assets			
Non-current assets			
Property, plant and equipment	5	6 590 422	6 551 111
Intangible assets	6	101 844	86 718
Shares and investment certificates in subsidiaries	7	2 823 583	2 643 046
Investments in associates	7	-	1 159 947
Deferred tax assets	20	263 930	359 833
Available-for-sale financial assets	8	1 215 481	749 824
Held-to-maturity investments	9	110 308	84 115
Derivatives	10	430 144	403 839
Trade and other receivables	11	86 649	86 608
		11 622 361	12 125 041
Current assets			
Inventories	12	2 489 797	2 011 393
Trade and other receivables	11	1 920 463	2 393 986
Available-for-sale financial assets	8	517 335	405 193
Held-to-maturity investments	9	1 436	4 129
Derivatives	10	360 831	294 021
Cash and cash equivalents	13	5 628 964	2 595 529
Non-current assets held for sale	14	1 159 950	4
		12 078 776	7 704 255
Total assets		23 701 137	19 829 296
Equity and liabilities			
Equity			
Share capital	15	2 000 000	2 000 000
Accumulated other comprehensive income	16	398 602	211 159
Retained earnings	17	13 584 322	12 245 318
Total equity		15 982 924	14 456 477
Liabilities			
Non-current liabilities			
Trade and other payables	18	11 965	14 249
Borrowings and finance lease liabilities	19	5 637	8 490
Derivatives	10	411 884	711 580
Employee benefits liabilities	21	1 131 189	1 128 246
Provisions for other liabilities and charges	22	463 847	517 749
		2 024 522	2 380 314
Current liabilities			
Trade and other payables	18	4 548 954	1 727 939
Borrowings and finance lease liabilities	19	2 947	2 965
Current corporate tax liabilities		660 443	668 924
Derivatives	10	366 555	481 852
Employee benefits liabilities	21	99 355	93 041
Provisions for other liabilities and charges	22	15 437	17 784
		5 693 691	2 992 505
Total liabilities		7 718 213	5 372 819
Total equity and liabilities		23 701 137	19 829 296

The selected explanatory information presented on pages 7 to 55 represent an integral part of these financial statements

Interim statement of comprehensive income

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Sales	23	10 000 920	7 199 551
Cost of sales	24	(4 707 358)	(4 116 755)
Gross profit		5 293 562	3 082 796
Selling costs	24	(58 794)	(48 808)
Administrative expenses	24	(325 782)	(269 265)
Other operating income	26	914 974	512 916
Other operating costs	27	(542 507)	(513 161)
Operating profit		5 281 453	2 764 478
Finance costs	28	(16 057)	(16 621)
Profit before income tax		5 265 396	2 747 857
Income tax expense	31	(946 392)	(521 219)
<u>Profit for the period</u>		4 319 004	2 226 638
OTHER COMPREHENSIVE INCOME DUE TO:			
Available-for-sale financial assets	16	25 888	(13 287)
Cash flow hedging instruments	16	205 523	226 961
Income tax related to items presented in other comprehensive income	16	(43 968)	(40 598)
<u>Other comprehensive net income for the financial period</u>	16	187 443	173 076
TOTAL COMPREHENSIVE INCOME		4 506 447	2 399 714
Earnings per share for the half-year period			
(in PLN per share)	32		
- basic		21.60	11.13
- diluted		21.60	11.13

The selected explanatory information presented on pages 7 to 55 represent an integral part of these financial statements

Interim statement of changes in equity

	Note	Share capital	Accumulated other comprehensive income due to:		Retained earnings	Total equity
			Available-for-sale financial assets	Cash flow hedging instruments		
At 1 January 2011		2 000 000	121 385	89 774	12 245 318	14 456 477
Dividends for 2010 resolved but unpaid	33	-	-	-	(2 980 000)	(2 980 000)
Total comprehensive income	16,17	-	20 969	166 474	4 319 004	4 506 447
At 30 June 2011		2 000 000	142 354	256 248	13 584 322	15 982 924
At 1 January 2010		2 000 000	1 489	125 739	8 276 729	10 403 957
Dividends for 2009 resolved but unpaid		-	-	-	(600 000)	(600 000)
Total comprehensive income	16,17	-	(10 762)	183 838	2 226 638	2 399 714
At 30 June 2010		2 000 000	(9 273)	309 577	9 903 367	12 203 671

The selected explanatory information presented on pages 7 to 55 represent an integral part of these financial statements

Interim statement of cash flows

		For the period	
Note	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010	
Cash flow from operating activities			
	4 319 004	2 226 638	
Profit for the period			
Adjustments to profit for the period	571 694	138 795	34
Income tax paid	(902 938)	(358 374)	
	3 987 760	2 007 059	
Cash flow from investing activities			
Purchase of shares and investment certificates in subsidiaries	(180 985)	(60 973)	
Purchase of property, plant and equipment and intangible assets	(583 918)	(435 571)	
Proceeds from sale of property, plant and equipment and intangible assets	2 069	2 319	
Purchase of available-for-sale financial assets	(1 565 831)	(433 746)	
Proceeds from sale of available-for-sale financial assets	1 028 023	6 779	
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund	(23 500)	(19 013)	
Establishment of deposits	(450 000)	-	
Termination of deposits	800 000	-	
Loans granted	-	(40 000)	
Repayments of loans granted	2 515	9 515	
Interest received	9 972	2 228	
Dividends received	-	24 051	
Advances granted for the purchase of property, plant and equipment and intangible assets	(41 397)	(9 185)	
Other investment expenses	(1 795)	(2 517)	
	(1 004 847)	(956 113)	
Cash flow from financing activities			
Repayments of loans	-	(2 000)	
Payments of finance leases liabilities	(2 976)	(3 094)	
Interest paid	(6)	(59)	
	(2 982)	(5 153)	
Total net cash flow			
	2 979 931	1 045 793	
Exchange gains on cash and cash equivalents	53 504	11 493	
	3 033 435	1 057 286	
Movements in cash and cash equivalents			
Cash and cash equivalents at beginning of the period	2 595 529	975 198	13
Cash and cash equivalents at end of the period	5 628 964	2 032 484	13
including restricted cash and cash equivalents	1 413	63 820	

The selected explanatory information presented on pages 7 to 55 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 copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- wholesale based on direct or contractual payments,
- warehousing and storage of goods,
- holding management activities,
- geological and exploratory activities,
- general construction activities with respect to mining and production facilities,
- generation and distribution of electricity, steam and hot water, production of gas and distribution of gaseous fuels through a supply network,
- scheduled and non-scheduled air transport, and
- telecommunication and IT activities.

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

Period of operation

KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Company has an unlimited period of operation.

The legal antecedent of KGHM Polska Miedź S.A. was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin transformed into a State-owned joint stock company in accordance with principles set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

Management Board

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

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

Supervisory Board

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

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

1. General information (continuation)

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

On 15 June 2011, the Ordinary General Meeting of KGHM Polska Miedź S.A.:

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

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

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

Authorisation of the interim condensed financial statements (financial statements)

These financial statements were authorised for issue and signed by the Management Board of the Company on 26 August 2011.

Going concern

The financial statements were prepared under the assumption that the Company will continue as a going concern during a period of at least 12 months from the end of the reporting period in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. At the date of signing of the 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.

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 2010 which are an element of the Annual Report R 2010 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.

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

- o Amendment to IAS 32 Financial instruments: Presentation
- o Amended IFRS 1 First-time Adoption of IFRS
- o IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- o Amended IAS 24 Related Party Disclosures
- o Prepayments of a Minimum Funding Requirement as an amendment to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction Changes
- o in International Financial Reporting Standards 2010

2. Basis of preparing financial statements (continuation)

2.1. Accounting principles (continuation)

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

All of the above changes to the standards and interpretations have been approved by the European Union up to the date of publication of these financial statements. In the 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.

2.2. Exchange rates applied for selected financial data

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

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

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

3. Important estimates and assumptions

In preparing the 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 2011 the Management Board determines that the useful lives of assets applied by the Company for purposes of depreciation reflect the expected period of future economic benefits from these assets.

3.2 Financial instruments

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

Embedded derivatives

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

KGHM AJAX MINING INC. options

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

3. Important estimates and assumptions (continuation)

3.3 Telecom investments

a) Polkomtel S.A.

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

In light of the above, in the opinion of the Management Board, criteria were met requiring reclassification of the investment in Polkomtel S.A. to assets held for sale, in accordance with IFRS 5. Just prior to reclassification, these shares were measured, in accordance with IAS 27, in the amount of PLN 1 159 947 thousand, and at this same amount, as the lower of their carrying amount and their fair value, less selling costs, the shares of Polkomtel S.A. were recognised under assets held for sale.

b) Telefonía Dialog S.A.

With respect to the shares of Telefonía Dialog S.A., at the end of the reporting period the Management Board of KGHM Polska Miedź S.A. maintains the position presented in the Annual Report R 2010 regarding accounting for the shares of this company in the statement of financial position. In the current period there have been no changes in the process of selling the shares of Telefonía Dialog S.A. which, in accordance with IFRS 5, would require reclassification of the shares of Telefonía Dialog S.A. in the separate statement of financial position to the category of assets held for sale.

In light of the above, there is also no basis for taking a decision on recognising a deferred tax asset on negative temporary differences in accordance with IAS 12.44 (at 30 June 2011 in the amount PLN 1 160 609 thousand) amounting to PLN 220 516 thousand.

3.4 Impairment of shares in subsidiaries and associates

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

3.5 Provisions

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

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

- a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
 - b) the real discount rate calculated based on the profitability of treasury bonds with maturities nearest to the planned financial outflow (nominal discount rate) and the forecast rate of inflation.
- Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year.

A 1% increase in the real discount rate used by the Management Board to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision by PLN 108 961 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 143 761 thousand.

3. Important estimates and assumptions (continuation)

3.6 Deferred tax assets/liabilities

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

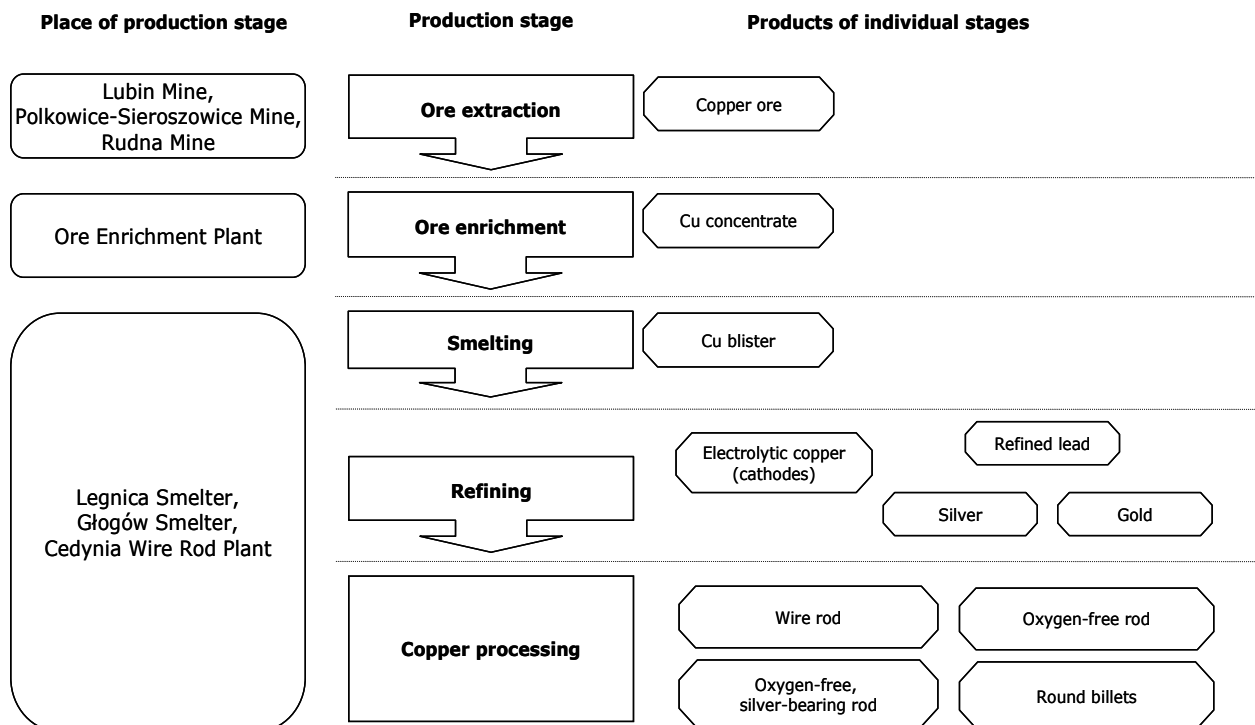
The probability of realising the deferred tax asset with future tax income is based on the Company Budget approved by the Supervisory Board. The projected financial results indicate that the Company will achieve taxable income, based on which the probability of settling a deferred tax asset is determined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

4. Business segments

The Company represents a single operating and reporting segment, under IAFS 8, defined as „Production of copper, precious metals and other smelter products”.

