

**POLISH FINANCIAL SUPERVISION AUTHORITY**

**Consolidated annual report RS 2010**

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

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

for the financial year **2010** comprising the period from **1 January 2010** to **31 December 2010**  
containing the consolidated financial statements according to IFRS in PLN.

publication date: 31 March 2011

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

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

| SELECTED FINANCIAL ITEMS                                                                            | in '000 PLN                                                       |                                                                   | in '000 EUR                                                       |                                                                   |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------|
|                                                                                                     | year 2010<br>period from<br>1 January 2010 to 31<br>December 2010 | year 2009<br>period from<br>1 January 2009 to 31<br>December 2009 | year 2010<br>period from<br>1 January 2010 to 31<br>December 2010 | year 2009<br>period from<br>1 January 2009 to 31<br>December 2009 |
| I. Sales                                                                                            | 17 292 590                                                        | 12 119 910                                                        | 4 318 397                                                         | 2 792 220                                                         |
| II. Operating profit                                                                                | 5 545 338                                                         | 2 679 338                                                         | 1 384 811                                                         | 617 274                                                           |
| III. Profit before income tax                                                                       | 5 777 550                                                         | 2 873 542                                                         | 1 442 800                                                         | 662 015                                                           |
| IV. Profit for the period                                                                           | 4 714 863                                                         | 2 328 561                                                         | 1 177 421                                                         | 536 461                                                           |
| V. Profit for the period attributable to shareholders of the Parent Entity                          | 4 708 946                                                         | 2 327 993                                                         | 1 175 943                                                         | 536 330                                                           |
| VI. Profit for the period attributable to non-controlling interests                                 | 5 917                                                             | 568                                                               | 1 478                                                             | 131                                                               |
| VII. Other comprehensive income                                                                     | 83 520                                                            | (391 155)                                                         | 20 857                                                            | (90 116)                                                          |
| VIII. Total comprehensive income                                                                    | 4 798 383                                                         | 1 937 406                                                         | 1 198 278                                                         | 446 345                                                           |
| IX. Total comprehensive income attributable to the shareholders of the Parent Entity                | 4 792 466                                                         | 1 936 838                                                         | 1 196 800                                                         | 446 214                                                           |
| X. Total comprehensive income attributable to non-controlling interest                              | 5 917                                                             | 568                                                               | 1 478                                                             | 131                                                               |
| XI. Number of shares issued                                                                         | 200 000 000                                                       | 200 000 000                                                       | 200 000 000                                                       | 200 000 000                                                       |
| XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity | 23.54                                                             | 11.64                                                             | 5.88                                                              | 2.68                                                              |
| XIII. Net cash generated from operating activities                                                  | 5 661 275                                                         | 2 720 749                                                         | 1 413 764                                                         | 626 814                                                           |
| XIV. Net cash used in investing activities                                                          | (3 070 123)                                                       | (1 255 747)                                                       | (766 687)                                                         | (289 303)                                                         |
| XV. Net cash used in financing activities                                                           | (707 497)                                                         | (2 317 750)                                                       | (176 680)                                                         | (533 970)                                                         |
| XVI. Total net cash flow                                                                            | 1 883 655                                                         | (852 748)                                                         | 470 397                                                           | (196 459)                                                         |
|                                                                                                     | <b>At</b>                                                         | <b>At</b>                                                         | <b>At</b>                                                         | <b>At</b>                                                         |
|                                                                                                     | <b>31 December 2010</b>                                           | <b>31 December 2009</b>                                           | <b>31 December 2010</b>                                           | <b>31 December 2009</b>                                           |
| XVII. Non-current assets                                                                            | 12 414 423                                                        | 9 800 634                                                         | 3 134 718                                                         | 2 385 627                                                         |
| XVIII. Current assets                                                                               | 8 762 900                                                         | 5 089 786                                                         | 2 212 686                                                         | 1 238 933                                                         |
| XIX. Total assets                                                                                   | 21 177 323                                                        | 14 890 420                                                        | 5 347 404                                                         | 3 624 560                                                         |
| XX. Non-current liabilities                                                                         | 2 882 705                                                         | 2 012 477                                                         | 727 901                                                           | 489 868                                                           |
| XXI. Current liabilities                                                                            | 3 402 839                                                         | 2 302 604                                                         | 859 238                                                           | 560 490                                                           |
| XXII. Equity                                                                                        | 14 891 779                                                        | 10 575 339                                                        | 3 760 265                                                         | 2 574 202                                                         |
| XXIII. Non-controlling interest                                                                     | 241 106                                                           | 77 082                                                            | 60 881                                                            | 18 763                                                            |

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

# **KGHM** POLSKA MIEDŹ S.A. GROUP

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## **CONSOLIDATED ANNUAL REPORT RS 2010 COMPRISES:**

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

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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

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Lubin, March 2011

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

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

- (a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 21.177.323 thousand;
- (b) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 4.798.383 thousand;
- (c) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 4.316.440 thousand;
- (d) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net increase in cash and cash equivalents of PLN 1.883.655 thousand;
- (e) additional information on adopted accounting policies and other explanatory notes.

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

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

We conducted our audit in accordance with the following:

- (a) the provisions of Chapter 7 of the Act;
- (b) national standards on auditing issued by the National Chamber of Registered Auditors.

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

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

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

- (a) have been prepared in accordance with the applicable accounting principles (policies) on the basis of properly maintained consolidation documentation;
- (b) comply in form and contents with the relevant laws applicable to the Group;
- (c) give a fair and clear view of the Group's financial position as at 31 December 2010 and profit for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

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

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

Marcin Sawicki

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

Wrocław, 28 March 2011

# **KGHM Polska Miedź S.A. Group**

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

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

**This report contains 18 consecutively numbered pages and consists of:**

|                                                                     | <b>Page</b> |
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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**for the period from 1 January to 31 December 2010**

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**I. General information about the Group**

- (a) KGHM Polska Miedź S.A. (the Parent Company) was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatization of state-owned enterprises (*Journal of Laws* No. 51, item 298, with subsequent amendments). The Parent Company was formed on the basis of a Notarial Deed drawn up on 9 September 1991 at the Notary Public's Office No. 18 in Warsaw and registered with Rep. No. 8648/91. On 29 June 2001, the District Court for Wrocław Fabryczna, the 9<sup>th</sup> Business Department of the National Court Register entered the Parent Company in the Commercial Register with the reference number KRS 23302.
- (b) On 14 June 1993 the Parent Company was assigned a tax identification number (NIP) 692-000-00-13 for making tax settlements. On 13 August 2003 the Parent Company was assigned a REGON number 390021764 for statistical purposes.
- (c) As at 31 December 2010, the Parent Company's registered share capital amounted to PLN 2.000.000.000 and consisted of 200.000.000 shares, each of PLN 10 par value.
- (d) In the audited period, the Group's business activities included:
- metal ore mining,
  - production of non-ferrous metals, precious metals, and salts,
  - manufacturing copper and precious metals products,
  - casting of light and non-ferrous metals,
  - recovering metals accompanying copper ores,
  - waste management,
  - wholesale trading on the basis of direct payment or contract,
  - geological and exploratory activities, research and technical analyses,
  - general construction activities with respect to mining and production facilities,
  - construction of mining machinery and equipment,
  - transport services,
  - production of road-building material,
  - telecommunication and IT activities.
- (e) During the year on the Parent Company's Management Board were:
- |                    |                   |                        |
|--------------------|-------------------|------------------------|
| • Herbert Wirth    | President         |                        |
| • Maciej Tybura    | I Vice President, |                        |
| • Ryszard Janeczek | Vice President,   | until 15 October 2010  |
| • Wojciech Kędzia  | Vice President    | since 19 November 2010 |
- (f) The Parent Company is an issuer of shares admitted to trading on the Warsaw Stock Exchange and in accordance with the Accounting Act it prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group adopted IFRS in 2005.



**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**I. General information about the Group (cont.)**

As at 31 December 2010 KGHM Polska Miedź Spółka Akcyjna Group comprise of the following entities (according to IAS 27):

| Entity:                                        | Type of capital relationship (% of share capital held) | Method of consolidation | Auditor of financial statements                     | Type of opinion (*)                                                                                                              |
|------------------------------------------------|--------------------------------------------------------|-------------------------|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| KGHM Polska Miedź S.A.                         | Parent Company                                         | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | Unqualified                                                                                                                      |
| Avista Media Sp. z o.o.                        | Indirect subsidiary (100%)                             | Full                    | Agencja Biegłych Rewidentów „Tax-2” Sp. z o.o.      | Unqualified                                                                                                                      |
| Biowind Sp. z o.o.                             | Indirect subsidiary (100%)                             | Full                    | Not subject to audit                                | -                                                                                                                                |
| Bipromet Ecosystem Sp. z o.o.                  | Indirect subsidiary (33,66%)                           | Full                    | Not subject to audit                                | -                                                                                                                                |
| Bipromet S.A.                                  | Subsidiary (66%)                                       | Full                    | Ernst & Young Audit Sp. z o.o.                      | Unqualified                                                                                                                      |
| CBJ Sp. z o.o.                                 | Subsidiary (100%)                                      | Full                    | MDDP Audyt Sp. z o.o.                               | Unqualified                                                                                                                      |
| Centrozłom Wrocław S.A.                        | Indirect subsidiary (85%)                              | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | The opinion has not been issued until the date of signing this report                                                            |
| DFM ZANAM-LEGMET Sp. z o.o.                    | Subsidiary (100%)                                      | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | Unqualified                                                                                                                      |
| Telefonia DIALOG S.A.                          | Subsidiary (100%)                                      | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | Unqualified                                                                                                                      |
| Ecoren DKE Sp. z o.o.                          | Indirect subsidiary (100%)                             | Full                    | Quatro Sp. z o.o.                                   | With emphasis of matter concerning the going concern risk and obligation to pass a resolution regarding going concern assumption |
| Energetyka Sp. z o.o.                          | Subsidiary (100%)                                      | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | Unqualified                                                                                                                      |
| Fadroma Serwis Remonty Sp. z o.o. w likwidacji | Indirect subsidiary (98,05%)                           | Full                    | Biuro Ekspertyz i Badania Bilansów PIAST Sp. z o.o. | Unqualified                                                                                                                      |
| Fundusz Hotele 01 Sp. z o.o.                   | Subsidiary (100%)                                      | Full                    | BTFG Audit Sp. z o.o.                               | Unqualified                                                                                                                      |
| Fundusz Hotele 01 Sp. z o.o. S.K.A.            | Subsidiary (100%)                                      | Full                    | BTFG Audit Sp. z o.o.                               | Unqualified                                                                                                                      |
| Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. | Subsidiary (100%)                                      | Full                    | BTFG Audit Sp. z o.o.                               | Unqualified                                                                                                                      |
| Fundusz Uzdrowiska 01 Sp. z o.o.               | Subsidiary (100%)                                      | Full                    | BTFG Audit Sp. z o.o.                               | Unqualified                                                                                                                      |
| INOVA Sp. z o.o.                               | Subsidiary (100%)                                      | Full                    | Biuro Ekspertyz i Badania Bilansów PIAST Sp. z o.o. | Unqualified                                                                                                                      |
| Interferie Medical SPA Sp. z o.o.              | Indirect subsidiary (89,17%)                           | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | Unqualified                                                                                                                      |
| Interferie S.A.                                | Indirect subsidiary (66,82%)                           | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | Unqualified                                                                                                                      |

TRANSLATION ONLY

**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**I. General information about the Group (cont.)**

| Entity:                                                        | Type of capital relationship (% of share capital held) | Method of consolidation | Auditor of financial statements                     | Type of opinion (*)                                                                   |
|----------------------------------------------------------------|--------------------------------------------------------|-------------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------|
| KGHM (SHANGHAI) Copper Trading Co. Ltd.                        | Subsidiary (100%)                                      | Full                    | ECOVIS Ruide Certified Public Accountants Co., Ltd. | The opinion has not been issued until the date of signing this report                 |
| KGHM Ajax Mining Inc.                                          | Subsidiary (51%)                                       | Full                    | Ernst & Young LLP Chartered Accountants             | The opinion has not been issued until the date of signing this report                 |
| KGHM Cuprum sp. z o.o.CBR                                      | Subsidiary (100%)                                      | Full                    | PKF Audyty Sp. z o.o.                               | Unqualified                                                                           |
| KGHM Ecoren S.A.                                               | Subsidiary (100%)                                      | Full                    | PricewaterhouseCoopers Sp. z o.o.                   | Unqualified                                                                           |
| KGHM HMS Bergbau AG                                            | Subsidiary (74,9%)                                     | Full                    | Not subject to audit                                | -                                                                                     |
| KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych   | Subsidiary (100%)                                      | Full                    | BTFG Audit Sp. z o.o.                               | With emphasis of matter concerning valuation of shares not listed on an active market |
| KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych  | Subsidiary (100%)                                      | Full                    | BTFG Audit Sp. z o.o.                               | Unqualified                                                                           |
| KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych | Subsidiary (100%)                                      | Full                    | Not subject to audit                                | -                                                                                     |
| KGHM Kupferhandelsgesellschaft m.b.H.                          | Subsidiary (100%)                                      | Full                    | Ernst & Young Wirtschaftsprüfungsgesellschaft mbH   | The opinion has not been issued until the date of signing this report                 |
| KGHM Letia S.A.                                                | Subsidiary (85,45%)                                    | Full                    | Zespół Biegłych Rewidentów „FABER” Sp. z o.o.       | Unqualified                                                                           |
| KGHM Metraco S.A.                                              | Subsidiary (100%)                                      | Full                    | Ernst & Young Audit Sp. z o.o.                      | Unqualified                                                                           |
| KGHM Polish Copper Ltd. w likwidacji                           | Subsidiary (100%)                                      | Full                    | Not subject to audit                                | -                                                                                     |
| KGHM TFI S.A.                                                  | Subsidiary (100%)                                      | Full                    | BTFG Audit Sp. z o.o.                               | Unqualified                                                                           |
| Mercus Software Sp. z o.o.                                     | Indirect subsidiary                                    | Excluded                | Biuro Ekspertyz i Badania Bilansów PIAST Sp. z o.o. | Unqualified                                                                           |
| Miedziowe Centrum Zdrowia S.A.                                 | Subsidiary (100%)                                      | Full                    | Biuro Ekspertyz i Badania Bilansów PIAST Sp. z o.o. | Unqualified                                                                           |
| Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.                     | Subsidiary (100%)                                      | Full                    | Ernst & Young Audit Sp. z o.o.                      | With emphasis of matter concerning contingent liabilities                             |
| Petrotel Sp. z o.o.                                            | Indirect subsidiary (99,99%)                           | Full                    | MDDP Audyty sp. z o.o.                              | Unqualified                                                                           |
| PHP Mercus Sp. z o.o.                                          | Subsidiary (100%)                                      | Full                    | PKF Audyty Sp. z o.o.                               | Unqualified                                                                           |
| PHU Lubinpex Sp. z o.o.                                        | Indirect subsidiary (100%)                             | Full                    | Kancelaria Biegłych Rewidentów Aktywa Sp. z o.o.    | Unqualified                                                                           |
| PMT Linie Kolejowe Sp. z o.o.                                  | Indirect subsidiary (100%)                             | Full                    | Kancelaria Biegłego Rewidenta Bronisława Dydyna     | Unqualified                                                                           |
| POL-MIEDŹ TRANS Sp. z o.o.                                     | Subsidiary (100%)                                      | Full                    | Ernst & Young Audit Sp z o.o.                       | Unqualified                                                                           |

TRANSLATION ONLY

**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

**I. General information about the Group (cont.)**

| Entity:                                   | Type of capital relationship (% of share capital held) | Method of consolidation | Auditor of financial statements                                      | Type of opinion (*)                                                                                       |
|-------------------------------------------|--------------------------------------------------------|-------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Przedsiębiorstwo Budowlane Katowice S.A.  | Indirect subsidiary (58,08%)                           | Full                    | Ernst & Young Audit Sp z o.o.                                        | With emphasis of matter concerning the obligation to pass a resolution regarding going concern assumption |
| Towarzystwo Ubezpieczeń Wzajemnych Cuprum | Indirect subsidiary                                    | Excluded                | FINANS-SERVIS Zespół Doradców Finansowych- Księgowych Sp. z o.o.     | Unqualified                                                                                               |
| Uzdrowisko Cieplice Sp. z o.o.            | Indirect subsidiary (89,71%)                           | Full                    | Kancelaria Audytorska i Rachunkowa Biegły Rewident Małgorzata Wolska | Unqualified                                                                                               |
| Uzdrowisko Polczyn S.A.                   | Indirect subsidiary (89,91%)                           | Full                    | „Auxilium Audyt” Krystyna Adamus, Jadwiga Faron Spółka Komandytowa   | Unqualified                                                                                               |
| Walcownia Metali Łabędy S.A.              | Indirect subsidiary (88,96%)                           | Full                    | "BANKFIRM" Sp. z o.o.                                                | Unqualified                                                                                               |
| Walcownia Metali Nieżelaznych Sp. z o.o.  | Indirect subsidiary (84,41%)                           | Full                    | "BANKFIRM" Sp. z o.o.                                                | Unqualified                                                                                               |
| Warszawska Fabryka Platerów HEFRA S.A.    | Indirect subsidiary (98,5%)                            | Full                    | Biuro Ekspertyz i Badania Bilansów "PIAST" Sp. z o.o.                | Unqualified                                                                                               |
| WPEC w Legnicy S.A.                       | Indirect subsidiary (85%)                              | Full                    | PricewaterhouseCoopers Sp. z o.o.                                    | Unqualified                                                                                               |
| Zagłębie Lubin S.A.                       | Subsidiary (100%)                                      | Full                    | Ernst & Young Audit Sp z o.o.                                        | With emphasis of matter concerning the obligation to pass a resolution regarding going concern assumption |
| Zespół Uzdrowisk Kłodzkich S.A.           | Indirect subsidiary (90,09%)                           | Full                    | „Accord’ab” Biegli Rewidenci Sp. z o.o.                              | Unqualified                                                                                               |

(\*) Financial statements of all the entities of the Group were prepared as at 31 December 2010.

**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**II. Information about the audit**

- (a) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 31/VII/10 of the Supervisory Board of the Group passed on 16 April 2010 in accordance with paragraph 20, point 2 of the Parent Company's Articles of Association.
- (b) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the Group entities within the meaning of art. 56, clause 2-4 of the Act on registered auditors and their council, entities entitled to provide audit of financial statements and public supervision of 7 May 2009 (Journal of Laws 2009, No. 77, item 649).
- (c) The audit was conducted in accordance with an agreement signed on 25 May 2010 in the period from 28 February to 28 March 2011.

**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**for the period from 1 January to 31 December 2010**

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**III. The Group's results and financial position**

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

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

KGHM Polska Miedź S.A. is the Parent Company of the Group which, in the audited year, comprised 49 subsidiaries (including 47 consolidated subsidiaries). Additionally there are two associated entities. The financial data of one of them have been presented in the consolidated financial statements under the equity accounting method.

In the year prior to the audited year the Group comprised 33 subsidiaries (including 30 consolidated subsidiaries). Additionally there are two associated entities. The data of one of them were presented in the consolidated financial statements under the equity accounting method.

The composition of the Capital Group and the result of changes in the Group in the audited accounting period were described in Note 4 to the Accounting policies and other explanatory information in the consolidated financial statements.

As a result of correction of prior year error and subsequent measurement of provisional purchase price allocation recognised at the acquisition date of a subsidiary acquired in 2009 the data for 2009 were restated in order to maintain comparability. The changes are described in Note 2.1 to the Accounting policies and other explanatory information to the consolidated financial statements.

**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2010**

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**III. The Group's results and financial position (cont.)**

The factors described below had a significant impact on the Group's profit and on its financial position as at the balance sheet date.

- In 2010, the Group continued the strategy adopted in previous years, which consisted of focusing on production of copper, precious metals and smelter by-products. The revenue realized on sales of copper, precious metals and smelter by-products constituted 91% of total sales revenue.
- As at the end of the financial year, the Group's assets amounted to PLN 21.177.323 thousand. During the year, total assets increased by PLN 6.286.903 thousand, i.e. by 42,2%. This increase was mainly financed with the profit (of PLN 4.714.863 thousand), an increase in liabilities due to valuation of derivatives (of PLN 858.627 thousand), an increase in income tax liabilities (of PLN 593.048 thousand) and an increase in trade and other payables (of PLN 518.788 thousand). In 2010 the Parent Company paid a dividend of PLN 600.000 thousand to its shareholders.
- The revenues amounted to PLN 17.292.590 thousand and increased by 42,7% when compared to the previous year. The Group's core activities in the current financial year consisted of production and sale of copper, precious metals and smelter by-products. This growth was mainly due to favorable conditions on international and domestic industrial goods markets, which were reflected in an increase in sales volume of copper and copper products. The additional factor for the growth was an increase of the average price of copper and silver when compared with the prior period (46,0% and 37,6% respectively). In the same period the average exchange rate of US Dollar decreased by 3,1% when compared to 2009. The revenues include also profit on foreign currencies' and commodities' hedge transactions amounted to PLN 142.187 thousand.
- The operating expenses amounted to PLN 10.602.822 thousand and increased by PLN 1.666.046 thousand i.e. by 18,7% when compared with 2009. The change was mainly due to the growth of cost of material and energy.
- Profitability measured with operating profit amounted to 27 % and was 8 percentage points higher than in the previous year. The change in the Group's profitability was primarily due to high prices of metals (mainly of copper) on international stock markets.
- Group's debt ratio and the Group's debt structure remained at comparable level to 2009. The debt ratio increased from 29% at the end of prior year to 30% at the end of the audited period. The payables turnover decreased from 26 to 24 days.
- The Group's liquidity changed slightly as compared with the previous year. The current ratio amounted to 2,6 (2,2 in 2009), whereas the quick ratio amounted to 1.9 (1,3 in 2009).

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**IV. Discussion of consolidated financial statements components**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010**

|                                     | Note | 31.12.2010<br>PLN'000 | 31.12.2009 *<br>PLN'000 | Change<br>PLN'000 | Change<br>(%) | 31.12.2010<br>Structure (%) | 31.12.2009<br>Structure (%) |
|-------------------------------------|------|-----------------------|-------------------------|-------------------|---------------|-----------------------------|-----------------------------|
| <b>ASSETS</b>                       |      |                       |                         |                   |               |                             |                             |
| <b>Non-current assets</b>           |      |                       |                         |                   |               |                             |                             |
| Property, plant and equipment       |      | 8.553.634             | 7.747.112               | 806.522           | 10,4          | 40,4                        | 52,0                        |
| Intangible assets                   |      | 523.874               | 218.124                 | 305.750           | >100          | 2,5                         | 1,5                         |
| Investment properties               |      | 59.760                | 17.164                  | 42.596            | >100          | 0,3                         | 0,1                         |
| Investments in associates           |      | 1.431.099             | 1.315.663               | 115.436           | 8,8           | 6,7                         | 8,8                         |
| Deferred tax assets                 | 1    | 592.947               | 347.395                 | 245.552           | 70,7          | 2,8                         | 2,3                         |
| Available-for-sale financial assets | 2    | 751.605               | 19.412                  | 732.193           | >100          | 3,5                         | 0,1                         |
| Held-to-maturity investments        |      | 84.157                | 67.144                  | 17.013            | 25,3          | 0,4                         | 0,5                         |
| Derivatives                         | 3    | 403.839               | 58.034                  | 345.805           | >100          | 1,9                         | 0,4                         |
| Trade and other receivables         | 4    | 13.508                | 10.586                  | 2.922             | 27,6          | 0,1                         | 0,1                         |
|                                     |      | <b>12.414.423</b>     | <b>9.800.634</b>        | <b>2.613.789</b>  | <b>26,7</b>   | <b>58,6</b>                 | <b>65,8</b>                 |
| <b>Current assets</b>               |      |                       |                         |                   |               |                             |                             |
| Inventories                         |      | 2.222.321             | 2.072.434               | 149.887           | 7,2           | 10,5                        | 13,9                        |
| Trade and other receivables         | 4    | 2.730.658             | 1.531.341               | 1.199.317         | 78,3          | 12,9                        | 10,3                        |
| Current corporate tax receivables   |      | 4.511                 | 9.329                   | (4.818)           | (51,6)        | -                           | 0,1                         |
| Available-for-sale financial assets | 2    | 415.662               | 8.976                   | 406.686           | >100          | 2,0                         | 0,1                         |
| Held-to-maturity investments        |      | 4.129                 | 580                     | 3.549             | >100          | -                           | -                           |
| Derivatives                         | 3    | 297.584               | 263.375                 | 34.209            | 13,0          | 1,4                         | 1,8                         |
| Cash and cash equivalents           |      | 3.086.957             | 1.197.077               | 1.889.880         | >100          | 14,6                        | 8,0                         |
| Non-current assets held for sale    |      | 1.078                 | 6.674                   | (5.596)           | (83,8)        | -                           | -                           |
|                                     |      | <b>8.762.900</b>      | <b>5.089.786</b>        | <b>3.673.114</b>  | <b>72,2</b>   | <b>41,4</b>                 | <b>34,2</b>                 |
|                                     |      | <b>21.177.323</b>     | <b>14.890.420</b>       | <b>6.286.903</b>  | <b>42,2</b>   | <b>100,0</b>                | <b>100,0</b>                |

\*) restated data

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**IV. Discussion of consolidated financial statements components (cont.)**

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

|                                              | Note        | 31.12.2010<br>PLN'000 | 31.12.2009 *<br>PLN'000 | Change<br>PLN'000 | Change<br>(%) | 31.12.2010<br>Structure (%) | 31.12.2009<br>Structure (%) |
|----------------------------------------------|-------------|-----------------------|-------------------------|-------------------|---------------|-----------------------------|-----------------------------|
| <b>Equity</b>                                | <b>5,11</b> |                       |                         |                   |               |                             |                             |
| Share capital                                | 6           | 2.000.000             | 2.000.000               | -                 | -             | 9,5                         | 13,4                        |
| Accumulated other comprehensive income       |             | 209.821               | 126.301                 | 83.520            | 66,1          | 1,0                         | 0,9                         |
| Retained earnings                            |             | 12.440.852            | 8.371.956               | 4.068.896         | 48,6          | 58,7                        | 56,2                        |
| Non-controlling interest                     | 7           | 241.106               | 77.082                  | 164.024           | >100          | 1,1                         | 0,5                         |
|                                              |             | <b>14.891.779</b>     | <b>10.575.339</b>       | <b>4.316.440</b>  | <b>40,8</b>   | <b>70,3</b>                 | <b>71,0</b>                 |
| <b>Long-term liabilities</b>                 |             |                       |                         |                   |               |                             |                             |
| Trade and other payables                     | 8           | 121.560               | 63.316                  | 58.244            | 92,0          | 0,6                         | 0,4                         |
| Borrowings and finance lease liabilities     |             | 173.652               | 120.854                 | 52.798            | 43,7          | 0,8                         | 0,8                         |
| Derivatives                                  | 3           | 711.580               | 61.354                  | 650.226           | >100          | 3,3                         | 0,4                         |
| Deferred tax liabilities                     | 1           | 133.392               | 56.182                  | 77.210            | >100          | 0,6                         | 0,4                         |
| Liabilities due to employee benefits         |             | 1.221.794             | 1.183.350               | 38.444            | 3,2           | 5,8                         | 8,0                         |
| Provisions for other liabilities and charges |             | 520.727               | 527.421                 | (6.694)           | (1,3)         | 2,5                         | 3,5                         |
|                                              |             | <b>2.882.705</b>      | <b>2.012.477</b>        | <b>870.228</b>    | <b>43,2</b>   | <b>13,6</b>                 | <b>13,5</b>                 |
| <b>Short-term liabilities</b>                |             |                       |                         |                   |               |                             |                             |
| Trade and other payables                     | 8           | 1.994.579             | 1.575.896               | 418.683           | 26,6          | 9,4                         | 10,6                        |
| Borrowings and finance lease liabilities     |             | 96.162                | 219.816                 | (123.654)         | (56,3)        | 0,5                         | 1,5                         |
| Current corporate tax liabilities            | 9           | 672.152               | 79.104                  | 593.048           | >100          | 3,2                         | 0,5                         |
| Derivatives                                  | 3           | 482.118               | 273.717                 | 208.401           | 76,1          | 2,3                         | 1,9                         |
| Liabilities due to employee benefits         |             | 110.912               | 106.704                 | 4.208             | 3,9           | 0,5                         | 0,7                         |
| Provisions for other liabilities and charges |             | 46.916                | 47.367                  | (451)             | (1,0)         | 0,2                         | 0,3                         |
|                                              |             | <b>3.402.839</b>      | <b>2.302.604</b>        | <b>1.100.235</b>  | <b>47,8</b>   | <b>16,1</b>                 | <b>15,5</b>                 |
|                                              |             | <b>21.177.323</b>     | <b>14.890.420</b>       | <b>6.286.903</b>  | <b>42,2</b>   | <b>100,0</b>                | <b>100,0</b>                |

\*) restated data

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**IV. Discussion of consolidated financial statements components (cont.)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2010**

|                                                                      | Note | 2010             | 2009*            | Change           | Change         | 2010            | 2009            |
|----------------------------------------------------------------------|------|------------------|------------------|------------------|----------------|-----------------|-----------------|
|                                                                      |      | PLN'000          | PLN'000          | PLN'000          | (%)            | (%) of revenues | (%) of revenues |
| Revenues                                                             |      | 17.292.590       | 12.119.910       | 5.172.680        | 42,7           | 100,0           | 100,0           |
| Cost of sales                                                        |      | (9.612.905)      | (7.923.233)      | (1.689.672)      | 21,3           | (55,6)          | (65,4)          |
| <b>Gross profit</b>                                                  |      | <b>7.679.685</b> | <b>4.196.677</b> | <b>3.483.008</b> | <b>83,0</b>    | <b>44,4</b>     | <b>34,6</b>     |
| Selling costs                                                        |      | (251.255)        | (230.159)        | (21.096)         | 9,2            | (1,4)           | (1,9)           |
| Administrative expenses                                              |      | (738.722)        | (783.444)        | 44.722           | (5,7)          | (4,3)           | (6,5)           |
| Other operating income                                               | 12   | 653.917          | 495.572          | 158.345          | 32,0           | 3,8             | 4,1             |
| Other operating expenses                                             | 12   | (1.798.287)      | (999.308)        | (798.979)        | 80,0           | (10,4)          | (8,2)           |
| <b>Operating profit</b>                                              |      | <b>5.545.338</b> | <b>2.679.338</b> | <b>2.866.000</b> | <b>&gt;100</b> | <b>32,1</b>     | <b>22,1</b>     |
| Finance costs                                                        |      | (48.330)         | (45.259)         | (3.071)          | 6,8            | (0,3)           | (0,4)           |
| Share of profits of associates accounted for using the equity method |      | 280.542          | 239.463          | 41.079           | 17,2           | 1,6             | 2,0             |
| <b>Profit before income tax</b>                                      |      | <b>5.777.550</b> | <b>2.873.542</b> | <b>2.904.008</b> | <b>&gt;100</b> | <b>33,4</b>     | <b>23,7</b>     |
| Income tax expense                                                   | 1    | (1.062.687)      | (544.981)        | (517.706)        | 95,0           | (6,1)           | (4,5)           |
| <b>Profit for the period</b>                                         | 10   | <b>4.714.863</b> | <b>2.328.561</b> | <b>2.386.302</b> | <b>&gt;100</b> | <b>27,3</b>     | <b>19,2</b>     |
| Attributable to shareholders of the Parent Entity                    |      | 4.708.946        | 2.327.993        | 2.380.953        | >100           | 27,2            | 19,2            |
| Attributable to non-controlling interest                             |      | 5.917            | 568              | 5.349            | >100           | 0,1             | -               |
| Other comprehensive income for the financial period                  |      | 83.520           | (391.155)        | 474.675          | <(100)         | 0,5             | (3,2)           |
| <b>Total comprehensive income</b>                                    |      | <b>4.798.383</b> | <b>1.937.406</b> | <b>2.860.977</b> | <b>&gt;100</b> | <b>27,8</b>     | <b>16,0</b>     |

\*) restated data

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**IV. Discussion of consolidated financial statements components (cont.)**

**Selected ratios characterizing the Group's financial position and results**

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

|                              | <b>2010</b>       | <b>2009 *</b>       |
|------------------------------|-------------------|---------------------|
| Asset ratios                 |                   |                     |
| - receivables turnover       | 31 days           | 26 days             |
| - inventory turnover         | 80 days           | 84 days             |
| Profitability ratios         |                   |                     |
| - profitability of sales     | 27%               | 19%                 |
| - gross margin               | 32%               | 22%                 |
| - return on capital employed | 37%               | 22%                 |
| Liability ratios             |                   |                     |
| - gearing ratio              | 30%               | 29%                 |
| - payables turnover          | 24 days           | 26 days             |
|                              | <b>31.12.2010</b> | <b>31.12.2009 *</b> |
| Liquidity ratios             |                   |                     |
| - current ratio              | 2,6               | 2,2                 |
| - quick ratio                | 1,9               | 1,3                 |

\*) for restated data

**IV. Discussion of consolidated financial statements components (cont.)**

**Consolidated statement of financial position as at 31 December 2010**

**1. Deferred tax assets and liabilities**

At the end of 2010 the balance of deferred income tax asset amounted to PLN 592.947 thousand. The significant increase (of PLN 245.552 thousand) as compared with prior year is a consequence of valuation of derivatives and premium paid but not settled as at the end of the financial year in the Parent Company.

At the end of the financial year deferred tax liabilities amounted to PLN 133.392 thousand and increased by PLN 77.210 thousand when compared to the prior year. The increase is mainly the result of the recognition of deferred tax on investments in associates accounted for under the equity method, what was described in details in Note 3.3 to the Accounting policies and other explanatory information to the consolidated financial statements.

**2. Available-for-sale financial assets**

The value of available-for-sale financial assets amounted to PLN 1.167.267 thousand and increased by PLN 1.138.879 thousand in comparison to 2009. The balance of available-for-sale financial assets as at the end of financial year 2010 consisted mainly of shares of companies listed on stock exchanges in Poland and Canada and certificates in open-end investment funds.

**3. Derivatives**

At the end of the accounting period assets related to valuation of derivatives amounted to PLN 701.423 thousand and increased by PLN 380.014 thousand comparing to the previous year.

At the end of the accounting period liabilities resulted from valuation of derivatives amounted to PLN 1.193.698 thousand and increased by PLN 858.627 thousand comparing to 2009.

**4. Trade and other receivables**

The balance of trade and other receivables increased by PLN 1.202.239 thousand when compared to the previous year and on 31 December 2010 amounted to PLN 2.744.166 thousand. The main reason for the growth was an increase of the balance of trade receivables due to higher unit sales price compared to the previous year and longer payment period of receivables.

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**IV. Discussion of consolidated financial statements components (cont.)**

**5. Equity**

|                                                                  | 31.12.2009        | Dividend paid    | Profit for the year 2010 | Other comprehensive income | Equity on valuation of the put option for employee shares | Other changes in equity attributable to non-controlling interest | 31.12.2010        |
|------------------------------------------------------------------|-------------------|------------------|--------------------------|----------------------------|-----------------------------------------------------------|------------------------------------------------------------------|-------------------|
|                                                                  | PLN'000           | PLN'000          | PLN'000                  | PLN'000                    | PLN'000                                                   | PLN'000                                                          | PLN'000           |
| Share capital                                                    | 2.000.000         | -                | -                        | -                          | -                                                         | -                                                                | 2.000.000         |
| Other accumulated comprehensive income                           | 126.301           | -                | -                        | 83.520                     | -                                                         | -                                                                | 209.821           |
| Retained earnings                                                | 8.371.956         | (600.000)        | 4.708.946                | -                          | (40.296)                                                  | 246                                                              | 12.440.852        |
| <b>Equity attributable to shareholders of the Parent Company</b> | <b>10.498.257</b> | <b>(600.000)</b> | <b>4.708.946</b>         | <b>83.520</b>              | <b>(40.296)</b>                                           | <b>246</b>                                                       | <b>14.650.673</b> |
| Equity attributable to non-controlling interest                  | 77.082            | -                | 5.917                    | -                          | -                                                         | 158.107                                                          | 241.106           |
| <b>Total</b>                                                     | <b>10.575.339</b> | <b>(600.000)</b> | <b>4.714.863</b>         | <b>83.520</b>              | <b>(40.296)</b>                                           | <b>158.353</b>                                                   | <b>14.891.779</b> |

**KGHM Polska Miedź S.A. Group**  
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**IV. Discussion of consolidated financial statements components (cont.)**

**6. Share capital of the Parent Company – ownership structure**

As at 31 December 2010 the only shareholder of the Parent Company holding more than 5% of share capital was the State Treasury. The State Treasury held 63.589.900 ordinary shares with nominal value of PLN 635.899 thousand, which constituted 31,79% of voting rights at the General Shareholders Meeting.

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

**7. Equity attributable to non-controlling interest**

The equity attributable to non-controlling interest increased from PLN 77.082 thousand in the prior year to PLN 241.106 thousand in the current year, i.e. by PLN 164.024 thousand. This increase is mainly associated with the value of non-controlling interest in entities acquired in 2010, especially in KGHM AJAX Mining Inc. (of PLN 101.104 thousand).

**8. Trade and other payables**

The balance of trade and other payables increased by PLN 476.927 thousand comparing to the previous year and as at 31 December 2010 amounted to PLN 2.116.139 thousand. The main reason for this growth was an increase of trade payables, including liabilities related to purchasing of fixed and intangible assets.

**9. Current income tax liabilities**

On the date ending the financial period the balance of current corporate tax liabilities amounted to PLN 672.152 thousand and increased by PLN 593.048 thousand when compared to the prior financial period. This growth was associated with higher profit generated by the Parent Company in 2010.

**10. Reconciliation of the profits of the consolidated companies with the Group's consolidated profit**

|                                                                                   | <b>31.12.2010</b> |
|-----------------------------------------------------------------------------------|-------------------|
|                                                                                   | <b>PLN'000</b>    |
| (a) Profit of the Parent Company                                                  | 4.568.589         |
| Sum of profit or loss of the consolidated companies                               | 112.543           |
| <b>Total</b>                                                                      | <b>4.681.132</b>  |
| (b) Total consolidation adjustments                                               | 27.814            |
| <b>Profit of the Group attributable to the shareholders of the Parent Company</b> | <b>4.708.946</b>  |
| (c) Profit attributable to non-controlling interest                               | 5.917             |
| <b>Profit of the Group</b>                                                        | <b>4.714.863</b>  |

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**IV. Discussion of consolidated financial statements components (cont.)**

**11. Reconciliation of the net assets of the consolidated companies with the Group's consolidated net assets**

|                                                   | <b>31.12.2010</b> |
|---------------------------------------------------|-------------------|
|                                                   | <b>PLN'000</b>    |
| (a) Net assets of the Parent Company              | 14.456.477        |
| Net assets of subsidiaries (consolidated)         | 3.732.402         |
| <b>Total net assets</b>                           | <b>18.188.879</b> |
| (b) Elimination of share capitals of subsidiaries | (2.980.147)       |
| (c) Elimination of other equity                   | (344.767)         |
| (d) Other consolidation adjustments               | 27.814            |
| <b>Consolidated net assets of the Group</b>       | <b>14.891.779</b> |

**Consolidated statement of comprehensive income for the period from  
1 January to 31 December 2010**

**12. Other operating income and expenses**

The loss on other operating activity increased by PLN 640.634 thousand comparing to the prior year and amounted to PLN 1.144.370 thousand as a result of recognition of result on settlement and valuation of derivatives.

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**Report on the consolidated financial statements**  
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**V. The independent registered auditor's statement**

- (a) The Management Board of the Parent Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with a representation letter confirming the completeness of the information included in the consolidation documentation and the disclosure of all contingent liabilities and post-balance-sheet events which occurred up to the date on which that letter was signed.
- (b) The scope of the audit was not limited.
- (c) The consolidation documentation was complete and accurate and it is stored in a manner ensuring its proper safeguarding.
- (d) The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standards as adopted by the European Union in all material respects. There were no changes to the accounting policies compared with the previous year.
- (e) The calculation of goodwill and the excess of the acquirer's share in the fair value of identifiable assets, liabilities and contingent liabilities of the acquiree over the acquisition cost and their recognition in the consolidated financial statements complied with IFRSs as adopted by the European Union in all material respects.
- (f) The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- (g) The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.
- (h) Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.
- (i) The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects.
- (j) The Notes to the consolidated financial statements present all the material information required by the IFRSs as adopted by the European Union.
- (k) The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.
- (l) The consolidated financial statements for the previous year were audited by Ernst&Young Audit Sp. z o.o. The independent registered auditor issued an unqualified opinion.
- (m) The consolidated financial statements of the Group as at and for the year ended 31 December 2009 were approved by Resolution No. 20/2010 passed by the General Shareholders' Meeting of the Parent Company on 17 May 2010, filed with the National Court Register in Wrocław on 20 May 2010 and published in Monitor Polski B No. 1600 on 3 September 2010.

## VI. Final notes and comments

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

- (a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 21.177.323 thousand;
- (b) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 4.798.383 thousand;
- (c) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 4.316.440 thousand;
- (d) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net increase in cash and cash equivalents of PLN 1.883.655 thousand;
- (e) additional information on adopted accounting policies and other explanatory notes.

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

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

Marcin Sawicki

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

Wrocław, 28 March 2011

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

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Lubin, March 2011

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

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

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

| <b>SIGNATURE OF PERSON RESPONSIBLE FOR PARENT ENTITY ACCOUNTING</b> |                         |                                                                               |                  |
|---------------------------------------------------------------------|-------------------------|-------------------------------------------------------------------------------|------------------|
| <b>Date</b>                                                         | <b>First, Last name</b> | <b>Position/Function</b>                                                      | <b>Signature</b> |
| 28 March 2011                                                       | Ludmiła Mordylak        | Chief Accountant of KGHM<br>General Director of<br>Accounting Services Center |                  |

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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

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Lubin, March 2011

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

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

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

| <b>SIGNATURE OF PERSON RESPONSIBLE FOR PARENT ENTITY ACCOUNTING</b> |                         |                                                                               |                  |
|---------------------------------------------------------------------|-------------------------|-------------------------------------------------------------------------------|------------------|
| <b>Date</b>                                                         | <b>First, Last name</b> | <b>Position/Function</b>                                                      | <b>Signature</b> |
| 28 March 2011                                                       | Ludmiła Mordylak        | Chief Accountant of KGHM<br>General Director of<br>Accounting Services Center |                  |

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**PRESIDENT'S LETTER**

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Lubin, March 2011

## **Dear Shareholders,**

It is with unconcealed satisfaction that I present you with the Consolidated Annual Report of the KGHM Polska Miedź S.A. Group for 2010. On behalf of the Management Board of KGHM Polska Miedź S.A., I present this document to our shareholders, investors, other participants of the capital market and remaining stakeholders.

This was an exceptional year, rich with numerous successes. Above all, the financial results were exceptional. The Group earned revenues from sales of PLN 17.3 billion, exceeding 2009 sales by 40%. Profit amounted to PLN 4.7 billion, and was double that of 2009. This is the highest result in the history of the Group, and was primarily due to the excellent results achieved by the Parent Entity. We took full advantage of favourable conditions – the record high copper and silver prices on global metals markets.

In 2010, the KGHM Group continued to realise a strategy aimed at increasing shareholder value. With respect to the strategic area of increasing the effectiveness of the Group, apart from important organisational activities and modernisation investments in the Parent Entity KGHM Polska Miedź S.A., we undertook realisation of important projects with respect to Group companies which directly provide services to the core business: Zanam-Legmet Sp. z o.o., PeBeKa S.A., Energetyka Sp. z o.o. – the effects achieved in 2010 led among others to stabilisation of the unit cost of electrolytic copper production from internal concentrates at a level lower than the result recorded in 2008.

Realising another fundamental of the Group's strategy – development of the resource base and mined production from low-cost foreign projects – we made our first acquisition. Together with a Canadian partner, Abacus Mining & Exploration Corporation, we founded a company with majority interest held by KGHM Polska Miedź S.A. to realise a copper and gold mining project from the Afton-Ajax deposit in British Columbia in Canada. This is the first step in realising the strategic goal of the achievement by the KGHM Group of total production of 700 thousand tonnes of copper in concentrate in 2018.

Having identified the power sector as an attractive direction for investment to realise the strategy of diversifying revenues, taking into particular consideration the significance of the supply of electrical power for the copper business, KGHM Polska Miedź S.A. made an equity investment in the company TAURON Polska Energia S.A. and became one of its main shareholders.

The task, among others of restructuring the KGHM Group, was performed by the company KGHM TFI S.A. Three Closed-End Investment Funds were founded, in which KGHM Polska Miedź S.A. acquired investment certificates. The activities of KGHM TFI S.A. in 2010 included commencing the process of integrating regional assets in the hotel-spa sector (shares were acquired in three spa companies operating in Lower Silesia) from INTERFERIE S.A., controlled by us.

KGHM Polska Miedź S.A., together with the other Polish shareholders of Polkomtel S.A., defined a model of cooperation with respect to the potential sale of the shares held in this company. Preparatory work carried out in 2010, aimed at offering the shares of Polkomtel S.A. for sale, will continue in 2011.

The presence of the products of KGHM on the Chinese market and the many years of cooperation with Chinese partners led to the founding of the subsidiary KGHM (Shanghai) Copper Trading Co., Ltd. with its registered head office in Shanghai. This creates the possibility not only of increasing sales to China of the copper produced by the KGHM Group, but also of increasing the percentage of Chinese producers in supplying materials and equipment to the production divisions and companies of the KGHM Group.

In 2011, we will continue to realise a strategy aimed at increasing the value of KGHM for shareholders. We are planning further investments in low-cost mining assets, and the continuation of work aimed at commencing the mining project Afton-Ajax in Canada. Projects will continue to be realised related to increasing effectiveness and controlling the operating costs of the production divisions and companies of the Group. Activities will continue aimed at restructuring the Group.

The record financial results earned in 2010 by the KGHM Polska Miedź S.A. Group, as well as the strategic projects commenced and continued in the Group, permit a calm and optimistic view of the future, providing a solid basis for further growth in shareholders value.

On behalf of the Management Board and myself, I wish to sincerely thank all those, thanks to whom we achieved in 2010 so very much – our shareholders, the members of the Supervisory Board and all of the employees of the KGHM Polska Miedź S.A. Group.

Herbert Wirth

President  
of the Management Board

Lubin, 28 March 2011

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR 2010**

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**Lubin, March 2011**



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## Consolidated statement of financial position

|                                                                 | Note | 31 December 2010  | At<br>31 December 2009<br>restated | 1 January 2009    |
|-----------------------------------------------------------------|------|-------------------|------------------------------------|-------------------|
| <b>Assets</b>                                                   |      |                   |                                    |                   |
| <b>Non-current assets</b>                                       |      |                   |                                    |                   |
| Property, plant and equipment                                   | 6    | 8 553 634         | 7 747 112                          | 7 136 307         |
| Intangible assets                                               | 7    | 523 874           | 218 124                            | 151 581           |
| Investment property                                             | 8    | 59 760            | 17 164                             | 18 083            |
| Investments in associates                                       | 9    | 1 431 099         | 1 315 663                          | 1 498 116         |
| Deferred tax assets                                             | 24   | 592 947           | 347 395                            | 188 992           |
| Available-for-sale financial assets                             | 10   | 751 605           | 19 412                             | 31 213            |
| Held-to-maturity investments                                    | 11   | 84 157            | 67 144                             | 59 592            |
| Derivatives                                                     | 12   | 403 839           | 58 034                             | 6 501             |
| Trade and other receivables                                     | 13   | 13 508            | 10 586                             | 22 774            |
|                                                                 |      | <b>12 414 423</b> | <b>9 800 634</b>                   | <b>9 113 159</b>  |
| <b>Current assets</b>                                           |      |                   |                                    |                   |
| Inventories                                                     | 14   | 2 222 321         | 2 072 434                          | 1 608 369         |
| Trade and other receivables                                     | 13   | 2 730 658         | 1 531 341                          | 1 469 959         |
| Current corporate tax receivables                               |      | 4 511             | 9 329                              | 1 741             |
| Available-for-sale financial assets                             | 10   | 415 662           | 8 976                              | -                 |
| Held-to-maturity investments                                    | 11   | 4 129             | 580                                | -                 |
| Derivatives                                                     | 12   | 297 584           | 263 375                            | 711 127           |
| Cash and cash equivalents                                       | 15   | 3 086 957         | 1 197 077                          | 2 065 763         |
| Non-current assets held for sale                                | 16   | 1 078             | 6 674                              | 29 987            |
|                                                                 |      | <b>8 762 900</b>  | <b>5 089 786</b>                   | <b>5 886 946</b>  |
| <b>TOTAL ASSETS</b>                                             |      | <b>21 177 323</b> | <b>14 890 420</b>                  | <b>15 000 105</b> |
| <b>EQUITY AND LIABILITIES</b>                                   |      |                   |                                    |                   |
| <b>Equity attributable to shareholders of the Parent Entity</b> |      |                   |                                    |                   |
| Share capital                                                   | 17   | 2 000 000         | 2 000 000                          | 2 000 000         |
| Accumulated other comprehensive income                          | 18   | 209 821           | 126 301                            | 517 456           |
| Retained earnings                                               | 19   | 12 440 852        | 8 371 956                          | 8 407 049         |
|                                                                 |      | <b>14 650 673</b> | <b>10 498 257</b>                  | <b>10 924 505</b> |
| <b>Non-controlling interest</b>                                 | 20   | <b>241 106</b>    | <b>77 082</b>                      | <b>58 360</b>     |
| <b>TOTAL EQUITY</b>                                             |      | <b>14 891 779</b> | <b>10 575 339</b>                  | <b>10 982 865</b> |
| <b>LIABILITIES</b>                                              |      |                   |                                    |                   |
| <b>Non-current liabilities</b>                                  |      |                   |                                    |                   |
| Trade and other payables                                        | 21   | 121 560           | 63 316                             | 44 289            |
| Borrowings and finance lease liabilities                        | 22   | 173 652           | 120 854                            | 98 055            |
| Derivatives                                                     | 12   | 711 580           | 61 354                             | -                 |
| Deferred tax liabilities                                        | 24   | 133 392           | 56 182                             | 68 182            |
| Liabilities due to employee benefits                            | 25   | 1 221 794         | 1 183 350                          | 1 039 423         |
| Provisions for other liabilities and charges                    | 26   | 520 727           | 527 421                            | 599 315           |
|                                                                 |      | <b>2 882 705</b>  | <b>2 012 477</b>                   | <b>1 849 264</b>  |
| <b>Current liabilities</b>                                      |      |                   |                                    |                   |
| Trade and other payables                                        | 21   | 1 994 579         | 1 575 896                          | 1 756 752         |
| Borrowings and finance lease liabilities                        | 22   | 96 162            | 219 816                            | 192 923           |
| Current corporate tax liabilities                               |      | 672 152           | 79 104                             | 65 952            |
| Derivatives                                                     | 12   | 482 118           | 273 717                            | 4 930             |
| Liabilities due to employee benefits                            | 25   | 110 912           | 106 704                            | 83 531            |
| Provisions for other liabilities and charges                    | 26   | 46 916            | 47 367                             | 63 888            |
|                                                                 |      | <b>3 402 839</b>  | <b>2 302 604</b>                   | <b>2 167 976</b>  |
| <b>TOTAL LIABILITIES</b>                                        |      | <b>6 285 544</b>  | <b>4 315 081</b>                   | <b>4 017 240</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>                             |      | <b>21 177 323</b> | <b>14 890 420</b>                  | <b>15 000 105</b> |

The accounting policies and other explanatory information presented on pages 7 to 128 represent an integral part of these financial statements

## Consolidated statement of comprehensive income

|                                                                                                                              | Note | For the period                             |                                                        |
|------------------------------------------------------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                                              |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Sales                                                                                                                        | 28   | 17 292 590                                 | 12 119 910                                             |
| Cost of sales                                                                                                                | 29   | (9 612 905)                                | (7 923 233)                                            |
| <b>Gross profit</b>                                                                                                          |      | <b>7 679 685</b>                           | <b>4 196 677</b>                                       |
| Selling costs                                                                                                                | 29   | (251 255)                                  | (230 159)                                              |
| Administrative expenses                                                                                                      | 29   | (738 722)                                  | (783 444)                                              |
| Other operating income                                                                                                       | 31   | 653 917                                    | 495 572                                                |
| Other operating costs                                                                                                        | 32   | (1 798 287)                                | (999 308)                                              |
| <b>Operating profit</b>                                                                                                      |      | <b>5 545 338</b>                           | <b>2 679 338</b>                                       |
| Finance costs                                                                                                                | 33   | (48 330)                                   | (45 259)                                               |
| Share of profits of associates accounted for using<br>the equity method                                                      | 36   | 280 542                                    | 239 463                                                |
| <b>Profit before income tax</b>                                                                                              |      | <b>5 777 550</b>                           | <b>2 873 542</b>                                       |
| Income tax expense                                                                                                           | 37   | (1 062 687)                                | (544 981)                                              |
| <b><u>Profit for the period</u></b>                                                                                          |      | <b><u>4 714 863</u></b>                    | <b><u>2 328 561</u></b>                                |
| <b>Other comprehensive income due to:</b>                                                                                    |      |                                            |                                                        |
| Available-for-sale financial assets                                                                                          |      | 147 512                                    | (10 384)                                               |
| Cash flow hedging instruments                                                                                                |      | (44 401)                                   | (472 524)                                              |
| Income tax related to items presented in other<br>comprehensive income                                                       |      | (19 591)                                   | 91 753                                                 |
| <b><u>Other comprehensive net income for the<br/>financial period</u></b>                                                    |      | <b><u>83 520</u></b>                       | <b><u>(391 155)</u></b>                                |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                                                                            |      | <b><u>4 798 383</u></b>                    | <b><u>1 937 406</u></b>                                |
| Profit for the period attributable to:                                                                                       |      |                                            |                                                        |
| shareholders of the Parent Entity                                                                                            |      | 4 708 946                                  | 2 327 993                                              |
| non-controlling interest                                                                                                     |      | 5 917                                      | 568                                                    |
| Total comprehensive income attributable to:                                                                                  |      |                                            |                                                        |
| shareholders of the Parent Entity                                                                                            |      | 4 792 466                                  | 1 936 838                                              |
| non-controlling interest                                                                                                     |      | 5 917                                      | 568                                                    |
| <b>Earnings per share attributable to the<br/>shareholders of the Parent Entity during the<br/>period (in PLN per share)</b> |      |                                            |                                                        |
|                                                                                                                              | 38   |                                            |                                                        |
| - basic                                                                                                                      |      | 23.54                                      | 11.64                                                  |
| - diluted                                                                                                                    |      | 23.54                                      | 11.64                                                  |

The accounting policies and other explanatory information presented on pages 7 to 128 represent an integral part of these financial statements

### Consolidated statement of changes in equity

| Note                                                                                        | Equity attributable to shareholders<br>of the Parent Entity |                                                      |                                     |                      |                   | Equity<br>attributable<br>to non-<br>controlling<br>interest | Total<br>equity   |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------------|------------------------------------------------------|-------------------------------------|----------------------|-------------------|--------------------------------------------------------------|-------------------|
|                                                                                             | Share<br>capital                                            | Accumulated other<br>comprehensive income<br>due to: |                                     | Retained<br>earnings | Total             |                                                              |                   |
|                                                                                             |                                                             | Available-<br>for-sale<br>financial<br>assets        | Cash flow<br>hedging<br>instruments |                      |                   |                                                              |                   |
| <b>At 1 January 2010<br/>restated</b>                                                       | <b>2 000 000</b>                                            | <b>561</b>                                           | <b>125 740</b>                      | <b>8 371 956</b>     | <b>10 498 257</b> | <b>77 082</b>                                                | <b>10 575 339</b> |
| Dividends for 2009 paid                                                                     | -                                                           | -                                                    | -                                   | (600 000)            | (600 000)         | -                                                            | (600 000)         |
| Total comprehensive<br>income                                                               | 18                                                          | - 119 485                                            | (35 965)                            | 4 708 946            | 4 792 466         | 5 917                                                        | 4 798 383         |
| Valuation of the put option<br>for employee shares**                                        | -                                                           | -                                                    | -                                   | (40 296)             | (40 296)          | -                                                            | (40 296)          |
| Other changes in equity<br>attributable to non-<br>controlling interest                     | 20                                                          | -                                                    | -                                   | 246                  | 246               | 158 107                                                      | 158 353           |
| <b>At 31 December 2010</b>                                                                  | <b>2 000 000</b>                                            | <b>120 046</b>                                       | <b>89 775</b>                       | <b>12 440 852</b>    | <b>14 650 673</b> | <b>241 106</b>                                               | <b>14 891 779</b> |
| <b>At 1 January 2009</b>                                                                    | <b>2 000 000</b>                                            | <b>8 972</b>                                         | <b>508 484</b>                      | <b>8 407 049</b>     | <b>10 924 505</b> | <b>58 360</b>                                                | <b>10 982 865</b> |
| Dividends for 2008 paid                                                                     | -                                                           | -                                                    | -                                   | (2 336 000)          | (2 336 000)       | -                                                            | (2 336 000)       |
| Total comprehensive<br>income<br><b>restated*</b>                                           | 18                                                          | - (8 411)                                            | (382 744)                           | 2 327 993            | 1 936 838         | 568                                                          | 1 937 406         |
| Valuation of the put option<br>for employee shares<br><b>restated*</b>                      | -                                                           | -                                                    | -                                   | (27 086)             | (27 086)          | -                                                            | (27 086)          |
| Other changes in equity<br>attributable to non-<br>controlling interest<br><b>restated*</b> | 20                                                          | -                                                    | -                                   | -                    | -                 | 18 154                                                       | 18 154            |
| <b>At 31 December 2009<br/>restated</b>                                                     | <b>2 000 000</b>                                            | <b>561</b>                                           | <b>125 740</b>                      | <b>8 371 956</b>     | <b>10 498 257</b> | <b>77 082</b>                                                | <b>10 575 339</b> |

\* explanation in note 2.1

\*\* details in note 21

The accounting policies and other explanatory information presented on pages 7 to 128 represent an integral part of these financial statements

KGHM Polska Miedź S.A. Group  
Annual consolidated financial statements  
prepared in accordance with IFRS as adopted by the European Union  
for the period from 1 January 2010 to 31 December 2010  
(amounts in tables in thousand PLN, unless otherwise stated)

**Consolidated statement of cash flows**

|                                                                                           | Note | For the period                             |                                                        |
|-------------------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                                           |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Cash flow from operating activities</b>                                                |      |                                            |                                                        |
| Profit for the period                                                                     |      | 4 714 863                                  | 2 328 561                                              |
| Adjustments to profit for the period                                                      | 40   | 1 614 132                                  | 1 025 395                                              |
| Income tax paid                                                                           |      | (667 720)                                  | (633 207)                                              |
| <b>Net cash generated from operating activities</b>                                       |      | <b>5 661 275</b>                           | <b>2 720 749</b>                                       |
| <b>Cash flow from investing activities</b>                                                |      |                                            |                                                        |
| Purchase of subsidiaries, less acquired cash and cash equivalents                         | 4    | (380 413)                                  | (217 590)                                              |
| Purchase of property, plant and equipment and intangible assets                           |      | (1 401 111)                                | (1 465 749)                                            |
| Proceeds from sale of property, plant and equipment and intangible assets                 | 40   | 7 217                                      | 23 386                                                 |
| Proceeds from sale of investment property                                                 |      | 461                                        | -                                                      |
| Purchase of available-for-sale financial assets                                           |      | (1 298 141)                                | (58)                                                   |
| Proceeds from sale of available-for-sale financial assets                                 |      | 310 994                                    | 20 000                                                 |
| Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund |      | (20 567)                                   | (8 132)                                                |
| Establishment of deposits                                                                 |      | (350 000)                                  | (400 523)                                              |
| Termination of deposits                                                                   |      | -                                          | 400 500                                                |
| Proceeds from repayments of loans granted                                                 |      | -                                          | 1 048                                                  |
| Interest received                                                                         |      | 63                                         | 5 692                                                  |
| Dividends received                                                                        |      | 146 728                                    | 418 474                                                |
| Advances granted for purchase of property, plant and equipment and intangible assets      |      | (80 432)                                   | (22 030)                                               |
| Other investment expenses                                                                 |      | (4 922)                                    | (10 765)                                               |
| <b>Net cash used in investing activities</b>                                              |      | <b>(3 070 123)</b>                         | <b>(1 255 747)</b>                                     |
| <b>Cash flow from financing activities</b>                                                |      |                                            |                                                        |
| Proceeds from non-controlling interest transactions                                       |      | -                                          | 57                                                     |
| Purchase of the company's own shares for redemption                                       |      | (2)                                        | (9)                                                    |
| Proceeds from loans and borrowings                                                        |      | 121 195                                    | 98 136                                                 |
| Repayments of loans and borrowings                                                        |      | (202 349)                                  | (56 941)                                               |
| Payments of liabilities due to finance leases                                             |      | (12 208)                                   | (8 333)                                                |
| Interest paid                                                                             |      | (14 166)                                   | (14 756)                                               |
| Dividends paid to shareholders of the Parent Entity                                       |      | (600 000)                                  | (2 336 000)                                            |
| Other financial proceeds                                                                  |      | 33                                         | 96                                                     |
| <b>Net cash used in financing activities</b>                                              |      | <b>(707 497)</b>                           | <b>(2 317 750)</b>                                     |
| <b>Total net cash flow</b>                                                                |      | <b>1 883 655</b>                           | <b>(852 748)</b>                                       |
| Exchange gains/(losses) on cash and cash equivalents                                      |      | 6 225                                      | (15 938)                                               |
| <b>Movements in cash and cash equivalents</b>                                             |      | <b>1 889 880</b>                           | <b>(868 686)</b>                                       |
| <b>Cash and cash equivalents at beginning of the period</b>                               | 15   | <b>1 197 077</b>                           | <b>2 065 763</b>                                       |
| <b>Cash and cash equivalents at end of the period</b>                                     | 15   | <b>3 086 957</b>                           | <b>1 197 077</b>                                       |
| including restricted cash and cash equivalents                                            |      | 5 097                                      | 15 833                                                 |

The accounting policies and other explanatory information presented on pages 7 to 128 represent an integral part of these financial statements

## Accounting policies and other explanatory information

### 1. General information

#### Company name, registered office, business activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at 48 M. Skłodowskiej-Curie Street is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Parent Entity was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), the Ore Enrichment Plant (OEP), the Tailings Plant, the Mine-Smelter Emergency Rescue Unit and the Data Center. The composition of the Group was presented in Note 4. The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange.

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

The principal activities of the Group comprise:

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

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

The business activities of the Group also include:

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

#### Period of operation of the Group

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

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

#### Composition of the Management Board of the Parent Entity

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

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

## 1. General information (continuation)

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

On 19 October 2010, the President of the Management Board of KGHM Polska Miedź S.A. announced the recruitment process for the position of Vice President of the Management Board.

On 19 November 2010, the recruitment process was concluded and the Supervisory Board of the Parent Entity appointed Wojciech Kędzia to the Management Board – granting him the function of Vice President of the Management Board.

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

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

### Authorisation of the financial statements

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

### Going concern assumption

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

In order to fully understand the financial position and the results of the activities of the Group, these consolidated financial statements should be read jointly with the separate financial statements of KGHM Polska Miedź S.A. for the period ended 31 December 2010. These financial statements will be available on the website of the Parent Entity [www.kghm.pl](http://www.kghm.pl) on dates consistent with the current report concerning dates of publication of the annual report of the Parent Entity and the consolidated annual report of the Group for 2010.

### Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

## 2. Main accounting policies

### 2.1 Basis of preparing financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, using the same principles for the current and comparable periods, restating the comparable period to conform to the changes in accounting and presentation principles to those applied in the statements in the current period. Changes were with respect to:

- o final measurement of the acquisition of shares of WPEC w Legnicy S.A. at 31 December 2009 in accordance with IFRS 3. As a result of this measurement, the provisional amounts recognised at the acquisition date were adjusted. Details on the retrospective measurement of the purchase price are presented in note 4,
- o revaluation of the shares of Polkomtel S.A. using the equity method due to an adjustment of the financial statements of Polkomtel S.A. for the year 2009 following an audit of its accounts,
- o correction of an error due to the recognition and measurement of liabilities due to the submission of an irrevocable offer by „Energetyka” sp. z o.o., as part of a sales agreement by the State Treasury of shares of WPEC w Legnicy S.A., to purchase the shares of this company which were not acquired by entitled employees, as well as the repurchase of shares already transferred for free to employees in accordance with IAS. Details on the measurement of liabilities due to the put option on employee shares are presented in note 21.

## 2. Main accounting policies (continuation)

### 2.1 Basis of preparing financial statements (continuation)

Impact of these changes on the statement of financial position at 31 December 2009:

|                                                                                 | Retrospective<br>measurement of<br>purchase of<br>shares of WPEC<br>w Legnicy S.A. | Revaluation of<br>the shares of<br>Polkomtel S.A.<br>using the<br>equity method | Recognition and<br>measurement of<br>written put option<br>liabilities on<br>employee shares of<br>WPEC w Legnicy S.A. |
|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <b>ASSETS</b>                                                                   |                                                                                    |                                                                                 |                                                                                                                        |
| <b>Non-current assets</b>                                                       |                                                                                    |                                                                                 |                                                                                                                        |
| Property, plant and equipment                                                   | 73 647                                                                             | -                                                                               | -                                                                                                                      |
| Intangible assets                                                               | (50 043)                                                                           | -                                                                               | -                                                                                                                      |
| including goodwill                                                              | (52 172)                                                                           | -                                                                               | -                                                                                                                      |
| Investments in associates                                                       |                                                                                    | (30 609)                                                                        | -                                                                                                                      |
|                                                                                 | <b>23 604</b>                                                                      | <b>(30 609)</b>                                                                 | <b>-</b>                                                                                                               |
| <b>TOTAL ASSETS</b>                                                             | <b>23 604</b>                                                                      | <b>(30 609)</b>                                                                 | <b>-</b>                                                                                                               |
| <b>EQUITY AND LIABILITIES</b>                                                   |                                                                                    |                                                                                 |                                                                                                                        |
| <b>Equity</b>                                                                   |                                                                                    |                                                                                 |                                                                                                                        |
| Retained earnings – equity attributable to shareholders<br>of the Parent Entity | -                                                                                  | (30 609)                                                                        | (27 086)                                                                                                               |
| including profit for the period                                                 | -                                                                                  | (30 609)                                                                        | -                                                                                                                      |
| Equity attributable to non-controlling interest                                 | 9 207                                                                              | -                                                                               | -                                                                                                                      |
|                                                                                 | <b>9 207</b>                                                                       | <b>(30 609)</b>                                                                 | <b>(27 086)</b>                                                                                                        |
| <b>Non-current liabilities</b>                                                  |                                                                                    |                                                                                 |                                                                                                                        |
| Trade and other payables                                                        | -                                                                                  | -                                                                               | 27 086                                                                                                                 |
| Deferred tax liabilities                                                        | 14 397                                                                             | -                                                                               | -                                                                                                                      |
|                                                                                 | <b>14 397</b>                                                                      | <b>-</b>                                                                        | <b>27 086</b>                                                                                                          |
| <b>TOTAL EQUITY AND LIABILITIES</b>                                             | <b>23 604</b>                                                                      | <b>(30 609)</b>                                                                 | <b>-</b>                                                                                                               |

These changes did not affect the statement of financial position at 1 January 2009.

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

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

#### **Since 1 January 2010 the following standards and interpretations are in force applied by the Group**

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 18 Transfers of Assets from Customers

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

Amendments to IFRS 2 Share-based Payment

IFRS 3 Business Combinations

IAS 27 Consolidated and Separate Financial Statements

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

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

Improvements to International Financial Reporting Standards 2009



## **2. Main accounting policies (continuation)**

### **2.1 Basis of preparing financial statements (continuation)**

All of the above changes to the standards and interpretations have been approved for use by the European Union up to the date of publication of these financial statements. In the Group's opinion, their application would not have an impact on the consolidated financial statements or the impact would be insignificant.

From the point of view of the Group, the most important changes are those introduced to IAS 27 and IFRS 3. The amended IAS 27 requires, among others, the recognition of changes in the ownership interest of the Group which do not cause a loss of control over a subsidiary, as equity transactions. As a result, such a change in ownership interest does not affect goodwill and does not lead to recognition of profit or loss. Prior to this amendment, the Group applied a principle of treating transactions with minority interest as transactions with third parties unrelated to the Group. The sale of shares to minority interest resulted in recognition of profits/losses of the Group in profit or loss, while the purchase of shares from minority interest caused a recognition of goodwill. The amended IFRS 3 introduces among others a change in the manner of measuring the amount of consideration for an acquisition which, following amendment, also comprises all assets and liabilities arising from the determination of contingent considerations, although it is not increased (as was previously) by costs directly related to the acquisition of an investment. Such costs are settled as costs of the period in which they are incurred. The Group applied amended IFRS 3 and IAS 27 on a prospective basis from 1 January 2010.

Up to the date of publication of these financial statements, further standards and interpretations have been published by the International Accounting Standards Board which up to this date have not come into force, while some of them have been adopted for use by the European Union.

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

##### **Amendment to IAS 32 Financial instruments: presentation**

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

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

##### **Amended IFRS 1 First-time Adoption of IFRS**

On 28 January 2010 the International Accounting Standards Board published *Limited Exemption from Comparative IFRS 7 Disclosures for first-time adopters of IFRS* as an amendment to IFRS 1. The purpose of this update is to exempt first-time adopters of IFRS from disclosure required by IFRS 7 *Financial Instruments: Disclosures*, introduced by the IASB in March 2009, with respect to changes in measurement to fair value and liquidity risk. Thanks to this amendment, first-time adopters of IFRS were given the same date of adoption of these changes as entities which have already adopted IFRS.

The amendments become effective for annual periods beginning on or after 1 July 2010, and will not affect the financial statements of the Group.

##### **Amended IAS 24 Related Party Disclosures**

On 4 November 2009 the International Accounting Standards Board published an updated version of IAS 24 *Related Party Disclosures*. This amendment modifies the definition of related parties and introduces a partial exemption from the requirement to disclose information related to transactions between parties related to government bodies. The Group expects that, following the adoption of the amendment to this standard, the scope of disclosures of transactions between companies related to the State Treasury will be restricted, as transactions entered into by the Group with other entities related to the State Treasury are in the nature of standard transactions, related to providing and realising typical services and transactions resulting from the activities performed by such entities. These transactions have been and are carried out as arm's length transactions, offered equally to other entities engaged in business transactions. The nature and scope of transactions carried out by the Group with entities related to the State Treasury, disclosed in accordance with the standard in force at the date of preparation of these financial statements, are presented in Note 41. The Group, pursuant to the amended version of IAS 24, intends to publish information on transactions and contracts, considered significant due to the nature or size of the transaction and contract, entered into with companies related to the State Treasury, if such transactions occur.

The amending of IAS 24 necessitated the introduction of changes to IFRS 8 *Operating segments*, with respect to the determination by a reporting entity as to whether and when a group of entities under common control should be considered as a single customer for reporting purposes under IFRS 8.

The amendment to this standard becomes effective for annual periods beginning on or after 1 January 2011.

## **2. Main accounting policies (continuation)**

### **2.1 Basis of preparing financial statements (continuation)**

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

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

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

#### **IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments**

On 26 November 2009 the International Accounting Standards Board published IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*. This interpretation provides guidelines with respect to accounting for the extinguishment of a financial liability by the issue of equity instruments by debtors. In accordance with IFRIC 19 issued equity instruments should in such a case be measured at fair value on the date the liability is settled, while the difference between the measurement of the equity instruments and that of the settled liability is recognised in profit or loss in the period in which settlement was made.

This interpretation becomes effective for annual periods beginning on or after 1 July 2010, and will not affect the financial statements of the Group.

#### **Changes in International Financial Reporting Standards 2010**

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

- IFRS 3 with respect to the measurement of non-controlling interest,
- IFRS 7 with respect to the broadening of explanatory disclosures on the nature and scope of risk involving financial instruments,
- IAS 1 with respect to the manner of presenting information on other comprehensive income in the statement of changes in equity,
- IAS 34 with respect to information published in the interim financial statements,
- IFRIC 13 with respect to fair value measurement of loyalty award credits.

While each change introduced has an individual effective date, all will be effective for the Group for annual periods beginning on or after 1 January 2011.

None of these changes will have a significant effect on the financial statements of the Group.

#### **Standards and interpretations which are not in force and not adopted for use by the European Union:**

##### **IFRS for Small and Medium-sized Entities**

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

##### **IFRS 9 Financial instruments**

On 12 November 2009 the International Accounting Standards Board published IFRS 9 *Financial instruments*. This standard is the result of the initial stage of work by the Board aimed at withdrawal of IAS 39 *Financial Instruments: Recognition and Measurement* and replacement by a new one, IFRS 9. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories: assets measured at fair value, and assets measured at amortised cost. This classification, made at the time the financial asset is initially recognised, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets, their reclassification and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will affect the financial statements of the Group, in particular with respect to presentation.

## **2. Main accounting policies (continuation)**

### **2.1 Basis of preparing financial statements (continuation)**

Potential changes in value which could impact the financial statements of the Group could arise due to changes in the measurement of equity instruments, which due to the lack of an active market the Group measures at cost less any impairment. It is however expected that they will not have a significant impact on the financial statements of the Group.

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

On 7 October 2010, the International Accounting Standards Board issued Amendments to IFRS 7 – *Enhancing disclosures about transfers of financial assets*. The amendments issued enhance existing disclosure requirements. The purpose of the amendments is to increase the transparency of information on risks involving transactions in which financial assets were transferred.

Not every transferral of financial assets by an entity to a third party results in its simultaneous, total or partial derecognition from the financial statements. This occurs when an entity transferring assets does not simultaneously transfer contractual rights to receive cash flows associated with these assets, retaining substantially all of the risks and rewards of their ownership, or continues to be involved in derecognised financial assets at the reporting date. The amendments to IFRS 7 require the presentation in a separate note to the financial statements for each class of financial assets transferred, which were not entirely derecognised, information on the nature and carrying amount of assets transferred and the risks and rewards associated with them.

For assets transferred, in which an entity continues to be involved, the amended IFRS 7 requires the disclosure of information enabling the evaluation of the nature of the involvement and of the risks associated with the continuing involvement of the entity with the derecognised financial assets, by each class of continued involvement, including the carrying amount and fair value of financial assets and liabilities representing the continued involvement of the entity in the derecognised financial assets.

Until now, the only type of financial assets transferred by the Group whose transferral did not qualify for derecognition from the financial statements involved the disposal of Group debtors with respect to recourse factoring. Should there occur such transactions or others which will involve the aforesaid amendments to IFRS 7, the Group will provide disclosures in the financial statements pursuant to the new requirements.

These changes will be effective for annual periods beginning on or after 1 July 2011.

#### **IFRS 9 Financial Instruments**

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

In accordance with IFRS 9, liabilities being a derivative related with and settled by the delivery of an equity investment which is not quoted on an active market should be measured at fair value, just as for investments in unquoted equity investments and derivative financial assets related to these investments.

Furthermore, this standard introduces the requirement to recognise, in other comprehensive income, changes in the fair value of financial liabilities measured at fair value through profit or loss, resulting from changes in credit risk associated with the said liabilities. The remaining amount of the change in the fair value of a liability should be presented in profit or loss, unless recognition of the effects of changes in the credit risk of the liability would create or enlarge an accounting mismatch, in which case the entity should recognise the full amount of the change in fair value in profit or loss.

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

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

On 20 December 2010, the International Accounting Standards Board issued an amendment called *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters of IFRS*, as an amendment to IFRS 1 *First-time Adoption of IFRS*. The purpose of this update is to establish additional convenience for first-time adopters of IFRS.

Changes to this standard are effective for annual periods beginning on or after 1 July 2011 and will not have an effect on the financial statements of the Group.

## **2. Main accounting policies (continuation)**

### **2.1 Basis of preparing financial statements (continuation)**

#### **Amendments to IAS 12 Income Taxes**

On 20 December 2010, the International Accounting Standards Board issued an amendment to IAS 12 called *Deferred Tax: Recovery of Underlying Assets*. The purpose of this update is to provide practical guidance in the estimation of the amount of deferred income tax in a situation where investment property is measured through the use of the fair value model from IAS 40 *Investment Property*. In accordance with IAS 12, the measurement of deferred income tax assets and liabilities, i.e. the determination of an income tax rate and the taxable base, depends on the manner in which an entity intends to recover (realise) the value of the assets. In certain tax jurisdictions a different income tax rate is applied to the disposal of property than is applied to income received from the use of such property. Sometimes therefore, entities cannot be certain as to the manner in which the value of a given asset will be eventually recovered (realised) in the future. In such a situation the aforementioned amendment to IAS 12 recommends that the entity should assume that it will recover (realise) the value of the asset through its sale. This same principle for the determination of the amount of deferred income tax should be applied by entities owning non-depreciable and revalued assets covered by IAS 16. Changes to this standard are effective for annual periods beginning on or after 1 January 2012 and will not have an effect on the financial statements of the Group, due to the unified tax rate applied in Poland to revenues obtained by corporations.

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

### **2.2 Accounting policies**

#### **2.2.1 Property, plant and equipment**

The following are considered to be items of property, plant and equipment:

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

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

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.23.

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

Upon initial recognition, in the costs of property, plant and equipment are included the anticipated costs of future assets' dismantling and removal and cost of restoring the sites on which they are located, the obligation for which an entity incurs either when the item is installed or as a consequence of having used the item for purposes other than to produce inventories. In particular, in the initial cost of items of property, plant and equipment are included discounted decommissioning costs of assets relating to underground mining, as well as of other facilities which, in accordance with binding laws, must be liquidated upon the conclusion of activities.

Mine decommissioning costs recognised in the initial cost of an item of property, plant and equipment are depreciated in the same manner as the item of property, plant and equipment to which they relate, beginning from the moment an asset is brought into use, throughout the period set out in the asset group decommissioning plan within the schedule of mines decommissioning.

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.1 Property, plant and equipment (continuation)**

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

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

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

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

For individual groups of assets, the following useful lives have been adopted:

- Buildings and civil engineering objects: 25 - 60 years,
- Technical equipment and machines: 4 - 15 years,
- Motor vehicles: 3 - 14 years,
- Other property, plant and equipment, including tools and instruments: 5 - 10 years.

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

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

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

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

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

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

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

#### **2.2.2 Intangible assets**

Intangible assets include identifiable non-monetary assets without physical substance:

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

## 2. Main accounting policies (continuation)

### 2.2 Accounting policies (continuation)

#### 2.2.2 Intangible assets (continuation)

##### Goodwill

**Goodwill** represents the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

*Goodwill from transactions carried out prior to 1 January 2010 represents the excess of the cost of acquisition over the fair value of the share of Group entities in the identifiable net assets of the acquired subsidiary at the acquisition date, or of the acquired associate at the acquisition date of the investment.*

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisition of investments in associates is included in the carrying amount of such investment.

Goodwill is tested annually for impairment and is recognised in the statement of financial position in the amount initially recognised less any accumulated impairment losses.

Testing for impairment is performed and any potential impairment loss is recognised in accordance with the policies described in note 2.2.10.

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

##### Development costs

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

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

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- b) the intention to complete the intangible asset and use or sell it,
- c) its ability to use or sell the intangible asset,
- d) the manner in which the intangible asset will generate probable future economic benefits,
- e) the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset, and
- f) its ability to measure reliably the expenditures attributable to the intangible asset that have been incurred during its development.

Internally generated costs of development projects recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.

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

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

Research expenditure is recognised as an expense as incurred.

##### Other intangible assets

Other intangible assets are measured at cost at initial recognition.

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.23 of these policies.

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

## **2. Main accounting policies (continuation)**

### **2.2. Accounting policies (continuation)**

#### **2.2.2 Intangible assets (continuation)**

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

At the end of the reporting period intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses. The principles of impairment losses recognition are presented in detail in point 2.2.10.

Intangible assets (excluding goodwill and intangible assets not yet available for use) are amortised using the straight-line method over their anticipated useful lives, which are as follows for the specific types of intangible assets:

- Development costs – 5 – 15 years,
- Software – 2 – 8 years,
- Concessions, licenses and patents – 2 - 5 years,
- Other intangible assets, including rights to geological information – 50 years.

The amortisation method and the amortisation rate of intangible assets are subject to review at the end of each reporting period.

As in the case of goodwill, intangible assets not yet available for use (under construction) are not amortised, but are tested annually for impairment. Any potential impairment loss is recognised in profit or loss.

There are no intangible assets in the Group with an indefinite useful life.

#### **2.2.3 Investment property**

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

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

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

#### **2.2.4 Investments in subsidiaries and associates**

##### **a) Subsidiaries**

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

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

The carrying amount of investments held by the Group in each subsidiary is eliminated, along with the respective portion of equity of each subsidiary.