The production of basic goods is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Settlements between further stages of the production process are based on valuation at the manufacturing cost, and as a result the internal organisational units (mines, processing plants, smelters) in the production cycle do not show a profit from sales.

The financial data which are prepared for management accounting 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 results are prepared on a monthly basis, and do not contain financial data on the separate stages of the production process.



4. Business segments (continuation)

Production and sale of basic products

In the first half of 2011 the Company produced approx. 284 thousand tonnes of electrolytic copper and 609 tonnes of silver (in the first half of 2010, 268 thousand tonnes of electrolytic copper and 561 tonnes of silver respectively).

Revenues from sales for the first half of 2011 amounted to PLN 10 000 920 thousand (PLN 7 199 551 thousand in the comparable period of 2010). The increase in revenues by 38.9% resulted mainly from an increase in the prices of electrolytic copper and metallic silver.

Segment profit or loss

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Sales	10 000 920	7 199 551
Interest income	73 721	23 703
Interest cost	532	627
Amortisation/depreciation	331 239	306 126
Revaluation of provisions for employee benefits	9 257	56 664
Gains on measurement and realisation of derivatives	530 497	339 770
Losses on measurement and realisation of derivatives	453 598	475 242
Income tax	(946 392)	(521 219)
Profit for the period	4 319 004	2 226 638
ROA* - return on assets (%)	18.2	13.1
ROE** - return on equity (%)	27.0	18.2
EBITDA (EBIT + amortisation/depreciation)	5 612 692	3 070 604

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

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

Segment assets and liabilities

	At	
	30 June 2011	31 December 2010
Assets	23 701 137	19 829 296
Liabilities	7 718 213	5 372 819
Debt ratio (%)	32.6	27.1

The main item in the segment's assets is property, plant and equipment, which at 30 June 2011 had a net carrying amount of PLN 6 590 422 thousand (at 31 December 2010, PLN 6 551 111 thousand), amounting to 27.8% of total assets. Depreciation of property, plant and equipment at 30 June 2011 amounted to PLN 7 587 459 thousand, with impairment of PLN 6 408 thousand (at 31 December 2010, respectively PLN 7 383 612 thousand and PLN 6 408 thousand). The property, plant and equipment and intangible assets of the segment are all located in Poland.

Another significant item in the segment's assets is also investments in subsidiaries measured at cost less any impairment. At 30 June 2011 the value of shares and investment certificates in subsidiaries amounted to PLN 2 823 583 thousand (at 31 December 2010, PLN 2 643 046 thousand). The investments in associates at 30 June 2011 have been presented in the statement of financial position under the item non-current assets held for sale in the amount of PLN 1 159 947 thousand (at 31 December 2010, presentation in the statement of financial position under the item Investment in associates in the amount of PLN 1 159 947 thousand). The reasons for reclassification are described in note 3.3.

4. Business segments (continuation)

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

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Development expenditures	235 528	233 926
in mining	114 528	199 733
in metallurgy	10 884	15 972
in other divisions	110 116	18 221
Replacement expenditures	214 182	180 973
in mining	172 175	150 050
of which mining machinery	90 714	102 942
in metallurgy	33 448	23 893
in other divisions	8 559	7 030
Total	449 710	414 899

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

Geographical areas

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

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Germany	2 324 110	1 565 706
Poland	2 084 240	1 863 228
Great Britain	1 203 295	757 511
China	796 436	869 045
Italy	642 600	264 267
The Czech Republic	618 344	505 223
France	326 971	296 237
Austria	293 195	143 423
Hungary	259 162	213 318
Belgium	143 597	172 859
Switzerland	123 288	100 604
Finland	23 472	11 372
Other countries	1 162 210	436 758
Total	10 000 920	7 199 551

4. Business segments (continuation)

Main clients

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

	For the period from 1 January 2011 to 30 June 2011
Client 1	1 025 845

	For the period from 1 January 2010 to 30 June 2010
Client 1	867 011
Client 2	756 165
Client 3	736 763

5. Property, plant and equipment

	At	
	30 June 2011	31 December 2010
Land	16 745	16 093
Buildings	2 562 548	2 645 282
Technical equipment and machinery	2 601 266	2 583 179
Motor vehicles	56 409	55 474
Other fixed assets	13 859	14 390
Fixed assets under construction	1 339 595	1 236 693
	6 590 422	6 551 111

Major investment projects recognised under fixed assets under construction

	At	
	30 June 2011	31 December 2010
Construction of the SW-4 shaft	429 078	392 400
Głogów Głęboki – Przemysłowy	265 122	208 329
Ventilation and air conditioning equipment in the mines	223 308	215 643
Investments related to mining region infrastructural development in mines	50 797	48 216
Exchange of floatation machinery in the OEPs	42 792	60 872
Renovation of sulphuric acid plant	42 263	34 950
Intensification of lead production – development of the 4th Doerschel furnaces at the Głogów smelter	-	37 037
Power and communications infrastructure	32 958	35 353
Total	1 086 318	1 032 800

5. Property, plant and equipment (continuation)

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

	At	
	30 June 2011	31 December 2010
For the purchase of property, plant and equipment	1 088 809	721 753
For the purchase of intangible assets	26 057	15 725
Total capital commitments:	1 114 866	737 478

Purchase and sale of property, plant and equipment

	For the period		
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 31 December 2010	1 January 2010 to 30 June 2010
Purchase	418 987	1 226 024	396 469
Net sale	-	123	92

6. Intangible assets

	At	
	30 June 2011	31 December 2010
Development costs	808	850
Software	1 856	1 608
Acquired concessions, patents, licenses	19 326	20 223
Other intangible assets	33 801	33 389
Assets used in the exploration for and evaluation of mineral resources	33 493	16 318
Intangible assets not yet available for use	12 560	14 330
Total	101 844	86 718

7. Investments in subsidiaries and associates

	Shares and investment certificates in subsidiaries	Investments in associates
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		
- acquisition of shares	121 807	-
- acquisition of newly-issued shares	59 061	-
- adjustment of cost	(331)	-
- reclassification 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	-
At 1 January 2010		
Amount at cost	3 236 002	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 1 January 2010	1 915 224	1 159 947
Changes in 2010		
- acquisition of shares, certificates	454 403	-
- acquisition of newly-issued shares	274 925	-
- sales of shares	(1 500)	-
- adjustment of cost due to refund of a tax on civil-law transactions	(6)	-
At 31 December 2010		
Amount at cost	3 963 824	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 31 December 2010	2 643 046	1 159 947
At 1 January 2010		
Amount at cost	3 236 002	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 1 January 2010	1 915 224	1 159 947
Changes in the first half of 2010		
- acquisition of shares	30 959	-
- acquisition of newly-issued shares	28 000	-
At 30 June 2010		
Amount at cost	3 294 961	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 30 June 2010	1 974 183	1 159 947

In the first half of 2011 KGHM Polska Miedź S.A. acquired shares in the following entities:

	acquisition value
NITROERG S.A.	121 273
KGHM Kupfer AG (until 15 May 2011 – KGHM HMS Bergbau AG)	534
Total:	121 807
and acquired newly-issued shares in the following companies:	acquisition value
CBJ sp. z o.o.	6 697
KGHM Kupfer AG (until 15 May 2011 – KGHM HMS Bergbau AG)	52 364
Total:	59 061

7. Investments in subsidiaries and associates (continuation)

Investments in subsidiaries (direct share) As at 30 June 2011

Entity	Head office	Subject of activities	% of share capital held	% of voting power	Carrying amount of shares/ investment certificates
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	11 822
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100	824 926
„Energetyka” sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	402 305
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100	8 506
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	387 287
KGHM Kupfer AG (until 15 May 2011 – KGHM HMS Bergbau AG)	Berlin	copper and other deposits exploring and mining	100	100	54 509
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	347 814
KGHM II FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	7 350
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	5 000
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100	925
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45	23 552
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	13 470
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100	6 903
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	2 800
„MIEDZIOWE CENTRUM ZDROWIA” S.A.	Lubin	medical services	100	100	36 286
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	84 122
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	32 133
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	150 569
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	98 076
DFM ZANAM – LEGMET Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	48 631
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	13 185
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	1 565
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	51	51	109 763
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	30 812
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitroacet	85	85	121 272
					2 823 583

7. Investments in subsidiaries and associates (continuation)

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

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

8. Available-for-sale financial assets

	Note	At	
		30 June 2011	31 December 2010
Shares in unlisted companies		9 500	9 500
Shares in listed companies		1 205 981	740 324
Non-current available-for-sale financial assets	29.1	1 215 481	749 824
Participation units of liquid open-end investment funds		517 335	405 193
Current available-for-sale financial assets	29.1	517 335	405 193
Available-for-sale financial assets, total	29.1	1 732 816	1 155 017

9. Held-to-maturity investments

	Note	At	
		30 June 2011	31 December 2010
Monetary resources of the Mine Closure Fund		110 308	84 115
Total non-current held-to-maturity investments		110 308	84 115
Monetary resources of the Mine Closure Fund		1 436	4 129
Total current held-to-maturity investments		1 436	4 129
Total held-to-maturity investments	29.1	111 744	88 244

10. Derivatives

	Note	At	
		30 June 2011	31 December 2010
Non-current assets			
hedging instruments		425 708	402 234
trade instruments		4 436	1 605
Non-current assets due to derivatives, total:		430 144	403 839
Current assets			
hedging instruments		304 133	211 186
trade instruments		1 795	5 574
instruments initially designated as hedging instruments excluded from hedge accounting		54 903	77 261
Current assets due to derivatives, total:		360 831	294 021
Total assets due to derivatives	29.1	790 975	697 860
Non-current liabilities			
hedging instruments		330 400	606 154
trade instruments		77 671	105 426
Instruments initially designated as hedging instruments excluded from hedge accounting		3 813	-
Non-current liabilities due to derivatives, total:		411 884	711 580
Current liabilities			
hedging instruments		204 006	294 161
trade instruments		161 780	187 237
instruments initially designated as hedging instruments excluded from hedge accounting		769	454
Current liabilities due to derivatives, total:		366 555	481 852
Total liabilities due to derivatives	29.1	778 439	1 193 432

11. Trade and other receivables

	Note	At	
		30 June 2011	31 December 2010
Trade and other non-current receivables			
Payment to subsidiaries		47 779	45 210
Other financial receivables		1 136	1 149
Loans granted		37 725	40 240
Total loans and financial receivables, net	29.1	86 640	86 599
Other non-financial receivables		8	8
Prepayments		1	1
Total non-financial receivables, net		9	9
Trade and other non-current receivables, net		86 649	86 608
Trade and other current receivables			
Trade receivables		1 271 279	1 735 014
Deposits		-	351 130
Loans granted		6 799	6 551
Payment to subsidiaries		16 167	15 955
Other financial receivables		316 848	43 301
Impairment allowances		(28 899)	(29 600)
Total loans and financial receivables, net	29.1	1 582 194	2 122 351
Other non-financial receivables, including:		278 082	284 558
Taxes, social and health security and other charges		149 820	202 451
Prepayments		74 886	2 526
Impairment allowances		(14 699)	(15 449)
Total non-financial current receivables, net		338 269	271 635
Total trade and other current receivables, net		1 920 463	2 393 986
Total trade and other current and non-current receivables, net		2 007 112	2 480 594

12. Inventories

	At	
	30 June 2011	31 December 2010
Materials	474 730	167 496
Half-finished products and work in progress	1 681 217	1 649 380
Finished goods	333 761	194 509
Merchandise	89	8
Total carrying amount of inventories	2 489 797	2 011 393

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Write-down of inventories in the financial period			
Write-down of inventories recognised in cost of sales	24	360	364
Reversal of write-down recognised in cost of sales	24	125	277

13. Cash and cash equivalents

	Note	At	
		30 June 2011	31 December 2010
Cash in hand		45	56
Cash at bank		17 409	50 178
Other financial assets with a maturity of up to 3 months from the date of acquisition		5 611 510	2 545 295
Total cash and cash equivalents	29.1	5 628 964	2 595 529

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 5 605 363 thousand (as at 31 December 2010: PLN 2 538 807 thousand), and deposit interest in the amount of PLN 6 147 thousand (as at 31 December 2010: PLN 6 488 thousand).

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

14. Non-current assets held for sale

As at 30 June 2011, the most important item of non-current assets held for sale (with a carrying amount of PLN 1 159 950 thousand) were the shares of Polkomtel S.A. in the amount of PLN 1 159 947 thousand. Details regarding the basis for reclassification may be found in note 3.3 Telecom investments.

15. Share capital

At 30 June 2011, 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 200 000 000 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 2011 and in the first half of 2010 there were no changes in the registered share capital or in the number of shares.

Ownership structure

At 30 June 2011, the only shareholder of the 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 announcement dated 12 January 2010 - held 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and the same number of votes at the General Meeting.

The remaining shareholders held shares representing less than 5% of the total number of votes at the General Meeting - a total of 136 410 100 shares of KGHM Polska Miedź S.A., representing 68.21% of the share capital and the same number of votes at the General Meeting.

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

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

Changes in significant packets of shares

In the first half of 2011 there were no changes in significant packets of shares.

In the first half of 2010 the State Treasury - after a sale on 8 January 2010 on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors - decreased its share in the share capital of the Company to 31.79%.

16. Accumulated other comprehensive income

		Accumulated other comprehensive income due to:		Total accumulated other comprehensive income
Note	Available-for-sale financial assets	Cash flow hedging financial instruments		
At 1 January 2011		121 385	89 774	211 159
	Fair value gains on available-for-sale financial assets	30 209	-	30 209
30	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)
30	Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	-	(83 577)	(83 577)
20	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
At 1 January 2010		1 489	125 739	127 228
	Fair value gains on available-for-sale financial assets	152 734	-	152 734
	Impact of effective cash flow hedging transactions entered into	-	97 786	97 786
	Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets	(4 715)	-	(4 715)
	Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	-	(142 187)	(142 187)
20	Deferred income tax	(28 123)	8 436	(19 687)
Other comprehensive income		119 896	(35 965)	83 931
At 31 December 2010		121 385	89 774	211 159
At 1 January 2010		1 489	125 739	127 228
	Fair value losses on available-for-sale financial assets	(11 448)	-	(11 448)
	Impact of effective cash flow hedging transactions entered into	-	309 255	309 255
	Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets	(1 839)	-	(1 839)
	Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	-	(82 294)	(82 294)
	Deferred income tax	2 525	(43 123)	(40 598)
Other comprehensive income		(10 762)	183 838	173 076
At 30 June 2010		(9 273)	309 577	300 304

17. Retained earnings

	Note	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Profit/(loss) from prior years	Retained earnings, total
At 1 January 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	33	-	-	(2 980 000)	(2 980 000)
At 30 June 2011		660 000	8 605 318	4 319 004	13 584 322
At 1 January 2010		660 000	5 076 544	2 540 185	8 276 729
Profit for the period		-	-	4 568 589	4 568 589
Transfer to reserve capital		-	1 940 185	(1 940 185)	-
Dividend approved and paid		-	-	(600 000)	(600 000)
At 31 December 2010		660 000	7 016 729	4 568 589	12 245 318
At 1 January 2010		660 000	5 076 544	2 540 185	8 276 729
Profit for the period		-	-	2 226 638	2 226 638
Transfer to reserve capital		-	1 940 185	(1 940 185)	-
Dividend approved but unpaid		-	-	(600 000)	(600 000)
At 30 June 2010		660 000	7 016 729	2 226 638	9 903 367

At 30 June 2011 the statutory reserve capital in the Company amounts to PLN 660 000 thousand, and is recognised in equity under Retained earnings.

18. Trade and other payables

	Note	At	
		30 June 2011	31 December 2010
Trade and other non-current payables			
Trade payables		1 006	2 232
of which payables due to purchase, construction of property, plant and equipment and intangible assets		916	1 379
Other financial liabilities		9 743	10 683
Total financial liabilities (scope of IFRS7)	29.1	10 749	12 915
Deferred income		1 216	1 334
Total non-financial liabilities		1 216	1 334
Total trade and other non-current payables		11 965	14 249
Trade and other current payables			
Trade payables		601 400	850 478
of which payables due to purchase, construction of property, plant and equipment and intangible assets		112 177	300 612
Payables due to unsettled derivatives		10 103	49 690
Other financial liabilities		2 997 830	10 283
of which unpaid dividend liabilities	17	2 980 000	-
Total financial liabilities (scope of IFRS7)	29.1	3 609 333	910 451
Other financial liabilities (IAS 19 – Employee benefits)		72 235	140 009
Total financial liabilities		3 681 568	1 050 460
Liabilities due to taxes and social security		287 326	200 055
Other non-financial liabilities		38 418	41 973
Special funds		123 023	110 013
Deferred income		21 767	741
Accruals		396 852	324 697
Total non-financial liabilities		867 386	677 479
Total trade and other current payables		4 548 954	1 727 939
Total trade and other non-current and current payables		4 560 919	1 742 188

19. Borrowings and finance lease liabilities

	Note	At	
		30 June 2011	31 December 2010
Non-current finance lease liabilities		5 637	8 490
Current finance lease liabilities		2 947	2 965
Borrowings and finance lease liabilities	29.1	8 584	11 455

20. Deferred tax

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 31 December 2010
Deferred tax assets at the beginning of the reporting period		865 443	601 467
Deferred tax liabilities at the beginning of the reporting period		505 610	434 405
Net deferred tax assets at the beginning of the reporting period		359 833	167 062
Changes during the year			
Charged to profit for the period	31	(282 425)	(326 065)
Credited to profit for the period	31	230 490	538 523
Decrease in accumulated other comprehensive income	16	(141 359)	(231 257)
Increase in accumulated other comprehensive income	16	97 391	211 570
Net deferred tax assets at the end of the reporting period, of which:		263 930	359 833
Deferred tax assets at the end of the reporting period		900 643	865 443
Deferred tax liabilities at the end of the reporting period		636 713	505 610

20. Deferred tax (continuation)

Deferred tax assets prior to offsetting

	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 and tax loss	Increase in accumulated other comprehensive income due to change in the balance of temporary differences	At 30 June 2011 based on the rate of 19%
Interest	-	1	-	1
Allowances for impairment of receivables	2 976	665	-	3 641
Short-term accruals for salaries	55 028	13 437	-	68 465
Employee benefits (holidays)	2 492	-	-	2 492
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
Unpaid salaries with surcharges	12 098	5 085	-	17 183
Other	9 713	2 700	-	12 413
Total	865 443	17 895	17 305	900 643

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

	At 1 January 2010 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences and tax loss	Increase in accumulated other comprehensive income due to change in the balance of temporary differences	At 30 June 2010 based on the rate of 19%
Interest	1	(1)	-	-
Allowances for impairment of receivables	8 335	546	-	8 881
Short-term accruals for salaries	51 038	8 626	-	59 664
Employee benefits (holidays)	3 064	-	-	3 064
Provision for decommissioning of mines and other facilities	99 453	8 617	-	108 070
Measurement of forward transactions	174 330	82 688	-	257 018
Depreciation differences	19 330	(1 535)	-	17 795
Future employee benefits liabilities	226 387	10 766	-	237 153
Unpaid salaries with surcharges	10 986	(2 596)	-	8 390
Other	8 543	4 828	2 175	15 546
Total	601 467	111 939	2 175	715 581

20. Deferred tax (continuation)

Deferred tax liabilities prior to offsetting

	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	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%
Interest	1 605	(211)	-	1 394
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	165	999	-	1 164
Total	505 610	69 830	61 273	636 713

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

	At 1 January 2010 based on the rate of 19%	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	(Increase)/Decrease in accumulated other comprehensive income due to change in the balance of temporary differences	At 30 June 2010 based on the rate of 19%
Interest	429	673	-	1 102
Measurement of forward transactions	37 138	42 726	-	79 864
Re-measurement of hedging instruments	29 494	-	43 123	72 617
Depreciation differences	365 977	15 523	-	381 500
Measurement of available-for- sale financial assets	350	-	(350)	-
Other	1 017	(872)	-	145
Total	434 405	58 050	42 773	535 228

21. 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 2011	25	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	25	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 - 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
Present value of obligations - at 1 January 2010		1 199 110	232 680	188 436	753 304	24 690
Interest costs		66 104	12 549	10 559	41 592	1 404
Current service cost		36 140	14 263	10 066	11 074	737
Benefits paid		(80 106)	(34 821)	(11 847)	(32 315)	(1 123)
Actuarial losses/(gains)		5 942	12 605	2 819	(9 596)	114
Present value of obligations - at 31 December 2010		1 227 190	237 276	200 033	764 059	25 822
Past service cost unrecognised at the end of the reporting period		(5 903)	-	(5 903)	-	-
Carrying amount of liabilities - at 31 December 2010		1 221 287	237 276	194 130	764 059	25 822
of which:						
Carrying amount of non-current liabilities		1 128 246	209 007	166 704	729 007	23 528
Carrying amount of current liabilities		93 041	28 269	27 426	35 052	2 294
Present value of obligations - at 1 January 2010	25	1 199 110	232 680	188 436	753 304	24 690
Interest costs		33 153	6 475	5 251	20 730	697
Current service cost		18 070	7 132	5 033	5 537	368
Benefits paid		(48 262)	(10 008)	(6 834)	(31 420)	-
Actuarial losses		52 859	9 717	3 019	38 851	1 272
Present value of obligations - at 30 June 2010	25	1 254 930	245 996	194 905	787 002	27 027
Past service cost unrecognised at the end of the reporting period		(6 746)	-	(6 746)	-	-
Carrying amount of liabilities - at 30 June 2010		1 248 184	245 996	188 159	787 002	27 027
of which:						
Carrying amount of non-current liabilities		1 150 323	211 344	162 240	752 112	24 627
Carrying amount of current liabilities		97 861	34 652	25 919	34 890	2 400

21. Employee benefits (continuation)

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

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Total costs recognised in profit or loss			
Interest costs		33 317	33 153
Current service cost		18 527	18 070
Actuarial losses		6 399	52 859
Past service cost	25	843	843
		59 086	104 925

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

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

Main actuarial assumptions at 30 June 2010:	2010	2011	2012	2013	2014 and beyond
- discount rate	5.20%	5.20%	5.20%	5.20%	5.20%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.00%	4.00%	4.00%	4.00%	4.00%

22. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2011		535 533	514 006	5 600	1 975	13 952
Provisions recognised in other operating costs	27	1 355	-	-	1 265	90
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	26,27	(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	28	15 806	15 515	117	-	174
Utilisation of provisions		(3 508)	(2 109)	(236)	(415)	(748)
Release of provisions recognised in other operating income	26	(1 021)	-	-	(1 010)	(11)
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
Provisions at 1 January 2010		533 306	510 903	5 307	1 507	15 589
Provisions recognised in other operating costs		2 083	217	293	1 271	302
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		(1 067)	(899)	-	-	(168)
Changes in provisions arising from updating of estimates recognised in fixed assets		(624)	(624)	-	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs		32 174	31 842	-	-	332
Utilisation of provisions		(6 961)	(4 590)	-	(327)	(2 044)
Release of provisions recognised in other operating income		(1 522)	(987)	-	(476)	(59)
Transfer to Mine Closure Fund		(21 856)	(21 856)	-	-	-
Provisions at 31 December 2010		535 533	514 006	5 600	1 975	13 952
of which:						
Non-current provisions		517 749	500 739	4 546	-	12 464
Current provisions		17 784	13 267	1 054	1 975	1 488

22. Provisions for other liabilities and charges (continuation)

		TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2010		533 306	510 903	5 307	1 507	15 589
Provisions recognised in other operating costs	27	504	217	-	280	7
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	26, 27	1 608	886	-	-	722
Changes in provisions arising from updating of estimates recognised in fixed assets		47 908	47 908	-	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	28	15 870	15 689	-	-	181
Utilisation of provisions		(2 874)	(1 781)	-	(315)	(778)
Release of provisions recognised in other operating income	26	(434)	(101)	-	(333)	-
Transfer to Mine Closure Fund		(10 871)	(10 871)	-	-	-
Provisions at 30 June 2010		585 017	562 850	5 307	1 139	15 721
of which:						
Non-current provisions		569 570	555 691	-		13 879
Current provisions		15 447	7 159	5 307	1 139	1 842

As at 30 June 2011 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 458 813 thousand (as at 31 December 2010: PLN 514 006 thousand), estimated in accordance with the methodology defined in the International Financial Reporting Standards. The decrease in the provision in the first half of 2011 was mainly caused by the change in long term forecast yield on bonds (an increase of discount rate).