As goodwill is recognised the excess of the payment made by an acquirer, the amount of all non-controlling shares in an acquiree, and fair value of an ownership interest of the acquiree at the acquisition date, belonging to the acquirer prior to obtaining control, over the net amount set at the acquisition date of the value of identifiable acquired assets and liabilities of the acquired subsidiary. The excess of the Group share in the fair value of net assets over the purchase price, which is the gain from bargain purchase, is recognised directly in profit or loss.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.4 Investment in subsidiaries and associates (continuation)**

*Goodwill from transactions carried out prior to 1 January 2010 represents the excess of the cost of acquisition over the fair value of the share of Group entities in the identifiable net assets of the acquired subsidiary at the acquisition date, or of the acquired associate at the acquisition date of the investment.*

The payment for acquisition is measured at fair value, being the total fair value of the transferred assets, outstanding liabilities and issued equities at the acquisition date. The payment for acquisition also includes all assets and liabilities resulting from decisions in respect of contingent payments, if such decisions are made. Costs associated with acquisition are settled as a cost of the period in which they are incurred, while costs of issuing debt securities and equities are recognised in accordance with IAS 32 and IAS 39.

*For transactions of acquisition, carried out prior to 1 January 2010, the cost of acquisition was set at the amount of fair value of the given assets, issued equity instruments and of liabilities incurred or assumed at the date of exchange, plus the direct costs of acquisition.*

Identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Inter-company transactions, balances, income, expenses and unrealised gains recognised in assets are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interest in the net assets of consolidated subsidiaries are recognised as a separate item of equity.

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

Changes in the share of ownership of the Group which do not result in a loss of control over a subsidiary are recognised as an equity transaction. The carrying amount the shares granting control and not granting control are adjusted, reflecting the change in the share of ownership in a given subsidiary. The difference between the amount to be paid due to the increase or decrease of shares and the carrying amount of the respective shares not granting control is recognised directly in the equity of the entity obtaining control.

*Until 31 December 2009, the accounting policy applied by the Group treated transactions with minority (non-controlling) interest as transactions with third parties unrelated to the Group. The sale of shares to non-controlling interest resulted in recognition of profits or losses of the Group in profit or loss. The purchase of shares from non-controlling interest caused a recognition of goodwill, being the excess of the cost of acquisition over the respective share in the net assets transferred according to their carrying amount; otherwise, the difference was recognised in profit or loss.*

#### **b) Associates**

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

These investments are initially recognised at cost. The net value of Group investments in the associate which is recognised in the statement of financial position also includes, as set on the date control was obtained, goodwill and identified items not recognised in the statement of financial position of the acquiree measured at fair value.

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

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



## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.5 Financial Instruments**

##### **2.2.5.1 Classification of financial instruments**

Financial instruments are classified into one of the following categories:

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

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

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

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

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

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

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

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

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

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

#### **Loans and receivables (L&R)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.5 Financial Instruments (continuation)**

##### **2.2.5.1 Classification of financial instruments (continuation)**

###### **Held-to-maturity investments (HtM)**

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

###### **Available-for-sale financial assets (AFS)**

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

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

###### **Other financial liabilities**

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

###### **Hedging instruments (HI)**

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

###### **Instruments initially designated as hedging instruments excluded from hedge accounting**

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

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

##### **2.2.5.2 Initial measurement and derecognition of financial instruments**

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

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

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

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

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.5 Financial Instruments (continuation)**

##### **2.2.5.3 Measurement of financial instruments at the end of the reporting period (continuation)**

Gains and losses on financial assets which are classified as available-for-sale are recognised in other comprehensive income, except for impairment losses and exchange gains or losses on monetary assets and gains or losses on interest calculated using the effective interest rate, which are recognised in profit or loss. When available-for-sale financial assets are derecognised, the total cumulative gains and losses which had been recognised in other comprehensive income are reclassified to profit or loss as an adjustment from reclassification.

The disposal of investments of the same type but with a different cost is accounted for using the FIFO method, i.e. the disposal of these assets is measured successively at the prices of those elements which the entity acquired earlier.

##### **Loans and receivables, held-to-maturity investments**

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

##### **Other financial liabilities**

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

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

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

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

##### **2.2.5.4 Fair value**

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

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

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.5 Financial Instruments (continuation)**

##### **2.2.5.4 Fair value (continuation)**

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

The fair value of participation units of open-end cash investment funds is determined based on the valuations quoted by those funds. The fair value of share in close-end investment funds qualified as available-for-sale financial assets is measured based on the data included in the financial statements of the funds.

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

##### **2.2.5.5 Impairment of financial assets**

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

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as a reclassification adjustment. Impairment losses on equity instruments recognised in profit or loss are reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

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

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

##### **2.2.5.6 Embedded derivatives**

###### **Initial recognition of derivatives**

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

- the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in profit or loss,
- the characteristics and risks of the embedded derivative are not closely related to the characteristics and risks of the host contract, and

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.5 Financial Instruments (continuation)**

##### **2.2.5.6 Embedded derivatives (continuation)**

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

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

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

##### **2.2.5.7 Hedge accounting**

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

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

#### **Derivatives used in cash flow hedges**

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

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

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

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

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

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.5 Financial Instruments (continuation)**

##### **2.2.5.7 Hedge accounting (continuation)**

#### **Discontinuation of hedge accounting**

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

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

#### **2.2.6 Inventories**

Inventories consist of the following items:

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

**Inventory additions** are measured in accordance with the following principles:

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

**Inventory disposals** are measured in accordance with the following principles:

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

**Inventories** are measured in accordance with the following principles:

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

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

#### **2.2.7 Trade and other receivables**

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

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

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

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.7 Trade and other receivables (continuation)**

**The category trade and other receivables includes:**

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

#### **2.2.8 Cash and cash equivalents**

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

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

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

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

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

#### **2.2.10 Impairment of non-financial assets**

Goodwill and intangible assets not yet available for use, are not amortised, but are tested annually for impairment.

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

An impairment loss is recognised as the amount of the carrying value of the given asset which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.10 Impairment of non-financial assets (continuation)**

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

Impairment losses are recognised in profit or loss.

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

#### **2.2.11 Equity**

Equity consists of:

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

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

#### **2.2.12 Liabilities**

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

Liabilities comprise:

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

Current trade payables are recognised in the statement of financial position at their nominal value. The carrying amount of these liabilities reflects the approximate amount representing the level of amortised cost, calculated using the effective interest rate.

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



## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.13 Accrued expenses**

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

Accruals include among others:

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

#### **2.2.14 Deferred income**

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

The value of fixed assets, fixed assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with this Policy, note 2, point 2.2.25.

#### **2.2.15 Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are recognised, in particular, in respect of the following:

- future costs of mine decommissioning, after the conclusion of mining activities,
- future costs of decommissioning of technological facilities (in the copper smelters) and other facilities in cases where the law provides for the obligation to dismantle and remove such assets after the conclusion of mining activities and to restore the sites to their original condition,
- the effects of court proceedings and of disputed issues,
- guarantees granted.

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

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

The amount of provisions set at 1 January 2004, i.e. at the transition date for application of IFRS for the purposes of preparing the consolidated financial statements, recognised in the cost of property, plant and equipment, was calculated based on the optional exemption set out in IFRS 1 *First-time Adoption of IFRS*.

Beginning from 1 January 2004, all changes arising from changes in the amount of provisions are recognised in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Revaluations of the provision reflect:

- decreases due to its utilisation,
- increases due to the approach of time (unwinding of the discount) – recognised in financial costs,
- increases/decreases due to changes in the discount rate – recognised in the initial value of property, plant and equipment\*,
- increases/decreases due to changes in assumptions, including changes in construction-assembly prices – recognised in the initial value of property, plant and equipment\*,
- increases due to the acquisition of new assets under the future decommissioning program,
- decreases due to early, unplanned liquidation of assets under the future decommissioning program.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.15 Provisions (continuation)**

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

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

#### **2.2.16 Employee benefits**

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

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

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

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

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

#### **2.2.17 Income taxes**

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

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

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

A deferred tax liability is recognised for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This liability is not discounted.

A deferred tax asset is recognised for all deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

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

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:

- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.17 Income taxes (continuation)**

A deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax is recognised in profit or loss for a given period, unless the deferred tax:

- arises from transactions or events which are directly recognised in other comprehensive income – in which case the deferred tax is also recognised in the other comprehensive income, or
- arises from a business combination – in which case the deferred tax affects goodwill or gains on a bargain purchase.

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

#### **2.2.18 Contingent liabilities**

Contingent liability is:

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

The contingent liabilities include, among others:

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

#### **2.2.19 Statement of comprehensive income**

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

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

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

## 2. Main accounting policies (continuation)

### 2.2 Accounting policies (continuation)

#### 2.2.20 Revenues

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

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

In addition, revenue for the given reporting period which affects the profit or loss of the period includes **other operating income**, which is indirectly related to the activities carried out, in particular:

- income and gains from investments,
- gains from the measurement and realisation of trading derivatives and the ineffective portion of gains from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
- reversal of impairment losses on held-to-maturity investments, available-for-sale financial assets, and loans,
- release of unused provisions, previously charged to other operating costs, and
- gains on disposal of property, plant and equipment and intangible assets,

**finance income**, representing primarily income related to financing of the activities of the Group, including:

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

#### **Moment of recognition of revenues**

Revenues from the sale of products, merchandise and materials are recognised when:

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

Revenues from the sale of services are recognised when:

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

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

Interest income is recognised on an accrual basis, using the effective interest method.

Income from dividends is recognised when the shareholder's right is set.

## 2. Main accounting policies (continuation)

### 2.2 Accounting policies (continuation)

#### 2.2.21 Costs

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

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals. In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivatives, which are separated from the host purchase contract in accordance with point 2.2.5.6.

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

The total cost of products, merchandise and materials sold comprises:

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

In addition, costs for the given reporting period which affect profit or loss for the period include **other operating costs**, indirectly connected with operating activities, including in particular:

- costs and losses on financial investments,
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
- impairment losses on held-to-maturity investments, available-for-sale financial assets, loans and other investments,
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities,
- donations granted,
- losses on disposal of property, plant and equipment and intangible assets, and

**finance costs** related to financing of the activities of the Group, including in particular:

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

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

##### Functional and presentation currency

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

##### Transactions and balances

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:

- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities,
- at the average exchange rate set for a given currency by the NBP (National Bank of Poland) prevailing on the date of the transaction. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day preceding the transaction day.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.22 Foreign currency transactions and the measurement of items denominated in foreign currencies (continuation)**

##### **At the end of each reporting period:**

- foreign currency monetary items are translated at the closing rate prevailing on that date, i.e. the average exchange rate set for a given currency by the NBP,
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate (i.e. average exchange rate set for a given currency by the NBP) prevailing on the transaction date, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate (i.e. average exchange rate set for a given currency by the NBP) at the date when the fair value was determined.

Foreign exchange gains or losses arising on the settlement of a foreign currency transaction, or on the measurement and translation of foreign currency monetary assets and liabilities (other than derivatives) denominated in a foreign currency, are recognised in profit or loss. Foreign exchange gains or losses arising on the measurement of foreign currency derivatives, are recognised in profit or loss as a fair value measurement provided they do not represent the change in the fair value of the effective cash flow hedge. In such a case they are recognised in other comprehensive income, in accordance with hedge accounting principles.

Foreign exchange gains or losses arising on non-monetary items, such as equity instruments, are recognised as an element of changes in fair value, if such instruments are measured at fair value through profit or loss, or in other comprehensive income at fair value, if such equity instruments are classified as available-for-sale financial assets.

#### **2.2.23 Borrowing costs**

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

Borrowing costs consist of interest and other borrowing-related costs incurred, and include in particular:

- interest costs calculated using the effective interest method in accordance with IAS 39;
- financial charges due to financial leasing contracts recognised in accordance with IAS 17;
- exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

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

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

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.24 Leases**

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

A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term.

Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, a lease contract is classified as an operating lease. Group liabilities due to operating leases not recognised in the statement of financial position, in particular with regard to payments to the State Treasury and to territorial self-government entities due to perpetual usufruct of land, as well as liabilities due to other operating leases agreements, are presented in note 43.

#### **2.2.25 Government grants**

Non-monetary grants are accounted for at their fair value.

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

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

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

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

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

Non-monetary grants are accounted for at their fair value.

The principles of utilisation of CO<sub>2</sub> are presented in note 2, point 2.2.27.

#### **2.2.26 Segment reporting**

Segment reporting involves the grouping of segments by the component parts of the Group:

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

The Management Board of KGHM Polska Miedź S.A. is the main body responsible for making decisions as to the allocation of resources and for assessing segment results (the chief operating decision maker, or CDM). Management information provided to the CDM is prepared at the Parent Entity and entities of the Group level. Each of the identified operating segments in the Group represents a specific company and has a segment manager who is directly accountable to and maintains regular contact with the CDM to discuss the financial results, forecasts and plans related to the segment.

As a result of analysis of aggregation criteria and quantitative thresholds the following reporting segments have been identified: „The production of copper, precious metals and other smelter products” and a segment aggregating all of the remaining operating segments under the name „All other segments”.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.27 Greenhouse gas emission allowances**

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

At inception:

- emission allowances received from the government are measured at fair value and recognised in intangible assets, against deferred income as a non-cash government subsidy,
- purchased allowances are measured at cost and recognised in intangible assets.

At the end of the reporting period:

- emission allowances are measured at initial cost at the moment of recognition, less any impairment.

Based on decisions issued by the President of the Energy Regulatory Office, emission rights are redeemed simultaneously with the settlement of subsidies.

In a situation where actual emissions exceed the amount of allowances granted and still held, under the principle of net obligations, the Group recognises a provision in the amount of fair value of the emission allowances, plus any eventual costs or penalties due to a deficit of the emission allowances necessary to resolve this deficit. A provision is recognised in the cost of sales. This provision is settled at the moment of redemption of the emission allowances purchased by the entity for the purpose of meeting its obligations.

Proprietary emission rights are settled based on the principle „first in-first out“ (FIFO).

In the financial statements the Group applies the net value method of presenting emission allowances and related non-cash governmental subsidies. Detailed data on emission allowances granted to the Group are presented in note 7.

#### **2.2.28 Earnings per share**

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

#### **2.2.29 Statement of cash flows**

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

#### **2.2.30 Capital management**

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

In accordance with market practice, the effective use of capital is monitored among others on the basis of the following ratios:

- The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
- The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation.



## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.31 Customer Loyalty Programmes**

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

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

The value of a loyalty award credit is reviewed at the end of each calendar year.

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

#### **2.2.32 Exploration for and evaluation of mineral resources**

Only those expenditures which meet the general criteria for capitalisation as described below are classified as assets due to the exploration for and evaluation of mineral resources:

- it is probable that the entity will achieve future economic benefits related to a given asset, and
- this item has a purchase price or manufacturing cost which can be measured reliably.

Not recognised in assets due to the exploration for and evaluation of mineral resources are expenditures incurred:

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

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

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

For the purposes of testing for impairment, individual assets used in the exploration for and evaluation of mineral resources are tested separately, and if this is not possible, they are assigned to the cash-generating unit which is the entity performing the exploration for and evaluation of mineral resources.

Assets due to the exploration for and evaluation of mineral resources are recognised and presented as a separate group of fixed assets under construction and intangible assets not yet available for use, respectively.

#### **2.2.33 Property rights resulting from certificates of origin for energy from renewable resources and cogeneration**

Based on the Energy Act and on executive decrees of the Minister of the Economy, power generation companies involved in the trade in and sale of electricity to end users are required to purchase and present for redemption property rights resulting from certificates of origin or the making of substitute fees.

This obligation is considered as met if, for a given financial year, the share of total volume of electricity resulting from said certificates of origin in the total annual sale of electricity to end users conforms to the limits set forth in decrees of the Minister of the Economy.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.33 Property rights resulting from certificates of origin for energy from renewable resources and cogeneration (continuation)**

##### **Property rights in energy companies not generating coloured energy**

In order to adhere to the requirement to present property rights for redemption or to pay substitute fees, at the end of reporting periods the Group recognises a provision for costs of acquiring property rights. Group companies involved in the distribution of energy create provisions which is recognised as cost of merchandise sold. Group companies involved in the generation of energy create provisions against the cost of energy sold. The amount of the provision is the lesser of two amounts: the actual market value of certificates of origin or the amount of the substitute fee matching the amount of energy sold to an end user. Settlement of the provision is made at the date of redemption of these rights by the President of the Energy Regulatory Office or at the date of payment of substitute fees.

The acquired property rights in the statement of financial position are recognised as merchandise.

Property rights at the date of acquisition are measured at cost, equivalent to:

- the value of a given certificate of origin based on current market price, or
- the amount of the negotiated contractual price if such rights are purchased in off-session market transactions.

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

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

##### **Property rights of power company generating energy from cogeneration**

Property rights obtained free of charge from the government to coloured energy are treated as non-cash government grants, they are measured at initial recognition at fair value and recognised in the statement of financial position as merchandise, against revenues from the sale of energy.

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

The allocation of property rights due to their sale is taken to profit or loss and recognised as a decrease in revenues from energy sold. Revenues from the sale of property rights to energy is recognised in profit or loss as revenues from the sale of energy.

A deficit in property rights is supplemented by their purchase or through a substitute fees. In the case of a deficit of property rights at the end of the reporting period, the entity recognises the provision at the amount of the fair value of the rights in deficit.

### 3. Important estimates and assumption

In preparing the financial statements, the Management Board of the Parent Entity makes use of estimates based on assumptions and opinions which affect the applied accounting principles and presented valuation of 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 Group are presented below.

#### 3.1 Useful life of property, plant and equipment

The Management Boards of the Group companies annually reviews the residual value, depreciation methods and useful lives of property, plant and equipment subject to depreciation. At 31 December 2010 it's assumed that the useful lives of assets applied by the Group companies for purposes of depreciation reflect the expected period of future economic benefits from these assets.

#### 3.2 Financial instruments

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

#### Embedded derivatives

At the end of each reporting period the Parent Entity analyses significance of the impact of separated embedded derivatives on the financial statements. Following this analysis, KGHM Polska Miedź S.A. determined that separation of these instruments at 31 December 2010 would not have a significant impact on the consolidated financial statements.

#### KGHM AJAX MINING INC. options

Based on an agreement, KGHM Polska Miedź S.A. acquired 51% of the shares of KGHM AJAX MINING INC., a company founded with Abacus Mining & Exploration Corp. (Abacus), through a cash contribution in the amount of USD 37 million. Abacus brought to the Company all the rights it owns to the Afton-Ajax deposit. The cash will be used to carry out a Bankable Feasibility Study and for further exploration.

In accordance with the above Agreement, KGHM Polska Miedź S.A. holds a call option on a further 29% in KGHM AJAX MINING INC., for an amount calculated as a multiple of USD 0.025 per pound of copper in 29% of the probable and proven industrial ore resources, though not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study, which will include the balance of industrial ore resources.

The Agreement also includes a commitment by KGHM Polska Miedź S.A. to arrange financing for the project CAPEX, in the amount of USD 535 million (the equivalent of PLN 1 585.8 million, per the average National Bank of Poland rate for USD/PLN from 31 December 2010). The commitment will arise at the moment of execution by KGHM of the call option on a further 29% in KGHM AJAX MINING INC.

If this option is not executed by KGHM Polska Miedź S.A., Abacus will have an exclusive call option for a period of 90 days on all of the shares belonging to KGHM Polska Miedź S.A. for an amount representing the equivalent of their fair market value, though not higher than USD 37 million. If Abacus decides not to acquire the shares from KGHM Polska Miedź S.A. within this timeframe, KGHM Polska Miedź S.A. shall transfer, within 60 days, 2% of its shares in KGHM AJAX MINING INC. to Abacus, increasing the share of this company to 51% for the amount of USD 1 451 thousand.

Under IAS 39, the Parent Entity is required to measure the options included in this agreement as derivatives. However, at the moment of publication of these financial statements, the Parent Entity was not able to make a reliable estimation of the fair value of these options. Determination of the value of the Ajax copper deposit, being the basis for determining the fair value of these options, will only be possible following the preparation of the Bankable Feasibility Study. Work on this document is expected to be completed by the end of 2011. Moreover, the base instrument of these options is not a traded market instrument. Pursuant to IAS 39.46(c) and IAS 39.47(a), the Parent Entity has departed determination of the fair value of these options until a precise determination can be made of the value of the Ajax deposit, i.e. until the completion of the Bankable Feasibility Study.

In the case of measurement of these options, the Parent Entity would separate the measured value of premiums on the options from the cost of acquiring 51% of the shares of KGHM AJAX MINING INC. In the opinion of the Parent Entity this amount is immaterial, and therefore it was not presented separately in the financial statements.

### **3. Important estimates and assumption (continuation)**

#### **3.3 Investments in telecom assets being considered for sale**

##### **a) Polkomtel S.A.**

In the consolidated financial statements the investment in the associate Polkomtel S.A. is accounted for using the equity method, under which its carrying amount at 31 December 2010 amounted to PLN 1 431 099 thousand (Note 9).

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

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

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

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

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

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

With respect to the investment in Polkomtel S.A., due to the difference between the carrying amount of the investment and its taxable value, there exist taxable temporary differences (at 31 December 2010 in the amount of PLN 271 153 thousand), in respect of which deferred tax liabilities were not recognised in prior periods in accordance with IAS 12.39, as it was not probable that these differences would be reversed in the foreseeable future.

Due to the above preliminary actions taken, with respect to the investment in Polkomtel S.A. and the opinion of the Management Board of the Parent Entity that it is probable that these temporary differences will be reversed in the foreseeable future, even though according to IFRS 5 the criteria respecting the classification of assets as held for sale at the end of the reporting period have not been met, deferred tax liabilities were recognised in the consolidated financial statements at 31 December 2010 in the amount of PLN 51 519 thousand.

##### **b) Telefonia Dialog S.A.**

With respect to the shares of DIALOG S.A., a consolidated subsidiary, at the end of the reporting period KGHM Polska Miedź S.A. had not decided to begin the process of selling the shares of this Company, nor had any corporate decision been taken in terms of disposal of the shares held.

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

In view of the above, in the opinion of the Management Board of KGHM Polska Miedź S.A., criteria have not been met which would require the reclassification of the assets and liabilities of DIALOG S.A. to assets (disposal group) held for sale as well as liabilities related with a disposal group in accordance with IFRS 5.

With respect to the investment in DIALOG S.A., due to the difference between the carrying amount of the investment and its taxable value, there exist deductible temporary differences (at 31 December 2010 in the amount of PLN 1 076 325 thousand). Due to these differences, deferred tax assets were not recognised in prior periods, as it was not probable that these differences would be reversed in the foreseeable future.

Despite the preliminary actions taken with respect to the investment in DIALOG S.A., in the opinion of the Management Board of the Parent Entity at the end of the reporting period the sale of the assets of DIALOG S.A. is not probable in the foreseeable future, nor is recognition of a deferred tax asset justified in accordance with IAS 12.44.

### 3. Important estimates and assumption (continuation)

#### 3.4 Provisions

1. Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments are estimated using actuarial methods. A change in the financial factors being the basis for estimation, i.e.
  - an increase in the discount rate by 1% would cause a decrease in the provision by PLN 122 363 thousand,
  - a decrease in the discount rate by 1% would cause an increase in the provision by PLN 151 754 thousand,
  - a increase by 1 % in the coal price and salary increase rate would cause an increase in the provision by PLN 160 802 thousand,
  - a decrease by 1 % in the coal price and salary increase rate would cause a decrease in the provision by PLN 132 156 thousand.

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

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

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

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

A 1% increase in the real discount rate (assumed in the reporting period at the level of 5.5%) used to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision by PLN 121 965 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 162 068 thousand.

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits (Note 25).

Sensitivity o provisions has been settled based on Parent Entity amounts.

#### 3.5 Deferred tax assets/liabilities

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

The probability of realising the deferred tax asset from future tax income is based on the Group companies Budget. The projected financial results indicate that the Group companies will achieve taxable income, based on which the probability of settling an asset is determined as high and is recognised in its full amount.

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, consolidated in the consolidated financial statements 47 subsidiaries in the current period.

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

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

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

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

##### Foundation of the company Interferie Medical SPA Sp. z o.o.

On 1 February 2010 the founder's act was signed for a new company called Interferie Medical SPA Sp. z o.o. with its registered head office in Lubin, founded by INTERFERIE S.A. - an indirect subsidiary of KGHM Polska Miedź S.A. The share capital of Interferie Medical SPA Sp. z o.o. amounted to PLN 50 thousand and was divided into 50 shares with a face value of PLN 1 000. INTERFERIE S.A. acquired 100 % of the shares, paid in cash. The share of the KGHM Polska Miedź S.A. Group in the share capital of Interferie Medical SPA Sp. z o.o. was 65.67 %.

Interferie Medical SPA Sp. z o.o. was registered on 18 February 2010 at the Regional Court for Wrocław Fabryczna in Wrocław, Section IX Economic of the National Court Register.

On 1 September 2010, the share capital of the company was increased by PLN 19 908 thousand through the creation of 19 908 shares with a nominal value of PLN 1 000 per share. The newly-created shares were acquired by INTERFERIE S.A. and covered by non-cash contribution in the amount of PLN 19 808 thousand, representing the right to perpetual usufruct of land and the ownership of buildings situated in Świnoujście, and a cash contribution in the amount of PLN 100 thousand.

On 11 October 2010 an increase in share capital was registered for Interferie Medical SPA Sp. z o.o. through the issuance of 41 309 shares at PLN 1000 each.

The shares in the increased share capital of Interferie Medical SPA Sp. z o.o. representing 67.37% of the share capital of this Company were acquired by KGHM I FIZAN and were paid in cash at their nominal amount of PLN 41 309 thousand. The share capital of Interferie Medical SPA Sp. z o.o. following this increase amounts to PLN 61 317 thousand. The owner of 32.63% of the shares of this Company remains INTERFERIE S.A. The share of the Group after the increase is 66.82 %.

The reason for founding this Company is to engage in the hotel, recreation, rehabilitation, health tourism and wellness sectors.

During the financial period, Interferie Medical SPA Sp. z o.o. did not earn revenues from sales. The profit for 2010 of PLN 2 270 thousand represents the difference between gains from the measurement of derivatives and interest income in the amount of PLN 3 464 thousand, and incurred administrative expenses of PLN 586 thousand and income tax of PLN 608 thousand.

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

##### **Acquisition of Investment Certificates of KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN)**

On 2 February 2010, KGHM Polska Miedź S.A. acquired 2 095 investment certificates, series A, of the KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN) at a price of PLN 10 thousand per certificate, paid in cash in the amount of PLN 20 095 thousand. The Managing Body of the KGHM I FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The share of KGHM Polska Miedź S.A. Group in the share capital of KGHM I FIZAN is 100%. The subject of activities of KGHM I FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes – securities, money market instruments and other property rights. In 2010, KGHM I FIZAN acquired three spas, described in points below. The decision to acquire these spas was due to the identification of significant synergies, and is in accordance with the activities of KGHM I FIZAN.

KGHM I FIZAN was entered into the register of the Regional Court in Warsaw, Section VII Civil Registration on 9 February 2010.

During the reporting period, KGHM I FIZAN earned revenues in the amount of PLN 243 thousand and incurred a loss for the period of PLN 1 287 thousand.

##### **Founding of Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.)**

On 12 March 2010 the founder's act was signed for the company Fundusz Uzdrowiska Sp. z o.o. Its founder is KGHM I FIZAN (100% owned by KGHM Polska Miedź S.A.), which acquired 100% of the shares.

The share capital of Fundusz Uzdrowiska Sp. z o.o. amounted to PLN 15 thousand, and was divided into 150 equal and indivisible shares of PLN 100 per share. The acquisition-related costs of the shares was PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska Sp. z o.o. is financial activities, real estate business, activities related to servicing of the real estate market and management-related advice.

By a notary act dated 20 May 2010, the name was changed from Fundusz Uzdrowiska Sp. z o.o. to **Fundusz Hotele 01 Sp. z o.o.**, and the share capital was increased in cash by PLN 201 thousand to the amount of PLN 216 thousand. The share of the Group in the share capital of the Company remained unchanged.

During the reporting period, the Company earned profit for the period of PLN 31 thousand.

##### **Founding of Fundusz Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Hotele 01 Sp. z o.o. S.K.A.)**

On 17 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska Sp. z o.o. S.K.A. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares, and Fundusz Uzdrowiska Sp. z o.o. as a complementary company.

The share capital of Fundusz Uzdrowiska Sp. z o.o. S.K.A. was PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share paid in cash. The price of acquiring the shares was PLN 50 thousand. Fundusz Uzdrowiska Sp. z o.o. S.K.A. has a diverse scope of activities. By a notary act dated 22 June 2010 the name was changed to **Fundusz Hotele 01 Sp. z o.o. S.K.A.** On 21 December 2010, KGHM I FIZAN increased the share capital of the Company by PLN 50 300 thousand. The share of the Group in the share capital of the Company remained unchanged.

During the financial period the Company earned other operating income, and profit for the period of PLN 4 584 thousand.

##### **Founding of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.**

On 17 May 2010, the founding Act was signed of the company Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. Its founder is KGHM I FIZAN (an entity 100% owned by KGHM Polska Miedź S.A.), which acquired 100% of the shares, and Fundusz Hotele 01 Sp. z o.o. as a complementary company.

The share capital of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. paid in cash was PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share. The price of acquiring the shares was PLN 50 thousand. During the reporting period, the Company incurred a loss for the period of PLN 17 thousand, and did not earned revenues from sales.

##### **Founding of Fundusz Uzdrowiska 01 Sp. z o.o.**

On 19 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska 01 Sp. z o.o. Its founder is KGHM I FIZAN (an entity 100% owned by KGHM Polska Miedź S.A.), which acquired 100% of the shares.

The share capital of Fundusz Uzdrowiska 01 Sp. z o.o. was PLN 15 thousand, divided into 150 equal and indivisible shares of PLN 100 per share. The price of acquiring the shares was PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska 01 Sp. z o.o. is financial activities, trade in real estate, activities related to servicing the real estate market, management consulting. During the reporting period, the Company incurred a loss for the period of PLN 16 thousand, and did not earned revenues from sales.

##### **Sale of shares of HMS Bergbau AG between Group companies**

On 16 June 2010, KGHM Polska Miedź S.A. purchased from the subsidiary KGHM CUPRUM sp. z o.o. – CBR 37 449 shares of KGHM HMS Bergbau AG with its registered head office in Berlin, with a total nominal value of EUR 37 449, i.e. PLN 169 thousand, representing 74.9 % of the share capital. The cost of acquiring these shares amounted to PLN 1 612 thousand. As a result of this transaction, KGHM CUPRUM sp. z o.o. – CBR no longer owns shares in KGHM HMS Bergbau AG.

KGHM HMS Bergbau AG was founded by KGHM CUPRUM sp. z o.o. – CBR and the company HMS Bergbau AG in June 2009, to realise a project of exploration for and evaluation of deposits of copper ore and other metals in Europe. This purchase by KGHM Polska Miedź S.A. of the shares of KGHM HMS Bergbau AG is in accordance with the project assumptions.



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

##### **Acquisition of Investment Certificates of KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN)**

On 23 June 2010, KGHM Polska Miedź S.A. acquired 700 Investment Certificates, series A, of the fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN) at the price of PLN 10 thousand per certificate, paid in cash in the amount of PLN 7 000 thousand. The Managing Body of KGHM II FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The share of the KGHM Polska Miedź S.A. Group in the capital of KGHM II FIZAN is 100%. The subject of activities of KGHM II FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes – securities, money market instruments and other property rights.

During the reporting period, KGHM II FIZAN earned other operating income in the amount of PLN 136 thousand and incurred a loss for the period of PLN 178 thousand.

##### **Putting of FADROMA S.R. SP. Z O.O. into liquidation**

On 5 July 2010 the Extraordinary General Shareholders Meeting of FADROMA S.R. SP. Z O.O. resolved to put the Company into liquidation and to choose a liquidator – Krzysztof Brzostek. An application for the liquidation of the Company was submitted to the court on 6 July 2010. DFM ZANAM-LEGMET Sp. z o.o. as the owner of 98.05 % of shares of FADROMA S.R. SP. Z O.O. decided to strengthen its service potential through taking over the employees of FADROMA S.R. SP. Z O.O. Actions connected with taking over the employees and the liquidation of the Company represent an element of restructuring and bringing order to the Group.

##### **Acquisition of the BIPROMET S.A. Group**

On 12 July 2010, a transaction involving the acquisition of shares of BIPROMET S.A. through a call for the sale of shares was settled (rights attached to shares were acquired).

KGHM Polska Miedź S.A. acquired 4 091 868 shares of the Company, at PLN 7.50 per share, granting the right to 66% of the votes at the general meeting of BIPROMET S.A.

The price of acquiring these shares, paid in cash, was PLN 30 689 thousand.

The decision to acquire a controlling interest in BIPROMET S.A. was due to the identification of significant possibilities for synergy with respect to smelting between the Parent Entity and the Company.

By acquiring the shares of BIPROMET S.A., the KGHM Polska Miedź S.A. Group obtained indirect control over the subsidiaries of BIPROMET S.A.:

- Przedsiębiorstwo Budowlane Katowice S.A., in which BIPROMET S.A. owns 88% of the share capital. The share of the KGHM Polska Miedź S.A. Group was set at 58.08%. The acquisition price of the shares of Przedsiębiorstwo Budowlane Katowice S.A. in the accounts of BIPROMET S.A. is PLN 3 591 thousand.
- Bipromet Ecosystem Sp. z o.o., in which BIPROMET S.A. owns 51% of the share capital. The share of the KGHM Polska Miedź S.A. Group is 33.66%. The purchase price of the shares of Bipromet Ecosystem Sp. z o.o. in the accounts of BIPROMET S.A. is PLN 26 thousand.

Due to settlement of the acquisition of the BIPROMET S.A. Group, in the consolidated financial statements profit from a bargain purchase was set at PLN 1 281 thousand.

##### **Registration of the company KGHM (SHANGHAI) COPPER TRADING CO., LTD. in the People's Republic of China**

In September 2010, the company KGHM (SHANGHAI) COPPER TRADING CO., LTD. was registered under the laws of the People's Republic of China. The Company was granted permission to engage in business activities.

The share capital of the Company amounts to PLN 1 545 thousand. The sole owner of the Company is KGHM Polska Miedź S.A. The share capital was paid in October 2010.

The founding of this Company is aimed at gaining a competitive market position in the trading and distribution of commodities such as copper, silicon, artificial materials and chemicals (with the exception of hazardous and poisonous materials).

During the reporting period, the Company earned revenues from sales in the amount of PLN 1 145 thousand and profit for the period of PLN 74 thousand.

##### **Acquisition of newly issued shares in KGHM AJAX MINING INC.**

On 12 October 2010 KGHM Polska Miedź S.A. signed an agreement with Abacus Mining & Exploration Corporation with its registered head office in Vancouver, regarding entrance to a company under the name KGHM AJAX MINING INC. to advance the Afton-Ajax copper-gold ore mining project in Canada.

The above-mentioned Agreement is a result of the investment agreement signed by KGHM Polska Miedź S.A. and Abacus on 4 May 2010. Further to the Agreement, KGHM Polska Miedź S.A. has acquired 5 100 shares, representing a 51% interest in the company KGHM AJAX MINING INC. through a cash contribution in the amount of USD 37 million. Abacus has brought to the Company all the rights it owns to the Afton-Ajax deposit and in the Afton region. The acquisition of the Company was settled as an asset-deal, as the acquired entity did not represent businesses as defined in IFRS 3. The purchase price of USD 37 million (the equivalent of PLN 105 543 thousand) was allocated to acquired assets based on their relative fair value. As a result of settlement of this transaction the following was recognised: intangible assets of PLN 101 404 thousand, and cash and cash equivalents of PLN 105 543 thousand. The cash will be used to carry out a Bankable Feasibility Study and for further exploration.

In accordance with the above Agreement, KGHM Polska Miedź S.A. holds the call option on a further 29% in KGHM AJAX MINING INC., for an amount not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study. The Agreement also includes a commitment by

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

KGHM Polska Miedź S.A. to arrange financing for the project CAPEX. The commitment will arise at the moment of execution by KGHM Polska Miedź S.A. of the call option on a further 29% in KGHM AJAX MINING INC. (A detailed information on measurement of the above-mentioned option is presented in note 3.2)

##### **Acquisition of shares of ZUK S.A.**

On 20 October 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – acquired from the State Treasury 3 450 500 shares of Zespół Uzdrawisk Kłodzkich Spółka Akcyjna in Polanica Zdrój with a nominal value of PLN 10.00 each for the price of PLN 40.06 per share, i.e. for the total amount of PLN 138 227 thousand, paid in cash. The share of KGHM I FIZAN in the share capital amounts to 90.09%.

##### **Acquisition of shares of DFM ZANAM – LEGMET Sp. z o.o.**

On 3 November 2010, the Parent Entity acquired from KGHM Ecoren S.A. – a subsidiary of KGHM Polska Miedź S.A. – 719 397 shares of DFM ZANAM – LEGMET Sp. z o.o. with a nominal value of PLN 50 each, representing 100% of the share capital. A price was set for the shares of this Company of PLN 48 149 thousand, which was paid in cash on 8 November 2010.

##### **Acquisition of shares of INOVA Sp. z o.o.**

On 3 November 2010, the Parent Entity acquired from KGHM Ecoren S.A. – a subsidiary of KGHM Polska Miedź S.A. – 6 600 shares of INOVA Sp. z o.o. with a nominal value of PLN 1 000 each, representing 100% of the share capital. A price was set for the shares of this Company of PLN 13 054 thousand, which was paid in cash on 8 November 2010.

##### **Acquisition of shares of Uzdrawisko Połczyn S.A.**

On 22 November 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – acquired from the State Treasury 1 600 621 shares of Uzdrawisko Połczyn S.A. with a nominal value of PLN 10.00 each for the price of PLN 16.51 per share, i.e. for the total amount of PLN 26 426 thousand, paid in cash. The share of KGHM I FIZAN in the share capital amounts to 89.91%.

##### **Acquisition of shares of CENTROZŁOM WROCŁAW S.A.**

On 20 October 2010, KGHM Ecoren S.A. – a subsidiary of KGHM Polska Miedź S.A. – received the approval of the Office of Competition and Consumer Protection for the concentration of entities and the realisation of an agreement entered into on 14 July 2010 with the Minister of the State Treasury for the acquisition of 85% of the shares of CENTROZŁOM WROCŁAW S.A. for the amount of PLN 176 435 thousand, paid in cash. The multiple-share certificate was received on 30 November 2010.

The investment in CENTROZŁOM WROCŁAW S.A. is an element of the strategy realised by KGHM Ecoren S.A. related to its activities in the waste management sector.

##### **Acquisition of Investment Certificates of KGHM III FIZAN**

On 3 December 2010, KGHM Polska Miedź S.A. acquired 500 investment certificates of the fund KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM III FIZAN) at the price of PLN 10 thousand per certificate, paid in cash in the amount of PLN 5 000 thousand. The Managing Body of KGHM III FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The indirect share of the KGHM Polska Miedź S.A. Group in the share capital of KGHM III FIZAN is 100%. The KGHM III FIZAN fund was founded for the purpose of investing in the new technology area.

KGHM III FIZAN was registered by the Regional Court in Warsaw Section VII Civil Registrations.

During the reporting period, KGHM III FIZAN did not earned revenues from sales, but incurred a loss for the period of PLN 2 thousand.

##### **Acquisition of shares of „Uzdrawisko Cieplice” Sp. z o.o.**

On 22 December 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – acquired from the State Treasury 114 290 shares of „Uzdrawisko Cieplice” Sp. z o.o. with a nominal value of PLN 50.00 each for the price of PLN 256.50 per share, i.e. for the total amount of PLN 29 316 thousand. The share of KGHM I FIZAN in the share capital amounts to 89.71%.

##### **Sale of shares of INTERFERIE S.A. between Group companies**

In December 2010, KGHM Polska Miedź S.A. and two of its subsidiaries, responding to a call for the sale of shares of INTERFERIE S.A., sold to Fundusz Hotele 01 Sp. z o.o. SKA shares held in the company INTERFERIE S.A.:

- on 23 December 2010, KGHM Ecoren S.A. sold 8 964 200 shares of INTERFERIE S.A., granting the right to 61.55% of the votes at the General Meeting of this company, with a total sale price of PLN 45 897 thousand,
- on 23 December 2010, KGHM Polska Miedź S.A. sold 300 000 shares, granting the right to 2.06% of the votes at the General Meeting of this company, with a total sale price of PLN 1 536 thousand,
- on 27 December 2010 CBJ Sp. z o.o. sold 300 000 shares, granting the right to 2.06% of the votes at the General Meeting of this company, with a total sale price of PLN 1 536 thousand.

Fundusz Hotele 01 Sp. z o.o. SKA (a special purpose company of the fund KGHM I FIZAN) as the result of a call for the sale of shares, acquired altogether 9 731 625 shares of INTERFERIE S.A., granting the right to 66.82% of the votes at the General Meeting of this company. The total acquisition-related costs these shares amounted to PLN 49 826 thousand.

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

Changes in the Group structure that occurred after the end of the reporting period are described in note 48.

Disclosures on acquired subsidiaries in accordance with IFRS 3.59 and IFRS 3.60.

| Note                                                               | BIPROMET<br>S.A. Group | ZUK S.A.      | Uzdrowisko<br>Połczyn<br>S.A. | CENTROZŁOM<br>WROCLAW<br>S.A. | "Uzdrowisko<br>Cieplice"<br>Sp. z o.o. | Total          |
|--------------------------------------------------------------------|------------------------|---------------|-------------------------------|-------------------------------|----------------------------------------|----------------|
| Property, plant and equipment                                      | 14 598                 | 60 138        | 26 943                        | 85 213                        | 11 857                                 | 198 749        |
| Intangible assets                                                  | 3 887                  | 1 776         | 19                            | 28 713                        | 55                                     | 34 450         |
| Property investment                                                | 37 675                 | -             | -                             | -                             | -                                      | 37 675         |
| Deferred tax assets                                                | 51                     | 822           | -                             | -                             | 206                                    | 1 079          |
| Available-for-sale financial assets                                | 30                     | 40            | -                             | -                             | -                                      | 70             |
| Non-current trade and other receivables - gross                    | 2 008                  | 1             | -                             | 37                            | 32                                     | 2 078          |
| Non-current trade and other receivables - net                      | 2 008                  | 1             | -                             | 37                            | 32                                     | 2 078          |
| Inventories                                                        | 458                    | 2 811         | 258                           | 42 479                        | 34                                     | 46 040         |
| Current trade and other receivables - gross                        | 12 454                 | 14 779        | 4 016                         | 106 684                       | 1 261                                  | 139 194        |
| Current trade and other receivables - net                          | 10 847                 | 13 815        | 3 667                         | 103 386                       | 1 101                                  | 132 816        |
| Cash and cash equivalents                                          | 5 113                  | 7 458         | 1 900                         | 16 040                        | 1 080                                  | 31 591         |
| Non-current assets held for sale                                   | 85                     | -             | -                             | -                             | -                                      | 85             |
| <b>Total assets</b>                                                | <b>74 752</b>          | <b>86 861</b> | <b>32 787</b>                 | <b>275 868</b>                | <b>14 365</b>                          | <b>484 633</b> |
| Non-current trade and other payables                               | 2 254                  | 9 727         | 3 801                         | 731                           | 1 101                                  | 17 614         |
| Deferred tax liability                                             | 6 811                  | -             | -                             | 9 238                         | -                                      | 16 049         |
| Current trade and other payables                                   | 11 509                 | 13 626        | 4 216                         | 52 721                        | 1 805                                  | 83 877         |
| Borrowings                                                         | 1 579                  | 3 567         | 2 132                         | 817                           | 3 845                                  | 11 940         |
| Liabilities due to employee benefits                               | 540                    | 3 129         | 1 313                         | 1 960                         | 1 052                                  | 7 994          |
| Provisions for other liabilities and charges                       | 2 208                  | -             | 302                           | 497                           | -                                      | 3 007          |
| <b>Total liabilities</b>                                           | <b>24 901</b>          | <b>30 049</b> | <b>11 764</b>                 | <b>65 964</b>                 | <b>7 803</b>                           | <b>140 481</b> |
| <b>Net assets at the acquisition date</b>                          | <b>49 851</b>          | <b>56 812</b> | <b>21 023</b>                 | <b>209 904</b>                | <b>6 562</b>                           | <b>344 152</b> |
| Net assets attributable to the Group                               | 31 970                 | 51 183        | 19 043                        | 178 419                       | 5 887                                  | 286 502        |
| % of net assets                                                    | 66.00%                 | 90.09%        | 89.91%                        | 85.00%                        | 89.71%                                 |                |
| Purchase price*                                                    | 30 689                 | 138 227       | 26 426                        | 176 435                       | 29 316                                 | 401 093        |
| Acquisition-related costs*                                         | 123                    | 1 387         | 265                           | 1 764                         | 293                                    | 3 832          |
| <b>Goodwill determined provisionally **</b>                        | <b>7</b>               | <b>-</b>      | <b>87 044</b>                 | <b>7 383</b>                  | <b>-</b>                               | <b>23 429</b>  |
| <b>Profit from a bargain purchase determined provisionally ***</b> | <b>31</b>              | <b>1 281</b>  | <b>-</b>                      | <b>-</b>                      | <b>1 984</b>                           | <b>-</b>       |
|                                                                    |                        |               |                               |                               |                                        | <b>3 265</b>   |

Information relating to equity attributable to non-controlling interest was presented in note 20.1.

\* Total cash flow from the acquisition of subsidiaries, less cash received (excluding the monetary resources of the company „Uzdrowisko Cieplice” Sp. z o.o. due to the acquisition of this Company on 31 December 2010) in the amount of PLN 380 413 thousand also includes expenditures related to the founding of new subsidiaries and acquisitions within the Group in the amount of PLN 5 999 thousand.

\*\* Provisional determination of acquired net assets and of goodwill was made in accordance with IFRS 3.45

\*\*\* Profit from a bargain purchase determined provisionally was recognised in the consolidated financial statement in other operating income

| Companies acquired in the reporting period                | Sales                                                  | Other operating income                                 | Profit/(loss)                                          | Sales                                                    | Profit/(loss)                                            |
|-----------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|
|                                                           | for the period from 1 January 2010 to 31 December 2010 | for the period from 1 January 2010 to 31 December 2010 | for the period from 1 January 2010 to 31 December 2010 | for the period from acquisition date to 31 December 2010 | for the period from acquisition date to 31 December 2010 |
| ZUK S.A.                                                  | 98 987                                                 | 5 533                                                  | (92)                                                   | 13 272                                                   | (4 078)                                                  |
| Uzdrowisko Połczyn S.A.                                   | 24 125                                                 | 2 015                                                  | (216)                                                  | 1 357                                                    | (1 710)                                                  |
| "Uzdrowisko Cieplice" Sp. z o.o.                          | 16 561                                                 | 1 801                                                  | 740                                                    | -                                                        | -                                                        |
| CENTROZŁOM WROCLAW S.A.                                   | 597 033                                                | 1 211                                                  | 18 876                                                 | 43 277                                                   | (3 062)                                                  |
| BIPROMET S.A. Group                                       | 38 939                                                 | 3 431                                                  | (1 211)                                                | 22 319                                                   | 2 281                                                    |
| Accumulated sales and profit/(loss) of acquired companies | 775 645                                                | 13 991                                                 | 18 097                                                 |                                                          |                                                          |
| Total for the whole Group                                 | 17 988 010                                             | 662 145                                                | 4 739 529                                              |                                                          |                                                          |

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

##### Contingent liabilities of the Group at 31 December 2010 due to agreements for the sale of shares of the following companies

| Company name                     | Period of investment                       | Commitment to increase share capital by a cash contribution | Commitment to incur investment expenditure |
|----------------------------------|--------------------------------------------|-------------------------------------------------------------|--------------------------------------------|
| ZUK S.A.                         | from the date of signing a contract        |                                                             |                                            |
|                                  | to 31 December 2013                        | 8 000                                                       | -                                          |
|                                  | to 31 December 2014                        | -                                                           | 25 000                                     |
| Uzdrowisko Połczyn S.A.          | from the date of signing a contract        |                                                             |                                            |
|                                  | to 31 December 2012                        | 1 000                                                       | 5 000                                      |
| "Uzdrowisko Cieplice" Sp. z o.o. | from the date of signing a contract        |                                                             |                                            |
|                                  | to 31 December 2011                        | 1 500                                                       | -                                          |
|                                  | to 31 December 2013                        | -                                                           | 6 000                                      |
| CENTROZŁOM WROCŁAW S.A.          | from the date the contract came into force |                                                             |                                            |
|                                  | to 20 October 2015                         | -                                                           | 35 000                                     |

Composition of the Group as at 31 December 2009 was following:

| Entity                                 | Head office | Scope of activities                                                                        | % of share capital held | % of voting power |
|----------------------------------------|-------------|--------------------------------------------------------------------------------------------|-------------------------|-------------------|
| AVISTA MEDIA Sp. z o. o.               | Wrocław     | design, implementation and servicing of IPTV systems (interactive television)              | 100                     | 100               |
| "BIOWIND" sp. z o.o.                   | Lubin       | generation, transfer and distribution of electricity                                       | 100                     | 100               |
| CBJ sp. z o.o.                         | Lubin       | technical research and analyses                                                            | 100                     | 100               |
| DFM ZANAM - LEGMET Sp. z o.o.          | Polkowice   | repair and manufacture of machinery                                                        | 100                     | 100               |
| DIALOG S.A.                            | Wrocław     | telecommunications services, telecommunications, IT and information services               | 100                     | 100               |
| Ecoren DKE spółka z o.o.               | Polkowice   | collection of municipal and industrial waste, processing, storage and utilisation of waste | 100                     | 100               |
| "Energetyka" sp. z o.o.                | Lubin       | generation, distribution and sale of electricity and heat                                  | 100                     | 100               |
| FADROMA S.R. SP. Z O. O.               | Wrocław     | production, servicing and maintenance with respect to construction and mining machinery    | 98.05                   | 98.05             |
| INOVA Spółka z o.o.                    | Lubin       | inspections and control of machinery, R&D work                                             | 100                     | 100               |
| INTERFERIE S.A.                        | Lubin       | tourism, hotel and spa services                                                            | 65.67                   | 65.67             |
| KGHM CUPRUM sp. z o.o. – CBR           | Wrocław     | R&D activities                                                                             | 100                     | 100               |
| KGHM Ecoren S.A.                       | Lubin       | production of other goods from non-metallic mineral resources                              | 100                     | 100               |
| KGHM HMS Bergbau AG                    | Berlin      | exploration for and evaluation of deposits of copper and other metals in Europe            | 74.9                    | 74.9              |
| KGHM KupferhandelsGes. m.b.H.          | Vienna      | copper trading                                                                             | 100                     | 100               |
| KGHM LETIA S.A.                        | Legnica     | promotion of innovation                                                                    | 85.45                   | 85.45             |
| KGHM Metraco S.A.                      | Legnica     | trade, agency and representative services                                                  | 100                     | 100               |
| KGHM Polish Copper Ltd. in liquidation | London      | copper trading                                                                             | 100                     | 100               |

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

| Entity                                      | Head office | Scope of activities                                                                                                                                                                  | % of share capital held | % of voting power |
|---------------------------------------------|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------|
| KGHM TFI S.A.                               | Wrocław     | creation and management of funds and management of financial instruments portfolios                                                                                                  | 100                     | 100               |
| "MIEDZIOWE CENTRUM ZDROWIA" S.A.            | Lubin       | medical services                                                                                                                                                                     | 100                     | 100               |
| PeBeKa S.A.                                 | Lubin       | underground and mining construction, construction of tunnels                                                                                                                         | 100                     | 100               |
| "PETROTEL" sp. z o.o.                       | Płock       | telecommunication services in fixed-line telephony, internet services, technical services, equipment sales                                                                           | 99.99                   | 99.99             |
| PHP "MERCUS" sp. z o.o.                     | Polkowice   | trade, production of bundled electrical cables                                                                                                                                       | 100                     | 100               |
| PHU "Lubinpex" Sp. z o.o.                   | Lubin       | retail trade in food items, catering services                                                                                                                                        | 100                     | 100               |
| PMT Linie Kolejowe Sp. z o.o.               | Polkowice   | management over railway infrastructure                                                                                                                                               | 100                     | 100               |
| POL-MIEDŹ TRANS Sp. z o.o.                  | Lubin       | transportation services                                                                                                                                                              | 100                     | 100               |
| Walcownia Metali Nieżelaznych spółka z o.o. | Gliwice     | production of sheeting                                                                                                                                                               | 84.37                   | 84.37             |
| WFP Hefra SA                                | Warsaw      | production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics, finished goods and half-finished products and services | 98                      | 98                |
| WM "ŁABĘDY" S.A.                            | Gliwice     | production of non-ferrous metals, products from non-ferrous metals, services                                                                                                         | 88.92                   | 88.92             |
| WPEC w Legnicy S.A.                         | Legnica     | generation, transfer and distribution of heat                                                                                                                                        | 85                      | 85                |
| Zagłębie Lubin S.A.                         | Lubin       | participation in and organisation of professional sporting events                                                                                                                    | 100                     | 100               |

#### Changes in the structure of the KGHM Polska Miedź S.A. Group during period from 1 January 2009 to 31 December 2009

##### Acquisition of shares of „BIOWIND” Sp. z o.o.

On 5 January 2009 an agreement for the acquisition of the shares of the company „BIOWIND” sp. z o.o. with its registered head office in Gdańsk was entered into between „Energetyka” sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) and two physical persons.

Based on this agreement, „Energetyka” sp. z o.o. acquired 1000 shares with a nominal value of PLN 50 each, having a total nominal value of PLN 50 thousand, representing 100% of the shares of „BIOWIND” sp. z o.o. and granting 100% of the votes at the General Shareholders’ Meeting of „BIOWIND” Sp. z o.o.

The purchase price for the shares amounts to PLN 450 thousand. The shares were paid for in cash. The share capital of „BIOWIND” sp. z o.o. amounts to PLN 50 thousand and is divided into 1000 shares with a nominal value of PLN 50 per share.

The total acquisition-related costs of these shares was PLN 455 thousand. The acquisition of these assets was financed using the internal funds of „Energetyka” sp. z o.o. The net asset value of the company „BIOWIND” sp. z o.o. is PLN 50 thousand. As the purchase price was considered immaterial, it was not allocated, and goodwill was set at PLN 405 thousand. No assets were identified which were not accounted for in the statement of financial position.

The purchase of shares of „BIOWIND” sp. z o.o., holding a lease on property (around 300 hectares) in the Warmińsko-Mazurskie Voivodeship, enables the commencement of formal procedures aimed at realising an investment related to the construction of a wind farm.

From the date of purchase to 31 December 2009, „BIOWIND” sp. z o.o. had not earned revenues, and had incurred a loss of PLN 15 thousand.

##### Acquisition of shares of “PETROTEL” sp. z o.o.

On 12 January 2009 DIALOG S.A. (a subsidiary of KGHM Polska Miedź S.A.) acquired from non-controlling shareholders 2 009 shares of “PETROTEL” sp. z o.o. with a nominal value of PLN 1 000 per share, as a result of which the share of DIALOG S.A. in the share capital of “PETROTEL” sp. z o.o. increased to 99.56%. On 20 March 2009 DIALOG S.A. purchased a further 35 shares, and its share in the share capital of “PETROTEL” sp. z o.o. currently amounts to 99.99%. The total acquisition-related costs of 24.93% of the shares of “PETROTEL” sp. z o.o. amounts to PLN 10 895 thousand.

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

##### **Acquisition of shares of DKE sp. z o.o.**

On 14 January 2009 an agreement for the acquisition of non-controlling packet of shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. (a direct subsidiary of KGHM Ecoren S.A.) was signed between KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) and SITA POLSKA Sp. z o.o. Based on this agreement, KGHM Ecoren S.A. acquired 380 shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. having a total nominal value of PLN 380 thousand, representing 49.67% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and granting 49.67% of the votes at the General Shareholders' Meeting. Currently KGHM Ecoren S.A. owns 100% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and 100% of the votes at the General Shareholders' Meeting.

The shares were acquired for PLN 2 806 thousand and paid for in cash on the date of signing the agreement. The acquisition of these assets was financed using the internal funds of KGHM Ecoren S.A. The total acquisition-related costs of these shares amounts to PLN 2 829 thousand. The net assets due the buyer, representing 49.67% of the share capital, amounts to PLN 1 314 thousand.

##### **Loss of control over the company KGHM CONGO S.P.R.L.**

On 25 March 2009 the Management Board of the company KGHM CONGO S.P.R.L. departed the territory of the Democratic Republic of Congo due to safety-related threats and the inability to carry out its business operations, abandoning the Company's assets without any supervision.

Due to the loss of ability to direct the financial and operational policy of the Company for the purpose of achieving benefits from its operations, the Management Board of the Parent Entity resolved to settle the losses recognised in the consolidated financial statements from the date of acquisition of KGHM CONGO S.P.R.L. to the date on which the Parent Entity ceased to control this entity as a profit/loss due to loss of control over a subsidiary.

As a result of settlement a gain was set due to loss of control in the amount of PLN 21 457 thousand. In addition, an allowance for impairment of receivables was recognised in the other operating costs in the amount of PLN 21 373 thousand due to unpaid liabilities of KGHM CONGO S.P.R.L. towards the Parent Entity.

##### **Founding of KGHM TFI S.A.**

On 10 June 2009 KGHM Polska Miedź S.A. founded the company KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SPÓŁKA AKCYJNA (KGHM TFI S.A.), in which it acquired 100% of the newly issued shares with a total nominal value of PLN 2 800 thousand, covered in cash. The issue price of the shares is equal to their nominal value. The Company was registered in court on 29 June 2009.

The subject of activities of KGHM TFI S.A. is the creation and management of investment funds and the management of financial instrument portfolios.

Up to 31 December 2009 KGHM TFI S.A. had no revenues from sales.

##### **Founding of KGHM HMS Bergbau AG**

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

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

The share capital of KGHM HMS Bergbau AG amounts to EUR 50 thousand, i.e. PLN 225 thousand. The acquisition-related costs of these shares was PLN 168 thousand. At the acquisition date non-controlling interest amounted to PLN 57 thousand.

Up to 31 December 2009 KGHM HMS Bergbau AG had no revenues from sales.

##### **Acquisition of FADROMA S.R. SP. Z O.O.**

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

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

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

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

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

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

##### Acquisition of WPEC w Legnicy S.A.

On 29 December 2009, the subsidiary „Energetyka” sp. z o.o. acquired from the State Treasury 10 030 thousand ordinary registered shares of the company WPEC w Legnicy S.A. with a face value of PLN 10 during the process of privatisation, representing 85% of the share capital of this Company. The acquired shares were paid for in cash.

The acquisition-related costs were PLN 202 621 thousand. The carrying amount of the net assets of WPEC w Legnicy S.A. amounted to PLN 117 367 thousand, of which the carrying amount of the net assets attributable to the Group amounted to PLN 99 762 thousand. In the consolidated financial statements at 31 December 2009, provisionally determined goodwill amounted to PLN 102 859 thousand. In accordance with IFRS 3.62, within 12 months of the acquisition date the provisional amounts due to business combination recognised at the acquisition date were adjusted. The results of this measurement are presented in the following table. WPEC w Legnicy S.A. is one of the leading suppliers of heat in Lower Silesia. The sale of heat represents 100% of the company’s revenues. All production is directed towards the external market. Due to the acquisition of the company by Energetyka Sp. z o.o., benefits are expected to be achieved resulting from synergies related to the generation of power and associated heat by these two companies.

|                                  | Provisional amounts | Fair value     |
|----------------------------------|---------------------|----------------|
| Intangible assets                | 4 893               | 6 994          |
| Property, plant and equipment    | 71 555              | 145 232        |
| Deferred tax assets              | 2 653               | 2 653          |
| Non-current receivables          | 3 482               | 3 482          |
| Inventories                      | 16 116              | 16 116         |
| Current receivables              | 32 089              | 32 089         |
| Cash and cash equivalents        | 21 233              | 21 233         |
| <b>TOTAL ASSETS</b>              | <b>152 021</b>      | <b>227 799</b> |
| Non-current liabilities          | 2 074               | 2 074          |
| Deferred tax liability           | -                   | 14 398         |
| Current liabilities              | 32 580              | 32 580         |
| <b>TOTAL NET ASSETS</b>          | <b>117 367</b>      | <b>178 747</b> |
| Acquired share of the net assets | 99 762              | 151 935        |
| Purchase price                   | 202 621             | 202 621        |
| <b>Goodwill</b>                  | <b>102 859</b>      | <b>50 686</b>  |

The difference between the provisional and fair value measurement for the acquisition of WPEC w Legnicy S.A. affected the statement of financial position at 31 December 2009, and are presented in note 2.1.

At 31 December 2010, there was no impairment identified of WPEC w Legnicy S.A.

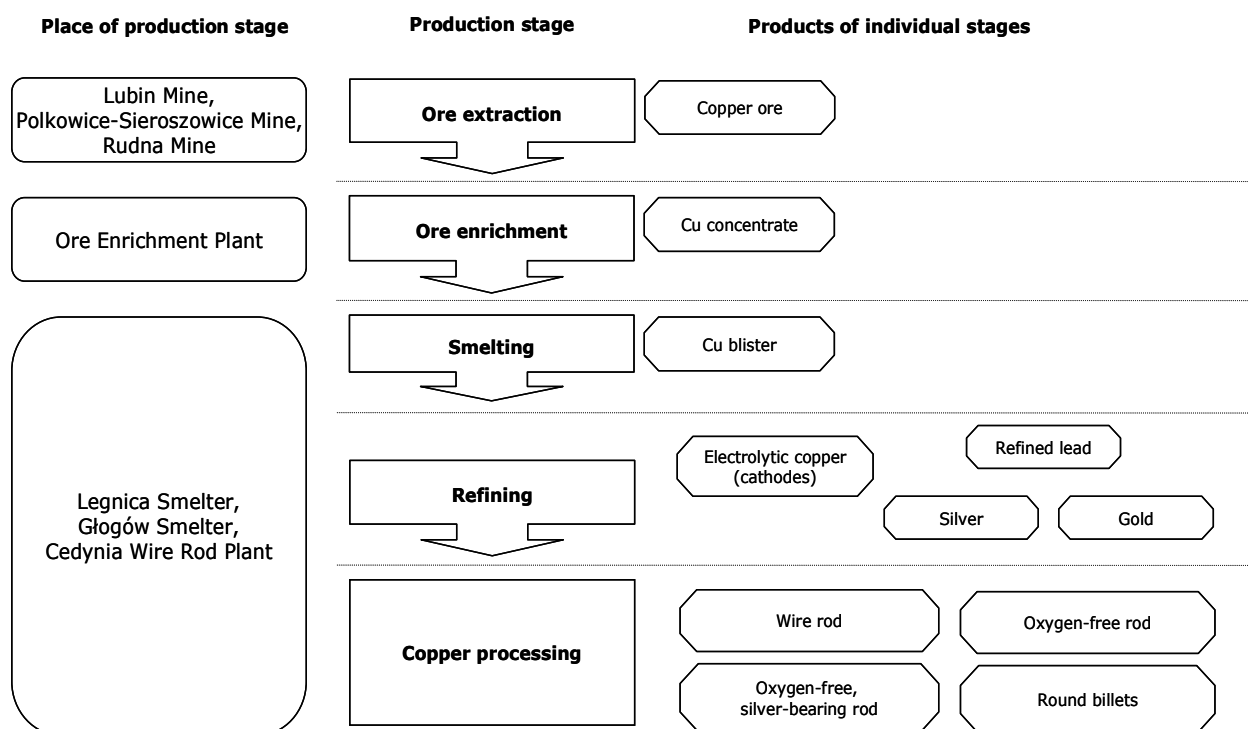
## 5. Information on business segments

As a result of an analysis of the management model of the Group, the system of reporting within the Group and the economic characteristics of its entities, the reporting segment was identified which was defined as „Production of copper, precious metals and other smelter products” and the segment „All other segments”, which combined the remaining operating segments, both those which do not meet the criteria for combination as well as those which did not meet the required quantitative thresholds.

The separation of this segment was due to its significant share of the results of the entire Group. In addition, it meets the required quantitative thresholds indicated for reporting segments. The results of this segment are separately monitored by the Management Board of the Parent Entity.

The activities of the segment „Production of copper, precious metals and other smelter products”, encompass the core business of KGHM Polska Miedź S.A. and focuses mainly on the copper mining, production of copper, precious metals and other non-ferrous metals.

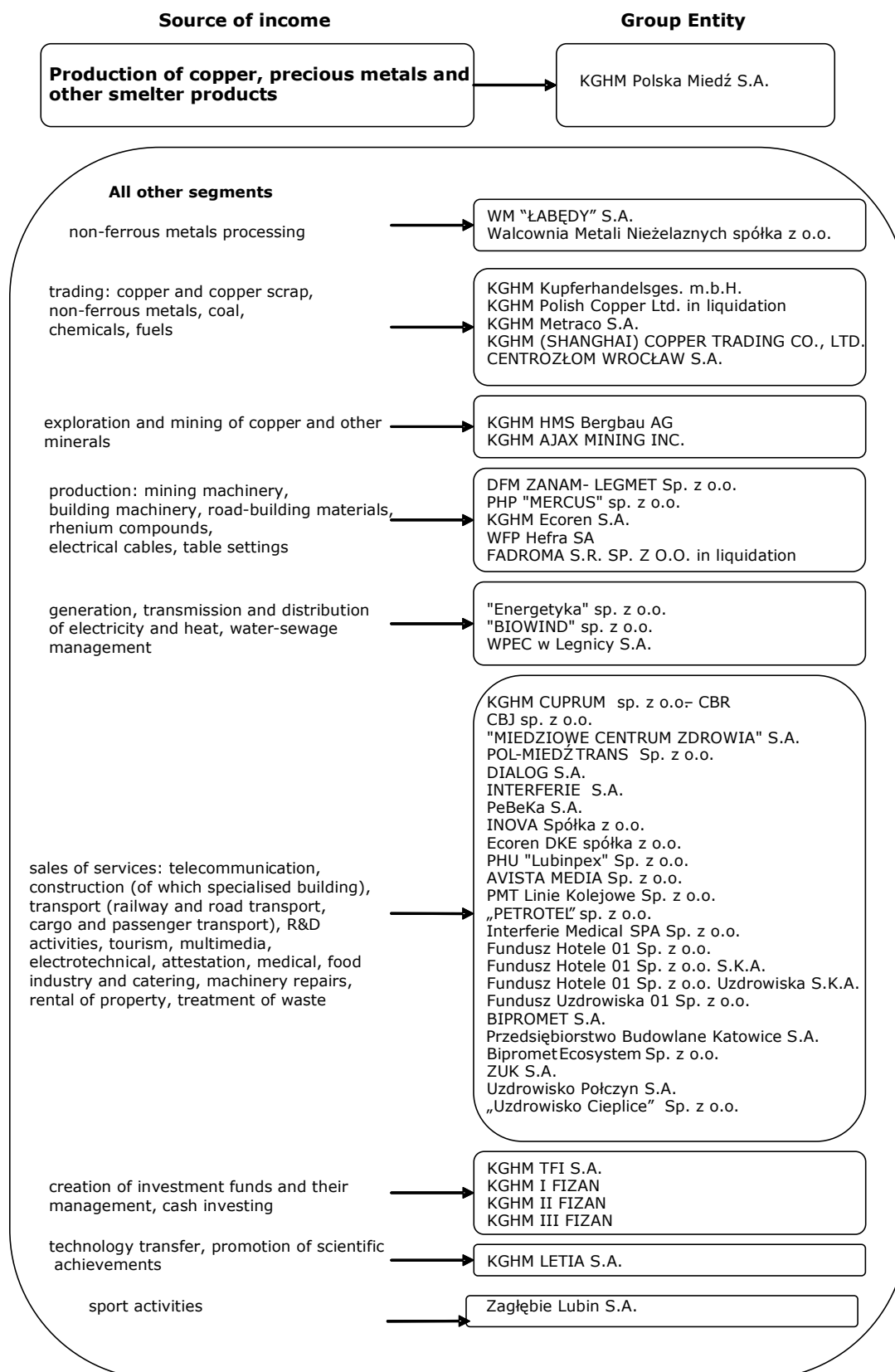
The principal production of KGHM Polska Miedź S.A. is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to enrichment plants where it is enriched. As a result of this process, copper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





## 5. Information on business segments (continuation)

Each of the remaining Group companies represents a separate operating segment. Due to their various economic characteristics they do not meet the criteria for combination according to IFRS 8.12 and do not meet any of the quantitative thresholds. As a result they were combined and presented in the category „All other segments”.



## 5. Information on business segments (continuation)

Internal reports on the results of Group companies are prepared monthly in a condensed form, and quarterly in an expanded scope. The Management Board of the Parent Entity is the body which performs regular reviews of the internal financial reports of the whole Group for purposes of making major investment decisions, as it is the body which is responsible for allocating resources within the Group.

Inter-segment transaction prices are set under arm's length conditions, similarly as in relations with parties external to the Group.

### Segments profit or loss

|                                                                                                      | <b>For the period from 1 January 2010 to 31 December 2010</b>                        |                               |                    |                                                   |                                |
|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|-------------------------------|--------------------|---------------------------------------------------|--------------------------------|
|                                                                                                      | <b>Production of<br/>copper, precious<br/>metals, and other<br/>smelter products</b> | <b>All other<br/>segments</b> | <b>Adjustment*</b> | <b>Eliminations<br/>(according to<br/>IAS 27)</b> | <b>Consolidated<br/>amount</b> |
| REVENUE                                                                                              | 15 945 032                                                                           | 6 726 031                     | 10 307             | (5 388 780)                                       | <b>17 292 590</b>              |
| <i>of which:</i>                                                                                     |                                                                                      |                               |                    |                                                   |                                |
| - external sales                                                                                     | 14 831 458                                                                           | 2 436 632                     | 10 307             | 14 193                                            | <b>17 292 590</b>              |
| - inter-segment sales                                                                                | 1 113 574                                                                            | 4 289 399                     | -                  | (5 402 973)                                       | -                              |
| Interest income                                                                                      | 62 748                                                                               | 14 542                        | (21)               | (4 993)                                           | <b>72 276</b>                  |
| Interest costs                                                                                       | (739)                                                                                | (18 403)                      | -                  | 4 106                                             | <b>(15 036)</b>                |
| Depreciation/Amortisation                                                                            | (615 468)                                                                            | (213 248)                     | (166)              | (15 056)                                          | <b>(843 938)</b>               |
| Revaluation of provisions for employee benefits                                                      | (29 766)                                                                             | (6 526)                       | -                  | -                                                 | <b>(36 292)</b>                |
| Recognition and reversal of impairment losses on property, plant and equipment and intangible assets | -                                                                                    | (19 569)                      | -                  | (743)                                             | <b>(20 312)</b>                |
| Gains on measurement and realisation of derivatives                                                  | 463 604                                                                              | 13 064                        | -                  | -                                                 | <b>476 668</b>                 |
| Losses on measurement and realisation of derivatives                                                 | (1 635 888)                                                                          | (2 803)                       | -                  | -                                                 | <b>(1 638 691)</b>             |
| Share of profit of associates                                                                        | -                                                                                    | -                             | -                  | 280 542                                           | <b>280 542</b>                 |
| <b>Profit before income tax</b>                                                                      | 5 605 567                                                                            | 71 937                        | 16 033             | 84 013                                            | <b>5 777 550</b>               |
| Income tax expense                                                                                   | (1 036 978)                                                                          | 23 981                        | 591                | (50 281)                                          | <b>(1 062 687)</b>             |
| Share of profit (losses) of subordinated entities accounted for using the equity method              | -                                                                                    | 3 070                         | (3 070)            | -                                                 | -                              |
| <b>Profit for the period</b>                                                                         | 4 568 589                                                                            | 98 988                        | 13 554             | 33 732                                            | <b>4 714 863</b>               |
|                                                                                                      | <b>At 31 December 2010</b>                                                           |                               |                    |                                                   |                                |
| Segment assets                                                                                       | 19 829 296                                                                           | 4 973 955                     | 37 690             | (3 663 618)                                       | <b>21 177 323</b>              |
| Segment liabilities                                                                                  | 5 372 819                                                                            | 1 283 887                     | (4 644)            | (366 518)                                         | <b>6 285 544</b>               |
| Bank and other loans                                                                                 | -                                                                                    | 274 115                       | -                  | (46 082)                                          | <b>228 033</b>                 |
| Investments in associates                                                                            | 1 159 947                                                                            | -                             | -                  | 271 152                                           | <b>1 431 099</b>               |
|                                                                                                      | <b>For the period from 1 January 2010 to 31 December 2010</b>                        |                               |                    |                                                   |                                |
| Capital expenditure                                                                                  | 1 262 992                                                                            | 299 000                       | -                  | (36 110)                                          | <b>1 525 882</b>               |

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

## 5. Information on business segments (continuation)

Data for the management reporting purposes are prepared in accordance with the principles applied for the needs of preparing statutory financial statements by the Group entities. Since 2005 the KGHM Polska Miedź S.A. Group has prepared its financial statements in accordance with International Financial Reporting Standards approved by the European Union. Four Group companies, i.e. the Parent Entity, DIALOG S.A., BIPROMET S.A. and INTERFERIE S.A., keep their accounts in accordance with IFRS. The remaining companies of the Group from the segment „All other segments” keep their accounts in accordance with Polish Accounting Standards, restating data to the principles of International Financial Reporting Standards for the needs of preparation of consolidated financial statements.

Details of adjustments restating the amounts shown in the segment „All other segments” to the measurement bases of International Financial Reporting Standards at 31 December 2010 and for the period from 1 January 2010 to 31 December 2010:

|                                                                                       | <b>Sales</b>  | <b>Interest<br/>income</b> | <b>Depreciation<br/>/Amortisation</b> | <b>Profit before<br/>income tax</b> | <b>Income tax<br/>expense</b> | <b>Segment<br/>assets</b> | <b>Segment<br/>liabilities</b> |
|---------------------------------------------------------------------------------------|---------------|----------------------------|---------------------------------------|-------------------------------------|-------------------------------|---------------------------|--------------------------------|
| Netting off of Social Fund assets and liabilities                                     | -             | -                          | -                                     | -                                   | -                             | (9 469)                   | (9 469)                        |
| Offsetting of deferred tax assets/liabilities                                         | -             | -                          | -                                     | -                                   | -                             | (7 295)                   | (7 295)                        |
| Measurement of shares by equity method                                                | -             | -                          | -                                     | 792                                 | -                             | (8 082)                   | -                              |
| Separate presentation of assets and liabilities for sales transaction from past years | 10 319        | -                          | -                                     | 33                                  | -                             | -                         | -                              |
| Impairment losses on shares                                                           | -             | -                          | -                                     | (2 747)                             | -                             | -                         | -                              |
| Deferred tax liability                                                                | -             | -                          | -                                     | -                                   | 720                           | -                         | 11 320                         |
| Result on sale of shares                                                              | -             | -                          | -                                     | 20 688                              | -                             | -                         | -                              |
| Fair value measurement of assets                                                      | -             | -                          | -                                     | (3 395)                             | -                             | 60 077                    | -                              |
| Adjustment to retained earnings in connection with first-time adoption of IFRS        | -             | -                          | -                                     | 17                                  | -                             | -                         | -                              |
| Other                                                                                 | (12)          | (21)                       | (166)                                 | 645                                 | (129)                         | 2 459                     | 800                            |
| <b>Total adjustment</b>                                                               | <b>10 307</b> | <b>(21)</b>                | <b>(166)</b>                          | <b>16 033</b>                       | <b>591</b>                    | <b>37 690</b>             | <b>(4 644)</b>                 |

## 5. Information on business segments (continuation)

### Segments profit or loss

|                                                                                                      | <b>For the period from 1 January 2009 to 31 December 2009 - restated</b>             |                               |                    |                                                   |                                |
|------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|-------------------------------|--------------------|---------------------------------------------------|--------------------------------|
|                                                                                                      | <b>Production of<br/>copper, precious<br/>metals, and other<br/>smelter products</b> | <b>All other<br/>segments</b> | <b>Adjustment*</b> | <b>Eliminations<br/>(according to<br/>IAS 27)</b> | <b>Consolidated<br/>amount</b> |
| REVENUE                                                                                              | 11 060 540                                                                           | 4 644 518                     | 6 532              | (3 591 680)                                       | <b>12 119 910</b>              |
| <i>of which:</i>                                                                                     |                                                                                      |                               |                    |                                                   |                                |
| - external sales                                                                                     | 10 380 929                                                                           | 1 735 939                     | 6 532              | (3 490)                                           | <b>12 119 910</b>              |
| - inter-segment sales                                                                                | 679 611                                                                              | 2 908 579                     | -                  | (3 588 190)                                       | -                              |
| Interest income                                                                                      | 82 487                                                                               | 11 808                        | -                  | (1 371)                                           | <b>92 924</b>                  |
| Interest costs                                                                                       | (5 654)                                                                              | (15 966)                      | -                  | 780                                               | <b>(20 840)</b>                |
| Depreciation/Amortisation                                                                            | (547 653)                                                                            | (203 546)                     | (960)              | 8 369                                             | <b>(743 790)</b>               |
| Revaluation of provisions for employee benefits                                                      | (142 535)                                                                            | (835)                         | -                  | (18 715)                                          | <b>(162 085)</b>               |
| Recognition and reversal of impairment losses on property, plant and equipment and intangible assets | (1 194)                                                                              | (53 048)                      | -                  | 10 007                                            | <b>(44 235)</b>                |
| Gains on measurement and realisation of derivatives                                                  | 261 582                                                                              | 8 475                         | -                  | -                                                 | <b>270 057</b>                 |
| Losses on measurement and realisation of derivatives                                                 | (800 219)                                                                            | (2 218)                       | -                  | -                                                 | <b>(802 437)</b>               |
| Share of profit of associates                                                                        | -                                                                                    | -                             | -                  | 239 463                                           | <b>239 463</b>                 |
| <b>Profit before income tax</b>                                                                      | <b>3 066 569</b>                                                                     | <b>(35 758)</b>               | <b>3 671</b>       | <b>(160 940)</b>                                  | <b>2 873 542</b>               |
| Income tax expense                                                                                   | (526 384)                                                                            | (22 202)                      | 304                | 3 301                                             | <b>(544 981)</b>               |
| Share of profit (losses) of subordinated entities accounted for using the equity method              | -                                                                                    | (17 542)                      | 17 542             | -                                                 | -                              |
| <b>Profit for the period</b>                                                                         | <b>2 540 185</b>                                                                     | <b>(75 502)</b>               | <b>21 517</b>      | <b>(157 639)</b>                                  | <b>2 328 561</b>               |
|                                                                                                      | <b>At 31 December 2009 - restated</b>                                                |                               |                    |                                                   |                                |
| Segment assets                                                                                       | 13 953 030                                                                           | 3 589 050                     | (3 461)            | (2 648 199)                                       | <b>14 890 420</b>              |
| Segment liabilities                                                                                  | 3 549 073                                                                            | 1 171 411                     | 18 370             | (423 773)                                         | <b>4 315 081</b>               |
| Bank and other loans                                                                                 | 3 005                                                                                | 374 585                       | -                  | (78 305)                                          | <b>299 285</b>                 |
| Investments in associates                                                                            | 1 159 947                                                                            | -                             | -                  | 155 716                                           | <b>1 315 663</b>               |
|                                                                                                      | <b>For the period from 1 January 2009 to 31 December 2009 - restated</b>             |                               |                    |                                                   |                                |
| Capital expenditure                                                                                  | 1 069 812                                                                            | 298 231                       | -                  | (6 384)                                           | <b>1 361 659</b>               |

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

## 5. Information on business segments (continuation)

Details of adjustments restating the amounts shown in the segment „All other segments” to the measurement bases of International Financial Reporting Standards at 31 December 2009 and for the period from 1 January 2009 to 31 December 2009:

|                                                                                       | <b>Sales</b> | <b>Depreciation/<br/>Amortisation</b> | <b>Profit<br/>before<br/>income tax</b> | <b>Income<br/>tax<br/>expense</b> | <b>Segment<br/>assets</b> | <b>Segment<br/>liabilities</b> |
|---------------------------------------------------------------------------------------|--------------|---------------------------------------|-----------------------------------------|-----------------------------------|---------------------------|--------------------------------|
| Netting off of Social Fund assets and liabilities                                     | -            | -                                     | -                                       | -                                 | (7 357)                   | (7 357)                        |
| Offsetting of deferred tax assets/liabilities                                         | -            | -                                     | -                                       | -                                 | (4 860)                   | (4 860)                        |
| Accounting for shares using the equity method                                         | -            | -                                     | 838                                     | -                                 | (25 436)                  | -                              |
| Separate presentation of assets and liabilities for sales transaction from past years | 7 245        | -                                     | (111)                                   | -                                 | 30 628                    | 30 597                         |
| Capitalisation of major maintenance expenditures                                      | -            | (1 305)                               | (1 396)                                 | 265                               | -                         | -                              |
| Receivables due to payment to subsidiaries                                            | -            | -                                     | -                                       | -                                 | 2 000                     | -                              |
| Other                                                                                 | (713)        | 345                                   | 4 340                                   | 39                                | 1 564                     | (10)                           |
| <b>Total adjustment</b>                                                               | <b>6 532</b> | <b>(960)</b>                          | <b>3 671</b>                            | <b>304</b>                        | <b>(3 461)</b>            | <b>18 370</b>                  |

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

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

|                 | <b>For the period</b>                              |                                                                 |
|-----------------|----------------------------------------------------|-----------------------------------------------------------------|
|                 | <b>from 1 January 2010<br/>to 31 December 2010</b> | <b>from 1 January 2009<br/>to 31 December 2009<br/>restated</b> |
| Poland          | 4 970 621                                          | 3 374 311                                                       |
| Germany         | 3 739 356                                          | 2 053 935                                                       |
| France          | 581 027                                            | 752 682                                                         |
| Great Britain   | 1 568 507                                          | 1 298 036                                                       |
| Czech Republic  | 1 156 340                                          | 563 983                                                         |
| Austria         | 345 213                                            | 190 944                                                         |
| Hungary         | 412 392                                            | 240 215                                                         |
| China           | 1 893 285                                          | 1 674 758                                                       |
| Other countries | 2 625 849                                          | 1 971 047                                                       |
| <b>Total</b>    | <b>17 292 590</b>                                  | <b>12 119 910</b>                                               |

## Main customers

During the period from 1 January 2010 to 31 December 2010, the revenues from no customer exceeded 10% of the revenues of the Group.