23. Sales

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

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Copper, precious metals, smelter by-products	9 869 504	7 089 732
Salt	36 735	28 232
Services	29 171	28 766
Other goods	6 566	5 468
Merchandise	33 058	28 459
Scrap and production materials	25 729	18 747
Other materials	157	147
Total	10 000 920	7 199 551
of which:		
Net revenues from the sale of products, merchandise and materials - domestic	2 084 240	1 863 228
Net revenues from the sale of products, merchandise and materials - foreign	7 916 680	5 336 323

Supplementary dates

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

24. Expenses by nature

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Depreciation of property, plant and equipment and amortisation of intangible assets	34	331 239	306 126
Employee benefits expenses	25	1 365 620	1 311 770
Materials and energy		2 802 068	2 541 300
External services		582 702	473 461
Taxes and charges		158 206	148 948
Advertising costs and representation expenses		17 494	10 845
Property and personal insurance		11 390	8 577
Research and development costs not capitalised in intangible assets		2 335	1 340
Other costs, of which:		8 747	4 413
Write-down of inventories	12	360	364
Allowance for impairment of receivables	29.2	297	14
Reversal of write-down of inventories	12	(125)	(277)
Reversal of allowance for impairment of receivables	29.2	(855)	-
Losses from the disposal of financial instruments	29.2	1 899	834
Other operating costs		7 171	3 478
Total expenses by nature		5 279 801	4 806 780
Cost of merchandise and materials sold (+) of which:		52 368	43 832
Allowance for impairment of receivables	29.2	-	2
Change in inventories of finished goods and work in progress (+/-)		(170 800)	(372 814)
Cost of manufacturing products for internal use (-)		(69 435)	(42 970)
Total cost of sales, selling costs and administrative expenses		5 091 934	4 434 828

25. Employee benefits expenses

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Remuneration		984 157	908 286
Costs of social security and other benefits		372 206	346 821
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:		9 257	56 663
Present value of obligation	21	8 414	55 820
Past service cost	21	843	843
Employee benefits expenses		1 365 620	1 311 770

26. Other operating income

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Income and gains from financial instruments classified under other operating activities, resulting from:	29.2	616 388	477 282
Measurement and realisation of derivatives		530 497	339 770
Interest		71 517	22 959
Foreign exchange gains		-	113 594
Gains from sale		14 145	896
Gains from measurement of non-current liabilities		204	-
Reversal of allowance for impairment of other receivables		25	63
Non-financial interest		2 204	744
Reversal of allowance for impairment of non-financial receivables		750	743
Dividends received		277 330	24 051
Release of unused provisions for liabilities due to:	22	3 685	1 397
Decommissioning of mines		2 382	434
Disputed issues and court proceedings		1 010	333
Liabilities towards municipal authorities due to signed donation agreements		250	630
Other		43	-
Other operating income/gains		14 617	8 699
Total other operating income		914 974	512 916

27. Other operating costs

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Costs and losses on financial instruments classified under other operating activities, resulting from:	29.2	508 281	478 885
Measurement and realisation of derivatives		453 598	475 242
Interest		84	9
Losses on measurement of non-current liabilities		-	542
Foreign exchange losses		49 871	-
Allowance for impairment of loans		6	6
Allowances for impairment of other receivables		4 722	3 086
Losses on the sale of property, plant and equipment and intangible assets	34	5 931	4 659
Donations granted		12 517	9 503
Interest on overdue non-financial liabilities		405	90
Provisions for:	22	2 614	3 075
Decommissioning of mines		1 259	1 436
Disputed issues, pending court proceedings		1 265	280
Liabilities towards municipal authorities due to signed donation agreements		-	1 352
Other		90	7
Other operating costs/losses		12 759	16 949
Total other operating costs		542 507	513 161

28. Finance costs

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Interest expense due to:	29.2	43	528
Loans		4	101
Finance leases		39	427
Net foreign exchange losses on borrowings	29.2	70	78
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	22	15 806	15 870
Measurement of provisions for decommissioning of mines		15 515	15 689
Measurement of other provisions		291	181
Losses due to measurement of non-current liabilities	29.2	138	145
Total finance costs		16 057	16 621

KGHM Polska Miedź S.A.
Interim condensed financial statements prepared in accordance with IAS 34
for the period from 1 January 2011 to 30 June 2011
(amounts in tables in thousand PLN, unless otherwise stated)

29. Financial instruments

29.1 Financial instrument classes and categories

		At 30 June 2011								
		Categories of financial instruments								
Classes of financial instruments	Note	Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss*	Loans and receivables	Financial liabilities at fair value through profit or loss*	Other financial liabilities		Hedging instruments	Total
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities excluded from the scope of IAS 39		
Listed shares	8	1 205 981	-	-	-	-	-	-	-	1 205 981
Unlisted shares	8	9 500	-	-	-	-	-	-	-	9 500
Participation units of investment funds	8	517 335	-	-	-	-	-	-	-	517 335
Trade receivables (net)	11	-	-	-	1 250 763	-	-	-	-	1 250 763
Cash and cash equivalents and deposits	9,13	-	111 744	-	5 628 964	-	-	-	-	5 740 708
Other financial assets (net)	11	-	-	-	418 071	-	-	-	-	418 071
Derivatives - Currency	10	-	-	55 817	-	(81 883)	-	-	324 863	298 797
Derivatives - Commodity contracts - Metals	10	-	-	5 317	-	(162 150)	-	-	(129 428)	(286 261)
Trade payables	18	-	-	-	-	-	(602 406)	-	-	(602 406)
Other financial liabilities	18,19	-	-	-	-	-	(3 017 676)	(8 584)	-	(3 026 260)
		1 732 816	111 744	61 134	7 297 798	(244 033)	(3 620 082)	(8 584)	195 435	5 526 228

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

29. Financial instruments (continuation)

29.1 Financial instrument classes and categories (continuation)

At 31 December 2010

Categories of financial instruments

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

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

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29. Financial instruments (continuation)

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

For the period from 1 January 2011 to 30 June 2011	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Other financial liabilities		Hedging instruments	Total financial instruments
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities excluded from the scope of IAS 39		
Interest income/(costs) recognised in:		-	-	71 517	(88)	(39)	-	71 390
Other operating income	26	-	-	71 517	-	-	-	71 517
Other operating costs	27	-	-	-	(84)	-	-	(84)
Finance costs	28	-	-	-	(4)	(39)	-	(43)
Exchange gains/(losses) recognised in:		-	-	21 536	(71 407)	(70)	-	(49 941)
Other operating costs	27	-	-	21 536	(71 407)	-	-	(49 871)
Finance costs	28	-	-	-	-	(70)	-	(70)
Gains/(Losses) on measurement of non-current liabilities recognised in:		-	-	-	66	-	-	66
Other operating income	26	-	-	-	204	-	-	204
Finance costs	28	-	-	-	(138)	-	-	(138)
Impairment allowances recognised in:		-	-	(5 025)	-	-	-	(5 025)
Expenses by nature	24	-	-	(297)	-	-	-	(297)
Other operating costs	27	-	-	(4 728)	-	-	-	(4 728)
Reversal of impairment allowances recognising in:		-	-	880	-	-	-	880
Expenses by nature	24	-	-	855	-	-	-	855
Other operating income	26	-	-	25	-	-	-	25
Adjustment to sales due to hedging transactions	16	-	-	-	-	-	83 577	83 577
Gains/(losses) from disposal of financial instruments recognised in:		-	14 145	(1 899)	-	-	-	12 246
Expenses by nature	24	-	-	(1 899)	-	-	-	(1 899)
Other operating income	26	-	14 145	-	-	-	-	14 145
Gains on measurement and realisation of derivatives	26	530 497	-	-	-	-	-	530 497
Losses on measurement and realisation of derivatives	27	(453 598)	-	-	-	-	-	(453 598)
Total net gain/(loss)		76 899	14 145	87 009	(71 429)	(109)	83 577	190 092

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29. Financial instruments (continuation)

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

For the period from 1 January 2010 to 30 June 2010	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Other financial liabilities		Hedging instruments	Total financial instruments
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities excluded from the scope of IAS 39		
Interest income/(costs) recognised in:		-	-	22 959	(110)	(427)	-	22 422
Other operating income	26	-	-	22 959	-	-	-	22 959
Other operating costs	27	-	-	-	(9)	-	-	(9)
Finance costs	28	-	-	-	(101)	(427)	-	(528)
Exchange gains/(losses) recognised in:		-	(691)	140 824	(26 539)	(78)	-	113 516
Other operating income	26	-	(691)	140 824	(26 539)	-	-	113 594
Finance costs	28	-	-	-	-	(78)	-	(78)
Losses on measurement of non-current liabilities recognised in:		-	-	-	(687)	-	-	(687)
Other operating costs	27	-	-	-	(542)	-	-	(542)
Finance costs	28	-	-	-	(145)	-	-	(145)
Impairment allowances recognised in:		-	-	(3 108)	-	-	-	(3 108)
Expenses by nature	24	-	-	(16)	-	-	-	(16)
Other operating costs	27	-	-	(3 092)	-	-	-	(3 092)
Reversal of impairment allowances	26	-	-	63	-	-	-	63
Adjustment to sales due to hedging transactions		-	-	-	-	-	82 294	82 294
Profit/(losses) from disposal of financial instruments recognised in:		-	896	(834)	-	-	-	62
Expenses by nature	24	-	-	(834)	-	-	-	(834)
Other operating income	26	-	896	-	-	-	-	896
Gains on measurement and realisation of derivatives	26	339 770	-	-	-	-	-	339 770
Losses on measurement and realisation of derivatives	27	(475 242)	-	-	-	-	-	(475 242)
Total net gain/(loss)		(135 472)	205	159 904	(27 336)	(505)	82 294	79 090

29. Financial instruments (continuation)

29.3 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 comparative periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these assets.

30. Financial risk management

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

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

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

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

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

30.1 Market risk

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

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

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

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 2011 to 30 June 2011		from 1 January 2010 to 30 June 2010	
	Sales	Purchases	Sales	Purchases
Copper [^000 tonnes]	282	71	263	75
Silver [tonnes]	599	12	617	7

30.1.2 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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.2 Currency risk (continuation)

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.

30.1.3 Commodity and currency risk management

In the first half of 2011 strategies hedging the copper price represented approx. 28%, and those hedging the silver price approx. 9%, of the sales of these metals realised by the Company. In the case of the currency market, hedged revenues from sales represented approx. 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 physical sale of goods 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 2011, the Company implemented copper price hedging strategies with a total volume of 40.5 thousand tonnes and a time horizon falling in the second half of 2012 and the full year 2013. The Company made use of options (Asian options) including the following options strategies: collars and producer puts. Additionally, during the analysed period, the Company performed a restructure, implemented in the first and third quarters of 2010, of a seagull options strategy for 2012, of a total volume of 58.5 thousand tonnes through the buyback of sold puts¹. Restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of this metal in 2012. During the analysed period, the Company did not implement adjustment hedge transactions on the copper market.

In the case of the silver market, in the first half of 2011 the Company implemented strategies to hedge the price of this metal of a total volume of 10.8 million troz and a time horizon falling in the years 2012-2013. The Company made use of options (Asian options) including the use of puts, seagulls and collars. Additionally, the Company performed a restructure, implemented in the analysed period, of a collar strategy for 2012, through the buyback of sold calls for 3.6 million troz, and simultaneously sold puts of the same nominal amount and with a execution price below the price of the put options held (from the collar structure). A put spread structure was thereby gained. Restructure guarantees greater flexibility in the selection of derivatives implemented for 2012 and enables full participation in any eventual increases in the price of silver in this period for the hedged nominal amount of 3.6 million troz. In addition – in case of a deep fall in prices in this period – it restricts benefits from the put options held to the level of executed put options sold. In the analysed period, the Company did not implement an adjustment hedge transaction on the silver market.

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

The Company remains hedged for a portion of copper sales planned in the period from July to December 2011 (78 thousand tonnes), in 2012 (156 thousand tonnes) and in 2013 (40.5 thousand tonnes), and for a portion of silver sales planned in the period from July to December 2011 (1.8 million troz), in 2012 (7.2 million troz) and in 2013 (3.6 million troz). With respect to revenues from sales (currency market) the Company holds a hedging position for the second half of 2011 (USD 600 million) and 2012 (USD 720 million).

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.3 Commodity and currency risk management (continuation)

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

HEDGING POSITION (condensed information) – COPPER MARKET

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

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

³ Payable at the moment of settlement.