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

98.7% of the non-current assets of the Group are located in the country of origin of the Parent Entity. The remaining 1.3% are located in other countries.

## 6. Property, plant and equipment

|                                   | At               |                              |
|-----------------------------------|------------------|------------------------------|
|                                   | 31 December 2010 | 31 December 2009<br>restated |
| Land                              | 36 546           | 22 598                       |
| Buildings                         | 3 777 940        | 3 511 327                    |
| Technical equipment and machinery | 3 154 471        | 2 954 097                    |
| Motor vehicles                    | 198 653          | 175 058                      |
| Other fixed assets                | 68 061           | 62 474                       |
| Fixed assets under construction   | 1 317 963        | 1 021 558                    |
| <b>Total</b>                      | <b>8 553 634</b> | <b>7 747 112</b>             |

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

|                                                                                | Note  | Land          | Buildings        | Technical<br>equipment and<br>machinery | Motor<br>vehicles | Other fixed<br>assets | Fixed assets<br>under<br>construction | Total            |
|--------------------------------------------------------------------------------|-------|---------------|------------------|-----------------------------------------|-------------------|-----------------------|---------------------------------------|------------------|
| <b>At 1 January 2010 - restated</b>                                            |       |               |                  |                                         |                   |                       |                                       |                  |
| Gross carrying amount                                                          |       | 22 598        | 7 838 520        | 7 135 167                               | 395 008           | 169 092               | 1 070 126                             | 16 630 511       |
| Accumulated depreciation                                                       |       | -             | (4 082 209)      | (3 982 589)                             | (219 598)         | (106 581)             | -                                     | (8 390 977)      |
| Impairment losses                                                              |       | -             | (244 984)        | (198 481)                               | (352)             | (37)                  | (48 568)                              | (492 422)        |
| Net carrying amount                                                            |       | <b>22 598</b> | <b>3 511 327</b> | <b>2 954 097</b>                        | <b>175 058</b>    | <b>62 474</b>         | <b>1 021 558</b>                      | <b>7 747 112</b> |
| <b>Changes in 2010</b>                                                         |       |               |                  |                                         |                   |                       |                                       |                  |
| Settlement of fixed assets under construction                                  |       | 252           | 371 643          | 724 433                                 | 22 540            | 13 842                | (1 132 710)                           | -                |
| Purchase                                                                       |       | 4 518         | 232              | 435                                     | 4 278             | 3 377                 | 1 394 828                             | 1 407 668        |
| Self-constructed                                                               |       | -             | -                | -                                       | -                 | -                     | 12 824                                | 12 824           |
| Changes due to decommissioning/scrapping, sale, donations and no-cost transfer |       | -             | (14 328)         | (18 732)                                | (531)             | (1 674)               | 29 488                                | (5 777)          |
| Changes due to acquisition/transfer of assets used based on lease agreement    |       | -             | -                | 1 497                                   | 9 367             | -                     | -                                     | 10 864           |
| Acquisition of subsidiary                                                      |       | 8 394         | 104 855          | 52 312                                  | 13 538            | 3 917                 | 13 797                                | 196 813          |
| Change in amount of provisions for costs of decommissioning                    |       | -             | (624)            | -                                       | -                 | -                     | -                                     | (624)            |
| Depreciation                                                                   | 29    | -             | (197 786)        | (558 753)                               | (25 659)          | (13 937)              | -                                     | (796 135)        |
| Other changes                                                                  |       | 1 064         | 7 510            | 603                                     | 62                | 110                   | (10 018)                              | (669)            |
| Impairment losses                                                              | 29,32 | (280)         | (5 697)          | (1 455)                                 | -                 | (48)                  | (12 314)                              | (19 794)         |
| Reversal of impairment losses                                                  | 29,31 | -             | 808              | 34                                      | -                 | -                     | 510                                   | 1 352            |
| <b>At 31 December 2010</b>                                                     |       |               |                  |                                         |                   |                       |                                       |                  |
| Gross carrying amount                                                          |       | 36 826        | 8 238 641        | 7 612 307                               | 425 360           | 176 220               | 1 359 419                             | 17 848 773       |
| Accumulated depreciation                                                       |       | -             | (4 215 690)      | (4 259 948)                             | (226 355)         | (108 083)             | -                                     | (8 810 076)      |
| Impairment losses                                                              |       | (280)         | (245 011)        | (197 888)                               | (352)             | (76)                  | (41 456)                              | (485 063)        |
| Net carrying amount                                                            |       | <b>36 546</b> | <b>3 777 940</b> | <b>3 154 471</b>                        | <b>198 653</b>    | <b>68 061</b>         | <b>1 317 963</b>                      | <b>8 553 634</b> |

## 6. Property, plant and equipment (continuation)

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

|                                                                                | Land          | Buildings        | Technical equipment and machinery | Motor vehicles | Other fixed assets | Fixed assets under construction | Total            |
|--------------------------------------------------------------------------------|---------------|------------------|-----------------------------------|----------------|--------------------|---------------------------------|------------------|
| <b>At 1 January 2009</b>                                                       |               |                  |                                   |                |                    |                                 |                  |
| Gross carrying amount                                                          | 19 465        | 7 414 901        | 6 492 150                         | 353 364        | 162 900            | 1 202 236                       | 15 645 016       |
| Accumulated depreciation                                                       | -             | (3 949 965)      | (3 783 833)                       | (213 097)      | (101 930)          | -                               | (8 048 825)      |
| Impairment losses                                                              | -             | (225 726)        | (203 352)                         | (352)          | (46)               | (30 408)                        | (459 884)        |
| Net carrying amount                                                            | <b>19 465</b> | <b>3 239 210</b> | <b>2 504 965</b>                  | <b>139 915</b> | <b>60 924</b>      | <b>1 171 828</b>                | <b>7 136 307</b> |
| <b>Changes in 2009</b>                                                         |               |                  |                                   |                |                    |                                 |                  |
| Settlement of fixed assets under construction                                  | 1 689         | 449 424          | 913 710                           | 52 330         | 13 050             | (1 430 203)                     | -                |
| Purchase                                                                       | 1 319         | 300              | 14 900                            | 2 078          | 2 862              | 1 281 722                       | 1 303 181        |
| Self-constructed                                                               | -             | -                | -                                 | -              | -                  | 16 579                          | 16 579           |
| Changes due to decommissioning/scrapping, sale, donations and no-cost transfer | (6)           | (8 605)          | (18 481)                          | (6 351)        | (1 687)            | 2 915                           | (32 215)         |
| Changes due to acquisition/transfer of assets used based on lease agreement    | -             | -                | 6 130                             | 10 099         | -                  | -                               | 16 229           |
| Acquisition of subsidiary                                                      | 203           | 100 147          | 41 073                            | 1 442          | 1 079              | 1 378                           | 145 322          |
| Sale of subsidiary                                                             | (72)          | (47)             | 2 359                             | 6 766          | 2 790              | -                               | 11 796           |
| Change in amount of provisions for costs of decommissioning                    | -             | (77 221)         | -                                 | -              | -                  | -                               | (77 221)         |
| Depreciation                                                                   | 29            | (173 815)        | (506 600)                         | (23 241)       | (13 720)           | -                               | (717 376)        |
| Other changes                                                                  | -             | 896              | (2 157)                           | (7 980)        | (2 824)            | (1 549)                         | (13 614)         |
| Impairment losses                                                              | 29,32         | (18 996)         | (1 811)                           | -              | -                  | (21 151)                        | (41 958)         |
| Reversal of impairment losses                                                  | 29,31         | 34               | 9                                 | -              | -                  | 39                              | 82               |
| <b>At 31 December 2009 - restated</b>                                          |               |                  |                                   |                |                    |                                 |                  |
| Gross carrying amount                                                          | 22 598        | 7 838 520        | 7 135 167                         | 395 008        | 169 092            | 1 070 126                       | 16 630 511       |
| Accumulated depreciation                                                       | -             | (4 082 209)      | (3 982 589)                       | (219 598)      | (106 581)          | -                               | (8 390 977)      |
| Impairment losses                                                              | -             | (244 984)        | (198 481)                         | (352)          | (37)               | (48 568)                        | (492 422)        |
| Net carrying amount                                                            | <b>22 598</b> | <b>3 511 327</b> | <b>2 954 097</b>                  | <b>175 058</b> | <b>62 474</b>      | <b>1 021 558</b>                | <b>7 747 112</b> |

In accordance with accounting policy, at 31 December 2010 the Group's entities assessed the existing indications of impairment of assets.

The most important impairment losses in accumulated impairment of property, plant and equipment at 31 December 2010 in the amount of PLN 485 063 thousand represent:

- a loss recognised in 2009 in the amount of PLN 37 593 thousand on the football stadium in the company Zagłębie Lubin S.A. The value in use of the stadium is estimated at PLN 59 289 thousand using discounted cash flow, with a discount rate of 11.74%.
- losses from the years 2005-2008 in the subsidiary DIALOG S.A. in the amount of PLN 449 451 thousand. Due to the partial use of the technology of the existing network and the level of cash flow generated being less than expected, impairment tests were performed. For calculation purposes it was assumed that all of the assets of DIALOG S.A. represent a single cash generating unit. The recoverable value of the cash generating unit was set based on a calculation of value in use. The value in use of the assets was set based on a projection of cash flow, comprising the period 2009-2015, assumed in creating the long-term strategy, adjusted by flows related to future investments.

Depreciation of property, plant and equipment used in production or in the provision of services was recognised as a cost of sales in the amount of PLN 764 400 thousand (for the period from 1 January 2009 to 31 December 2009, PLN 686 683 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 20 750 thousand (for the period from 1 January 2009 to 31 December 2009, PLN 20 069 thousand) and in selling costs in the amount of PLN 10 985 thousand (for the period from 1 January 2009 to 31 December 2009, PLN 10 624 thousand).

## 6. Property, plant and equipment (continuation)

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

| Groups of property, plant and equipment    | At               |                          |                     |                           |                          |                     |
|--------------------------------------------|------------------|--------------------------|---------------------|---------------------------|--------------------------|---------------------|
|                                            | 31 December 2010 |                          |                     | 31 December 2009 restated |                          |                     |
|                                            | Initial cost     | Accumulated depreciation | Net carrying amount | Initial cost              | Accumulated depreciation | Net carrying amount |
| <b>Technical equipment and machinery</b>   | 9 173            | 3 126                    | 6 047               | 6 811                     | 1 182                    | 5 629               |
| <b>Motor vehicles</b>                      | 36 974           | 5 619                    | 31 355              | 27 107                    | 2 911                    | 24 196              |
| <b>Other property, plant and equipment</b> | 405              | 13                       | 392                 | -                         | -                        | -                   |
| <b>Total</b>                               | <b>46 552</b>    | <b>8 758</b>             | <b>37 794</b>       | <b>33 918</b>             | <b>4 093</b>             | <b>29 825</b>       |

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

|                                            | At               |                             |                          |                     |                           |                             |                          |                     |
|--------------------------------------------|------------------|-----------------------------|--------------------------|---------------------|---------------------------|-----------------------------|--------------------------|---------------------|
|                                            | 31 December 2010 |                             |                          |                     | 31 December 2009 restated |                             |                          |                     |
|                                            | Cost             | Depreciation for the period | Accumulated depreciation | Net carrying amount | Cost                      | Depreciation for the period | Accumulated depreciation | Net carrying amount |
| <b>Land</b>                                | 4 020            | -                           | -                        | 4 020               | 3 926                     | -                           | -                        | 3 926               |
| <b>Buildings</b>                           | 29 951           | 728                         | 18 736                   | 11 215              | 32 312                    | 762                         | 19 468                   | 12 844              |
| <b>Technical equipment and machinery</b>   | 5 323            | 375                         | 3 154                    | 2 169               | 28 415                    | 1 731                       | 13 023                   | 15 392              |
| <b>Other property, plant and equipment</b> | 573              | 11                          | 541                      | 32                  | 558                       | 8                           | 538                      | 20                  |
| <b>Total</b>                               | <b>39 867</b>    | <b>1 114</b>                | <b>22 431</b>            | <b>17 436</b>       | <b>65 211</b>             | <b>2 501</b>                | <b>33 029</b>            | <b>32 182</b>       |

The amount of collateral for the repayment of liabilities of the KGHM Polska Miedź S.A. Group established on property, plant and equipment was presented in note 23 Collateral for the repayment of liabilities.

**Amount of compensation from insurance companies, recognised in profit or loss, with respect to property, plant and equipment which has been lost or impaired**

|                                                            | For the period                          |                                                  |
|------------------------------------------------------------|-----------------------------------------|--------------------------------------------------|
|                                                            | from 1 January 2010 to 31 December 2010 | from 1 January 2009 to 31 December 2009 restated |
| <b>Amount of compensation recognised in profit or loss</b> | 3 885                                   | 4 978                                            |



## 6. Property, plant and equipment (continuation)

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

|                                                                                                  |                         |
|--------------------------------------------------------------------------------------------------|-------------------------|
| Construction of the SW-4 shaft                                                                   | 392 400                 |
| Głógów Głęboki – Przemysłowy                                                                     | 208 329                 |
| Ventilation and air conditioning equipment in the mines                                          | 215 643                 |
| Exchange of floatation machinery in the OEPs                                                     | 60 872                  |
| Investments related to mining region infrastructural development in mines                        | 48 216                  |
| Intensification of lead production – construction of 4th Doerschel furnace at the Głógów smelter | 37 037                  |
| Investments in power and communications infrastructure                                           | 35 353                  |
| Sulphuric acid plant in smelters                                                                 | 34 950                  |
| Modernisation of steam and water boilers                                                         | 32 234                  |
| Construction of a hotel "Medical SPA" in Świnoujście                                             | 26 473                  |
| Primary equipment in mines                                                                       | 24 540                  |
| <b>Total</b>                                                                                     | <b><u>1 116 047</u></b> |

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

|                                                                                                  |                       |
|--------------------------------------------------------------------------------------------------|-----------------------|
| Construction of the SW-4 shaft                                                                   | 301 116               |
| Głógów Głęboki – Przemysłowy                                                                     | 145 461               |
| Investments related to mining region infrastructural development in mines                        | 83 244                |
| Modernisation of steam and water boilers                                                         | 48 361                |
| Primary equipment in mines (shafts, machines, pumps)                                             | 36 387                |
| Modernisation of a tailings hydrotransport installation including the direct pumping of tailings | 35 798                |
| Investments in power and communications infrastructure                                           | 34 576                |
| Pyrometallurgy modernisation program – preparation of program and servicing of projects          | 29 666                |
| Modernisation of a stadium                                                                       | 24 187                |
| Exchange of floatation machinery in the OEPs                                                     | 17 423                |
| Installation for the production of rhenium in the form of eluates                                | 17 594                |
| Recycling of electronic waste                                                                    | 17 130                |
| <b>Total</b>                                                                                     | <b><u>790 943</u></b> |

### Capital commitments made in the reporting period but not recognised in the statement of financial position

|                                                      | At                    |                              |
|------------------------------------------------------|-----------------------|------------------------------|
|                                                      | 31 December 2010      | 31 December 2009<br>restated |
| For the acquisition of property, plant and equipment | 434 801               | 265 670                      |
| For the acquisition of intangible assets             | 13 888                | 17 399                       |
| <b>Total capital commitments:</b>                    | <b><u>448 689</u></b> | <b><u>283 069</u></b>        |

KGHM Polska Miedź S.A. Group  
Annual consolidated financial statements  
prepared in accordance with IFRS as adopted by the European Union  
for the period from 1 January 2010 to 31 December 2010  
(amounts in tables in thousand PLN, unless otherwise stated)

## 7. Intangible assets

|                                                                        | At<br>31 December 2010 | 31 December 2009<br>restated |
|------------------------------------------------------------------------|------------------------|------------------------------|
| Development costs                                                      | 4 618                  | 3 673                        |
| Goodwill                                                               | 171 109                | 53 996                       |
| Software                                                               | 41 630                 | 22 086                       |
| Acquired concessions, patents, licenses                                | 23 054                 | 27 413                       |
| Other intangible assets                                                | 110 218                | 66 380                       |
| Assets used in the exploration for and evaluation of mineral resources | 148 801                | 790                          |
| Intangible assets not yet available for use                            | 24 444                 | 43 786                       |
| <b>Total</b>                                                           | <b>523 874</b>         | <b>218 124</b>               |

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

|                                                                                | Note | Development costs | Goodwill       | Software      | Acquired concessions, patents, licenses | Other intangible assets | Assets used in the exploration for and evaluation of mineral resources | Intangible assets not yet available for use | Total          |
|--------------------------------------------------------------------------------|------|-------------------|----------------|---------------|-----------------------------------------|-------------------------|------------------------------------------------------------------------|---------------------------------------------|----------------|
| <b>At 1 January 2010 - restated</b>                                            |      |                   |                |               |                                         |                         |                                                                        |                                             |                |
| Gross carrying amount                                                          |      | 21 139            | 56 757         | 93 377        | 75 649                                  | 76 799                  | 790                                                                    | 44 580                                      | 369 091        |
| Accumulated amortisation                                                       |      | (17 466)          | -              | (68 867)      | (47 883)                                | (10 258)                | -                                                                      | -                                           | (144 474)      |
| Impairment losses                                                              |      | -                 | (2 761)        | (2 424)       | (353)                                   | (161)                   | -                                                                      | (794)                                       | (6 493)        |
| Net carrying amount                                                            |      | <b>3 673</b>      | <b>53 996</b>  | <b>22 086</b> | <b>27 413</b>                           | <b>66 380</b>           | <b>790</b>                                                             | <b>43 786</b>                               | <b>218 124</b> |
| <b>Changes in 2010</b>                                                         |      |                   |                |               |                                         |                         |                                                                        |                                             |                |
| Transfer from intangible assets not yet available for use                      |      | 3 865             | -              | 28 455        | 3 964                                   | 490                     | -                                                                      | (36 774)                                    | -              |
| Purchase                                                                       |      | -                 | -              | 1 001         | 124                                     | 5 051                   | 46 607                                                                 | 21 188                                      | 73 971         |
| Changes due to decommissioning/scrapping, sale, donations and no-cost transfer |      | -                 | -              | -             | (1)                                     | (460)                   | -                                                                      | -                                           | (461)          |
| Acquisition of subsidiary                                                      |      | -                 | 117 856        | 188           | 70                                      | 36 130                  | 101 404                                                                | -                                           | 255 648        |
| Amortisation                                                                   | 29   | (2 339)           | -              | (10 118)      | (9 687)                                 | (7 211)                 | -                                                                      | -                                           | (29 355)       |
| Other changes                                                                  |      | 236               | -              | 18            | 1 171                                   | 10 148                  | -                                                                      | (3 756)                                     | 7 817          |
| Impairment losses                                                              | 29   | (817)             | (743)          | -             | -                                       | (364)                   | -                                                                      | -                                           | (1 924)        |
| Reversal of impairment losses                                                  | 29   | -                 | -              | -             | -                                       | 54                      | -                                                                      | -                                           | 54             |
| <b>At 31 December 2010</b>                                                     |      |                   |                |               |                                         |                         |                                                                        |                                             |                |
| Gross carrying amount                                                          |      | 25 180            | 174 613        | 121 323       | 80 676                                  | 125 730                 | 148 801                                                                | 25 238                                      | 701 561        |
| Accumulated amortisation                                                       |      | (19 745)          | -              | (77 269)      | (57 269)                                | (15 041)                | -                                                                      | -                                           | (169 324)      |
| Impairment losses                                                              |      | (817)             | (3 504)        | (2 424)       | (353)                                   | (471)                   | -                                                                      | (794)                                       | (8 363)        |
| Net carrying amount                                                            |      | <b>4 618</b>      | <b>171 109</b> | <b>41 630</b> | <b>23 054</b>                           | <b>110 218</b>          | <b>148 801</b>                                                         | <b>24 444</b>                               | <b>523 874</b> |

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

|                                                                                |    | Development costs | Goodwill      | Software      | Acquired concessions, patents, licenses | Other intangible assets | Assets used in the exploration for and evaluation of mineral resources | Intangible assets not yet available for use | Total          |
|--------------------------------------------------------------------------------|----|-------------------|---------------|---------------|-----------------------------------------|-------------------------|------------------------------------------------------------------------|---------------------------------------------|----------------|
| <b>At 1 January 2009</b>                                                       |    |                   |               |               |                                         |                         |                                                                        |                                             |                |
| Gross carrying amount                                                          |    | 19 535            | 11 477        | 88 702        | 70 452                                  | 58 803                  | 930                                                                    | 29 045                                      | 278 944        |
| Accumulated amortisation                                                       |    | (15 643)          | -             | (62 329)      | (39 334)                                | (5 896)                 | -                                                                      | -                                           | (123 202)      |
| Impairment losses                                                              |    | -                 | (402)         | (2 577)       | (388)                                   | -                       | -                                                                      | (794)                                       | (4 161)        |
| Net carrying amount                                                            |    | <b>3 892</b>      | <b>11 075</b> | <b>23 796</b> | <b>30 730</b>                           | <b>52 907</b>           | <b>930</b>                                                             | <b>28 251</b>                               | <b>151 581</b> |
| <b>Changes in 2009</b>                                                         |    |                   |               |               |                                         |                         |                                                                        |                                             |                |
| Transfer from intangible assets not yet available for use                      |    | 448               | -             | 5 716         | 5 280                                   | 61                      | -                                                                      | (11 505)                                    | -              |
| Purchase                                                                       |    | -                 | -             | 784           | 1 481                                   | 937                     | -                                                                      | 32 150                                      | 35 352         |
| Changes due to decommissioning/scrapping, sale, donations and no-cost transfer |    | -                 | -             | -             | (114)                                   | (493)                   | (140)                                                                  | 140                                         | (607)          |
| Acquisition of subsidiary                                                      |    | -                 | 51 572        | 129           | 4                                       | 18 255                  | -                                                                      | 7                                           | 69 967         |
| Amortisation                                                                   | 29 | (1 959)           | -             | (8 529)       | (9 987)                                 | (5 939)                 | -                                                                      | -                                           | (26 414)       |
| Other changes                                                                  |    | 1 292             | (6 292)       | 190           | 19                                      | 652                     | -                                                                      | (5 257)                                     | (9 396)        |
| Impairment losses                                                              | 29 | -                 | (2 359)       | -             | -                                       | -                       | -                                                                      | -                                           | (2 359)        |
| <b>At 31 December 2009- restated</b>                                           |    |                   |               |               |                                         |                         |                                                                        |                                             |                |
| Gross carrying amount                                                          |    | 21 139            | 56 757        | 93 377        | 75 649                                  | 76 799                  | 790                                                                    | 44 580                                      | 369 091        |
| Accumulated amortisation                                                       |    | (17 466)          | -             | (68 867)      | (47 883)                                | (10 258)                | -                                                                      | -                                           | (144 474)      |
| Impairment losses                                                              |    | -                 | (2 761)       | (2 424)       | (353)                                   | (161)                   | -                                                                      | (794)                                       | (6 493)        |
| Net carrying amount                                                            |    | <b>3 673</b>      | <b>53 996</b> | <b>22 086</b> | <b>27 413</b>                           | <b>66 380</b>           | <b>790</b>                                                             | <b>43 786</b>                               | <b>218 124</b> |

## 7. Intangible assets (continuation)

At 31 December 2010, the largest item in intangible assets not yet available for use is represented by assets used in the exploration for and evaluation of mineral resources in the amount of PLN 132 483 thousand of the company KGHM AJAX MINING INC. related to preparing a Bankable Feasibility Study together with exploratory work in the Afton – Ajax deposit and in the vicinity of Afton.

In addition, at 31 December 2010, amongst the significant items in intangible assets are:

- goodwill of ZUK S.A. from provisional accounting for of the business combination in the amount of PLN 87 044 thousand,
- goodwill of WPEC w Legnicy S.A. from accounting for of the business combination in the amount of PLN 50 686 thousand,
- goodwill of „Uzdrowisko Cieplice” Sp. z o.o. from provisional accounting for of the business combination in the amount of PLN 23 429 thousand.

Greenhouse gases emission allowances received free of charge by the Group entities according to a Decree of the Council of Ministers dated 27 December 2005 (Journal of Laws no. 264/2005 item 2206) are also recognised in intangible assets.

The amount of greenhouse gases emission allowances allocated in the National Plan for Allocating Proprietary Allowances for each calendar year in the settlement period 2008-2012 amounts to 697 945.2 allowances. In 2010 the exploitation of installations caused the utilisation of 783 335.5 allowances (in 2009, 492 064.2 allowances). The companies of the Group may cover the resulting deficit of 85 390.3 allowances by purchasing the allowances they need to the end of March 2011, for which a provision was recognised in the amount of PLN 4 915 thousand, or by utilising the allowances granted for future years. In the financial statements the Group applies the method of presenting allowances and related non-monetary government grants at net value.

The amortisation of intangible assets utilised in the production or in the providing of services was recognised as a cost of sales in the amount of PLN 20 806 thousand (for the period from 1 January 2009 to 31 December 2009 in the amount of PLN 19 753 thousand). The amortisation of other intangible assets was recognised in administrative expenses: PLN 6 506 thousand (for the period from 1 January 2009 to 31 December 2009: PLN 4 506 thousand) and selling costs: PLN 2 043 thousand (for the period from 1 January 2009 to 31 December 2009: PLN 2 155 thousand).

### Perpetual usufruct of land

At 31 December 2010, the Group entities used land under perpetual usufruct rights comprising a total area of 6 281 ha (at 31 December 2009: 6 091 ha).

|                           | <b>At<br/>31 December 2010</b> | <b>At<br/>31 December 2009<br/>restated</b> |
|---------------------------|--------------------------------|---------------------------------------------|
|                           | <b>(ha)</b>                    | <b>(ha)</b>                                 |
| KGHM Polska Miedź S.A.    | 5 700                          | 5 700                                       |
| Subsidiaries of the Group | 581                            | 391                                         |

The Parent Entity and some Group companies received perpetual usufruct rights free of charge based on laws in force. The land held under perpetual usufruct comprises industrial terrain related to the principal activities of the Group, which also include protective zones in which environmental quality standards have been transgressed due to the activities carried out by the Group.

Due to the nature of the use of the above-mentioned land, the Group has not determined a fair value for these perpetual usufruct rights at 31 December 2010.

## 7. Intangible assets (continuation)

| <b>Total value of future minimum fees due to perpetual usufruct of land</b> | <b>At</b>               |                                  |
|-----------------------------------------------------------------------------|-------------------------|----------------------------------|
|                                                                             | <b>31 December 2010</b> | <b>31 December 2009 restated</b> |
| Under one year                                                              | 10 422                  | 8 069                            |
| From one to five years                                                      | 43 609                  | 35 425                           |
| Over five years                                                             | 613 587                 | 507 218                          |
| <b>Total:</b>                                                               | <b>667 618</b>          | <b>550 712</b>                   |

| <b>Fees due to perpetual usufruct of land recognised in profit or loss</b> | <b>For the period</b>                          |                                                         |
|----------------------------------------------------------------------------|------------------------------------------------|---------------------------------------------------------|
|                                                                            | <b>from 1 January 2010 to 31 December 2010</b> | <b>from 1 January 2009 to 31 December 2009 restated</b> |
| Value of fees due to perpetual usufruct of land                            | 9 856                                          | 8 042                                                   |

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

## 8. Investment property

|                                                        | <b>For the period</b>                          |                                                         |
|--------------------------------------------------------|------------------------------------------------|---------------------------------------------------------|
|                                                        | <b>from 1 January 2010 to 31 December 2010</b> | <b>from 1 January 2009 to 31 December 2009 restated</b> |
| <b>Beginning of financial period</b>                   | <b>17 164</b>                                  | <b>18 083</b>                                           |
| Changes during the financial period:                   | 42 596                                         | (919)                                                   |
| - due to acquisition of subsidiaries                   | 37 675                                         | -                                                       |
| - due to settlement of fixed assets under construction | 1 033                                          | -                                                       |
| - due to fair value measurement                        | 4 358                                          | (919)                                                   |
| - due to sale of properties                            | (470)                                          | -                                                       |
| <b>End of financial period</b>                         | <b>59 760</b>                                  | <b>17 164</b>                                           |

Investment property in the amount of PLN 59 760 thousand was set based on the measurement carried out by a valuer at 31 December 2010.

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

## 9. Investments in associates

|                                                                                                | <b>Note</b> | <b>For the period</b>                          |                                                         |
|------------------------------------------------------------------------------------------------|-------------|------------------------------------------------|---------------------------------------------------------|
|                                                                                                |             | <b>from 1 January 2010 to 31 December 2010</b> | <b>from 1 January 2009 to 31 December 2009 restated</b> |
| <b>Beginning of financial period</b>                                                           |             | <b>1 315 663</b>                               | <b>1 498 116</b>                                        |
| Share of profits of associates                                                                 | 36          | 280 542                                        | 239 463                                                 |
| Changes in equity due to payment of dividend                                                   |             | (146 658)                                      | (418 222)                                               |
| Adjustment to purchase cost by returned tax on civil-law transactions                          |             | -                                              | (3 694)                                                 |
| Amortisation of relations with customers identified in the process of allocating purchase cost |             | (18 448)                                       | -                                                       |
| <b>End of financial period</b>                                                                 |             | <b>1 431 099</b>                               | <b>1 315 663</b>                                        |

## 9. Investments in associates (continuation)

### Interests held by the Group in associates

At 31 December 2010 Polkomtel S.A. was an associate of the Group.

Financial data of Polkomtel S.A.

|                         | At                                                 |                                                     |
|-------------------------|----------------------------------------------------|-----------------------------------------------------|
|                         | 31 December 2010                                   | 31 December 2009 *                                  |
| % of share capital held | 24.39                                              | 24.39                                               |
| % of voting power       | 24.39                                              | 24.39                                               |
| Total assets            | 7 965 918                                          | 8 425 970                                           |
| Non-current liabilities | 1 892 622                                          | 940 432                                             |
| Current liabilities     | 2 321 642                                          | 4 282 778                                           |
|                         | <b>For the period</b>                              |                                                     |
|                         | <b>from 1 January 2010<br/>to 31 December 2010</b> | <b>from 1 January 2009<br/>to 31 December 2009*</b> |
| Sales                   | 7 672 409                                          | 7 773 120                                           |
| Profit for the period   | 1 150 159                                          | 981 747                                             |

\* Data for 2009 were adjusted in relation to those presented in the report for the 2009 with respect to the changes in financial statement of Polkomtel S.A. as a result of the auditing by a certified auditor

## 10. Available-for-sale financial assets

|                                                        | Note      | At               |                              |
|--------------------------------------------------------|-----------|------------------|------------------------------|
|                                                        |           | 31 December 2010 | 31 December 2009<br>restated |
| Shares in unlisted companies                           |           | 11 274           | 11 475                       |
| Shares in listed companies                             |           | 740 324          | -                            |
| Share in investment funds                              |           | -                | 7 930                        |
| Other                                                  |           | 7                | 7                            |
| <b>Non-current available-for-sale financial assets</b> | <b>34</b> | <b>751 605</b>   | <b>19 412</b>                |
| Participation units in open-end investment funds       |           | 407 214          | -                            |
| Shares in listed companies                             |           | 8 448            | 8 976                        |
| <b>Current available-for-sale financial assets</b>     | <b>34</b> | <b>415 662</b>   | <b>8 976</b>                 |
| <b>Total available-for-sale financial assets:</b>      | <b>34</b> | <b>1 167 267</b> | <b>28 388</b>                |

## 11. Held-to-maturity investments

|                                                 | Note      | At               |                              |
|-------------------------------------------------|-----------|------------------|------------------------------|
|                                                 |           | 31 December 2010 | 31 December 2009<br>restated |
| Monetary resources of Mine Closure Fund         |           | 84 115           | 67 097                       |
| Other securities                                |           | 42               | 47                           |
| <b>Non-current held-to-maturity investments</b> |           | <b>84 157</b>    | <b>67 144</b>                |
| Monetary resources of Mine Closure Fund         |           | 4 129            | 580                          |
| <b>Current held-to-maturity investments</b>     |           | <b>4 129</b>     | <b>580</b>                   |
| <b>Total held-to-maturity investments:</b>      | <b>34</b> | <b>88 286</b>    | <b>67 724</b>                |

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

Management of the MCF assets primarily involves their investment in bank deposits or debt securities with a maturity of up to 1 year from the date of acquisition, and interests from these investments increase the value of the Fund. At 31 December 2010 the balance of held-to-maturity investments comprised MCF bank deposits in the amount of PLN 88 240 thousand and cash on MCF bank account in the amount of PLN 4 thousand.

Utilisation of the MCF assets will be carried out in accordance with the approved schedule for closing the mines. A portion of these assets, which the Parent Entity plans to make use of within 12 months from the end of the reporting period, is presented in current held-to-maturity investments. The remainder of the assets, which are planned to be utilised in future years, is presented in non-current held-to-maturity investments, due to the restriction placed on their use to settle liabilities for at least twelve months from the end of the reporting period, despite the fact that the resources of this Fund are invested in current financial instruments (IAS 1.57(d)).

Information on the fair value of held-to-maturity investments was presented in Note 34.2.

## 12. Derivatives

|                                                                                           | Note        | At               |                              |
|-------------------------------------------------------------------------------------------|-------------|------------------|------------------------------|
|                                                                                           |             | 31 December 2010 | 31 December 2009<br>restated |
| <b><u>Non-current assets</u></b>                                                          |             |                  |                              |
| Hedging instruments                                                                       |             | 402 234          | 57 636                       |
| Trade instruments                                                                         |             | 1 605            | 398                          |
| <b>Non-current assets due to derivatives, total:</b>                                      |             | <b>403 839</b>   | <b>58 034</b>                |
| <b><u>Current assets</u></b>                                                              |             |                  |                              |
| Hedging instruments                                                                       |             | 211 186          | 125 130                      |
| Trade instruments                                                                         |             | 9 137            | 1 481                        |
| Instruments initially designated as hedging instruments<br>excluded from hedge accounting |             | 77 261           | 136 764                      |
| <b>Current assets due to derivatives, total:</b>                                          |             | <b>297 584</b>   | <b>263 375</b>               |
| <b>Total assets due to derivatives</b>                                                    | <b>34.1</b> | <b>701 423</b>   | <b>321 409</b>               |
| <b><u>Non-current liabilities</u></b>                                                     |             |                  |                              |
| Hedging instruments                                                                       |             | 606 154          | 54 867                       |
| Trade instruments                                                                         |             | 105 426          | 6 487                        |
| <b>Non-current liabilities due to derivatives, total:</b>                                 |             | <b>711 580</b>   | <b>61 354</b>                |
| <b><u>Current liabilities</u></b>                                                         |             |                  |                              |
| Hedging instruments                                                                       |             | 294 161          | 76 441                       |
| Trade instruments                                                                         |             | 187 503          | 196 782                      |
| Instruments initially designated as hedging instruments<br>excluded from hedge accounting |             | 454              | 494                          |
| <b>Current liabilities due to derivatives, total:</b>                                     |             | <b>482 118</b>   | <b>273 717</b>               |
| <b>Total liabilities due to derivatives</b>                                               | <b>34.1</b> | <b>1 193 698</b> | <b>335 071</b>               |

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**12. Derivatives (continuation)**

| TRADE INSTRUMENTS                                          | Volume/<br>Notional                            | Avg. weighted<br>price/ex. rate                  | At 31 December 2010 |              |                       |                  | At 31 December 2009 - restated |             |                       |                |
|------------------------------------------------------------|------------------------------------------------|--------------------------------------------------|---------------------|--------------|-----------------------|------------------|--------------------------------|-------------|-----------------------|----------------|
|                                                            |                                                |                                                  | Financial assets    |              | Financial liabilities |                  | Financial assets               |             | Financial liabilities |                |
|                                                            |                                                |                                                  | Current             | Non-current  | Current               | Non-current      | Current                        | Non-current | Current               | Non-current    |
| Type of derivative                                         | Cu [t]<br>Currency<br>['000 USD]<br>['000 EUR] | Cu [USD/t]<br>Currency<br>[USD/PLN]<br>[EUR/PLN] |                     |              |                       |                  |                                |             |                       |                |
| <b>Derivatives – Commodity contracts – Metals - Copper</b> |                                                |                                                  |                     |              |                       |                  |                                |             |                       |                |
| Swaps/Forwards                                             |                                                |                                                  |                     |              |                       |                  |                                |             |                       |                |
| Swaps/Forwards - purchased                                 | 250                                            | 9 089.26                                         | 375                 |              |                       |                  |                                |             |                       |                |
| Options                                                    |                                                |                                                  |                     |              |                       |                  |                                |             |                       |                |
| Sold call options                                          | 5 744                                          | 1                                                |                     |              | (98 644)              | (61 438)         |                                |             | (30 514)              | (6 089)        |
| Purchased put options                                      | 117 000                                        | 4 700                                            | 742                 | 1 605        |                       |                  | 860                            | 398         |                       |                |
| Sold put options                                           | 234 000                                        | 4 683                                            |                     |              | (742)                 | (23 580)         |                                |             | (860)                 | (398)          |
| <b>TOTAL:</b>                                              |                                                |                                                  | <b>1 117</b>        | <b>1 605</b> | <b>(99 386)</b>       | <b>(85 018)</b>  | <b>860</b>                     | <b>398</b>  | <b>(31 374)</b>       | <b>(6 487)</b> |
| <b>Derivatives – Currency contracts</b>                    |                                                |                                                  |                     |              |                       |                  |                                |             |                       |                |
| Forwards/Swaps                                             |                                                |                                                  |                     |              |                       |                  |                                |             |                       |                |
| Forwards/Swaps – sold USD                                  | 11 088                                         | 2.9167-2.9955                                    | 170                 |              | (220)                 |                  |                                |             |                       |                |
| Forwards/Swaps – sold EUR                                  | 23 650                                         | 3.9853-3.9603                                    | 3 393               |              | (46)                  |                  | 128                            |             | (214)                 |                |
| Options USD                                                |                                                |                                                  |                     |              |                       |                  |                                |             |                       |                |
| Purchased call options                                     | 180 000                                        | 4.4000                                           | 454                 |              |                       |                  | 493                            |             |                       |                |
| Purchased put options                                      | 360 000                                        | 2.4000                                           | 4 003               |              |                       |                  |                                |             |                       |                |
| Sold call options                                          |                                                |                                                  |                     |              |                       |                  |                                |             | (28 430)              |                |
| Sold put options                                           | 810 000                                        | 2.7222                                           |                     |              | (87 851)              | (20 408)         |                                |             | (136 764)             |                |
| <b>TOTAL:</b>                                              |                                                |                                                  | <b>8 020</b>        |              | <b>(88 117)</b>       | <b>(20 408)</b>  | <b>621</b>                     |             | <b>(165 408)</b>      |                |
| <b>TOTAL TRADE INSTRUMENTS</b>                             |                                                |                                                  | <b>9 137</b>        | <b>1 605</b> | <b>(187 503)</b>      | <b>(105 426)</b> | <b>1 481</b>                   | <b>398</b>  | <b>(196 782)</b>      | <b>(6 487)</b> |



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**12. Derivatives (continuation)**

| HEDGING INSTRUMENTS                                        | Volume/<br>Notional                                   | Avg. weighted<br>price/<br>ex. rate                  | Maturity/<br>settlement<br>period |             | Period of<br>profit/loss<br>impact |             | At 31 December 2010 |                    |                       |                    | At 31 December 2009 - restated |                    |                       |                    |
|------------------------------------------------------------|-------------------------------------------------------|------------------------------------------------------|-----------------------------------|-------------|------------------------------------|-------------|---------------------|--------------------|-----------------------|--------------------|--------------------------------|--------------------|-----------------------|--------------------|
|                                                            |                                                       |                                                      |                                   |             |                                    |             | Financial assets    |                    | Financial liabilities |                    | Financial assets               |                    | Financial liabilities |                    |
|                                                            |                                                       |                                                      |                                   |             |                                    |             | Current             | Non-current        | Current               | Non-current        | Current                        | Non-current        | Current               | Non-current        |
| <b>Type of derivative</b>                                  | Cu [t]<br>Ag<br>[‘000 troz]<br>Currency<br>[‘000 USD] | Cu [USD/t]<br>Ag [USD/troz]<br>Currency<br>[USD/PLN] | <b>From</b>                       | <b>Till</b> | <b>From</b>                        | <b>Till</b> | <b>Current</b>      | <b>Non-current</b> | <b>Current</b>        | <b>Non-current</b> | <b>Current</b>                 | <b>Non-current</b> | <b>Current</b>        | <b>Non-current</b> |
| <b>Derivatives – Commodity contracts - Metals - Copper</b> |                                                       |                                                      |                                   |             |                                    |             |                     |                    |                       |                    |                                |                    |                       |                    |
| Options                                                    |                                                       |                                                      |                                   |             |                                    |             |                     |                    |                       |                    |                                |                    |                       |                    |
| Purchased put options Collar                               | 19 500                                                | 6 700-8 800                                          | Jan 11                            | June 11     | Feb 11                             | July 11     | 817                 |                    | (61 730)              |                    |                                |                    | 39 315                | 5 424              |
| Collar- seagull                                            | 234 000                                               | 7 008-9 383                                          | Jan 11                            | June 13     | Feb 11                             | July 13     | 26 198              | 208 333            | (224 011)             | (593 707)          |                                |                    | 18 797                | 48 847             |
| Purchased put options – producer’s put                     | 58 500                                                | 8 000                                                | Jan 11                            | June 12     | Feb 11                             | July 12     | 25 300              | 45 704             |                       |                    |                                |                    |                       |                    |
| <b>TOTAL</b>                                               |                                                       |                                                      |                                   |             |                                    |             | <b>52 315</b>       | <b>254 037</b>     | <b>(285 741)</b>      | <b>(593 707)</b>   | <b>58 112</b>                  | <b>54 271</b>      | <b>(76 441)</b>       | <b>(54 867)</b>    |
| <b>Derivatives – Commodity contracts - Metals - Silver</b> |                                                       |                                                      |                                   |             |                                    |             |                     |                    |                       |                    |                                |                    |                       |                    |
| Options                                                    |                                                       |                                                      |                                   |             |                                    |             |                     |                    |                       |                    |                                |                    |                       |                    |
| Purchased put options                                      | 3 600                                                 | 20                                                   | Jan 11                            | Dec 11      | Feb 11                             | Jan 12      | 1 333               | 406                |                       |                    |                                |                    | 23 465                | 3 365              |
| <b>TOTAL</b>                                               |                                                       |                                                      |                                   |             |                                    |             | <b>1 333</b>        | <b>406</b>         |                       |                    | <b>23 465</b>                  | <b>3 365</b>       |                       |                    |
| <b>Derivatives – Currency contracts</b>                    |                                                       |                                                      |                                   |             |                                    |             |                     |                    |                       |                    |                                |                    |                       |                    |
| Options USD                                                |                                                       |                                                      |                                   |             |                                    |             |                     |                    |                       |                    |                                |                    |                       |                    |
| Purchased put options Collar                               | 750 000                                               | 2.8470                                               | Jan 11                            | Dec 11      | Jan 11                             | Dec 11      | 86 063              |                    |                       |                    |                                |                    | 43 553                |                    |
| Collar                                                     | 180 000                                               | 3.4000 – 4.4500                                      | Jan 12                            | Dec 12      | Jan 12                             | Dec 12      |                     | 79 369             |                       | (5 678)            |                                |                    |                       |                    |
| Collar- seagull                                            | 630 000                                               | 3.0714-4.0000                                        | Jan 11                            | Dec 12      | Jan 11                             | Dec 12      | 71 475              | 68 422             | (8 420)               | (6 769)            |                                |                    |                       |                    |
| <b>TOTAL</b>                                               |                                                       |                                                      |                                   |             |                                    |             | <b>157 538</b>      | <b>147 791</b>     | <b>(8 420)</b>        | <b>(12 447)</b>    | <b>43 553</b>                  |                    |                       |                    |
| <b>TOTAL HEDGING INSTRUMENTS</b>                           |                                                       |                                                      |                                   |             |                                    |             | <b>211 186</b>      | <b>402 234</b>     | <b>(294 161)</b>      | <b>(606 154)</b>   | <b>125 130</b>                 | <b>57 636</b>      | <b>(76 441)</b>       | <b>(54 867)</b>    |

## 12. Derivatives (continuation)

### INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING

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

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

### 13. Trade and other receivables

|                                                                       | Note        | At               |                              |
|-----------------------------------------------------------------------|-------------|------------------|------------------------------|
|                                                                       |             | 31 December 2010 | 31 December 2009<br>restated |
| <b>Non-current trade and other receivables</b>                        |             |                  |                              |
| Trade receivables                                                     |             | 14 715           | 16 565                       |
| Retentions (collateral) due to long-term construction contracts       |             | 2 474            | 1 587                        |
| Deposits                                                              |             | 1 187            | 23                           |
| Loans granted                                                         |             | -                | 2 624                        |
| Other financial receivables                                           |             | 1 747            | 1 261                        |
| Impairment allowances                                                 | 35.3.6      | (13 158)         | (15 226)                     |
| <b>Total loans and financial receivables, net:</b>                    | <b>34.1</b> | <b>6 965</b>     | <b>6 834</b>                 |
| Other non-financial receivables                                       |             | 1 719            | 11                           |
| Prepayments                                                           |             | 4 824            | 3 741                        |
| <b>Total non-financial receivables, net</b>                           |             | <b>6 543</b>     | <b>3 752</b>                 |
| <b>Non-current trade and other receivables, net:</b>                  |             | <b>13 508</b>    | <b>10 586</b>                |
| <b>Current trade and other receivables</b>                            |             |                  |                              |
| Trade receivables                                                     |             | 2 043 788        | 1 266 369                    |
| Retentions (collateral) due to long-term construction contracts       |             | 837              | -                            |
| Loans granted                                                         |             | 1 595            | 2 033                        |
| Deposits of over 3 up to 12 months                                    |             | 351 280          | 45                           |
| Other financial receivables                                           |             | 55 918           | 25 463                       |
| Impairment allowances                                                 | 35.3.6      | (85 825)         | (82 225)                     |
| <b>Total loans and financial receivables, net</b>                     | <b>34.1</b> | <b>2 367 593</b> | <b>1 211 685</b>             |
| Other non-financial receivables, including:                           |             | 370 907          | 346 782                      |
| - taxes and other charges                                             |             | 258 457          | 298 818                      |
| Prepayments                                                           |             | 24 171           | 18 381                       |
| Impairment allowances                                                 |             | (32 013)         | (45 507)                     |
| <b>Total non-financial receivables, net</b>                           |             | <b>363 065</b>   | <b>319 656</b>               |
| <b>Current trade and other receivables, net</b>                       |             | <b>2 730 658</b> | <b>1 531 341</b>             |
| <b>Total non-current and current trade and other receivables, net</b> |             | <b>2 744 166</b> | <b>1 541 927</b>             |

At 31 December 2010 and 31 December 2009 there were no receivables due to unsettled derivatives.

### 13. Trade and other receivables (continuation)

#### Impairment allowances on non-financial receivables

|                                                                         | Note | For the period                             |                                                        |
|-------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                         |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Impairment allowances at the beginning of the period</b>             |      | <b>45 507</b>                              | <b>56 061</b>                                          |
| Impairment allowances at the day of obtaining control over a subsidiary |      | -                                          | 12                                                     |
| Impairment allowances recognised in profit or loss                      | 32   | 7 192                                      | 552                                                    |
| Impairment allowances reversed through profit or loss                   | 31   | (3 425)                                    | (1 810)                                                |
| Impairment allowances utilised during the period                        |      | (17 558)                                   | (9 341)                                                |
| Impairment allowances on costs of legal proceedings                     |      | 300                                        | 124                                                    |
| Reversal of impairment allowances on costs of legal proceedings         |      | (3)                                        | (91)                                                   |
| <b>Impairment allowances at the end of the period</b>                   |      | <b>32 013</b>                              | <b>45 507</b>                                          |

### 14. Inventories

|                                             | Note | At               |                              |
|---------------------------------------------|------|------------------|------------------------------|
|                                             |      | 31 December 2010 | 31 December 2009<br>restated |
| Materials                                   |      | 247 277          | 298 288                      |
| Half-finished products and work in progress |      | 1 683 819        | 1 456 411                    |
| Finished goods                              |      | 209 316          | 270 479                      |
| Merchandise                                 |      | 81 909           | 47 256                       |
| <b>Total carrying amount of inventories</b> |      | <b>2 222 321</b> | <b>2 072 434</b>             |

|                                                          | Note | For the period                             |                                                        |
|----------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                          |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Write-down of inventories in the financial period</b> |      |                                            |                                                        |
| Write-down of inventories recognised in cost of sales    | 29   | (6 933)                                    | (11 519)                                               |
| Reversal of write-down recognised in cost of sales       | 29   | 3 852                                      | 1 886                                                  |

In 2010 Group subsidiaries wrote down finished goods and work in progress inventories in the amount of PLN 5 540 thousand, whose net realisable value would be lower than their costs. The write-down in the amount of PLN 1 393 thousand relates to other inventories.

At 31 December 2010, the balance of merchandise includes property right certificates issued under certificates of origin for energy from renewable resources and cogeneration, in the amount of PLN 2 048 thousand, received free-of-charge from the government, with respect to green energy (23 817 allowances), yellow energy (24 606 allowances) and red energy (88 759 785 allowances).

In accordance with executive regulations respecting property rights, the companies of the Group, based on the amount of energy sold to end users, are required to present for redemption property rights certificates issued under certificates of origin in the following amounts:

- 42 988 645 allowances - green energy,
- 12 813 924 allowances - yellow energy,
- 88 044 051 allowances - red energy.

During the reporting period, 26 999 941 allowances for green energy and 8 040 000 allowances for yellow energy were purchased, and 144 421 181 allowances for red energy were received free-of-charge. In terms of partial settlement, all green and yellow allowances purchased in 2010 were redeemed, and 55 881 593 allowances for red energy. Companies of the Group which had a deficit of rights for obligatory redemption created provisions in the amount of PLN 5 687 thousand for the purchase of 15 964 887 allowances for green energy, 4 749 318 allowances for yellow energy and 32 140 255 allowances for red energy. Companies which received free-of-charge allowances for red energy, an excess of 88 539 585 allowances above the permissible limit designated as held for sale.

## 15. Cash and cash equivalents

|                                                                                       | Note        | At               |                           |
|---------------------------------------------------------------------------------------|-------------|------------------|---------------------------|
|                                                                                       |             | 31 December 2010 | 31 December 2009 restated |
| Cash in hand                                                                          |             | 847              | 450                       |
| Cash at bank                                                                          |             | 103 046          | 41 582                    |
| Other cash                                                                            |             | 1 361            | 632                       |
| Other financial assets with a maturity of up to 3 months from the date of acquisition |             | 2 981 703        | 1 154 413                 |
| <b>Total cash and cash equivalents</b>                                                | <b>34.1</b> | <b>3 086 957</b> | <b>1 197 077</b>          |

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 2 906 645 thousand (as at 31 December 2009: PLN 1 153 051 thousand), participation units in investment funds in the amount of PLN 68 289 thousand (at 31 December 2009: PLN 0 thousand), and interest accrued on financial assets in the amount of PLN 6 769 thousand (as at 31 December 2009: PLN 1 362 thousand).

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

## 16. Non-current assets held for sale

|                                               | At               |                           |
|-----------------------------------------------|------------------|---------------------------|
|                                               | 31 December 2010 | 31 December 2009 restated |
| Property, plant and equipment                 | 689              | 6 007                     |
| Intangible assets                             | 389              | 667                       |
| <b>Total non-current assets held for sale</b> | <b>1 078</b>     | <b>6 674</b>              |

At 31 December 2010 non-current assets held for sale mainly represent:

- a quartz mine „Stanisław” in the amount of PLN 1 074 thousand, whose activities have been discontinued (property, plant and equipment: PLN 685 thousand, intangible assets: PLN 389 thousand) (the activities related to the assets held for sale were discontinued in 2004, as well as the depreciation of these assets).

At 31 December 2009 non-current assets held for sale represented:

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

## 17. Share capital

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

Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A.

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

During 2010 the State Treasury, which at 31 December 2009 held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and the same number of votes at the General Meeting, decreased its share in the share capital of the Parent Entity. On 8 January 2010, 20 000 000 shares of KGHM Polska Miedź S.A. were sold on a regulated market, directed to qualified investors.

## 17. Share capital (continuation)

In 2009 there were no changes in significant blocks of shares of KGHM Polska Miedź S.A.

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

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

## 18. Accumulated other comprehensive income

|                                                                                                   | Note   | Accumulated other comprehensive income due to: |                                         | Total accumulated other comprehensive income |
|---------------------------------------------------------------------------------------------------|--------|------------------------------------------------|-----------------------------------------|----------------------------------------------|
|                                                                                                   |        | Available-for-sale financial assets            | Cash flow hedging financial instruments |                                              |
| <b>At 1 January 2010 - restated</b>                                                               |        | <b>561</b>                                     | <b>125 740</b>                          | <b>126 301</b>                               |
| Fair value gains on available-for-sale financial assets                                           |        | 152 228                                        | -                                       | 152 228                                      |
| Amount transferred to profit or loss due to the settlement of available-for-sale financial assets |        | (4 716)                                        | -                                       | (4 716)                                      |
| Impact of effective cash flow hedging transactions                                                | 35.1.9 | -                                              | 97 786                                  | 97 786                                       |
| Amount transferred to profit or loss due to the settlement of hedging instruments                 | 35.1.9 |                                                | (142 187)                               | (142 187)                                    |
| Deferred income tax                                                                               | 24     | (28 027)                                       | 8 436                                   | (19 591)                                     |
| <b>Other comprehensive income</b>                                                                 |        | <b>119 485</b>                                 | <b>(35 965)</b>                         | <b>83 520</b>                                |
| <b>At 31 December 2010</b>                                                                        |        | <b>120 046</b>                                 | <b>89 775</b>                           | <b>209 821</b>                               |

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

Accumulated other comprehensive income is not subject to distribution.

## 18. Accumulated other comprehensive income (continuation)

### 18.1 Accumulated other comprehensive income components

|                                                                                          | At               |                |                              |                |
|------------------------------------------------------------------------------------------|------------------|----------------|------------------------------|----------------|
|                                                                                          | 31 December 2010 |                | 31 December 2009<br>restated |                |
|                                                                                          | Gross value      | Net value      | Gross value                  | Net value      |
| <b>Accumulated other comprehensive income due to available-for-sale financial assets</b> | <b>148 207</b>   | <b>120 046</b> | <b>694</b>                   | <b>561</b>     |
| Fair value gains                                                                         | 148 207          | 120 046        | 694                          | 561            |
| <b>Accumulated other comprehensive income due to cash flow hedging instruments</b>       | <b>110 832</b>   | <b>89 775</b>  | <b>155 233</b>               | <b>125 740</b> |
| Gains on measurement                                                                     | 110 832          | 89 775         | 155 233                      | 125 740        |
| <b>Total accumulated other comprehensive income</b>                                      | <b>259 039</b>   | <b>209 821</b> | <b>155 927</b>               | <b>126 301</b> |

## 19. Retained earnings

|                                                                                           | At                |                              |
|-------------------------------------------------------------------------------------------|-------------------|------------------------------|
|                                                                                           | 31 December 2010  | 31 December 2009<br>restated |
| Undistributed profit/(loss) from prior years                                              | 1 441 693         | (2 293 789)                  |
| including valuation of the put option for employee shares                                 | 67 382            | 27 086                       |
| Reserve capital created in accordance with the Commercial Partnerships and Companies Code | 682 547           | 682 533                      |
| Reserve capital created and utilised in accordance with the Statutes of Group entities    | 5 607 666         | 7 655 219                    |
| Profit for the current period                                                             | 4 708 946         | 2 327 993                    |
| <b>Total retained earnings</b>                                                            | <b>12 440 852</b> | <b>8 371 956</b>             |

Based on the Commercial Partnerships and Companies Code, the Group companies are required to create reserve capital for any potential (future) or existing losses, to which no less than 8 % of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.

At 31 December 2010 this statutory reserve capital in the Group entities amounts to PLN 682 547 thousand, of which PLN 660 000 thousand relates to the Parent Entity.

## 20. Changes in equity attributable to non-controlling interest

|                                                                                                           | Note | For the period                             |                                                        |
|-----------------------------------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                           |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>At beginning of the period</b>                                                                         |      | <b>77 082</b>                              | <b>58 360</b>                                          |
| Non-controlling interest in profits of subsidiaries                                                       |      | 5 917                                      | 568                                                    |
| Changes in equity attributable to non-controlling interest due to obtaining control of subsidiaries       | 20.1 | 159 210                                    | 26 880                                                 |
| Changes in equity attributable to non-controlling interest due to change in share capital of subsidiaries | 20.1 | (1 103)                                    | (8 726)                                                |
| <b>At end of the period</b>                                                                               |      | <b>241 106</b>                             | <b>77 082</b>                                          |

## 20. Changes in equity attributable to non-controlling interest (continuation)

### 20.1 Other changes in equity attributable to non-controlling interest

In 2010 other changes in equity attributable to non-controlling interest were as follows:

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

The percentage shares method was used to measure non-controlling shares.

In 2009 other changes in equity attributable to non-controlling interest were as follows:

|                                                                         | Note      | Net assets at<br>the day of<br>obtaining<br>control/%<br>change in<br>share capital | % of non-<br>controlling<br>interest in<br>respect of<br>the<br>change | Equity<br>attributable to<br>non-<br>controlling<br>interest |
|-------------------------------------------------------------------------|-----------|-------------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------|
| <b>Increases due to obtaining control of subsidiaries</b>               | <b>20</b> | <b>179 536</b>                                                                      | -                                                                      | <b>26 880</b>                                                |
| WPEC w Legnicy S.A.                                                     |           | 178 747                                                                             | 15%                                                                    | 26 812                                                       |
| KGHM HMS Bergbau AG                                                     |           | 225                                                                                 | 25.10%                                                                 | 57                                                           |
| FADROMA S.R. SP. Z O.O.                                                 |           | 564                                                                                 | 1.95%                                                                  | 11                                                           |
| <b>Decreases due to transactions with non-controlling interest</b>      | <b>20</b> | -                                                                                   | -                                                                      | <b>(8 726)</b>                                               |
| "PETROTEL" sp. z o.o.                                                   |           | 31 905                                                                              | 24.93%                                                                 | (7 954)                                                      |
| Ecoren DKE spółka z o.o.                                                |           | 67 130                                                                              | 1.15%                                                                  | (772)                                                        |
| <b>Other changes in equity attributable to non-controlling interest</b> | <b>20</b> | -                                                                                   | -                                                                      | <b>18 154</b>                                                |



## 21. Trade and other payables

|                                                                                                         | Note        | At<br>31 December 2010 | At<br>31 December 2009<br>restated |
|---------------------------------------------------------------------------------------------------------|-------------|------------------------|------------------------------------|
| <b>Non-current trade and other payables</b>                                                             |             |                        |                                    |
| Trade payables                                                                                          |             | 11 732                 | 10 223                             |
| including payables due to purchase, construction of property, plant and equipment and intangible assets |             | 2 933                  | 1 866                              |
| Liabilities due to measurement of employee shares put options                                           |             | 68 872                 | 27 086                             |
| Other financial liabilities                                                                             |             | 11 562                 | 12 509                             |
| <b>Total financial liabilities (scope of IFRS 7)</b>                                                    | <b>34.1</b> | <b>92 166</b>          | <b>49 818</b>                      |
| Deferred income                                                                                         |             |                        |                                    |
| Other non-financial liabilities                                                                         |             | 29 268                 | 13 250                             |
| <b>Total non-financial liabilities</b>                                                                  |             | <b>126</b>             | <b>248</b>                         |
| <b>Total non-current trade and other payables</b>                                                       |             | <b>29 394</b>          | <b>13 498</b>                      |
|                                                                                                         |             | <b>121 560</b>         | <b>63 316</b>                      |
| <b>Current trade and other payables</b>                                                                 |             |                        |                                    |
| Trade payables                                                                                          |             | 890 150                | 619 728                            |
| including payables due to purchase, construction of property, plant and equipment and intangible assets |             | 230 699                | 157 722                            |
| Payables due to unsettled derivatives                                                                   |             | 49 690                 | 30 611                             |
| Other financial liabilities                                                                             |             | 20 956                 | 36 476                             |
| <b>Total financial liabilities (scope of IFRS 7)</b>                                                    | <b>34.1</b> | <b>960 796</b>         | <b>686 815</b>                     |
| Other financial liabilities ( IAS 19 – Employee benefits)                                               |             | 168 419                | 150 181                            |
| <b>Total financial liabilities</b>                                                                      |             | <b>1 129 215</b>       | <b>836 996</b>                     |
| Liabilities due to taxes and social security                                                            |             | 307 039                | 258 135                            |
| Other non-financial liabilities                                                                         |             | 46 006                 | 34 256                             |
| Special funds                                                                                           |             | 112 054                | 85 324                             |
| Deferred income                                                                                         |             | 22 284                 | 21 134                             |
| Accruals                                                                                                |             | 377 981                | 340 051                            |
| <b>Total non-financial liabilities</b>                                                                  |             | <b>865 364</b>         | <b>738 900</b>                     |
| <b>Total current trade and other payables</b>                                                           |             | <b>1 994 579</b>       | <b>1 575 896</b>                   |
| <b>Total non-current and current trade and other payables</b>                                           |             | <b>2 116 139</b>       | <b>1 639 212</b>                   |

Payables due to unsettled derivatives represent the derivatives whose date of settlement fall on 5 January 2011 for the balance at 31 December 2010 and 5 January 2010 for the balance at 31 December 2009.

These instruments were measured to fair value at the average settlement price for the month of December 2010 and respectively December 2009.

Accruals consist mainly of one-off bonus paid after the approval of the annual financial statements and other employee benefits resulting from the collective labour agreements in the amount of PLN 294 930 thousand (PLN 272 976 thousand at 31 December 2009) and costs due to unused annual leave in the amount of PLN 19 395 thousand (PLN 22 262 thousand at 31 December 2009).

Non-current liabilities represent a written put option liability for employee shares in the amount of PLN 68 872 thousand (at 31 December 2009, PLN 27 086 thousand). These liabilities represent liabilities due to an irrevocable purchase offer submitted by Group companies as part of a sales agreement by the State Treasury of shares of WPEC w Legnicy S.A., „Uzdrowisko Cieplice” Sp. z o.o., ZUK S.A., Uzdrowisko Polczyn S.A., CENTROZŁOM WROCLAW S.A., all other shares held by the State Treasury and not acquired by the entitled employees of these companies and shares acquired by employees (shares acquired from the State Treasury during the privatisation of these companies). The liabilities were valued at the best estimate of the discounted amount payable, based on contractual provisions respecting the purchase price of these shares; the purchase price is similar to the fair value of these shares. Liabilities due to the measurement of put options for employee shares are discounted by applying a discount rate at the level of 5.5% assuming a 5-year period of realisation. The written put option liability for employee shares is recognised with debit entry in retained earnings in „Valuation of the put option for employee shares”.

## 21. Trade and other payables (continuation)

Details on measurement of liabilities due to employee shares options are presented in the table below:

| Companies whose employees were offered shares of companies free of charge by the State Treasury under the Privatisation Act | Number of employee shares | Share price (PLN) | Amount of liability (PLN '000) at |                           |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------|-----------------------------------|---------------------------|
|                                                                                                                             |                           |                   | 31 December 2010                  | 31 December 2009 restated |
| WPEC S.A. in Legnica                                                                                                        | 1 770 000                 | 20                | 28 576                            | 27 086                    |
| "Uzdrowisko Cieplice" Sp. z o.o.                                                                                            | 13 110                    | 256.50            | 2 573                             | -                         |
| Zespół Uzdrowisk Kłodzkich S.A.                                                                                             | 379 500                   | 40.06             | 11 632                            | -                         |
| Uzdrowisko Połczyn S.A.                                                                                                     | 179 550                   | 16.51             | 2 268                             | -                         |
| CENTROZŁOM WROCŁAW S.A.                                                                                                     | 1 650 000                 | 18.87             | 23 823                            | -                         |
| <b>Liabilities due to employee shares options</b>                                                                           |                           |                   | <b>68 872</b>                     | <b>27 086</b>             |

## 22. Borrowings and finance lease liabilities

|                                                                   | Note        | At               |                           |
|-------------------------------------------------------------------|-------------|------------------|---------------------------|
|                                                                   |             | 31 December 2010 | 31 December 2009 restated |
| <b>Non-current borrowings and finance lease liabilities</b>       |             |                  |                           |
| Bank loans                                                        |             | 141 829          | 86 340                    |
| Loans                                                             |             | 2 420            | 3 715                     |
| Finance lease liabilities                                         |             | 29 403           | 30 799                    |
| <b>Total non-current borrowings and finance lease liabilities</b> |             | <b>173 652</b>   | <b>120 854</b>            |
| <b>Current borrowings and finance lease liabilities</b>           |             |                  |                           |
| Bank loans                                                        |             | 81 901           | 204 442                   |
| Loans                                                             |             | 1 883            | 4 788                     |
| Finance lease liabilities                                         |             | 12 378           | 10 586                    |
| <b>Total current borrowings and finance lease liabilities</b>     |             | <b>96 162</b>    | <b>219 816</b>            |
| <b>Total borrowings and finance lease liabilities</b>             | <b>34.1</b> | <b>269 814</b>   | <b>340 670</b>            |

### 22.1 Borrowings

#### Bank and other loans as at 31 December 2010

| Bank loan currency                | Interest rate | The value of the bank and other loans at the end of the reporting period (in '000) |                | Of which payable in: |               |               |               |                 |
|-----------------------------------|---------------|------------------------------------------------------------------------------------|----------------|----------------------|---------------|---------------|---------------|-----------------|
|                                   |               | in foreign currency                                                                | in PLN         | 2011 (current)       | 2012          | 2013          | 2014-2015     | 2016 and beyond |
| EUR                               | Variable      | 1 378                                                                              | 5 456          | 777                  | 777           | 777           | 1 554         | 1 571           |
| PLN                               | Variable      |                                                                                    | 221 147        | 82 315               | 17 493        | 64 386        | 21 001        | 35 952          |
| PLN                               | Fixed         |                                                                                    | 1 430          | 691                  | 182           | 182           | 282           | 93              |
| <b>Total bank and other loans</b> |               |                                                                                    | <b>228 033</b> | <b>83 783</b>        | <b>18 452</b> | <b>65 345</b> | <b>22 837</b> | <b>37 616</b>   |

## 22. Borrowings and finance lease liabilities (continuation)

### 22.1 Borrowings (continuation)

#### Bank and other loans as at 31 December 2009 - restated

| Bank loan currency                | Interest rate | The value of the bank and other loans at the end of the reporting period (in '000) |                |                | Of which payable in: |               |               |                 |
|-----------------------------------|---------------|------------------------------------------------------------------------------------|----------------|----------------|----------------------|---------------|---------------|-----------------|
|                                   |               | in foreign currency                                                                | in PLN         | 2010 (current) | 2011                 | 2012          | 2013-2014     | 2015 and beyond |
| EUR                               | Variable      | 1 638                                                                              | 6 728          | 1 069          | 1 612                | 806           | 1 612         | 1 629           |
| PLN                               | Variable      |                                                                                    | 289 135        | 205 073        | 16 367               | 15 793        | 20 720        | 31 182          |
| PLN                               | Fixed         |                                                                                    | 3 422          | 3 088          | 83                   | 84            | 167           | -               |
| <b>Total bank and other loans</b> |               |                                                                                    | <b>299 285</b> | <b>209 230</b> | <b>18 062</b>        | <b>16 683</b> | <b>22 499</b> | <b>32 811</b>   |

Most of the bank loans drawn by Group companies are bank loans with variable interest rates. The majority of bank and other loans denominated in PLN are based on the WIBOR 1M reference rate, plus a bank loan margin, depending on the creditworthiness of the entity being financed, within a range of from 1% to 4%, with interest payable in monthly periods. Interest on bank loans denominated in EUR is mainly based on the EURIBOR 1M reference rate, plus a bank loan margin to 2%.

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

| Ratio (%)  | 31 December 2010 | 31 December 2009 |
|------------|------------------|------------------|
| WIBOR 1W   | 3.4800           | 3.5600           |
| WIBOR 1M   | 3.6600           | 3.7600           |
| WIBOR 3M   | 3.9500           | 4.2700           |
| EURIBOR 1M | 0.7820           | 0.4530           |
| EURIBOR 3M | 1.0060           | 0.7000           |

Major items in borrowings:

- a bank loan of the subsidiary DIALOG S.A., in the amount of PLN 50 071 thousand at 31 December 2010 (respectively PLN 100 034 thousand at 31 December 2009), with collateral in the form of proxy rights to the borrower's bank accounts. The loan agreement sets forth additional liabilities to be met by the company during the life of the loan, including: ensuring adherence during the life of the loan to specified financial ratios (a Net Financial Debt to EBITDA ratio no higher than 2.0, a Debt Servicing ratio no lower than 1.1, Equity no lower than PLN 550 000 thousand, a Collateral ratio no lower than 1.5), and a commitment to establish additional collateral on the bank loan if the bank loan conditions are breached;
- a bank loan drawn by "Energetyka" sp. z o.o. in the amount of PLN 44 286 thousand at 31 December 2010 (respectively PLN 46 772 thousand at 31 December 2009), with collateral in the form of blank promissory notes, the transfer of receivables from agreements for the sale of heat and electricity and the transfer of receivables from property insurance agreements;
- a bank loan of the subsidiary KGHM CUPRUM sp. z o.o. - CBR in the amount of PLN 20 673 thousand at 31 December 2010 (respectively PLN 22 596 thousand at 31 December 2009), with collateral in the form of a mortgage on investment property, the assignment of rights to an insurance policy on a building, assignment of receivables from lease agreements, and proxy rights to a current bank account held by the lender;
- a bank loan drawn by KGHM Ecoren S.A. in the amount of PLN 17 071 thousand at 31 December 2010 (respectively PLN 20 848 thousand at 31 December 2009), with collateral in the form of a mortgage on investment property and a building with land (the head office of the company);
- a bank loan of the subsidiary DFM ZANAM - LEGMET Sp. z o.o. in the amount of PLN 16 694 thousand at 31 December 2010 (respectively PLN 13 930 thousand at 31 December 2009), with collateral in the form of blank promissory notes, proxy rights to a bank account, assignment of future receivables to a commercial contract, a mortgage on property, the assignment of rights to an insurance policy on the subject of this mortgage, and a registered pledge on an organised part of the enterprise (machinery and equipment).

Based on the agreement signed, the total value of overdraft facilities granted at 31 December 2010 amounted to PLN 161 447 thousand (at 31 December 2009 PLN 135 100 thousand), of which PLN 50 721 thousand was utilised at 31 December 2010 (at 31 December 2009 PLN 45 579 thousand, respectively).

## 22. Borrowings and finance lease liabilities (continuation)

### 22.2 Finance lease liabilities

As at 31 December 2010, the amount of the finance lease liabilities amounted to PLN 41 781 thousand (at 31 December 2009: PLN 41 385 thousand, respectively).

The largest item is liabilities due to agreements entered into with Fortis Lease Sp. z o.o. to finance the purchase of rolling stock. At 31 December 2010, the amount of liabilities in this regard amounts to PLN 20 074 thousand (at 31 December 2009, PLN 20 568 thousand). Payment is in monthly instalments pursuant to the repayment schedule, with final payment in the first quarter of 2015. Interest on the liabilities is based on a variable interest rate of WIBOR 1M and a margin, which may change depending on the agreement, and falls within a range of 1.9-2.5%.

The commitment in the amount of PLN 11 310 thousand (EUR 2 885 thousand) (at 31 December 2009 PLN 14 368 thousand (EUR 3 700 thousand) resulting from an agreement with the State Treasury on access to geological information from the State Treasury for a fee, to prepare a request for a license for the mining of ore from the Głogów Głęboki - Przemysłowy deposit, also remains significant. This license was granted in November 2004. Payments to the State Treasury are being made in 10 equal instalments. The last instalment will be settled on 30 June 2014. Those liabilities were recognised in the accounts of the Parent Entity at a discounted amount. The carrying amount of intangible assets at the end of the reporting period amounts to PLN 28 088 thousand (at 31 December 2009: PLN 28 735 thousand).

#### Finance lease liabilities as at 31 December 2010

|                                                | 2011<br>(current) | 2012          | 2013         | 2014-2015    | Total         |
|------------------------------------------------|-------------------|---------------|--------------|--------------|---------------|
| <b>Nominal value of minimum lease payments</b> | <b>13 718</b>     | <b>13 236</b> | <b>9 305</b> | <b>8 927</b> | <b>45 186</b> |
| Future finance costs due to finance leases     | (1 340)           | (1 007)       | (647)        | (411)        | (3 405)       |
| <b>Present value of minimum lease payments</b> | <b>12 378</b>     | <b>12 229</b> | <b>8 658</b> | <b>8 516</b> | <b>41 781</b> |

#### Finance lease liabilities as at 31 December 2009 - restated

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

## 23. Collateral for the repayment of liabilities

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

- proxy rights to all present and future bank accounts of the borrowers,
- financial registered pledge on present and future bank accounts of the borrower,
- transfer of receivables due to an existing insurance contract and future contracts,
- contractual mortgage on properties up to PLN 59 016 thousand,
- mortgages to the total amount of PLN 107 468 thousand,
- contractual mortgage on investment properties of PLN 45 843 thousand,
- blank promissory notes with a declaration of rights thereunder up to PLN 173 728 thousand,
- statement on submitting to the enforcement regime,
- assignment of rights under insurance policies,
- assignment of receivables up to PLN 56 381 thousand,
- registered pledge on technical equipment and machinery, with assignment of rights under insurance agreement on these machines and equipment up to PLN 9 000 thousand,
- registered pledge and agreements for ownership transfer on inventories of finished goods, half-finished products, merchandise and materials up to PLN 34 896 thousand,
- ownership transfer on tangible assets up to PLN 32 105 thousand,
- assignment of rights under movable assets insurance agreement (assignment of rights under insurance policy against fire and other accidents for PLN 15 600 thousand and an insurance policy against theft with breaking, entering and robbery, PLN 150 thousand).

### 23. Collateral for the repayment of liabilities (continuation)

At the end of the reporting period the following assets are pledged as collateral for financial liabilities or contingent liabilities:

|                                                                                                  | At               |                              |
|--------------------------------------------------------------------------------------------------|------------------|------------------------------|
|                                                                                                  | 31 December 2010 | 31 December 2009<br>restated |
| Property, plant and equipment, including:                                                        | 159 213          | 377 898                      |
| • Fixed assets under construction                                                                | 9 506            | -                            |
| • Buildings                                                                                      | 80 927           | 268 964                      |
| • Motor vehicles <sup>1)</sup>                                                                   | 29 300           | 24 971                       |
| • Technical equipment and machinery <sup>1)</sup>                                                | 39 480           | 83 963                       |
| Intangible assets                                                                                | 305              | 969                          |
| Investment property                                                                              | 25 523           | 17 163                       |
| Inventories                                                                                      | 32 571           | 39 213                       |
| Trade receivables <sup>2)</sup>                                                                  | 18 407           | 11 851                       |
| Cash and cash equivalents                                                                        | 56 245           | 473                          |
| <b>Total carrying amount of assets which are pledged as collateral for financial liabilities</b> | <b>292 264</b>   | <b>447 567</b>               |

<sup>1)</sup> incl. those used based on a finance lease

<sup>2)</sup> incl. those under a pledge or assignment of receivables

### 24. Deferred tax

|                                                                          | Note | At               |                              |
|--------------------------------------------------------------------------|------|------------------|------------------------------|
|                                                                          |      | 31 December 2010 | 31 December 2009<br>restated |
| <b>Net deferred tax assets at the beginning of the period, of which:</b> |      | <b>291 213</b>   | <b>120 810</b>               |
| <b>Deferred tax assets at the beginning of the period</b>                |      | <b>347 395</b>   | <b>188 992</b>               |
| <b>Deferred tax liabilities at the beginning of the period</b>           |      | <b>56 182</b>    | <b>68 182</b>                |
| Credited to profit or loss                                               | 37   | 202 903          | 92 555                       |
| (Decrease)/increase in other accumulated comprehensive income            | 18   | (19 591)         | 91 753                       |
| Deferred tax assets at the date of acquisition of shares in a subsidiary |      | (14 970)         | (13 905)                     |
| <b>Net deferred tax assets at the end of the period, of which:</b>       |      | <b>459 555</b>   | <b>291 213</b>               |
| <b>Deferred tax assets at the end of the period</b>                      |      | <b>592 947</b>   | <b>347 395</b>               |
| <b>Deferred tax liabilities at the end of the period</b>                 |      | <b>133 392</b>   | <b>56 182</b>                |

## 24. Deferred tax (continuation)

### Deferred tax assets prior to offsetting

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

|                                                                | At 1 January<br>2009 based<br>on the rate of<br>19% | Increase<br>due to<br>obtaining<br>control of a<br>subsidiary | Credited/(Charged)<br>to profit due<br>to a change in the<br>balance of temporary<br>differences<br>and tax loss | Increase/(Decrease)<br>in accumulated other<br>comprehensive income<br>due to change in the<br>balance of temporary<br>differences | At 31 December<br>2009 based on<br>the rate of 19%<br>restated |
|----------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| Exchange rate differences                                      | 94                                                  | -                                                             | (67)                                                                                                             | -                                                                                                                                  | 27                                                             |
| Interest                                                       | 140                                                 | -                                                             | (104)                                                                                                            | -                                                                                                                                  | 36                                                             |
| Allowances for impairment of receivables                       | 13 072                                              | 402                                                           | (116)                                                                                                            | -                                                                                                                                  | 13 358                                                         |
| Short-term accruals for salaries                               | 54 586                                              | -                                                             | (1 281)                                                                                                          | -                                                                                                                                  | 53 305                                                         |
| Employee benefits (holidays)                                   | 4 772                                               | 1                                                             | (593)                                                                                                            | -                                                                                                                                  | 4 180                                                          |
| Provision for decommissioning of mines<br>and other facilities | 117 381                                             | -                                                             | (17 836)                                                                                                         | -                                                                                                                                  | 99 545                                                         |
| Measurement of forward transactions                            | 38 249                                              | -                                                             | 136 081                                                                                                          | -                                                                                                                                  | 174 330                                                        |
| Re-measurement of hedging instruments                          | 1 660                                               | -                                                             | (1 619)                                                                                                          | -                                                                                                                                  | 41                                                             |
| Depreciation and amortisation                                  | 137 438                                             | -                                                             | (6 706)                                                                                                          | -                                                                                                                                  | 130 732                                                        |
| Liabilities due to future employee benefits                    | 212 084                                             | 867                                                           | 30 589                                                                                                           | -                                                                                                                                  | 243 540                                                        |
| Unpaid salaries with surcharges                                | 53 584                                              | -                                                             | (41 361)                                                                                                         | -                                                                                                                                  | 12 223                                                         |
| Measurement of available-for-sale financial<br>assets          | 303                                                 | -                                                             | -                                                                                                                | (85)                                                                                                                               | 218                                                            |
| Other                                                          | 87 456                                              | 1 791                                                         | (3 296)                                                                                                          | -                                                                                                                                  | 85 951                                                         |
| <b>Total</b>                                                   | <b>720 819</b>                                      | <b>3 061</b>                                                  | <b>93 691</b>                                                                                                    | <b>(85)</b>                                                                                                                        | <b>817 486</b>                                                 |

The amount of deductible temporary differences and unused tax losses in respect of which the Group did not recognise deferred tax assets (due to the remote possibility of their being settled in future years) amounts to PLN 12 287 thousand (at 31 December 2009: PLN 250 583 thousand).

| Amount and year of expiry of unsettled tax losses, in respect of<br>which a deferred tax asset was not recognised | At               |                              |
|-------------------------------------------------------------------------------------------------------------------|------------------|------------------------------|
|                                                                                                                   | 31 December 2010 | 31 December 2009<br>restated |
| 2010                                                                                                              | -                | 779                          |
| 2011                                                                                                              | 135              | 24 720                       |
| 2012                                                                                                              | -                | 79 483                       |
| 2013                                                                                                              | -                | 87 890                       |
| 2014                                                                                                              | -                | 32 955                       |
|                                                                                                                   | <b>135</b>       | <b>225 827</b>               |

## 24. Deferred tax (continuation)

The Group created deferred tax assets whose realisation depend on the future generation of taxable profit in the amount exceeding gains arising from the reversal of taxable temporary differences in the amount of PLN 21 486 thousand (at 31 December 2009: PLN 17 000 thousand). The recognition of deferred tax assets was based on current, approved financial plans and on the current activities of the Group.