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.3 Commodity and currency risk management (continuation)

HEDGING POSITION (condensed information) – SILVER MARKET

Period	Instrument		Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
II half of 2011	Purchased put option		1.80	20.00	(1.27)	18.73
	Total		1.80			
TOTAL 2011			1.80			
I half of 2012	Purchased put option		1.80	30.00	(2.89)	27.11
	Put spread ¹	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option ²		19.80		
	Total		3.60			
II half of 2012	Purchased put option		1.80	30.00	(2.89)	27.11
	Put spread ¹	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option ²		19.80		
	Total		3.60			
TOTAL 2012			7.20			
I half of 2013	Seagull ²	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
	Total		1.80			
II half of 2013	Seagull ²	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
	Total		1.80			
TOTAL 2013			3.60			

HEDGING POSITION (condensed information) – CURRENCY MARKET

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

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.3 Commodity and currency risk management (continuation)

TRADE INSTRUMENTS			At 30 June 2011			
Type of derivative	Volume/ Notional Cu [t] Ag ['000 troz] Currency ['000 USD]	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	5 541	1			(90 964)	(51 661)
Purchased put options	136 500	4 686	112	623		
Sold put options	195 000	4 670			(112)	(3 101)
TOTAL:			112	623	(91 076)	(54 762)
Derivatives - Metals - Silver:						
Options						
Purchased call options	3 600	62.00	769	3 813		
Sold put options	7 200	19.90			(415)	(11 315)
TOTAL:			769	3 813	(415)	(11 315)
Derivatives - Currency contracts - USD/PLN:						
Options						
Purchased call options	90 000	4.4000				
Purchased put options	180 000	2.4000	914			
Sold put options	540 000	2.7167			(70 289)	(11 594)
TOTAL:			914		(70 289)	(11 594)
Total trade instruments			1 795	4 436	(161 780)	(77 671)

HEDGING INSTRUMENTS

At 30 June 2011

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.3 Commodity and currency risk management (continuation)

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING

Type of derivative	Notional Ag ['000 troz] Currency ['000 USD]	Avg. weighted ex. rate Ag [USD/troz] Currency [USD/PLN]	Maturity/ settlement period		Period of profit/loss impact		At 30 June 2011			
			From	To	From	To	Financial assets		Financial liabilities	
							Current	Non-current	Current	Non-current
Derivatives – Metals – Silver:										
Options										
Sold call options	3 600	62.00	Jan-12	Dec-12	Feb-12	Jan-13			(769)	(3 813)
TOTAL									(769)	(3 813)
Derivatives – Currency contracts										
Options										
Collar	90 000	3.40-4.40	July-11	Dec-11	July-11	Dec-11	54 903			
TOTAL							54 903			
Total instruments initially designated as hedging instruments excluded from hedge accounting							54 903		(769)	(3 813)

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

	Total: fair value of derivatives and of other liabilities due to unsettled derivatives	Fair value of derivatives	Fair value of other liabilities due to unsettled derivatives
Financial assets	790 975	790 975	-
Financial liabilities	(788 542)	(778 439)	(10 103)
Net fair value	2 433	12 536	(10 103)

In the first half of 2011, the result on derivatives amounted to PLN 160 476 thousand, of which the amount of PLN 83 577 thousand was recognised in revenues from sales (the amount transferred from accumulated other comprehensive income to profit or loss in the reporting period), the amount of PLN 76 899 thousand increased the result on other operating activities, of which PLN 25 320 thousand represented gain from realisation of derivatives, while PLN 51 579 thousand represented gain from measurement of derivatives. The gain on the measurement of derivative transactions recognised in other operating activities results mainly from the change in the time value of options which, in accordance with the hedge accounting policy, are recognised in profit or loss.

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

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Impact on sales	83 577	82 294
Impact on other operating activities	76 899	(135 472)
Gains / (losses) from realisation of derivatives	25 320	(23 245)
Gains / (losses) from measurement of derivatives	51 579	(112 227)
Total impact of derivatives on profit or loss:	160 476	(53 178)

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 is a gain on the measurement of hedging instruments and PLN 23 229 thousand is a gain on the realisation of the ineffective portion of hedging instruments.

Meanwhile, in the first half of 2010, the amount recognised in profit or loss of the Company - in other operating costs due to the ineffective part of hedged cash flow - amounted to PLN 198 297 thousand, of which PLN 146 230 thousand represented the loss from measurement of hedging instruments, and PLN 52 067 thousand represented the loss from realisation of the ineffective part of hedging instruments.

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.3 Commodity and currency risk management (continuation)

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

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

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

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

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

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

At 30 June 2011, the Company held 1 258 179.6381 participation units of liquid open-ended investment funds with a value of PLN 517 335 thousand. This investment is inconsiderably exposed to the price risk. The investment funds invest assets in money market instruments and in other debt securities (such as government bills and bonds), whose remaining time to maturity does not exceed one year, or whose rate of interest is set for a period no longer than one year. Since the date of acquisition, this investment has been characterised by a stable rate of growth in the value of the participation units, with profitability higher than interest in comparable bank accounts.

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

At 30 June 2011, the carrying amount of shares held by the Company which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 1 205 981 thousand. These investments expose the Company to the risk of a substantial change in accumulated other comprehensive income due to changes in the prices of the shares held, caused by the current macroeconomic situation.

30.1.6 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 2011: PLN 43 320 thousand, of which long-term loans amount to PLN 37 725 thousand, short-term to PLN 5 595 thousand). The decrease in market interest rates results in a decrease in the expected amount of income due to decreased cash flow due to loans granted.

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

30.2 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 creditworthiness of companies in which equity investments are made.

30. Financial risk management (continuation)

30.2 Credit risk (continuation)

Areas 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.

30.2.1 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 highest⁴ (7% of deposits), medium-high⁵ (62% of deposits) and medium⁶ credit ratings (31% of deposit), an appropriate level of equity and a strong, stable market position. The maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounts to 25% as at 30 June 2011.

30.2.2 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 (44.4%), medium-high (50%) or medium (5.6%) credit ratings. Based on fair value at 30 June 2011, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Company amounted to 25.7%.

The fair value of derivative transactions entered into by the Company at 30 June 2011 amounted to⁷:

PLN 2 433 thousand	positive balance on the measurement of derivatives, of which:
PLN 790 975 thousand	financial assets (Note 10),
PLN 788 542 thousand	financial liabilities (Notes 10, 18).

All entities with which derivative transactions were entered into in 2010 by the Company operated in the financial sector. These are financial institutions (mainly banks), with the highest (40.7%), medium-high (48.2%) or medium (11.1%) credit ratings. The maximum share of a single entity with respect to derivative transactions entered into by the Company amounted to 30%.

Fair value of derivative transactions entered into by the Company at 31 December 2010 amounted to⁸:

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

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

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 remeasurement of transactions in derivatives with a given counterparty.

⁴ 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.

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

⁶ 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.

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

⁸ The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2011, which were presented in the Company's statement of financial position at 31 December 2010 under other financial liabilities.

30. Financial risk management (continuation)

30.2 Credit risk (continuation)

30.2.3 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 2011			31 December 2010		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	30.6%	51.7%	17.7%	34.9%	34.0%	31.1%

The Company makes the majority of its sales transactions based on prepayments. The Company monitors the creditworthiness of all its customers⁹ 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 notes¹⁰, frozen funds on bank accounts, registered pledges¹¹, bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain¹².

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 2011 the Company had secured 81.2% of its trade receivables.

The total value of the Company's net trade receivables as at 30 June 2011, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 250 764 thousand (at 31 December 2010: PLN 1 712 403 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 2011 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 60.2% of the balance of trade receivables (at 31 December 2010: 66%). 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.

30.2.4 Credit risk related to loans granted

At 30 June 2011 the carrying amount of loans granted by the Company amounted to PLN 43 320 thousand. The loans were granted to the company Energetyka Sp. z o.o., including interest of PLN 565 thousand.

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

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

At 30 June 2011, the Company held 1 258 179.6381 participation units of investment funds with a value of PLN 517 335 thousand. Fund management institutions hold a medium-high rating.

⁹ 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.

¹⁰ In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

¹¹ 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.

¹² 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.

30. Financial risk management (continuation)

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

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

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

	30 June 2011	31 December 2010	30 June 2010
Equity	15 982 924	14 456 477	12 203 671
Less: intangible assets	101 844	86 718	80 531
Net assets	15 881 080	14 369 759	12 123 140
Total assets	23 701 137	19 829 296	16 976 883
Equity ratio	0.67	0.72	0.71
Operating profit	5 281 453	5 638 148	2 764 478
Plus: depreciation/amortisation	331 239	615 468	306 126
EBITDA	5 612 692	6 253 616	3 070 604
Borrowings and finance lease liabilities	8 584	11 455	12 967
Unallocated cash and cash equivalents	5 627 551	2 593 778	1 968 664
Ratio of net debt/EBITDA	0.00	0.00	0.00

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

The equity ratio was above the assumed minimum level and amounted to 0.67 at 30 June 2011.

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

31. Income tax

Income tax	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Current income tax		898 127	573 813
Adjustments to income tax from prior periods		(3 670)	1 295
Deferred income tax	20	51 935	(53 889)
Total		946 392	521 219

The rate applied to the taxation of income in accordance with tax law in force in corporate income tax amounted to 19 % (in the first half of 2010: 19%). The effective interest rate was 17.97% (in the first half of 2010: 18.97%).

32. Earnings per share

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Profit for the period	4 319 004	2 226 638
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	21.60	11.13

There are no dilutive ordinary shares.

33. Dividend paid and proposed for payment

In accordance with Resolution No. 6/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 15 June 2011 regarding the appropriation of Company profit for financial year 2010, the amount of PLN 2 980 000 thousand, representing PLN 14.90 per share, was allocated as a shareholders dividend from profit for financial year 2010.

The right to dividend date was set at 11 July 2011, and dividend payment date at 12 August 2011.

All shares of the Company are ordinary shares.

34. Adjustments to profit for the period in interim statement of cash flow

	Note	For the period	
		from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
Income tax recognised in profit or loss		946 392	521 219
Depreciation/amortisation	24	331 239	306 126
Losses on sales of property, plant and equipment and intangible assets		5 931	4 659
Gains on sales of available-for-sale financial assets		(14 145)	(896)
Impairment loss on loan		6	6
Interest and share in profits (dividends)		(286 471)	(25 937)
Foreign exchange gains		(52 389)	(9 520)
Change in provisions		9 050	60 467
Change in derivatives		(219 006)	(199 264)
Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives		(83 577)	(82 294)
Other adjustments		329	-
Changes in working capital:		(65 665)	(435 771)
Inventories		(478 260)	(228 334)
Trade and other receivables		425 417	(284 151)
Trade and other payables		(12 822)	76 714
Total adjustments to profit for the period		571 694	138 795

35. Related party transactions

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 associate held for sale	51	19	8
Total sales to related entities	328 774	34 242	2 023

During the period from 1 January 2011 to 30 June 2011, KGHM Polska Miedź S.A. recognised in other operating income dividend from an associate in the amount of PLN 250 013 thousand (from 1 January 2010 to 30 June 2010 dividend from associates in the amount of PLN 24 051 thousand).

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

Sales	For the period from 1 January 2010 to 30 June 2010		
	Sales of products	Sales of merchandise and materials	Other transactions
To subsidiaries	476 408	28 794	2 468
To associates	53	16	10
Total sales to related entities	476 461	28 810	2 478

35. Related party transactions (continuation)

Purchases	For the period from 1 January 2011 to 30 June 2011			
	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 associate held for sale	662	34	5	-
Total purchases from related entities	395 362	1 548 851	209 762	1 769

Purchases	For the period from 1 January 2010 to 30 June 2010			
	Purchase of services	Purchase of merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
From subsidiaries	316 139	1 520 984	221 189	1 994
From associates	569	29	5	-
Total purchases from related entities	316 708	1 521 013	221 194	1 994

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

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

Trade and other receivables from related entities	At	
	30 June 2011	31 December 2010
From subsidiaries	267 803	202 777
From associate held for sale	250 039	28
including due to a dividend	250 013	-
Total receivables from related entities	517 842	202 805

35. Related party transactions (continuation)

	At	
	30 June 2011	31 December 2010
Trade and other payables towards related entities		
Towards subsidiaries	247 263	317 968
Towards associate held for sale	254	276
Total payables towards related entities	247 517	318 244

During the current reporting period, due to their unusual scope and significant amounts, two individual transactions were identified:

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

For the period from 1 January to 30 June 2010, none of the transactions with the aforementioned companies was individually significant, either in terms of their nature or 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 period from 1 January 2011 to 30 June 2011 amounted to PLN 343 757 thousand (for the period from 1 January 2010 to 30 June 2010: PLN 338 575 thousand), and the unsettled balance of liabilities from these transactions at 30 June 2011 amounted to PLN 55 242 thousand (at 31 December 2010: PLN 103 124 thousand).

36. Contingent assets and liabilities

	At	
	30 June 2011	31 December 2010
Contingent assets	215 584	205 634
Disputed State Budget issues	10 650	17 518
Guarantees received	151 862	132 214
Promissory notes receivables	18 104	22 573
Inventions, implementation of projects	34 953	33 329
Other	15	-
Contingent liabilities	130 339	127 143
Guarantees	5 000	5 000
Disputed issues, pending court proceedings	14 559	15 566
Preventive safety measures in respect of mine-related damages	1 522	2 475
Liabilities due to implementation of projects and inventions	109 131	104 098
Other	127	4

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

37. Employment structure

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010
White-collar employees	4 554	4 433
Blue-collar employees	14 018	13 967
Total:	18 572	18 400

38. Subsequent events

On 25 July 2011 the Company received information announcing that a suit had been filed at the Regional Court in Legnica, Section VI (Economic) by a shareholder of the Company, Krzysztof Skóra, submitted to the Court on 14 July 2011, requesting that resolution no. 23/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. in Lubin dated 15 June 2011, regarding the dismissal of Józef Czyczerski from the Supervisory Board of KGHM Polska Miedź S.A., be declared invalid, claiming that it is in conflict with existing law. The Court committed the Company to submit a response to the suit within 14 days, otherwise a default judgement will be issued. The Regional Court in Legnica has not set a date for the hearing.

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

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

KGHM POLSKA MIEDŹ S.A.

**REPORT OF THE MANAGEMENT BOARD
ON THE COMPANY'S ACTIVITIES
IN THE FIRST HALF OF 2011**

Lubin, August 2011

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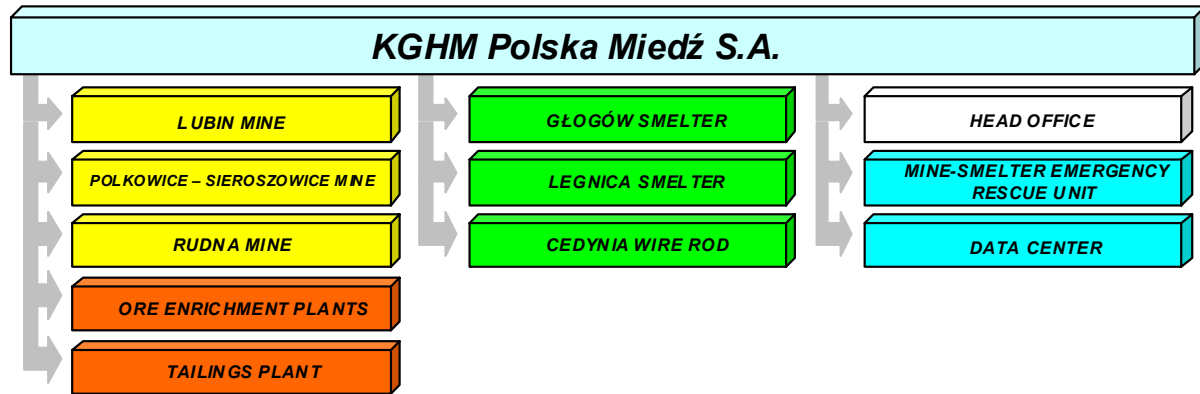
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I. Company organisation

In the first half of 2011 the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions.

The organisational structure of KGHM Polska Miedź S.A. at 30 June 2011 is presented in the diagram below:

Diagram 1. Organisational structure of the Company at 30 June 2011



Management Board

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

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

Supervisory Board

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

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

On 11 - 12 May 2011, due to the ending of the term of office of the Supervisory Board acting as then composed, the Company's employees selected 3 employee-elected members of the Supervisory Board: Józef Czyczerski, Leszek Hajdacki and Ryszard Kurek.

On 15 June 2011, the Ordinary General Meeting of KGHM Polska Miedź S.A.:

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

- appointed the following persons to the Supervisory Board of the Company: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Jan Rymarczyk and Marzenna Weresa.

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

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

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

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

Ownership of shares of the Company or of rights to them by management or supervisory personnel

At 30 June 2011 and at the date of preparation of this report, Members of the Company's Management Board were not in the possession of shares of KGHM Polska Miedź S.A. or rights thereto. This did not change during the period from publication of the quarterly report for the first quarter of 2011 and during the period of the first half of 2011.

At 30 June 2011 and at the date of preparation of this report, Members of the Company's Supervisory Board were not in the possession of shares of KGHM Polska Miedź S.A. or rights thereto. During the period from publication of the quarterly report for the first quarter of 2011 and during the period of the first half of 2011, members of the Company's Supervisory Board did not sell/purchase shares of KGHM Polska Miedź S.A. or rights thereto.

II. Production results

In the first half of 2011 there was an increase in ore extraction (dry weight) versus the comparable prior year period due to optimisation of mine operations during weekends and holidays. During the same period the content of copper in ore fell from 1.66% to 1.62%. These factors resulted in an increase in the production of copper in ore by 2.1 thousand tonnes (1%). The production of copper in concentrate increased by 3.1 thousand tonnes (2%).

Electrolytic copper production increased versus the comparable prior year period by 15.7 thousand tonnes (6%), due to an increase in production from own concentrate, including mainly from inventories.

Production results are presented in detail in the table below:

Table 1. Production results in mining

	Item	2010	I-VI 2010	I-VI 2011	Change*
Copper ore (dry weight)	mln t	29.3	14.5	14.9	102.8
Copper content in ore	%	1.64	1.66	1.62	97.6
Amount of copper in ore	'000 t	480.6	240.3	242.4	100.9
Amount of copper in concentrate	'000 t	425.4	212.7	215.8	101.5

* I-VI 2010 = 100

Table 2. Production results in smelting

	Item	2010	I-VI 2010	I-VI 2011	Change*
Copper products:					
Electrolytic copper	'000 t	547.1	268.1	283.8	105.9
incl. from purchased copper-bearing materials	'000 t	120.0	69.9	58.9	84.3
Wire rod (Contirod)	'000 t	237.3	121.1	117.6	97.1
Oxygen-free copper rod (UPCAST)	'000 t	15.5	7.6	7.6	100.0
Round billets	'000 t	18.7	7.3	8.3	113.7
Granular copper	'000 t	2.3	1.3	1.2	92.3
Other production:					
Metallic silver	t	1 161	561	609	108.6
Metallic gold	kg	776	441	317	71.9
Crude lead	'000 t	22.0	12.1	14.1	116.5
Refined lead	'000 t	20.9	11.5	12.1	105.2

* I-VI 2010 = 100

III. Sale of products

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

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

Table 3. Sales volume for basic products

	Item	2010	I-VI 2010	I-VI 2011	Change*
Copper and copper products	'000 t	545.3	262.7	282.4	107.5
- including export**	'000 t	406.0	192.5	220.8	114.7
Silver	t	1 247	617	599	97.1
- including export **	t	1 214	598	583	97.5
Gold	kg	840	334	148	44.3
- including export **	kg	647	252	-	0.0

* I-VI 2010 = 100

** including sales to European Union countries

Table 4. Revenues from the sale of products (in '000 PLN)

	2010	I-VI 2010	I-VI 2011	Change*
Total	15 830 341	7 152 198	9 941 976	139.0
- including export **	12 011 937	5 336 323	7 916 680	148.4
Copper and copper products	12 837 041	5 847 649	7 660 870	131.0
- including export **	9 521 850	4 266 338	5 994 377	140.5
Silver	2 467 928	1 069 933	1 969 454	184.1
- including export **	2 404 682	1 038 870	1 919 257	184.7
Gold	101 504	36 305	18 913	52.1
- including export **	78 706	27 363	-	0.0
Other products and services	423 868	198 311	292 739	147.6
- including export **	6 699	3 752	3 046	81.2

* I-VI 2010 = 100

** including sales to European Union countries

Total revenues from the sale of KGHM Polska Miedź S.A. products in the first half of 2011 amounted to PLN 9 941 976 thousand and were 39% higher than those achieved in the comparable period of 2010, mainly as a result of higher copper and silver prices and an increase in the volume of copper sold.

Revenues from sales in the first half of 2011 reflect the positive result from the settlement of hedging instruments in the amount of PLN 83 577 thousand (in the comparable period of 2010, PLN 82 294 thousand).

Geographical structure of product sales

In the first half of 2011, the volume of domestic sales of copper and copper products represented 22% of total copper sales. Export and European Union sales accounted for the remainder. The largest foreign customers for copper produced were Germany, China, Italy and the Czech Republic. During the first six months of 2011, domestic sales accounted for 3% of the total volume of silver sales, while export and European Union sales accounted for 97%. The largest foreign customers for silver were the United Kingdom, the USA and Belgium.

Macroeconomic sales conditions

The start of 2011 brought a continuation of the increase in metals prices on global markets. The average price of copper in the first half of 2011 amounted to 9 398 USD/t, and was 32% higher than that achieved in the comparable period (7 130 USD/t), while the average price of silver amounted to 34.84 USD/troz, and was nearly twice as high as that achieved in the first half of 2010 (17.62 USD/troz).

Despite the anxiety in the financial markets, the Polish zloty continued to strengthen versus the Euro and the USD. The average USD exchange rate in the first half of 2011 amounted to 2.82 PLN/USD, and was 7% lower than the rate in the comparable period of 2010 (3.02 PLN/USD).

IV. Employment

Employment at 30 June 2011 was lower by 83 persons than at 31 December 2010, mainly due to natural movements in staff.

Table 5. End-of-period employment

	30.06.2010	31.12.2010	30.06.2011	Change*
Mines	12 500	12 645	12 556	99.3
Smelters	3 881	3 869	3 833	99.1
Other Divisions	2 076	2 125	2 167	102.0
Total	18 457	18 639	18 556	99.6

* 31.12.2010 = 100

Relations with the trade unions

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

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

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

- Ad. 1 The Management Board of KGHM Polska Miedź S.A. does not accept a remuneration policy aimed at salary increases unassociated with:
 - increases in productivity,
 - the impact of the effects of work at various job positions on the results of the Company, and
 - working conditions.

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

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

- Ad. 2 and Ad. 4 The Management Board of KGHM Polska Miedź S.A. consented to the inclusion in the Collective Labour Agreement of clauses related to the functioning in the Company of employee retirement plans and medical packages, based on principles of voluntary participation of employees taking advantage of these benefits.
- Ad. 3 The Management Board sees the possibility of increasing contributions to the Employee Retirement Plan by 1 percentage point, to 6 percent, under condition that rights to the entitlements due following retirement or disability will only cover existing employees and retirees, and will not be extended to future employees.
- Ad. 5 The Management Board proposed the buy out of the coal equivalent due following retirement for the amount of PLN 15 thousand per employee and retiree, and consented to put this proposal to a referendum.

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

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

V. Assets

At 30 June 2011, the total assets of KGHM Polska Miedź S.A. amounted to PLN 23 701 137 thousand, which in comparison to the end of 2010 means an increase of PLN 3 871 841 thousand, i.e. by 20%. The significant increase in total assets was mainly due to monetary assets, available-for-sale financial assets and inventories.

Table 6. Assets ('000 PLN)

	31.12.2010	30.06.2011	Change *	Structure (%)
Non-current assets	12 125 041	11 622 361	95.9	49.0
Property, plant and equipment	6 551 111	6 590 422	100.6	27.8
Shares and investment certificates in subsidiaries	2 643 046	2 823 583	106.8	11.9
Investments in associates	1 159 947	-	-	-
Available-for-sale financial assets	749 824	1 215 481	162.1	5.1
Other non-current assets	1 021 113	992 875	97.2	4.2
Current assets	7 704 255	12 078 776	156.8	51.0
Inventories	2 011 393	2 489 797	123.8	10.5
Trade and other receivables	2 393 986	1 920 463	80.2	8.1
Cash and cash equivalents	2 595 529	5 628 964	x2.2	23.7
Non-current assets held for sale	4	1 159 950	x	4.9
Other current assets	703 343	879 602	125.1	3.7
Total assets	19 829 296	23 701 137	119.5	100.0

* 31.12.2010 = 100

The continued high metals prices enabled substantial cash resources to be earned, which the Company deposited in short-term instruments due to planned Company expenditures on the realisation of investment projects and the resolved payment of a shareholder dividend. Given the above, during the first half **cash and cash equivalents** increased by PLN 3 033 435 thousand.

Available-for-sale financial assets (non-current and current) in the total amount of PLN 1 732 816 thousand represented shares of listed companies (Tauron Polska Energia S.A. and Abacus Mining & Exploration) in the amount of PLN 1 205 981 thousand, and participation units in open liquid investment funds in the amount of PLN 517 335 thousand at the end of the reporting period.

Inventories, in comparison to their amount at the end of 2010, increased by PLN 478 404 thousand, primarily due to an increase in the amount of purchased copper-bearing materials used in the electrolytic copper production process. Materials inventories in transit were mainly comprised of copper concentrate and anodes, and amounted to PLN 251 154 thousand, i.e. nearly four times higher than at 31 December 2010.

Trade and other current receivables decreased by PLN 473 523 thousand (20%), mainly in respect of trade receivables. In addition, in order to ensure the ability to make future payments, the Company reduced the commitment of cash resources in accounts with maturity over 3 and up to 12 months accounted for in financial receivables (a decrease by PLN 351 130 thousand). Other financial receivables increased by PLN 273 546 thousand, mainly with respect to dividends due from Polkomtel S.A. and Tauron Polska Energia S.A.