### Deferred tax liabilities prior to offsetting

|                                                       | At 1 January<br>2010 based on<br>the rate of<br>19%<br>restated | Increase due to<br>obtaining control<br>of a subsidiary | (Credited)/Charged<br>to profit due to a<br>change in the<br>balance of<br>temporary<br>differences | Increase/<br>(Decrease)<br>in other<br>accumulated<br>comprehensive<br>income due<br>to change<br>in the balance<br>of temporary<br>differences | At 31 December<br>2010 based on<br>the rate of 19% |
|-------------------------------------------------------|-----------------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Exchange rate differences                             | 108                                                             | 95                                                      | 6                                                                                                   | -                                                                                                                                               | 209                                                |
| Interest                                              | 1 014                                                           | 9                                                       | 869                                                                                                 | -                                                                                                                                               | 1 892                                              |
| Measurement of forward transactions                   | 37 161                                                          | 340                                                     | 29 576                                                                                              | -                                                                                                                                               | 67 077                                             |
| Re-measurement of hedging<br>instruments              | 29 494                                                          | -                                                       | 616                                                                                                 | (8 436)                                                                                                                                         | 21 674                                             |
| Depreciation/amortisation                             | 384 860                                                         | 9 674                                                   | 25 194                                                                                              | -                                                                                                                                               | 419 728                                            |
| Measurement of available-for-sale<br>financial assets | 350                                                             | -                                                       | -                                                                                                   | 28 127                                                                                                                                          | 28 477                                             |
| Other                                                 | 73 286                                                          | 9 596                                                   | 58 145                                                                                              | -                                                                                                                                               | 141 027                                            |
| <b>Total</b>                                          | <b>526 273</b>                                                  | <b>19 714</b>                                           | <b>114 406</b>                                                                                      | <b>19 691</b>                                                                                                                                   | <b>680 084</b>                                     |

|                                                       | At 1 January<br>2009 based on<br>the rate of<br>19% | Increase due to<br>obtaining control<br>of a subsidiary | (Credited)/Charged<br>to profit due to a<br>change in the<br>balance of<br>temporary<br>differences | Increase/<br>(Decrease)<br>in other<br>accumulated<br>comprehensive<br>income due<br>to change<br>in the balance<br>of temporary<br>differences | At 31 December<br>2009 based on<br>the rate of 19%<br>restated |
|-------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|
| Exchange rate differences                             | 320                                                 | -                                                       | (212)                                                                                               | -                                                                                                                                               | 108                                                            |
| Interest                                              | 1 388                                               | 403                                                     | (777)                                                                                               | -                                                                                                                                               | 1 014                                                          |
| Measurement of forward transactions                   | 59 498                                              | -                                                       | (22 337)                                                                                            | -                                                                                                                                               | 37 161                                                         |
| Re-measurement of hedging<br>instruments              | 119 274                                             | -                                                       | -                                                                                                   | (89 780)                                                                                                                                        | 29 494                                                         |
| Depreciation/amortisation                             | 362 728                                             | -                                                       | 22 132                                                                                              | -                                                                                                                                               | 384 860                                                        |
| Measurement of available-for-sale<br>financial assets | 2 408                                               | -                                                       | -                                                                                                   | (2 058)                                                                                                                                         | 350                                                            |
| Other                                                 | 54 393                                              | 16 563                                                  | 2 330                                                                                               | -                                                                                                                                               | 73 286                                                         |
| <b>Total</b>                                          | <b>600 009</b>                                      | <b>16 966</b>                                           | <b>1 136</b>                                                                                        | <b>(91 838)</b>                                                                                                                                 | <b>526 273</b>                                                 |

## 25. Employee benefits

A general description of the employee benefit plans is presented in note 2.2.16.

### Change in liabilities due to future employee benefits

| Note                                                               | TOTAL liabilities | Jubilee awards   | Retirement and disability benefits | Coal equivalent | Other benefits |               |
|--------------------------------------------------------------------|-------------------|------------------|------------------------------------|-----------------|----------------|---------------|
| <b>Present value of obligations - at 1 January 2010 - restated</b> | <b>30</b>         | <b>1 297 643</b> | <b>288 191</b>                     | <b>211 414</b>  | <b>753 305</b> | <b>44 733</b> |
| Interest costs                                                     |                   | 70 718           | 15 083                             | 11 546          | 41 592         | 2 497         |
| Current service cost                                               |                   | 46 771           | 20 367                             | 12 043          | 11 074         | 3 287         |
| Benefits paid                                                      |                   | (91 355)         | (42 931)                           | (13 721)        | (32 315)       | (2 388)       |
| Actuarial losses/(gains)                                           |                   | 9 043            | 13 390                             | 3 066           | (9 596)        | 2 183         |
| (Gains) due to limitation of the employee benefit plans            |                   | (571)            | (506)                              | (59)            | -              | (6)           |
| Liabilities transferred due to business combination                |                   | 6 360            | 4 407                              | 1 914           | -              | 39            |
| <b>Present value of obligations - at 31 December 2010</b>          | <b>30</b>         | <b>1 338 609</b> | <b>298 001</b>                     | <b>226 203</b>  | <b>764 060</b> | <b>50 345</b> |
| Past service cost unrecognised at the end of the reporting period  |                   | (5 903)          | -                                  | (5 903)         | -              | -             |
| <b>Carrying amount of liabilities - at 31 December 2010</b>        |                   | <b>1 332 706</b> | <b>298 001</b>                     | <b>220 300</b>  | <b>764 060</b> | <b>50 345</b> |
| of which:                                                          |                   |                  |                                    |                 |                |               |
| Carrying amount of non-current liabilities                         |                   | 1 221 794        | 259 954                            | 188 524         | 729 007        | 44 309        |
| Carrying amount of current liabilities                             |                   | 110 912          | 38 047                             | 31 776          | 35 053         | 6 036         |

| Note                                                                   | TOTAL liabilities | Jubilee awards   | Retirement and disability benefits | Coal equivalent | Other benefits |               |
|------------------------------------------------------------------------|-------------------|------------------|------------------------------------|-----------------|----------------|---------------|
| <b>Present value of obligations - at 1 January 2009</b>                | <b>30</b>         | <b>1 132 229</b> | <b>294 168</b>                     | <b>202 992</b>  | <b>635 069</b> | <b>-</b>      |
| Interest costs                                                         |                   | 62 216           | 15 512                             | 10 743          | 34 401         | 1 560         |
| Current service cost                                                   |                   | 59 239           | 19 266                             | 11 406          | 9 166          | 19 401        |
| Benefits paid                                                          |                   | (92 799)         | (41 459)                           | (20 223)        | (28 844)       | (2 273)       |
| Actuarial losses/(gains)                                               |                   | 132 383          | (2 965)                            | 5 790           | 103 513        | 26 045        |
| (Gains) due to limitation of the employee benefit plans                |                   | (640)            | (402)                              | (238)           | -              | -             |
| Liabilities transferred due to business combination                    |                   | 5 015            | 4 071                              | 944             | -              | -             |
| <b>Present value of obligations - at 31 December 2009</b>              | <b>30</b>         | <b>1 297 643</b> | <b>288 191</b>                     | <b>211 414</b>  | <b>753 305</b> | <b>44 733</b> |
| Past service cost unrecognised at the end of the reporting period      |                   | (7 589)          | -                                  | (7 589)         | -              | -             |
| <b>Carrying amount of liabilities - at 31 December 2009 - restated</b> |                   | <b>1 290 054</b> | <b>288 191</b>                     | <b>203 825</b>  | <b>753 305</b> | <b>44 733</b> |
| of which:                                                              |                   |                  |                                    |                 |                |               |
| Carrying amount of non-current liabilities                             |                   | 1 183 350        | 246 051                            | 177 692         | 718 676        | 40 931        |
| Carrying amount of current liabilities                                 |                   | 106 704          | 42 140                             | 26 133          | 34 629         | 3 802         |

### At Present value of employee benefits

|                  |           |
|------------------|-----------|
| 31 December 2010 | 1 338 609 |
| 31 December 2009 | 1 297 643 |
| 31 December 2008 | 1 132 229 |
| 31 December 2007 | 1 008 286 |
| 31 December 2006 | 950 200   |
| 31 December 2005 | 899 148   |



## 25. Employee benefits (continuation)

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

|                                                       | Note      | For the period                             |                                                        |
|-------------------------------------------------------|-----------|--------------------------------------------|--------------------------------------------------------|
|                                                       |           | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Interest costs                                        |           | 70 718                                     | 62 216                                                 |
| Current service cost                                  |           | 46 771                                     | 59 239                                                 |
| Actuarial losses                                      |           | 9 043                                      | 132 383                                                |
| Gains due to limitation of the employee benefit plans |           | (571)                                      | (640)                                                  |
| Past service cost                                     | <b>30</b> | 1 686                                      | 1 686                                                  |
| <b>Total costs recognised in profit or loss</b>       |           | <b>127 647</b>                             | <b>254 884</b>                                         |

### Main actuarial assumptions at 31 December 2010

|                                         | 2011  | 2012  | 2013  | 2014  | 2015<br>and beyond |
|-----------------------------------------|-------|-------|-------|-------|--------------------|
| - discount rate                         | 5.50% | 5.50% | 5.50% | 5.50% | 5.50%              |
| - rate of increase in coal prices       | 0.00% | 3.00% | 3.00% | 3.00% | 3.00%              |
| - rate of increase in the lowest salary | 5.20% | 4.00% | 4.00% | 4.00% | 4.00%              |
| - expected inflation                    | 2.50% | 2.50% | 2.50% | 2.50% | 2.50%              |
| - future expected increase in salary    | 3.50% | 4.00% | 4.00% | 4.00% | 4.00%              |

### Main actuarial assumptions at 31 December 2009

|                                         | 2010      | 2011  | 2012  | 2013  | 2014<br>and beyond |
|-----------------------------------------|-----------|-------|-------|-------|--------------------|
| - discount rate                         | 5.60%     | 5.60% | 5.60% | 5.60% | 5.60%              |
| - rate of increase in coal prices       | 6% / 15%* | 3.00% | 3.00% | 3.00% | 3.00%              |
| - rate of increase in the lowest salary | 0.00%     | 4.00% | 4.00% | 4.00% | 4.00%              |
| - expected inflation                    | 2.50%     | 2.50% | 2.50% | 2.50% | 2.50%              |
| - future expected increase in salary    | 7.00%     | 4.00% | 4.00% | 4.00% | 4.00%              |

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

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

For purposes of re-measuring the provision at the end of the current period, parameters were assumed 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.

## 26. Provisions for other liabilities and charges

|                                                                                                                 | Note | TOTAL          | Decommissioning costs of mines and other facilities | Costs of scrapping property, plant and equipment | Disputed issues and court proceedings | Other provisions |
|-----------------------------------------------------------------------------------------------------------------|------|----------------|-----------------------------------------------------|--------------------------------------------------|---------------------------------------|------------------|
| <b>Provisions at 1 January 2010 - restated</b>                                                                  |      | <b>574 788</b> | <b>511 384</b>                                      | <b>5 307</b>                                     | <b>24 124</b>                         | <b>33 973</b>    |
| Provisions recognised                                                                                           |      | 14 801         | 1 109                                               | 302                                              | 3 488                                 | 9 902            |
| Provisions transferred due to business combinations                                                             |      | 4 367          | 497                                                 | -                                                | 52                                    | 3 818            |
| Changes in provisions after updating of estimates                                                               |      | (1 692)        | (1 523)                                             | -                                                | -                                     | (169)            |
| Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) | 33   | 32 174         | 31 843                                              | -                                                | -                                     | 331              |
| Utilisation of provisions                                                                                       |      | (15 755)       | (4 591)                                             | -                                                | (5 994)                               | (5 170)          |
| Release of provisions                                                                                           |      | (16 724)       | (985)                                               | -                                                | (7 775)                               | (7 964)          |
| Transfer to Mine Closure Fund                                                                                   |      | (21 857)       | (21 857)                                            | -                                                | -                                     | -                |
| Other                                                                                                           |      | (2 459)        | -                                                   | -                                                | (1 598)                               | (861)            |
| <b>Provisions at 31 December 2010</b>                                                                           |      | <b>567 643</b> | <b>515 877</b>                                      | <b>5 609</b>                                     | <b>12 297</b>                         | <b>33 860</b>    |
| of which:                                                                                                       |      |                |                                                     |                                                  |                                       |                  |
| <b>Non-current provisions</b>                                                                                   |      | <b>520 727</b> | <b>501 247</b>                                      | <b>4 546</b>                                     | <b>-</b>                              | <b>14 934</b>    |
| <b>Current provisions</b>                                                                                       |      | <b>46 916</b>  | <b>14 630</b>                                       | <b>1 063</b>                                     | <b>12 297</b>                         | <b>18 926</b>    |
| <hr/>                                                                                                           |      |                |                                                     |                                                  |                                       |                  |
|                                                                                                                 |      | TOTAL          | Decommissioning costs of mines and other facilities | Costs of scrapping property, plant and equipment | Disputed issues and court proceedings | Other provisions |
| <b>Provisions at 1 January 2009</b>                                                                             |      | <b>663 203</b> | <b>603 339</b>                                      | <b>6 208</b>                                     | <b>24 989</b>                         | <b>28 667</b>    |
| Provisions recognised                                                                                           |      | 17 246         | 3 986                                               | -                                                | 3 791                                 | 9 469            |
| Changes in provisions after updating of estimates                                                               |      | (108 826)      | (109 084)                                           | -                                                | -                                     | 258              |
| Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) | 33   | 29 716         | 29 171                                              | 86                                               | -                                     | 459              |
| Utilisation of provisions                                                                                       |      | (10 986)       | (2 789)                                             | (7)                                              | (2 243)                               | (5 947)          |
| Release of provisions                                                                                           |      | (13 155)       | (808)                                               | (980)                                            | (4 023)                               | (7 344)          |
| Transfer to Mine Closure Fund                                                                                   |      | (17 508)       | (17 508)                                            | -                                                | -                                     | -                |
| Other                                                                                                           |      | 15 098         | 5 077                                               | -                                                | 1 610                                 | 8 411            |
| <b>Provisions at 31 December 2009 - restated</b>                                                                |      | <b>574 788</b> | <b>511 384</b>                                      | <b>5 307</b>                                     | <b>24 124</b>                         | <b>33 973</b>    |
| of which:                                                                                                       |      |                |                                                     |                                                  |                                       |                  |
| <b>Non-current provisions</b>                                                                                   |      | <b>527 421</b> | <b>501 861</b>                                      | <b>-</b>                                         | <b>8 239</b>                          | <b>17 321</b>    |
| <b>Current provisions</b>                                                                                       |      | <b>47 367</b>  | <b>9 523</b>                                        | <b>5 307</b>                                     | <b>15 885</b>                         | <b>16 652</b>    |

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

As at 31 December 2010, the largest item of provisions for other liabilities is an estimate for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying amount of PLN 515 877 thousand (as at 31 December 2009: PLN 511 384 thousand), estimated in accordance with the methodology defined in the International Financial Reporting Standards. The increase in the provision in 2010 was caused by the change in long term forecast yield on bonds.

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

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

## 26. Provisions for other liabilities and charges (continuation)

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

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

The amount of the provision recognised in the statement of financial position is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value. The amount of the provision is revalued by the Parent Entity at the end of each quarter by applying in the model the discounting ratios described in Note 3.4.

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

## 26. Provisions for other liabilities and charges (continuation)

It is expected that decommissioning costs will be incurred by the year 2047. The provision was estimated based on the currently-used technology for decommissioning of mining facilities and using the current prices and the discount rate as in the model for provisions for future employee benefits (Note 25).

### Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other facilities at 31 December 2010

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

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

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

## 27. Impairment losses

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

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

### Impairment losses by asset class during the financial period from 1 January to 31 December 2010

|                                   | Note | Impairment loss recognised | Impairment loss reversed | Impairment loss used |
|-----------------------------------|------|----------------------------|--------------------------|----------------------|
| Lands                             | 6    | 280                        | -                        | -                    |
| Buildings                         | 6    | 5 697                      | 808                      | 4 862                |
| Technical equipment and machinery | 6    | 1 455                      | 34                       | 2 014                |
| Other fixed assets                | 6    | 48                         | -                        | 9                    |
| Fixed assets under construction   | 6    | 12 314                     | 510                      | 18 916               |
| Development costs                 | 7    | 817                        | -                        | -                    |
| Goodwill                          | 7    | 743                        | -                        | -                    |
| Perpetual usufruct of land        | 7    | 271                        | -                        | -                    |
| Other intangible assets           | 7    | 93                         | 54                       | -                    |
| <b>Total</b>                      |      | <b>21 718</b>              | <b>1 406</b>             | <b>25 801</b>        |

### Impairment losses by segment during the financial period from 1 January to 31 December 2010

|                            | Note | Production of copper precious metals, and other smelter products | All other segments | Total consolidated amount |
|----------------------------|------|------------------------------------------------------------------|--------------------|---------------------------|
| Impairment loss recognised | 6, 7 | -                                                                | 21 718             | <b>21 718</b>             |
| Impairment loss reversed   | 6, 7 | -                                                                | 1 406              | <b>1 406</b>              |
| Impairment loss used       | 6, 7 | 1 194                                                            | 24 607             | <b>25 801</b>             |

In accordance with the Accounting Policy, the management boards of Group companies at the end of the reporting period assessed the existing indications of impairment of assets. An evaluation prepared at 31 October 2010 by the subsidiary KGHM Ecoren S.A. on the effectiveness of the investment project „Industrial installation for the treatment of raw nickel sulphate (OPN)” indicated that the project is ineffective, and that the basic parameters of the evaluated investment had not achieved the expected, acceptable results, as a result of which the decision was made to temporarily suspend the investment and to recognise impairment in the amount of 100% of the costs incurred, i.e. PLN 12 314 thousand. As a result, impairment was also recognised in the intangible assets of the project „Technology for the recovery of nickel sulphate” in the amount of PLN 817 thousand.

## 27. Impairment losses (continuation)

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

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

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

|                            | Note | Production of copper precious metals, and other smelter products | All other segments | Total consolidated amount |
|----------------------------|------|------------------------------------------------------------------|--------------------|---------------------------|
| Impairment loss recognised | 6, 7 | 1 194                                                            | 43 123             | <b>44 317</b>             |
| Impairment loss reversed   | 6, 7 | -                                                                | 82                 | <b>82</b>                 |
| Impairment loss used       | 6, 7 | -                                                                | 11 211             | <b>11 211</b>             |

In the comparable period, in the course of constructing the stadium of Zagłębie Lubin S.A., evidence was identified that the economic results achieved by the football stadium (identified as a cash generating unit in the category "All other segments") do not cover the expenses incurred to date on the construction of the facility. Due to the lack of a basis for making a reliable estimation of the amount which could be recovered from the sale of this asset in an arm's length transaction, the Company used its value in use as its recoverable amount to determine the level of impairment loss. Based on the discounted cash flow expected from the further use of the stadium, using a discount rate of 11.74%, value in use of the stadium was set at PLN 59 289 thousand, and an impairment loss was recognised in the consolidated financial statements of PLN 37 593 thousand (amount of the loss after consolidation adjustment in the Group), reducing the result for 2009.

## 28. Sales

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

|                                                                | For the period                             |                                                        |
|----------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                                | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| - copper, precious metals, smelter by-products                 | 15 739 320                                 | 10 992 841                                             |
| - salt                                                         | 72 080                                     | 45 358                                                 |
| - energy                                                       | 90 744                                     | 35 399                                                 |
| - services, of which:                                          | 842 058                                    | 728 554                                                |
| telecommunications services                                    | 525 074                                    | 517 879                                                |
| - mining machinery, transport vehicles for mining<br>and other | 22 975                                     | 16 508                                                 |
| - merchandise                                                  | 297 127                                    | 219 013                                                |
| - scrap and materials                                          | 10 369                                     | 11 260                                                 |
| - other finished goods                                         | 217 917                                    | 70 977                                                 |
| <b>Total</b>                                                   | <b>17 292 590</b>                          | <b>12 119 910</b>                                      |

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

|                                                                | For the period                             |                                                        |
|----------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                                | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>domestic</b>                                                | <b>4 970 620</b>                           | <b>3 374 311</b>                                       |
| - copper, precious metals, smelter by-products                 | 3 526 026                                  | 2 302 770                                              |
| - salt                                                         | 52 819                                     | 30 601                                                 |
| - energy                                                       | 90 744                                     | 35 399                                                 |
| - services, of which:                                          | 830 789                                    | 702 134                                                |
| telecommunications services                                    | 525 074                                    | 517 879                                                |
| - mining machinery, transport vehicles for mining<br>and other | 18 456                                     | 13 537                                                 |
| - merchandise                                                  | 247 668                                    | 208 495                                                |
| - wastes and materials                                         | 10 353                                     | 11 255                                                 |
| - other finished goods                                         | 193 765                                    | 70 120                                                 |
| <b>foreign</b>                                                 | <b>12 321 970</b>                          | <b>8 745 599</b>                                       |
| - copper, precious metals, smelter by-products                 | 12 213 294                                 | 8 690 071                                              |
| - salt                                                         | 19 261                                     | 14 757                                                 |
| - services                                                     | 11 269                                     | 26 420                                                 |
| - mining machinery, transport vehicles for mining<br>and other | 4 519                                      | 2 971                                                  |
| - merchandise                                                  | 49 459                                     | 10 518                                                 |
| - scrap and materials                                          | 16                                         | 5                                                      |
| - other finished goods                                         | 24 152                                     | 857                                                    |
| <b>Total</b>                                                   | <b>17 292 590</b>                          | <b>12 119 910</b>                                      |

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

## 29. Expenses by nature

|                                                                                     | Note    | For the period                             |                                                        |
|-------------------------------------------------------------------------------------|---------|--------------------------------------------|--------------------------------------------------------|
|                                                                                     |         | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 6, 7, 9 | 843 938                                    | 743 790                                                |
| Employee benefits expenses                                                          | 30      | 3 383 588                                  | 3 262 073                                              |
| Materials and energy                                                                |         | 5 046 509                                  | 3 857 174                                              |
| External services                                                                   |         | 1 406 607                                  | 1 216 401                                              |
| Taxes and charges                                                                   |         | 365 898                                    | 342 012                                                |
| Advertising costs and representation expenses                                       |         | 54 685                                     | 38 570                                                 |
| Property and personal insurance                                                     |         | 24 155                                     | 20 062                                                 |
| Research and development costs not capitalised in intangible assets                 |         | 5 493                                      | 5 570                                                  |
| Other costs, of which:                                                              |         | 68 297                                     | 96 684                                                 |
| Impairment losses on property, plant and equipment, intangible assets               | 6, 7    | 8 661                                      | 20 807                                                 |
| Impairment losses on goodwill                                                       | 7       | 743                                        | 2 359                                                  |
| Write-down of inventories                                                           | 14      | 5 540                                      | 11 519                                                 |
| Allowance for impairment of receivables                                             | 35.3.6  | 17 714                                     | 43 006                                                 |
| Reversal of impairment of property, plant and equipment, intangible assets          | 6, 7    | (896)                                      | (43)                                                   |
| Reversal of write-down of inventories                                               | 14      | (3 852)                                    | (1 886)                                                |
| Reversal of allowance for impairment of receivables                                 | 35.3.6  | (7 387)                                    | (11 101)                                               |
| Losses from the disposal of financial instruments                                   | 34.3    | 2 337                                      | 998                                                    |
| Other operating costs                                                               |         | 45 437                                     | 31 025                                                 |
| <b>Total expenses by nature</b>                                                     |         | <b>11 199 170</b>                          | <b>9 582 336</b>                                       |
| Cost of merchandise and materials sold (+), of which:                               |         | 223 776                                    | 158 742                                                |
| Allowance for impairment of receivables                                             | 35.3.6  | 1 871                                      | 2 029                                                  |
| Write-down of inventories                                                           |         | 1 393                                      | -                                                      |
| Reversal of allowance for impairment of receivables                                 | 35.3.6  | (545)                                      | (884)                                                  |
| Change in inventories of finished goods and work in progress (+/-)                  |         | (156 447)                                  | (368 246)                                              |
| Cost of manufacturing products for internal use (-)                                 |         | (663 617)                                  | (435 996)                                              |
| <b>Total cost of sales, selling costs and administrative expenses</b>               |         | <b>10 602 882</b>                          | <b>8 936 836</b>                                       |

## 30. Employee benefits expenses

|                                                                                                                           | Note      | For the period                             |                                                        |
|---------------------------------------------------------------------------------------------------------------------------|-----------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                                           |           | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Remuneration                                                                                                              |           | 2 514 006                                  | 2 332 345                                              |
| Costs of social security                                                                                                  |           | 833 290                                    | 767 643                                                |
| Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which: |           | 36 292                                     | 162 085                                                |
| Present value of obligation                                                                                               | 25        | 34 606                                     | 160 399                                                |
| Past service costs                                                                                                        | 25        | 1 686                                      | 1 686                                                  |
| <b>Employee benefits expenses</b>                                                                                         | <b>29</b> | <b>3 383 588</b>                           | <b>3 262 073</b>                                       |



### 31. Other operating income

|                                                                                                          | Note | For the period                             |                                                        |
|----------------------------------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                          |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Income and gains from financial instruments classified under other operating activities, resulting from: | 34.3 | 549 364                                    | 368 747                                                |
| Measurement and realisation of derivatives                                                               |      | 476 668                                    | 270 057                                                |
| Interest                                                                                                 |      | 65 102                                     | 89 386                                                 |
| Gains from disposal                                                                                      |      | 4 925                                      | 7 519                                                  |
| Gains from measurement of non-current liabilities                                                        |      | 161                                        | -                                                      |
| Reversal of allowance for impairment of loans and receivables                                            |      | 2 508                                      | 1 785                                                  |
| Increase in fair value of investment property                                                            |      | 4 358                                      | -                                                      |
| Gains from the disposal due to loss of control over a subsidiary                                         |      | -                                          | 21 457                                                 |
| Gains on a bargain purchase of subsidiaries                                                              |      | 3 265                                      | -                                                      |
| Gains from the disposal of intangible assets                                                             |      | 1 385                                      | 1 556                                                  |
| Interest on non-financial receivables                                                                    |      | 7 174                                      | 3 538                                                  |
| Dividends received                                                                                       |      | 70                                         | 251                                                    |
| Reversal of impairment losses on fixed assets under construction                                         | 6    | 510                                        | 39                                                     |
| Reversal of allowance for impairment of other non-financial receivables                                  | 13   | 3 425                                      | 1 810                                                  |
| Government grants and other donations received                                                           |      | 2 989                                      | 825                                                    |
| Release of unused provisions due to:                                                                     |      | 21 232                                     | 47 768                                                 |
| Decommissioning of mines                                                                                 |      | 3 973                                      | 32 969                                                 |
| Disputed issues, pending court proceedings                                                               |      | 7 775                                      | 4 024                                                  |
| Other                                                                                                    |      | 9 484                                      | 10 775                                                 |
| Surpluses identified in current assets                                                                   |      | 11 879                                     | -                                                      |
| Surpluses identified in property, plant and equipment                                                    |      | -                                          | 116                                                    |
| Penalties and compensation received                                                                      |      | 25 065                                     | 23 085                                                 |
| Foreign exchange gains - non-financial                                                                   |      | 4 386                                      | 2 568                                                  |
| Other operating income/gains                                                                             |      | 18 815                                     | 23 812                                                 |
| <b>Total other operating income</b>                                                                      |      | <b>653 917</b>                             | <b>495 572</b>                                         |

### 32. Other operating costs

|                                                                                                        | Note | For the period                             |                                                        |
|--------------------------------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                        |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Costs and losses on financial instruments classified under other operating activities, resulting from: | 34.3 | 1 680 906                                  | 888 576                                                |
| Measurement and realisation of derivatives                                                             |      | 1 638 691                                  | 802 437                                                |
| Interest                                                                                               |      | 145                                        | 1 728                                                  |
| Foreign exchange losses                                                                                |      | 38 686                                     | 75 464                                                 |
| Losses on measurement of non-current liabilities                                                       |      | -                                          | 249                                                    |
| Losses from disposal                                                                                   |      | 1 236                                      | 2 227                                                  |
| Allowances for impairment of loans and receivables                                                     |      | 2 148                                      | 6 471                                                  |
| Decrease in fair value of investment property                                                          |      | -                                          | 919                                                    |
| Losses on the sale of investment property                                                              |      | 9                                          | -                                                      |
| Allowances for impairment of other non-financial receivables                                           | 13   | 7 192                                      | 552                                                    |
| Losses on the sale of property, plant and equipment                                                    |      | 21 360                                     | 23 914                                                 |
| Impairment losses on fixed assets under construction                                                   | 6    | 12 314                                     | 21 151                                                 |
| Interest on overdue non-financial liabilities                                                          |      | 158                                        | 4 504                                                  |
| Donations granted                                                                                      |      | 13 089                                     | 7 193                                                  |
| Provisions for:                                                                                        |      | 18 240                                     | 20 124                                                 |
| Decommissioning of mines                                                                               |      | 3 197                                      | 4 285                                                  |
| Disputed issues, pending court proceedings                                                             |      | 3 488                                      | 3 791                                                  |
| Other                                                                                                  |      | 11 555                                     | 12 048                                                 |
| Penalties and compensation paid                                                                        |      | 3 609                                      | 3 412                                                  |
| Non-culpable shortages in tangible current assets, cash and losses from fortuitous events              |      | 4 432                                      | 2 480                                                  |
| Contributions to a voluntary organisation                                                              |      | 8 202                                      | 7 433                                                  |
| Other operating costs/losses                                                                           |      | 28 776                                     | 19 050                                                 |
| <b>Total other operating costs</b>                                                                     |      | <b>1 798 287</b>                           | <b>999 308</b>                                         |

### 33. Finance costs

|                                                                                                                          | Note | For the period                             |                                                        |
|--------------------------------------------------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                                          |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Interest expense:                                                                                                        | 34.3 | 14 733                                     | 14 608                                                 |
| On bank and other loans                                                                                                  |      | 12 457                                     | 12 696                                                 |
| Due to finance leases                                                                                                    |      | 2 276                                      | 1 912                                                  |
| Net foreign exchange gains on borrowings                                                                                 | 34.3 | (728)                                      | (748)                                                  |
| Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to: | 26   | 32 174                                     | 29 764                                                 |
| Measurement of provisions for decommissioning of mines                                                                   |      | 31 843                                     | 29 171                                                 |
| Measurement of other provisions                                                                                          |      | 331                                        | 593                                                    |
| Losses due to measurement of non-current liabilities                                                                     | 34.3 | 1 755                                      | 381                                                    |
| Other finance costs                                                                                                      |      | 396                                        | 1 254                                                  |
| <b>Total finance costs</b>                                                                                               |      | <b>48 330</b>                              | <b>45 259</b>                                          |

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### 34. Financial instruments

#### 34.1 Carrying amount

|                                            |             | <b>At 31 December 2010</b>                 |                              |                                                        |                       |                                                             |                                                  |                                                                                   |                     |                  |
|--------------------------------------------|-------------|--------------------------------------------|------------------------------|--------------------------------------------------------|-----------------------|-------------------------------------------------------------|--------------------------------------------------|-----------------------------------------------------------------------------------|---------------------|------------------|
|                                            |             | <b>Categories of financial instruments</b> |                              |                                                        |                       |                                                             |                                                  |                                                                                   |                     |                  |
| <b>Classes of financial instruments</b>    | <b>Note</b> | 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 | <b>Total</b>     |
|                                            |             |                                            |                              |                                                        |                       |                                                             | Financial liabilities measured at amortised cost | Financial liabilities due to factoring and liabilities out of the scope of IAS 39 |                     |                  |
| Listed shares                              | 10          | 748 772                                    | -                            | -                                                      | -                     | -                                                           | -                                                | -                                                                                 | -                   | <b>748 772</b>   |
| Unlisted shares                            | 10          | 11 274                                     | -                            | -                                                      | -                     | -                                                           | -                                                | -                                                                                 | -                   | <b>11 274</b>    |
| Participation units of investment funds    | 10,15       | 407 214                                    | -                            | -                                                      | 68 289                | -                                                           | -                                                | -                                                                                 | -                   | <b>475 503</b>   |
| Trade receivables (net)                    | 13          | -                                          | -                            | -                                                      | 1 972 186             | -                                                           | -                                                | -                                                                                 | -                   | <b>1 972 186</b> |
| Cash and cash equivalents and deposits     | 11,13,15    | -                                          | 88 244                       | -                                                      | 3 371 135             | -                                                           | -                                                | -                                                                                 | -                   | <b>3 459 379</b> |
| Other financial assets (net)               | 10,11,13    | 7                                          | 42                           | -                                                      | 49 906                | -                                                           | -                                                | -                                                                                 | -                   | <b>49 955</b>    |
| Derivatives - Currency                     | 12          | -                                          | -                            | 85 281                                                 | -                     | (108 979)                                                   | -                                                | -                                                                                 | 284 462             | <b>260 764</b>   |
| Derivatives - Commodity contracts - metals | 12          | -                                          | -                            | 2 722                                                  | -                     | (184 404)                                                   | -                                                | -                                                                                 | (571 357)           | <b>(753 039)</b> |
| Trade payables                             | 21          | -                                          | -                            | -                                                      | -                     | -                                                           | (901 882)                                        | -                                                                                 | -                   | <b>(901 882)</b> |
| Bank and other loans                       | 22          | -                                          | -                            | -                                                      | -                     | -                                                           | (228 033)                                        | -                                                                                 | -                   | <b>(228 033)</b> |
| Other financial liabilities                | 21,22       | -                                          | -                            | -                                                      | -                     | -                                                           | (151 080)                                        | (41 781)                                                                          | -                   | <b>(192 861)</b> |
|                                            |             | <b>1 167 267</b>                           | <b>88 286</b>                | <b>88 003</b>                                          | <b>5 461 516</b>      | <b>(293 383)</b>                                            | <b>(1 280 995)</b>                               | <b>(41 781)</b>                                                                   | <b>(286 895)</b>    | <b>4 902 018</b> |

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

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**34. Financial instruments (continuation)**

**34.1 Carrying amount (continuation)**

**At 31 December 2009 - restated**  
**Categories of financial instruments**

| Classes of financial instruments           | Note     | Available-for-sale financial assets | Held-to-maturity investments | Financial assets at fair value through profit or loss* | Loans and receivables | Financial liabilities at fair value through profit or loss* | Other financial liabilities                      |                                                                                   | Hedging instruments | Total            |
|--------------------------------------------|----------|-------------------------------------|------------------------------|--------------------------------------------------------|-----------------------|-------------------------------------------------------------|--------------------------------------------------|-----------------------------------------------------------------------------------|---------------------|------------------|
|                                            |          |                                     |                              |                                                        |                       |                                                             | Financial liabilities measured at amortised cost | Financial liabilities due to factoring and liabilities out of the scope of IAS 39 |                     |                  |
| Listed shares                              | 10       | 8 976                               | -                            | -                                                      | -                     | -                                                           | -                                                | -                                                                                 | -                   | <b>8 976</b>     |
| Unlisted shares                            | 10       | 11 475                              | -                            | -                                                      | -                     | -                                                           | -                                                | -                                                                                 | -                   | <b>11 475</b>    |
| Shares in investment funds                 | 10       | 7 930                               | -                            | -                                                      | -                     | -                                                           | -                                                | -                                                                                 | -                   | <b>7 930</b>     |
| Trade receivables (net)                    | 13       | -                                   | -                            | -                                                      | 1 199 512             | -                                                           | -                                                | -                                                                                 | -                   | <b>1 199 512</b> |
| Cash and cash equivalents and deposits     | 11,13,15 | -                                   | 67 677                       | -                                                      | 1 197 144             | -                                                           | -                                                | -                                                                                 | -                   | <b>1 264 821</b> |
| Other financial assets (net)               | 10,11,13 | 7                                   | 47                           | -                                                      | 18 939                | -                                                           | -                                                | -                                                                                 | -                   | <b>18 993</b>    |
| Derivatives - Currency                     | 12       | -                                   | -                            | 137 385                                                | -                     | (165 902)                                                   | -                                                | -                                                                                 | 43 553              | <b>15 036</b>    |
| Derivatives - Commodity contracts - metals | 12       | -                                   | -                            | 1 258                                                  | -                     | (37 861)                                                    | -                                                | -                                                                                 | 7 905               | <b>(28 698)</b>  |
| Trade payables                             | 21       | -                                   | -                            | -                                                      | -                     | -                                                           | (629 951)                                        | -                                                                                 | -                   | <b>(629 951)</b> |
| Bank and other loans                       | 22       | -                                   | -                            | -                                                      | -                     | -                                                           | (299 285)                                        | -                                                                                 | -                   | <b>(299 285)</b> |
| Other financial liabilities                | 21,22    | -                                   | -                            | -                                                      | -                     | -                                                           | (106 682)                                        | (41 385)                                                                          | -                   | <b>(148 067)</b> |
|                                            |          | <b>28 388</b>                       | <b>67 724</b>                | <b>138 643</b>                                         | <b>2 415 595</b>      | <b>(203 763)</b>                                            | <b>(1 035 918)</b>                               | <b>(41 385)</b>                                                                   | <b>51 458</b>       | <b>1 420 742</b> |

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

### 34. Financial instruments (continuation)

#### 34.2 Fair value

| Classes of financial instruments                      | Note       | At<br>31 December 2010 |             | At<br>31 December 2009<br>restated |            |
|-------------------------------------------------------|------------|------------------------|-------------|------------------------------------|------------|
|                                                       |            | Carrying<br>amount     | Fair Value  | Carrying<br>amount                 | Fair Value |
|                                                       |            | 34.1                   |             | 34.1                               |            |
| Listed shares                                         | 10         | 748 772                | 748 772     | 8 976                              | 8 976      |
| Unlisted shares*                                      | 10         | 11 274                 | -           | 11 475                             | -          |
| Shares in investment funds                            | 10         | -                      | -           | 7 930                              | 7 930      |
| Participation units of investment funds               | 10, 15     | 475 503                | 475 503     | -                                  | -          |
| Trade receivables (net)                               | 13         | 1 972 186              | 1 972 186   | 1 199 512                          | 1 199 512  |
| Cash and cash equivalents and deposits                | 11, 13,15  | 3 459 379              | 3 459 379   | 1 264 821                          | 1 264 835  |
| Other financial assets (net)                          | 10, 11, 13 | 49 955                 | 49 955      | 18 993                             | 18 993     |
| Derivatives - Currency, of which:                     | 12         | 260 764                | 260 764     | 15 036                             | 15 036     |
| Assets                                                |            | 390 610                | 390 610     | 180 938                            | 180 938    |
| Liabilities                                           |            | (129 846)              | (129 846)   | (165 902)                          | (165 902)  |
| Derivatives - Commodity contracts - metals, of which: | 12         | (753 039)              | (753 039)   | (28 698)                           | (28 698)   |
| Assets                                                |            | 310 813                | 310 813     | 140 471                            | 140 471    |
| Liabilities                                           |            | (1 063 852)            | (1 063 852) | (169 169)                          | (169 169)  |
| Trade payables                                        | 21         | (901 882)              | (901 882)   | (629 951)                          | (629 951)  |
| Bank and other loans                                  | 22         | (228 033)              | (228 033)   | (299 285)                          | (299 285)  |
| Other financial liabilities                           | 21, 22     | (192 861)              | (192 861)   | (148 067)                          | (148 067)  |

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

\*The Group is unable to reliably measure the fair value of shares held in companies which are not listed on active markets, classified as available-for-sale financial assets, which carrying amount at 31 December 2010 amounted to PLN 11 274 thousand (at 31 December 2009 amounted to PLN 11 475 thousand). As a result, they are disclosed in the statement of financial position at cost less impairment loss.