Due to the signing of a preliminary agreement for the sale of shares of Polkomtel S.A., there was a change in the asset structure – the value of **investments in associates** was decreased by PLN 1 159 947 thousand, with a simultaneous increase in **non-current assets held for sale** measured at their carrying amount. Information on this agreement and on the question of reclassification may be found on page 75 of this report and in Note 3.3 of the interim condensed financial statements.

In addition, the Company increased the **value of shares and investment certificates in subsidiaries** by PLN 180 537 thousand, realising Budget assumptions for 2011 with respect to equity investments, including the acquisition of a controlling interest (85%) in the company Nitroerg S.A., which is one of the largest producers of explosives in Poland, and an increase in the share capital of KGHM Kupfer AG in order to carry out geological work.

At the end of June 2011, non-current and current **assets respecting derivatives** amounted to PLN 790 975 thousand, and in relation to their level at the end of 2010 increased by PLN 93 115 thousand mainly due to changes in macroeconomic conditions.

Property, plant and equipment represented a large percentage of total assets, which is characteristic for companies of a similar profile to KGHM Polska Miedź S.A. The value of property, plant and equipment did not change substantially, and at the end of June amounted to PLN 6 590 422 thousand.

VI. Equity and Liabilities

Equity in the amount of PLN 15 982 924 thousand represented 67% of total equity and liabilities, and increased versus the beginning of the year by PLN 1 526 447 thousand. The change in the level of equity was mainly with respect to the profit for the first half of 2011, and reflected the shareholder dividend appropriated from 2010 profit, resolved by the Ordinary General Meeting of KGHM Polska Miedź S.A. in the amount of PLN 2 980 000 thousand.

Table 7. Sources of financing of assets ('000 PLN)

	31.12.2010	30.06.2011	Change*	Structure (%)
Equity	14 456 477	15 982 924	110.6	67.4
Share capital	2 000 000	2 000 000	100.0	8.4
Accumulated other comprehensive income	211 159	398 602	188.8	1.7
Retained earnings	12 245 318	13 584 322	110.9	57.3
Non-current liabilities	2 380 314	2 024 522	85.1	8.5
Derivatives	711 580	411 884	57.9	1.7
Employee benefits liabilities	1 128 246	1 131 189	100.3	4.8
Other non-current liabilities	540 488	481 449	89.1	2.0
Current liabilities	2 992 505	5 693 691	190.3	24.0
Trade and other payables	1 727 939	4 548 954	x2.6	19.2
Current corporate tax liabilities	668 924	660 443	98.7	2.8
Other current liabilities	595 642	484 294	81.3	2.0
Total equity and liabilities	19 829 296	23 701 137	119.5	100.0

* 31.12.2010 = 100

Total non-current and current liabilities amounted to PLN 7 718 213 thousand, of which the largest-value item was the resolved but unpaid dividend liabilities from appropriation of 2010 profit (date of payment 12 August 2011).

An important item is employee benefits liabilities in the amount of PLN 1 230 544 thousand, mainly due to the coal equivalent and jubilee awards.

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

- derivatives PLN 778 439 thousand,
- trade payables including payables due to purchase, construction of property, plant and equipment and intangible assets PLN 602 406 thousand,
- accruals PLN 396 852 thousand

During the first six months of 2011, total non-current and current liabilities increased by PLN 2 345 394 thousand (44%), mainly due to the shareholder dividend (at the end of 2010 this liability did not exist – the dividend for 2009 was paid in the second half of 2010).

Contingent assets and liabilities

At 30 June 2011, contingent assets amounted to PLN 215 584 thousand, and mainly related to guarantees received, projects and inventions, promissory note receivables and disputed State budget issues.

Contingent liabilities amounted to PLN 130 339 thousand. Among them the largest item is projects and inventions liabilities in the amount of PLN 109 131 thousand (PLN 104 098 thousand at the end of 2010).

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

VII. Financial results

In the first half of 2011, the Company earned a profit for the period of PLN 4 319 004 thousand, i.e. 94% more than in the comparable prior year period.

Table 8. Statement of comprehensive income ('000 PLN)

	2010	I-VI 2010	I-VI 2011	Change*
Sales	15 945 032	7 199 551	10 000 920	138.9
Operating costs	9 287 686	4 434 828	5 091 934	114.8
Profit on sales	6 657 346	2 764 723	4 908 986	177.6
Profit/(loss) on other operating activities	(1 019 198)	(245)	372 467	x
Operating profit (EBIT)	5 638 148	2 764 478	5 281 453	191.0
Finance costs	(32 581)	(16 621)	(16 057)	96.6
Profit before income tax	5 605 567	2 747 857	5 265 396	191.6
Profit for the period	4 568 589	2 226 638	4 319 004	194.0
Other comprehensive income	83 931	173 076	187 443	108.3
Total comprehensive income	4 652 520	2 399 714	4 506 447	187.8
<i>EBITDA (EBIT + depreciation/amortisation)</i>	<i>6 253 616</i>	<i>3 070 604</i>	<i>5 612 692</i>	<i>182.8</i>

* I-VI 2010 = 100

The higher profit for the period by PLN 2 092 366 thousand is mainly due to changes in the following ('000 PLN):

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

(of which: adjustment of sales + PLN 1 283 thousand, and the measurement and settlement of hedging transactions increasing the result of other operating activities in the amount of + PLN 212 371 thousand)

alongside the following changes, decreasing the result:

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

Versus the comparable prior year period, other comprehensive income increased by PLN 14 367 thousand, mainly due to an increase in the measurement of cash flow hedging instruments.

Table 9. Basic factors affecting the financial result of the Company

	Item	2010	I-VI 2010	I-VI 2011	Change*
Sale of copper and copper products	'000 t	545.3	262.7	282.4	107.5
Silver sales	t	1 247	617	599	97.1
Average copper price on the LME	USD/t	7 539	7 130	9 398	131.8
Average silver price on the LBM	USD/troz	20.19	17.62	34.84	197.7
Average PLN/USD exchange rate per the NBP	PLN/USD	3.02	3.02	2.82	93.4
Unit cost of electrolytic copper production	USD/t	4 302	4 253	4 738	111.4
	PLN/t	12 983	12 843	13 350	104.0

* I-VI 2010 = 100

In the first half of 2011, 96% of sales represented revenues from the sale of copper and silver, which were higher by PLN 2 712 742 thousand, i.e. by 39% versus the comparable prior period.

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

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

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

VIII. Operating costs

Operating costs in the first six months of 2011 versus the comparable prior period increased by PLN 657 106 thousand, i.e. by 15%. The change in operating costs is due to an increase in expenses by nature of PLN 473 021 thousand, alongside a decrease in inventories by PLN 175 549 thousand due to increased sales.

The increase in expenses by nature was due to increases in:

- the value of purchased copper-bearing materials – due to an increase in the purchase prices of copper-bearing materials by 26% alongside a decrease in the amount of purchased copper-bearing materials consumed by 14% (i.e. 10 thousand t Cu),
- consumed materials, fuel and energy – mainly due to higher production from own concentrate by 13% (i.e. 27 thousand t Cu) and to an increase in energy and fuel prices,
- the value of external services – mainly due to an increase in costs of preparatory mine work, an increase in transport costs (due to an increase in shipping rates) and higher repair costs, and
- labour costs – due to a higher provision for the annual bonus from 19% in 2010 to 24% in 2011.

Unit cost of electrolytic copper production

The total pre-precious metals credit unit cost of electrolytic copper production (i.e. prior to subtracting the value of silver and gold) in the first half of 2011 amounted to 16 939 PLN/t and was higher by 1 687 PLN/t, i.e. by 11%, than in the comparable prior year period. The increase in the cost was due to higher own concentrate production costs, related to an increase in expenses by nature, including primarily preparatory mine work, fuels (higher prices) and labour costs due to a higher provision for the annual bonus.

Due to the advantageous valuation of anode slimes, the total unit cost of electrolytic copper production in the first half of 2011 increased versus the first half of 2010 by 4% (507 PLN/t) and amounted to 13 350 PLN/t.

Table 10. Unit cost of electrolytic copper production

	Unit	2010	I-VI 2010	I-VI 2011	Change*
Pre-precious metals credit unit cost of copper production	PLN/t	15 540	15 252	16 939	111.1
- including from own concentrates	PLN/t	13 661	13 034	14 353	110.1
Total unit cost of copper production	PLN/t	12 983	12 843	13 350	104.0
- including from own concentrates	PLN/t	10 487	9 957	10 008	100.5
Electrolytic copper production	'000 t	547.1	268.1	283.8	105.9
- including from own concentrates	'000 t	427.1	198.3	224.9	113.4

* I-VI 2010 = 100

The unit cost of electrolytic copper production from own concentrates in the first half of 2011 was at a similar level as in the comparable prior year period, and amounted to 10 008 PLN/t.

IX. Realisation of financial forecasts

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

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

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

Table 11. Realisation of projected Company results after the first half of 2011

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

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

X. Risk management

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

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

Market risk management

The Company manages market risk in accordance with the „Market Risk Management Policy“ approved by the Management Board. This document describes comprehensively the principles for managing market risk in the Company, and in particular the goal of market risk management, measurement of market risk, hedging techniques, requirements for hedging effectiveness and restrictions in entering hedging transactions.

Market risk management is realised by specific appropriate units, whose activities are supervised by the Market Risk Committee, the Management Board and the Supervisory Board.

To manage market risk, the Company applies hedging strategies, using derivatives: swaps, options contracts, forward contracts and structures combining these instruments. The market strategies implemented are selected in such a way as to take best advantage of existing market conditions. The Company applies a consistent and gradual approach to market risk management. As time passes, further hedging strategies are implemented, encompassing an ever-greater part of production and revenues from sales and longer periods of time.

Risk of changes in metals prices

The Company is exposed to the risk of changes in the prices of the metals sold, in particular prices of copper, silver and gold. The price-setting formulas contained in physical sales contracts are mainly based on average monthly prices from the London Metal Exchange in the case of copper, and from the London Bullion Market in the case of silver and gold. To hedge itself against falls in metals prices, the Company uses derivatives.

In the first half of 2011, the Company, applying strategies built from options instruments, hedged revenues from copper sales with a total volume of 40.5 thousand tonnes and a time horizon falling in the second half of 2012 and the full year 2013. In the case of the silver market, in the first half of 2011 the Company realised strategies to hedge the price of this metal of a total volume of 10.8 million troz and a time horizon falling in the years 2012-2013.

Risk of changes in foreign exchange rates

The Company is exposed to the risk of changes in foreign exchange rates due to the fact that on commodities markets, physical metals delivery contracts are usually performed in USD or denominated in USD, while for the Company the base currency is the PLN. To the extent possible, the Company attempts to restrict its exposure to changes in the USD/PLN exchange rate, using natural hedging. Remaining exposure is hedged through the use of derivatives.

In the case of the forward currency market, in the first half of 2011 the Company implemented transactions hedging revenues from sales in the total nominal amount of USD 360 million and a time horizon falling in the first half of 2012.

Risk of changes in interest rates

KGHM is exposed to the risk of changes in interest rates, arising from loans granted, with interest based on the variable interest rate WIBOR 1M (carrying amount at 30 June 2011, PLN 43 320

thousand, including a non-current portion of PLN 37 725 thousand and a current portion of PLN 5 595 thousand). A decrease in market interest rates causes a decrease in expected income due to lower cash flow from loans granted.

At present, the Company does not apply interest rate risk hedging instruments.

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

At 30 June 2011, the Company held participation units of open liquid investment funds in the amount of PLN 517 335 thousand. This investment is exposed to a minor degree to the risk of changes in prices. Investment funds invest their assets in financial money market instruments and other debt securities (such as bills and bonds issued by the State Treasury), whose remaining time to redemption does not exceed one year, or whose interest rates are set for periods of no longer than one year. From the date of acquisition, such investments are characterised by the stable growth of the value of participation units, while their profitability exceeds the interest rates of comparable bank accounts.

At 30 June 2011, the carrying amount of shares listed on the Warsaw Stock Exchange and the TSX Venture Exchange amounted to PLN 1 205 981 thousand. These investments expose the Company to the risk of substantial changes in other accumulated comprehensive income due to changes in share prices of companies held.

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

Due to positive cash flow and substantial cash resources, in the first half of 2011 the Company made only minor use of borrowing, and settled all of its obligations on time.

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 low level of Company debt, at 30 June 2011 the Net Debt/EBITDA ratio amounted to 0.0. The equity ratio was above the minimal level assumed, and at 30 June 2011 amounted to 0.67.

Credit risk

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

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

The Company has been cooperating for many years with a number of geographically diversified clients. 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 entirely cover the amount of receivables. Taking into account the collateral held and the credit limits received from the insurance company, at 30 June 2011 the Company had secured 81.2% of its trade receivables.

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

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 an appropriate level of equity and a strong, stable market position. At 30 June 2011 the maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounts to 25%.

XI. Significant agreements entered into by the Company in the first half of 2011

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

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

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

In addition, on 30 June 2011 a preliminary agreement was signed for the sale of 100% of the shares of Polkomtel S.A., described on page 75 of this report.

XII. Disputed issues

At 30 June 2011, the total value of ongoing disputed issues both by and against KGHM Polska Miedź S.A. and in the subsidiaries of the Company amounted to PLN 247 781 thousand, including receivables of PLN 115 096 thousand and liabilities of PLN 132 685 thousand.

With respect to KGHM Polska Miedź S.A., the value of proceedings amounted to PLN 129 619 thousand, including receivables of PLN 35 956 thousand and liabilities of PLN 93 663 thousand, while in the subsidiaries of KGHM Polska Miedź S.A. the value of proceedings amounted to PLN 118 161 thousand, including receivables of PLN 79 140 thousand and liabilities of PLN 39 021 thousand.

At 30 June 2011, the total value of proceedings being pursued in a court, an appropriate body for arbitration, or in a body of public administration, involving the liabilities and receivables of KGHM Polska Miedź S.A. and its subsidiaries, did not exceed 10% of the equity of KGHM Polska Miedź S.A.

In the first half of 2011, there was no significant change in the amounts and subjects of disputed issues.

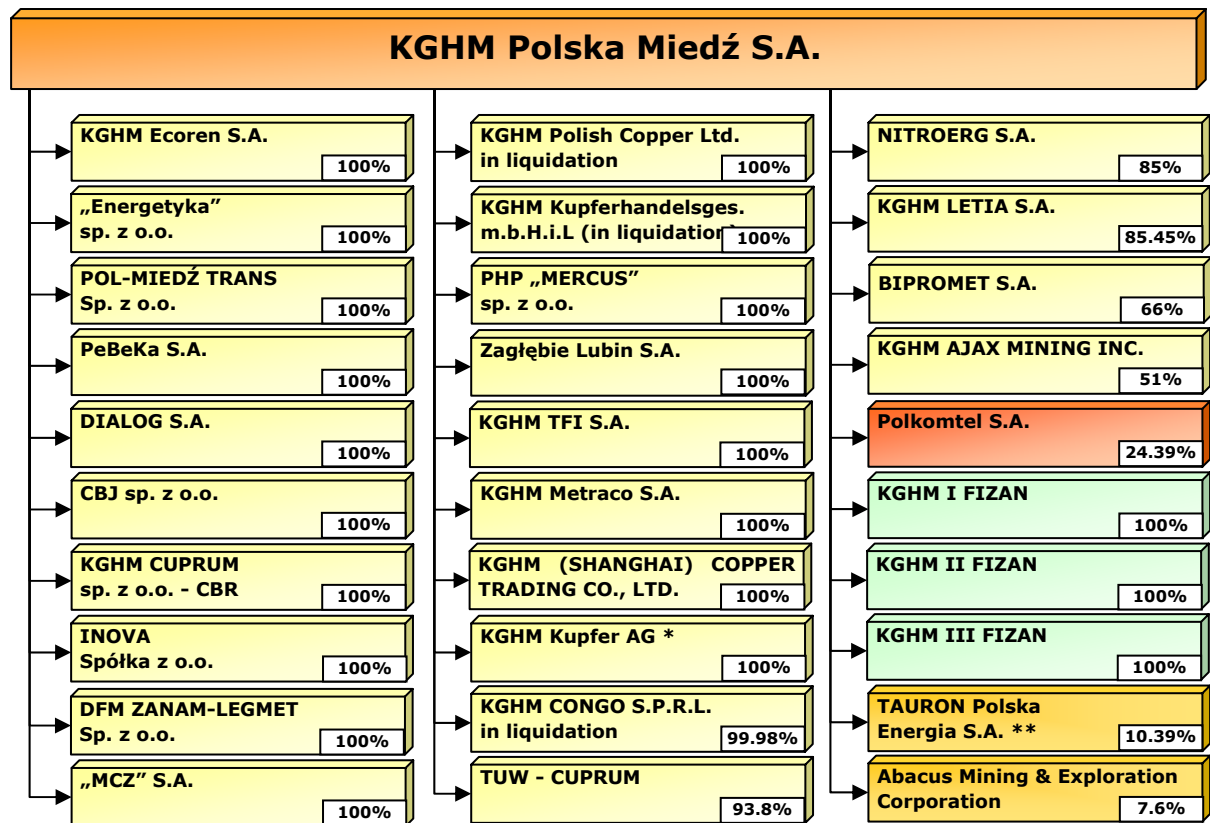
XIII. Organisational structure of the Group

At 30 June 2011, KGHM Polska Miedź S.A. owned shares directly in twenty-four subsidiaries, one associate (reclassified at 30 June to assets held for sale), two companies in which the share held was less than 20% and investment certificates in three closed-end non-public investment funds. Nine of these direct subsidiaries (KGHM Ecoren S.A., PHP „MERCUS” sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., „Energetyka” sp. z o.o., DFM ZANAM-LEGMET Sp. z o.o., BIPROMET S.A., NITROERG S.A. and KGHM I FIZAN) formed their own groups.

KGHM Polska Miedź S.A. holds equity investments in entities with varied operating profiles. The products and services they offer include those directly related to the core business of KGHM Polska Miedz S.A. (such as searching for and mining ores of copper and other metals, mine construction, the generation of electricity and heat, the production of mining machines and equipment, the production of explosives and research and development) as well as those unrelated to supporting the core business of KGHM Polska Miedź S.A., such as transportation, telecommunications, medicine and the depositing of cash resources.

The equity investments of KGHM Polska Miedź S.A. in individual entities are shown in the diagram below.

Diagram 2. Entities in which KGHM Polska Miedź S.A. owned shares and investment certificates directly at 30 June 2011



* name change, formerly KGHM HMS Bergbau AG

** share of KGHM per current report dated 23 March 2011

Consolidated entities

Direct subsidiaries of KGHM Polska Miedź S.A.:

- KGHM Ecoren S.A.
- DIALOG S.A.
- „Energetyka” sp. z o.o.
- PeBeKa S.A.
- POL-MIEDŹ TRANS Sp. z o.o.
- KGHM Metraco S.A.
- PHP „MERCUS” sp. z o.o.
- CBJ sp. z o.o.
- KGHM CUPRUM sp. z o.o. – CBR
- „MCZ” S.A.
- Zagłębie Lubin S.A.
- INOVA Spółka z o.o.
- DFM ZANAM-LEGMET Sp. z o.o.
- KGHM Polish Copper Ltd. in liquidation,
- KGHM Kupferhandelsges.m.b.H.i.L in liquidation
- KGHM (SHANGHAI) COPPER TRADING CO., LTD.
- KGHM LETIA S.A.
- KGHM Kupfer AG (formerly KGHM HMS Bergbau AG)
- NITROERG S.A.
- BIPROMET S.A.
- KGHM TFI S.A.
- KGHM AJAX MINING INC.
- KGHM I FIZAN
- KGHM II FIZAN
- KGHM III FIZAN

Direct associate of KGHM Polska Miedź S.A.:

- Polkomtel S.A.

Indirect subsidiaries of KGHM Polska Miedź S.A. (parent company in parentheses):

- WFP Hefra SA (KGHM Ecoren S.A.)
- Walcownia Metali Nieżelaznych „ŁABĘDY” S.A. (KGHM Ecoren S.A.)
- Ecoren DKE Spółka z o.o. (KGHM Ecoren S.A.)
- CENTROZŁOM WROCŁAW S.A. (KGHM Ecoren S.A.)
- AVISTA MEDIA Sp. z o.o. (DIALOG S.A.)
- „PETROTEL” Sp. z o.o. (DIALOG S.A.)
- „BIOWIND” sp. z o.o. („Energetyka” sp. z o.o.)
- WPEC w Legnicy S.A. („Energetyka” sp. z o.o.)
- Przedsiębiorstwo Budowlane Katowice S.A. (BIPROMET S.A.)
- Bipromet Ecosystem Sp. z o.o. (BIPROMET S.A.)
- INTERFERIE Medical SPA Sp. z o.o. (KGHM I FIZAN)
- Fundusz Hotele 01 Sp. z o.o. (KGHM I FIZAN)
- Fundusz Hotele 01 Sp. z o.o. S.K.A. (KGHM I FIZAN)
- Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. (KGHM I FIZAN)
- Fundusz Uzdrowiska 01 Sp. z o.o. (KGHM I FIZAN)
- ZUK S.A. (KGHM I FIZAN)
- Uzdrowisko Połczyn S.A. (KGHM I FIZAN)
- „Uzdrowisko Cieplice” sp. z o.o. (KGHM I FIZAN)
- FADROMA S.R. SP. Z O.O. IN LIQUIDATION (ZANAM-LEGMET Sp. z o.o.)
- PHU „Lubinpex” Sp. z o.o. (PHP „MERCUS” sp. z o.o.)
- PMT Linie Kolejowe Sp. z o.o. (POL-MIEDŹ TRANS Sp. z o.o.)
- INTERFERIE S.A. (Fundusz Hotele 01 Sp. z o.o. S.K.A.)

Indirect associate of KGHM Polska Miedź S.A.:

- BAZALT-NITRON Sp. z o.o.

Effects of changes in the economic structure, including due to the combination of economic entities, to the takeover or sale of entities of the Group

Acquisition of NITROERG S.A.

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

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

Acquisition of shares of KGHM HMS Bergbau AG (currently KGHM Kupfer AG)

On 20 April 2011, a sale and surrender agreement was signed between KGHM Polska Miedź S.A., and HMS Bergbau AG for the acquisition by KGHM Polska Miedź S.A. of 12 551 shares of KGHM HMS Bergbau AG held by HMS Bergbau AG, representing 25.1% of the share capital, for the price of EUR 128 thousand, i.e. PLN 509 thousand. The shares acquired were paid for in cash on 21 April 2011. Following this acquisition the Group holds 100% of the share capital of KGHM HMS Bergbau AG.

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

On 16 May 2011, the name was changed by court registration from KGHM HMS Bergbau AG to KGHM Kupfer AG.

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

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

Increase of share capital in subsidiaries

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

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

of the guaranteed increase will be allocated to acquiring, manufacturing, rebuilding, developing and modernising property, plant and equipment, and to acquiring or prolonging water exploitation licenses. Court registration of this increase in share capital was made on 18 March 2011.

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

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

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

Signing by KGHM Polska Miedź S.A. of an agreement to sell shares of Polkomtel S.A. to Spartan Capital Holdings Sp. z o.o.

On 30 June 2011 a preliminary agreement was signed for the sale of 100% of the shares of Polkomtel S.A. The agreement was entered into between KGHM Polska Miedź S.A., Polski Koncern Naftowy ORLEN S.A., PGE Polska Grupa Energetyczna S.A., Vodafone Americas Inc. and Vodafone International Holdings B.V. and Węglokoks S.A. as the sellers, and Spartan Capital Holdings Sp. z o.o. as the purchasers. The Company holds 24.39% of the shares of Polkomtel S.A.

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

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

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

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

Advance on the process of offering for sale the shares of DIALOG S.A.

The sale of 100% of the shares of DIALOG S.A. is contingent on KGHM Polska Miedź S.A. gaining satisfactory transaction conditions. Due diligence is currently being performed by selected bidders.

Information on single or multiple transactions entered into with related entities by the Company or its subsidiaries, if separately or jointly they are significant and were entered into under other than arm's length conditions.

In the first half of 2011, neither KGHM Polska Miedź S.A. nor its subsidiaries entered into significant transactions with related entities under other than arm's length conditions.

XIV. Ownership structure of KGHM Polska Miedź S.A.

Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A.

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

At 30 June 2011, and at the date of preparation of this report, based on information held by the Company, the only shareholder of KGHM Polska Miedź S.A. holding shares granting the right to at least 5% of the total number of votes at the General Meeting was the Polish State Treasury, which - based on an announcement dated 12 January 2010 - held 63 589 900 shares, representing 31.79% of the share capital and the same number of votes at the General Meeting.

The remaining shareholders of the Company, at 30 June 2011 and at the date of preparation of this report, 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.

During the period from 1 January 2011 to the date of preparation of this report, based on the knowledge of the Company, there were no changes in the ownership structure of significant blocks of the Company's shares.

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SIGNATURES OF PERSONS REPRESENTING THE COMPANY			
Date	First, Last name	Position/Function	Signature
26 August 2011	Herbert Wirth	President of the Management Board	
26 August 2011	Maciej Tybura	I Vice President of the Management Board	
26 August 2011	Wojciech Kędzia	Vice President of the Management Board	