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**34. Financial instruments (continuation)**

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

| For the period from 1 January 2010 to 31 December 2010                  | Note             | Financial assets/<br>liabilities measured<br>at fair value<br>through profit or<br>loss | Available-for-<br>sale financial<br>assets | Held-to-<br>maturity<br>investments | Loans and<br>receivables | Other financial liabilities                               |                                                                                            | Hedging<br>instruments | Total financial<br>instruments |
|-------------------------------------------------------------------------|------------------|-----------------------------------------------------------------------------------------|--------------------------------------------|-------------------------------------|--------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------|--------------------------------|
|                                                                         |                  |                                                                                         |                                            |                                     |                          | Financial<br>liabilities<br>measured at<br>amortised cost | Financial liabilities<br>due to factoring<br>and liabilities out of<br>the scope of IAS 39 |                        |                                |
| Interest income/(costs) recognised in:                                  | <b>31,32,33</b>  | -                                                                                       | <b>307</b>                                 | <b>110</b>                          | <b>64 685</b>            | <b>(12 602)</b>                                           | <b>(2 276)</b>                                                                             | -                      | <b>50 224</b>                  |
| Other operating income                                                  | 31               | -                                                                                       | 307                                        | 110                                 | 64 685                   | -                                                         | -                                                                                          | -                      | 65 102                         |
| Other operating costs                                                   | 32               | -                                                                                       | -                                          | -                                   | -                        | (145)                                                     | -                                                                                          | -                      | (145)                          |
| Finance costs                                                           | 33               | -                                                                                       | -                                          | -                                   | -                        | (12 457)                                                  | (2 276)                                                                                    | -                      | (14 733)                       |
| Exchange gains/(losses) recognised in:                                  | <b>32, 33</b>    | -                                                                                       | <b>(691)</b>                               | <b>2</b>                            | <b>38 969</b>            | <b>(76 697)</b>                                           | <b>459</b>                                                                                 | -                      | <b>(37 958)</b>                |
| Other operating costs                                                   | 32               | -                                                                                       | (691)                                      | 2                                   | 38 969                   | (76 966)                                                  | -                                                                                          | -                      | (38 686)                       |
| Finance costs                                                           | 33               | -                                                                                       | -                                          | -                                   | -                        | 269                                                       | 459                                                                                        | -                      | 728                            |
| Gains/(Losses) on measurement of non-current liabilities recognised in: | <b>32, 33</b>    | -                                                                                       | -                                          | -                                   | -                        | <b>(1 594)</b>                                            | -                                                                                          | -                      | <b>(1 594)</b>                 |
| Other operating income                                                  | 32               | -                                                                                       | -                                          | -                                   | -                        | 161                                                       | -                                                                                          | -                      | 161                            |
| Finance costs                                                           | 33               | -                                                                                       | -                                          | -                                   | -                        | (1 755)                                                   | -                                                                                          | -                      | (1 755)                        |
| Impairment allowances recognised in:                                    | <b>29, 32</b>    | -                                                                                       | -                                          | -                                   | <b>(21 733)</b>          | -                                                         | -                                                                                          | -                      | <b>(21 733)</b>                |
| Expenses by nature                                                      | 29               | -                                                                                       | -                                          | -                                   | (19 585)                 | -                                                         | -                                                                                          | -                      | (19 585)                       |
| Other operating costs                                                   | 32               | -                                                                                       | -                                          | -                                   | (2 148)                  | -                                                         | -                                                                                          | -                      | (2 148)                        |
| Reversal of impairment allowances recognised in:                        | <b>29, 31</b>    | -                                                                                       | -                                          | -                                   | <b>10 440</b>            | -                                                         | -                                                                                          | -                      | <b>10 440</b>                  |
| Expenses by nature                                                      | 29               | -                                                                                       | -                                          | -                                   | 7 932                    | -                                                         | -                                                                                          | -                      | 7 932                          |
| Other operating income                                                  | 31               | -                                                                                       | -                                          | -                                   | 2 508                    | -                                                         | -                                                                                          | -                      | 2 508                          |
| Adjustment to sales due to hedging transactions                         | <b>35</b>        | -                                                                                       | -                                          | -                                   | -                        | -                                                         | -                                                                                          | 142 187                | <b>142 187</b>                 |
| Gains/(losses) from disposal of financial instruments recognised in:    | <b>29, 31,32</b> | -                                                                                       | <b>4 925</b>                               | -                                   | <b>(3 573)</b>           | -                                                         | -                                                                                          | -                      | <b>1 352</b>                   |
| Expenses by nature                                                      | 29               | -                                                                                       | -                                          | -                                   | (2 337)                  | -                                                         | -                                                                                          | -                      | (2 337)                        |
| Other operating income                                                  | 31               | -                                                                                       | 4 925                                      | -                                   | -                        | -                                                         | -                                                                                          | -                      | 4 925                          |
| Other operating costs                                                   | 32               | -                                                                                       | -                                          | -                                   | (1 236)                  | -                                                         | -                                                                                          | -                      | (1 236)                        |
| Gains on measurement and realisation of derivatives                     | <b>31</b>        | <b>476 668</b>                                                                          | -                                          | -                                   | -                        | -                                                         | -                                                                                          | -                      | <b>476 668</b>                 |
| Losses on measurement and realisation of derivatives                    | <b>32</b>        | <b>(1 638 691)</b>                                                                      | -                                          | -                                   | -                        | -                                                         | -                                                                                          | -                      | <b>(1 638 691)</b>             |
| <b>Total net gain/(loss)</b>                                            |                  | <b>(1 162 023)</b>                                                                      | <b>4 541</b>                               | <b>112</b>                          | <b>88 788</b>            | <b>(90 893)</b>                                           | <b>(1 817)</b>                                                                             | <b>142 187</b>         | <b>(1 019 105)</b>             |

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**34. Financial instruments (continuation)**

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

| For the period from 1 January 2009 to 31 December 2009 restated       | Note             | Financial assets/<br>liabilities measured<br>at fair value<br>through profit or<br>loss | Available-for-<br>sale financial<br>assets | Held-to-<br>maturity<br>investments | Loans and<br>receivables | Other financial liabilities                               |                                                                                            | Hedging<br>instruments | Total financial<br>instruments |
|-----------------------------------------------------------------------|------------------|-----------------------------------------------------------------------------------------|--------------------------------------------|-------------------------------------|--------------------------|-----------------------------------------------------------|--------------------------------------------------------------------------------------------|------------------------|--------------------------------|
|                                                                       |                  |                                                                                         |                                            |                                     |                          | Financial<br>liabilities<br>measured at<br>amortised cost | Financial liabilities<br>due to factoring<br>and liabilities out of<br>the scope of IAS 39 |                        |                                |
| Interest income/(costs) recognised in:                                | <b>31,32,33</b>  | -                                                                                       | <b>21</b>                                  | <b>108</b>                          | <b>89 257</b>            | <b>(14 424)</b>                                           | <b>(1 912)</b>                                                                             | -                      | <b>73 050</b>                  |
| Other operating income                                                | 31               | -                                                                                       | 21                                         | 108                                 | 89 257                   | -                                                         | -                                                                                          | -                      | 89 386                         |
| Other operating costs                                                 | 32               | -                                                                                       | -                                          | -                                   | -                        | (1 728)                                                   | -                                                                                          | -                      | (1 728)                        |
| Finance costs                                                         | 33               | -                                                                                       | -                                          | -                                   | -                        | (12 696)                                                  | (1 912)                                                                                    | -                      | (14 608)                       |
| Exchange gains/(losses) recognised in:                                | <b>32, 33</b>    | -                                                                                       | -                                          | <b>(9)</b>                          | <b>(9 292)</b>           | <b>(65 593)</b>                                           | <b>178</b>                                                                                 | -                      | <b>(74 716)</b>                |
| Other operating costs                                                 | 32               | -                                                                                       | -                                          | (9)                                 | (9 292)                  | (66 163)                                                  | -                                                                                          | -                      | (75 464)                       |
| Finance costs                                                         | 33               | -                                                                                       | -                                          | -                                   | 0                        | 570                                                       | 178                                                                                        | -                      | 748                            |
| Losses on measurement of non-current liabilities recognised in:       | <b>32, 33</b>    | -                                                                                       | -                                          | -                                   | -                        | <b>(630)</b>                                              | -                                                                                          | -                      | <b>(630)</b>                   |
| Other operating costs                                                 | 32               | -                                                                                       | -                                          | -                                   | -                        | (249)                                                     | -                                                                                          | -                      | (249)                          |
| Finance costs                                                         | 33               | -                                                                                       | -                                          | -                                   | -                        | (381)                                                     | -                                                                                          | -                      | (381)                          |
| Impairment allowances recognised in:                                  | <b>29, 32</b>    | -                                                                                       | -                                          | -                                   | <b>(51 506)</b>          | -                                                         | -                                                                                          | -                      | <b>(51 506)</b>                |
| Expenses by nature                                                    | 29               | -                                                                                       | -                                          | -                                   | (45 035)                 | -                                                         | -                                                                                          | -                      | (45 035)                       |
| Other operating costs                                                 | 32               | -                                                                                       | -                                          | -                                   | (6 471)                  | -                                                         | -                                                                                          | -                      | (6 471)                        |
| Reversal of impairment allowances recognised in:                      | <b>29, 31</b>    | -                                                                                       | -                                          | -                                   | <b>13 770</b>            | -                                                         | -                                                                                          | -                      | <b>13 770</b>                  |
| Expenses by nature                                                    | 29               | -                                                                                       | -                                          | -                                   | 11 985                   | -                                                         | -                                                                                          | -                      | 11 985                         |
| Other operating income                                                | 31               | -                                                                                       | -                                          | -                                   | 1 785                    | -                                                         | -                                                                                          | -                      | 1 785                          |
| Adjustment to sales due to hedging transactions                       | <b>35</b>        | -                                                                                       | -                                          | -                                   | -                        | -                                                         | -                                                                                          | <b>433 187</b>         | <b>433 187</b>                 |
| Profit/(losses) from disposal of financial instruments recognised in: | <b>29, 31,32</b> | -                                                                                       | <b>7 500</b>                               | -                                   | <b>(3 206)</b>           | -                                                         | -                                                                                          | -                      | <b>4 294</b>                   |
| Expenses by nature                                                    | 29               | -                                                                                       | -                                          | -                                   | (998)                    | -                                                         | -                                                                                          | -                      | (998)                          |
| Other operating income                                                | 31               | -                                                                                       | 7 500                                      | -                                   | 19                       | -                                                         | -                                                                                          | -                      | 7 519                          |
| Other operating costs                                                 | 32               | -                                                                                       | -                                          | -                                   | (2 227)                  | -                                                         | -                                                                                          | -                      | (2 227)                        |
| Gains on measurement and realisation of derivatives                   | <b>31</b>        | <b>270 057</b>                                                                          | -                                          | -                                   | -                        | -                                                         | -                                                                                          | -                      | <b>270 057</b>                 |
| Losses on measurement and realisation of derivatives                  | <b>32</b>        | <b>(802 437)</b>                                                                        | -                                          | -                                   | -                        | -                                                         | -                                                                                          | -                      | <b>(802 437)</b>               |
| <b>Total net gain/(loss)</b>                                          |                  | <b>(532 380)</b>                                                                        | <b>7 521</b>                               | <b>99</b>                           | <b>39 023</b>            | <b>(80 647)</b>                                           | <b>(1 734)</b>                                                                             | <b>433 187</b>         | <b>(134 931)</b>               |

### 34. Financial instruments (continuation)

#### 34.4 Transfers not qualified for de-recognition

As at 31 December 2010 there were no financial assets whose transfer does not qualify for derecognition.

#### 34.5 Situations concerning financial instruments which did not occur in the Group

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

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

#### 34.6 Financial instruments recognised at fair value in the consolidated statement of financial position

##### 34.6.1 Fair value hierarchy

| Classes of financial instruments        | Note | At               |             |         |                           |           |         |
|-----------------------------------------|------|------------------|-------------|---------|---------------------------|-----------|---------|
|                                         |      | 31 December 2010 |             |         | 31 December 2009 restated |           |         |
|                                         |      | level 1          | level 2     | level 3 | level 1                   | level 2   | level 3 |
| Listed shares                           | 34.2 | 748 772          | -           | -       | 8 976                     | -         | -       |
| Shares in investment funds              | 34.2 | -                | -           | -       | -                         | -         | 7 930   |
| Participation units of investment funds | 34.2 | 475 503          | -           | -       | -                         | -         | -       |
| Derivatives - currency, of which:       | 34.2 | -                | 260 764     | -       | -                         | 15 036    | -       |
| Assets                                  |      | -                | 390 610     | -       | -                         | 180 938   | -       |
| Liabilities                             |      | -                | (129 846)   | -       | -                         | (165 902) | -       |
| Derivatives - metals, of which:         | 34.2 | -                | (753 039)   | -       | -                         | (28 698)  | -       |
| Assets                                  |      | -                | 310 813     | -       | -                         | 140 471   | -       |
| Liabilities                             |      | -                | (1 063 852) | -       | -                         | (169 169) | -       |
| Other financial liabilities             |      | -                | (49 690)    | -       | -                         | (30 611)  | -       |



### 34. Financial instruments (continuation)

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

##### 34.6.1 Fair value hierarchy (continuation)

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

##### Level 3

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

##### Level 2

###### Other financial liabilities.

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

###### Derivatives - currency.

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

###### Derivatives - metals.

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

##### Level 1

###### Listed shares

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

###### Participation units of investment funds

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

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

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

|                                                 | Note          | At               |                           |
|-------------------------------------------------|---------------|------------------|---------------------------|
|                                                 |               | 31 December 2010 | 31 December 2009 restated |
| <b>Shares in investment funds</b>               |               |                  |                           |
| <b>Beginning of the period</b>                  |               | <b>7 930</b>     | <b>11 264</b>             |
| Gains recognised in other comprehensive income  |               | -                | 2 205                     |
| Losses recognised in other comprehensive income |               | 1 838            | 5 539                     |
| Settlement                                      |               | 6 092            | -                         |
| <b>Total</b>                                    | <b>34.6.1</b> | <b>-</b>         | <b>7 930</b>              |

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

### **35. Financial risk management**

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

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

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

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

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

#### **35.1 Market risk**

##### **35.1.1. Principles of market risk management**

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

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

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

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

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

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

##### **35.1.2 Techniques for market risk management**

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

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

## **35. Financial risk management (continuation)**

### **35.1 Market risk (continuation)**

#### **35.1.2 Techniques for market risk management (continuation)**

It is permitted to use the following types of instruments:

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

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

#### **35.1.3 Hedge effectiveness requirement**

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

#### **35.1.4 Measurement of market risk**

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

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

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

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

#### **35.1.5 Restrictions on entering into hedging transactions**

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

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

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

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

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

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

### 35. Financial risk management (continuation)

#### 35.1 Market risk (continuation)

##### 35.1.6 Market risk exposure

###### 35.1.6.1 Commodity risk

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

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

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

Exposure of the Group to commodity risk is presented below:

|                      | <b>For the period</b>                              |                  |                                                                 |                  |
|----------------------|----------------------------------------------------|------------------|-----------------------------------------------------------------|------------------|
|                      | <b>from 1 January 2010<br/>to 31 December 2010</b> |                  | <b>from 1 January 2009<br/>to 31 December 2009<br/>restated</b> |                  |
|                      | <b>Sales</b>                                       | <b>Purchases</b> | <b>Sales</b>                                                    | <b>Purchases</b> |
| Copper [‘000 tonnes] | 559                                                | 143              | 514                                                             | 122              |
| Silver [tonnes]      | 1 247                                              | 8                | 1 198                                                           | 72               |

Sensitivity of the Group's financial instruments to commodity risk at the end of the reporting period is presented in note 35.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

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

At 31 December 2010, the Group held 1 201 694.6 participation units of open-end, liquidity investment funds in the amount of PLN 407 214 thousand classified as available-for-sale financial assets and participation units of open-end, liquidity investment funds in the amount of PLN 68 289 thousand classified as cash and cash equivalents. This investment is slightly exposed to price risk. The investment funds invest assets in money market instruments and in other debt securities (such as government bills and bonds), whose remaining time to maturity does not exceed one year, or whose rate of interest is set for a period no longer than one year. Since the date of acquisition, this investment has been characterised by a stable rate of growth in the value of the participation units, with profitability higher than interest in comparable bank accounts.

###### 35.1.6.1.2 Price risk related to the purchase of shares of listed companies

At 31 December 2010, the Group held shares with a value of PLN 748 772 thousand listed on the Warsaw Stock Exchange and on the TSX Venture Exchange. These investments expose the Group to the risk of a substantial change in accumulated other comprehensive income due to changes in the prices of the shares held. The sensitivity of assets was presented in note 35.1.11.

###### 35.1.6.2 Currency risk

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

## **35. Financial risk management (continuation)**

### **35.1 Market risk (continuation)**

#### **35.1.6 Market risk exposure (continuation)**

##### **35.1.6.2 Currency risk (continuation)**

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

Sensitivity of the Group's financial instruments to currency risk at the end of the reporting period is presented in note 35.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

##### **35.1.6.3 Interest rate risk**

Interest rate risk is the danger of the negative impact of changes in interest rates on the financial position.

The Group is exposed to interest rate risk due to:

- changes in the fair value of loans drawn, and bank deposits for which interest is calculated at fixed rates, due to their inflexibility to adaptation to changes in market interest rates,
- changes in cash flow related to bank and other loans drawn, a decrease in expected income from bank deposits, for which interest is calculated at variable rates.

As at 31 December 2010 the Group had liabilities due to bank and other loans in the amount of PLN 226 603 thousand (as at 31 December 2009: PLN 295 863 thousand) based on variable interest rates, and liabilities due to loans in the amount of PLN 1 430 thousand (as at 31 December 2009: PLN 3 422 thousand) based on fixed interest rates. At 31 December 2010 the Group had bank deposits in the amount of PLN 3 259 112 thousand (as at 31 December 2009: PLN 1 153 118 thousand) based on variable and fixed interest rates.

At the end of the reporting period the Group had no instruments hedging against interest rate risk.

##### **35.1.7 Hedging exposure to market risk in the Parent Entity**

In the Group only the Parent Entity applies hedging strategies (as understood by the hedge accounting). In order to reduce the market risk, the Parent Entity makes use mainly of derivatives. In 2010 copper price hedging strategies represented approx. 33% (in 2009 34%) of the sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 18% (in 2009 25%). In the case of currency market, hedged revenues from sales represented approx. 16% (in 2009 34%) of total revenues from sales realised by the Parent Entity.

In 2010 the Parent Entity implemented copper price hedging strategies with a total volume of 336.4 thousand tonnes and a time horizon falling from July 2010 to June 2013. The Parent Entity made use of options (Asian options), including: puts and option strategies (collars, seagulls and producer's puts). In addition, the Parent Entity performed a restructure, implemented in the analysed period, of seagull options for 2011 and for the first half of 2012 with a total volume of 117 thousand tonnes through the repurchase of sold puts<sup>1</sup>. Restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of this metal in 2011 and in the first half of 2012. During the reporting period the Parent Entity implemented an adjustment hedge transaction for 250 tonnes of copper which will be settled in April 2011.

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

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

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

### 35. Financial risk management (continuation)

#### 35.1 Market risk (continuation)

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

in accumulated other comprehensive income, and will adjust *in plus* sales revenues in 2011. Additionally, as part of the restructure, put options were purchased to hedge the USD/PLN rate for USD 180 million for the whole of 2011.

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

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

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

| Period               | Instrument                      |                      | Volume<br>[tonnes] | Execution<br>price<br>[USD/t] | Average weighted<br>premium<br>[USD/t] | Effective hedge price<br>[USD/t]                                  |
|----------------------|---------------------------------|----------------------|--------------------|-------------------------------|----------------------------------------|-------------------------------------------------------------------|
| I half of<br>2011    | Collar                          | Sold call option     | 19 500             | 8 800                         | (470)                                  | 6 230<br>participation restricted to 8 800                        |
|                      |                                 | Purchased put option |                    | 6 700                         |                                        |                                                                   |
|                      | Collar <sup>1</sup>             | Sold call option     | 19 500             | 9 500                         | (463)                                  | 6 537<br>participation restricted to 9 500                        |
|                      |                                 | Purchased put option |                    | 7 000                         |                                        |                                                                   |
|                      | Collar <sup>1</sup>             | Sold call option     | 19 500             | 9 600                         | (345)                                  | 6 755<br>participation restricted to 9 600                        |
|                      |                                 | Purchased put option |                    | 7 100                         |                                        |                                                                   |
|                      | Producer's puts <sup>2</sup>    |                      | 19 500             | 8 000                         | 9.78% <sup>3</sup>                     | minimal effective hedging price<br>7 288                          |
|                      | <b>Total</b>                    |                      | <b>78 000</b>      |                               |                                        |                                                                   |
| II half of<br>2011   | Collar <sup>1</sup>             | Sold call option     | 19 500             | 9 500                         | (463)                                  | 6 537<br>participation restricted to 9 500                        |
|                      |                                 | Purchased put option |                    | 7 000                         |                                        |                                                                   |
|                      | Collar <sup>1</sup>             | Sold call option     | 19 500             | 9 300                         | (521)                                  | 6 379<br>participation restricted to 9 300                        |
|                      |                                 | Purchased put option |                    | 6 900                         |                                        |                                                                   |
|                      | Collar <sup>1</sup>             | Sold call option     | 19 500             | 9 600                         | (348)                                  | 6 752<br>participation restricted to 9 600                        |
|                      |                                 | Purchased put option |                    | 8 000                         |                                        |                                                                   |
|                      | Producer's puts <sup>2</sup>    |                      | 19 500             | 8 000                         | 9.78% <sup>3</sup>                     | minimal effective hedging price<br>7 288                          |
|                      | <b>Total</b>                    |                      | <b>78 000</b>      |                               |                                        |                                                                   |
|                      | <b>TOTAL 2011</b>               |                      | <b>156 000</b>     |                               |                                        |                                                                   |
| I half of<br>2012    | Seagull <sup>2</sup>            | Sold call option     | 19 500             | 9 300                         | (397)                                  | 6 503<br>restricted to 4 700<br>participation restricted to 9 300 |
|                      |                                 | Purchased put option |                    | 6 900                         |                                        |                                                                   |
|                      |                                 | Sold put option      |                    | 4 700                         |                                        |                                                                   |
|                      | Collar <sup>1</sup>             | Sold call option     | 19 500             | 9 000                         | (478)                                  | 6 322<br>participation restricted to 9 000                        |
|                      |                                 | Purchased put option |                    | 6 800                         |                                        |                                                                   |
|                      | Seagull <sup>2</sup>            | Sold call option     | 19 500             | 9 500                         | (383)                                  | 6 817<br>restricted to 4 700<br>participation restricted to 9 500 |
| Purchased put option |                                 | 7 200                |                    |                               |                                        |                                                                   |
|                      | Producer's puts <sup>2</sup>    |                      | 19 500             | 8 000                         | 9.90% <sup>3</sup>                     | minimal effective hedging price<br>7 279                          |
|                      | <b>Total</b>                    |                      | <b>78 000</b>      |                               |                                        |                                                                   |
| II half of<br>2012   | Seagull <sup>2</sup>            | Sold call option     | 19 500             | 9 300                         | (397)                                  | 6 503<br>restricted to 4 700<br>participation restricted to 9 300 |
|                      |                                 | Purchased put option |                    | 6 900                         |                                        |                                                                   |
|                      |                                 | Sold put option      |                    | 4 700                         |                                        |                                                                   |
|                      | Seagull <sup>2</sup>            | Sold call option     | 19 500             | 9 000                         | (399)                                  | 6 401<br>restricted to 4 500<br>participation restricted to 9 000 |
|                      |                                 | Purchased put option |                    | 6 800                         |                                        |                                                                   |
|                      | Seagull <sup>2</sup>            | Sold put option      | 19 500             | 4 500                         | (383)                                  | 6 817<br>restricted to 4 700<br>participation restricted to 9 500 |
| Sold call option     |                                 | 9 500                |                    |                               |                                        |                                                                   |
|                      | Producer's puts <sup>2</sup>    |                      | 19 500             | 7 200                         |                                        |                                                                   |
|                      | <b>Total</b>                    |                      | <b>58 500</b>      |                               |                                        |                                                                   |
|                      | <b>TOTAL 2012</b>               |                      | <b>136 500</b>     |                               |                                        |                                                                   |
| I half of<br>2013    | Seagull <sup>2</sup>            | Sold call option     | 19 500             | 9 500                         | (383)                                  | 6 817<br>restricted to 4 700<br>participation restricted to 9 500 |
|                      |                                 | Purchased put option |                    | 7 200                         |                                        |                                                                   |
|                      |                                 | Sold put option      |                    | 4 700                         |                                        |                                                                   |
|                      | <b>Total</b>                    |                      | <b>19 500</b>      |                               |                                        |                                                                   |
|                      | <b>TOTAL first half of 2013</b> |                      | <b>19 500</b>      |                               |                                        |                                                                   |

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

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

<sup>3</sup> Payable at the moment of settlement.

### 35. Financial risk management (continuation)

#### 35.1 Market risk (continuation)

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

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

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

##### HEDGING POSITION (condensed information) – CURRENCY MARKET

| Period            | Instrument           | Nominal<br>[million<br>USD] | Execution<br>price<br>[USD/PLN] | Average weighted<br>premium<br>[PLN per 1<br>USD] | Effective hedge price<br>[USD/PLN] |                                                                  |
|-------------------|----------------------|-----------------------------|---------------------------------|---------------------------------------------------|------------------------------------|------------------------------------------------------------------|
| I half of 2011    | Collar <sup>1</sup>  | Sold call option            | 180                             | 3.7000                                            | (0.1277)                           | 2.7723<br>participation restricted to 3.70                       |
|                   |                      | Purchased put option        |                                 | 2.9000                                            |                                    |                                                                  |
|                   |                      | Purchased put option        | 90                              | 3.3500                                            | (0.2390)                           | 3.1110                                                           |
|                   |                      | Purchased put option        | 90                              | 2.7000                                            | (0.0781)                           | 2.6219                                                           |
|                   |                      | Purchased put option        | 120                             | 2.8000                                            | (0.0722)                           | 2.7278                                                           |
|                   |                      | Purchased put option        | 120                             | 2.9000                                            | (0.0993)                           | 2.8007                                                           |
| <b>Total</b>      |                      | <b>600</b>                  |                                 |                                                   |                                    |                                                                  |
| II half of 2011   | Collar <sup>1</sup>  | Sold call option            | 180                             | 3.7000                                            | (0.1028)                           | 2.7972<br>participation restricted to 3.70                       |
|                   |                      | Purchased put option        |                                 | 2.9000                                            |                                    |                                                                  |
|                   | Seagull <sup>2</sup> | Sold call option            | 90                              | 4.4000                                            | (0.1160)                           | 3.1840<br>restricted to 2.70<br>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                             |                                                                  |
| <b>Total</b>      |                      | <b>600</b>                  |                                 |                                                   |                                    |                                                                  |
| <b>TOTAL 2011</b> |                      | <b>1 200</b>                |                                 |                                                   |                                    |                                                                  |
| I half of 2012    | Seagull <sup>2</sup> | Sold call option            | 90                              | 4.4000                                            | (0.0990)                           | 3.2010<br>restricted to 2.70<br>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<br>participation restricted to 4.50                       |
|                   |                      | Purchased put option        |                                 | 3.4000                                            |                                    |                                                                  |
| <b>Total</b>      |                      | <b>180</b>                  |                                 |                                                   |                                    |                                                                  |
| II half of 2012   | Seagull <sup>2</sup> | Sold call option            | 90                              | 4.4000                                            | (0.0767)                           | 3.2233<br>restricted to 2.70<br>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<br>participation restricted to 4.50                       |
|                   |                      | Purchased put option        |                                 | 3.4000                                            |                                    |                                                                  |
|                   | <b>Total</b>         |                             | <b>180</b>                      |                                                   |                                    |                                                                  |
| <b>TOTAL 2012</b> |                      | <b>360</b>                  |                                 |                                                   |                                    |                                                                  |

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

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

### 35. Financial risk management (continuation)

#### 35.1 Market risk (continuation)

##### 35.1.8 Impact of derivatives on the statement of financial position of the Group

As at 31 December 2010, the fair value of open positions in derivatives amounted to PLN (492 275) thousand, of which PLN 701 423 thousand relate to financial assets and PLN 1 193 698 thousand relate to financial liabilities.

Derivatives whose date of settlement was 5 January 2011 were measured at fair value in the amount of PLN (49 690) thousand, and accounted for in trade and other payables as payables due to unsettled derivatives (Note 21).

Other information concerning derivatives is presented in Note 12 Derivatives and in Note 34 Financial instruments.

##### 35.1.9. Impact of derivatives on the Group's profit or loss and other comprehensive income

In 2010, the result on derivatives amounted to PLN (1 019 836) thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from accumulated other comprehensive income to profit or loss in the reporting period, as an adjustment from reclassification, increased revenues from sales by PLN 142 187 thousand. The loss on the measurement of derivatives amounted to PLN 1 033 354 thousand, while the loss on the realisation of derivatives amounted to PLN 128 669 thousand. Adjustment to other operating costs arising from the measurement of derivatives results mainly from changes of the time value of options, which will be settled in future periods. In accordance with the applied hedge accounting principles, the change in the time value of options is recognised in accumulated other comprehensive income.

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

|                                                       | <b>For the period</b>      |                            |
|-------------------------------------------------------|----------------------------|----------------------------|
|                                                       | <b>from 1 January 2010</b> | <b>from 1 January 2009</b> |
|                                                       | <b>to 31 December 2010</b> | <b>to 31 December 2009</b> |
|                                                       |                            | <b>restated</b>            |
| <b>Impact on sales</b>                                | <b>142 187</b>             | <b>433 187</b>             |
| <b>Impact on other operating activities</b>           | <b>(1 162 023)</b>         | <b>(532 380)</b>           |
| Losses from realisation of derivatives                | (128 669)                  | (187 486)                  |
| Losses from measurement of derivatives                | (1 033 354)                | (344 894)                  |
| <b>Total impact of derivatives on profit or loss:</b> | <b>(1 019 836)</b>         | <b>(99 193)</b>            |

The Parent Entity accounts for cash flow hedging instruments according to the principles presented in note 2.2.5.7 of Main accounting policies. Those principles require recognition in other comprehensive income of the effective portion of the change in the fair value of hedging transactions during the period in which these transactions are designated as a hedge of future cash flows. The amounts recognised in accumulated other comprehensive income are subsequently transferred to profit or loss in the period in which the hedged transaction is settled.

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

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

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



### 35. Financial risk management (continuation)

#### 35.1 Market risk (continuation)

##### 35.1.9. Impact of derivatives on the Group's profit or loss and other comprehensive income (continuation)

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

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

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

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

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

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

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

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

Scope of historical data (daily data):

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

The parameters of the Schwartz model were calibrated by the method of highest reliability to real historical prices (adjusted by the PPI inflation index in the USA for Cu and Ag). The trend in the Black-Scholes model

### 35. Financial risk management (continuation)

#### 35.1 Market risk (continuation)

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

(currencies) was calibrated to the forward market curve for interest rates, while variability is the exponentially weighted historical variability.

Potential price changes at the end of the reporting period:

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

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

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

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

| FINANCIAL ASSETS AND<br>LIABILITIES           | VALUE AT RISK<br>Currency structure |              |              |            |
|-----------------------------------------------|-------------------------------------|--------------|--------------|------------|
|                                               | ['000 PLN]                          | ['000 USD]   | ['000 EUR]   | ['000 GBP] |
| Trade receivables (net)                       | 1 444 927                           | 296 463      | 100 260      | 36 815     |
| Cash and cash equivalents and deposits        | 497 279                             | 102 319      | 40 371       | 7 427      |
| Other financial assets (net)                  | 28 153                              | 604          | 5 415        | 1 070      |
| Derivatives - Currency                        | 260 764                             | lack of data | lack of data | -          |
| Derivatives – Commodity contracts -<br>Metals | (753 039)                           | (254 053)    | -            | -          |
| Trade payables                                | (109 082)                           | (26 427)     | (7 747)      | (15)       |
| Bank and other loans                          | (5 456)                             | -            | (1 378)      | -          |
| Other financial liabilities                   | (62 876)                            | (16 775)     | (3 322)      | -          |

**35. Financial risk management (continuation)**

**35.1 Market risk (continuation)**

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

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

| <b>FINANCIAL ASSETS AND<br/>LIABILITIES</b>   | <b>VALUE AT RISK<br/>Currency structure</b> |                   |                   |                   |
|-----------------------------------------------|---------------------------------------------|-------------------|-------------------|-------------------|
|                                               | <b>['000 PLN]</b>                           | <b>['000 USD]</b> | <b>['000 EUR]</b> | <b>['000 GBP]</b> |
| Shares in investment funds                    | 7 930                                       | 2 782             | -                 | -                 |
| Trade receivables (net)                       | 905 082                                     | 123 662           | 115 325           | 17 142            |
| Cash and cash equivalents and deposits        | 187 988                                     | 37 535            | 12 663            | 6 302             |
| Other financial assets (net)                  | 11 672                                      | 1 242             | 1 213             | 685               |
| Derivatives - Currency                        | 15 036                                      | lack of data      | lack of data      | -                 |
| Derivatives - Commodity contracts -<br>Metals | (28 698)                                    | (10 069)          | -                 | -                 |
| Trade payables                                | (43 742)                                    | (7 892)           | (5 164)           | (7)               |
| Bank and other loans                          | (6 728)                                     | -                 | (1 638)           | -                 |
| Other financial liabilities                   | (56 842)                                    | (14 879)          | (3 513)           | -                 |

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**35. Financial risk management (continuation)**

**35.1 Market risk (continuation)**

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

**SENSITIVITY ANALYSIS AS AT 31 December 2010**

| FINANCIAL ASSETS AND LIABILITIES            | 31.12.2010    |                 | CURRENCY RISK |                |           |                |          |                |                       |                | COMMODITY RISK           |                |         |                |         |                |         |                |        |       |       |  |
|---------------------------------------------|---------------|-----------------|---------------|----------------|-----------|----------------|----------|----------------|-----------------------|----------------|--------------------------|----------------|---------|----------------|---------|----------------|---------|----------------|--------|-------|-------|--|
|                                             | VALUE AT RISK | CARRYING AMOUNT | USD/PLN       |                | EUR/PLN   |                | GBP/PLN  |                | COPPER PRICES [USD/t] |                | SILVER PRICES [USD/troz] |                |         |                |         |                |         |                |        |       |       |  |
|                                             |               |                 | 3.63          |                | 2.43      |                | 4.56     |                | 3.49                  |                | 5.41                     |                | 3.94    |                | 12 965  |                | 6 461   |                | 41.91  |       | 19.71 |  |
|                                             |               |                 | + 22%         |                | - 18%     |                | + 15%    |                | - 12%                 |                | +18%                     |                | -14%    |                | + 34%   |                | - 33%   |                | + 37%  |       | - 36% |  |
| ['000 PLN]                                  | ['000 PLN]    | Profit or loss  | Equity        | Profit or loss | Equity    | Profit or loss | Equity   | Profit or loss | Equity                | Profit or loss | Equity                   | Profit or loss | Equity  | Profit or loss | Equity  | Profit or loss | Equity  | Profit or loss | Equity |       |       |  |
| Trade receivables (net)                     | 1 444 927     | 1 972 186       | 159 714       | (128 400)      | 48 929    | (38 396)       | 24 241   | (19 529)       |                       |                |                          |                |         |                |         |                |         |                |        |       |       |  |
| Cash and cash equivalents and deposits      | 497 279       | 3 459 379       | 55 122        | (44 315)       | 19 702    | (15 461)       | 4 890    | (3 940)        |                       |                |                          |                |         |                |         |                |         |                |        |       |       |  |
| Other financial assets (net)                | 28 153        | 49 955          | 326           | (262)          | 2 643     | (2 074)        | 705      | (568)          |                       |                |                          |                |         |                |         |                |         |                |        |       |       |  |
| Derivatives – Currency contracts            | 260 764       | 260 764         | (163 743)     | (104 629)      | (123 463) | 529 874        | (11 815) | 9 080          |                       |                |                          |                |         |                |         |                |         |                |        |       |       |  |
| Derivatives – Commodity contracts – Metals  | (753 039)     | (753 039)       | (121 136)     | (15 730)       | 97 386    | 12 646         |          |                |                       |                |                          |                | 182 070 | (1 827 586)    | 612 600 | 750 806        | (1 278) |                | 14 128 | 1 744 |       |  |
| Trade payables                              | (109 082)     | (901 882)       | (14 237)      | 11 446         | (3 781)   | 2 967          | (10)     | 8              |                       |                |                          |                |         |                |         |                |         |                |        |       |       |  |
| Bank and other loans                        | (5 456)       | (228 033)       |               |                | (672)     | 528            |          |                |                       |                |                          |                |         |                |         |                |         |                |        |       |       |  |
| Other financial liabilities                 | (62 876)      | (192 761)       | (9 037)       | 7 265          | (1 621)   | 1 272          |          |                |                       |                |                          |                |         |                |         |                |         |                |        |       |       |  |
| <b>IMPACT ON PROFIT OR LOSS</b>             |               |                 | (92 991)      | (180 343)      | 53 385    | (42 084)       | 29 826   | (24 029)       |                       |                |                          |                | 182 070 | 612 600        | (1 278) |                |         |                | 14 128 |       |       |  |
| <b>IMPACT ON OTHER COMPREHENSIVE INCOME</b> |               |                 |               | (120 359)      | 542 520   |                |          |                |                       |                |                          |                |         | (1 827 586)    | 750 806 |                |         |                |        | 1 744 |       |  |

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**35. Financial risk management (continuation)**

**35.1 Market risk (continuation)**

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

**SENSITIVITY ANALYSIS AS AT 31 December 2009 - restated**

| FINANCIAL ASSETS AND LIABILITIES            | VALUE AT RISK | 31.12.2009<br>CARRYING AMOUNT | CURRENCY RISK  |          |                |          |                |          |                |         |                |          | COMMODITY RISK        |           |                |         |                          |         |                |        |       |  |
|---------------------------------------------|---------------|-------------------------------|----------------|----------|----------------|----------|----------------|----------|----------------|---------|----------------|----------|-----------------------|-----------|----------------|---------|--------------------------|---------|----------------|--------|-------|--|
|                                             |               |                               | USD/PLN        |          |                |          | EUR/PLN        |          |                |         | GBP/PLN        |          | COPPER PRICES [USD/t] |           |                |         | SILVER PRICES [USD/troz] |         |                |        |       |  |
|                                             |               |                               | 3.58           |          | 2.24           |          | 4.85           |          | 3.51           |         | 5.39           |          | 3.95                  |           | 10 061         |         | 4 765                    |         | 24.43          |        | 10.93 |  |
|                                             |               |                               | + 26%          |          | - 21%          |          | + 18%          |          | - 15%          |         | + 17%          |          | - 14%                 |           | + 37%          |         | - 35%                    |         | + 44%          |        | - 36% |  |
|                                             | [^000 PLN]    | [^000 PLN]                    | Profit or loss | Equity   | Profit or loss | Equity   | Profit or loss | Equity   | Profit or loss | Equity  | Profit or loss | Equity   | Profit or loss        | Equity    | Profit or loss | Equity  | Profit or loss           | Equity  | Profit or loss | Equity |       |  |
| Shares in investment funds                  | 7 930         | 7 930                         | 1 640          | (1 375)  |                |          |                |          |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| Trade receivables (net)                     | 905 082       | 1 199 512                     | 72 911         | (61 132) | 69 369         | (56 169) | 10 940         | (9 018)  |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| Cash and cash equivalents and deposits      | 187 988       | 1 264 821                     | 22 131         | (18 555) | 7 617          | (6 168)  | 4 022          | (3 315)  |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| Other financial assets (net)                | 11 672        | 18 993                        | 732            | (614)    | 730            | (591)    | 437            | (360)    |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| Derivatives – Currency contracts            | 15 036        | 15 036                        | (31 354)       | (9 119)  | (2 606)        | 164 897  | (1 879)        | 1 513    |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| Derivatives – Commodity contracts - Metals  | (28 698)      | (28 698)                      | (7 959)        | 2 022    | 6 673          | (1 696)  |                |          |                |         |                |          | (54 596)              | (348 905) | 96 549         | 366 613 | (10 366)                 | (7 918) | (10 660)       | 75 732 |       |  |
| Trade payables                              | (43 742)      | (629 951)                     | (4 653)        | 3 901    | (3 106)        | 2 515    | (5)            | 4        |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| Bank and other loans                        | (6 728)       | (299 285)                     |                | (985)    | 798            |          |                |          |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| Other financial liabilities                 | (56 842)      | (148 067)                     | (8 772)        | 7 355    | (2 113)        | 1 711    |                |          |                |         |                |          |                       |           |                |         |                          |         |                |        |       |  |
| <b>IMPACT ON PROFIT OR LOSS</b>             |               |                               | 44 676         | (66 353) | 69 633         | (56 391) | 15 394         | (12 689) | (54 596)       | 96 549  | (10 366)       | (10 660) |                       |           |                |         |                          |         |                |        |       |  |
| <b>IMPACT ON OTHER COMPREHENSIVE INCOME</b> |               |                               | (7 097)        | 163 201  |                |          |                |          | (348 905)      | 366 613 | (7 918)        | 75 732   |                       |           |                |         |                          |         |                |        |       |  |

### 35. Financial risk management (continuation)

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

Maximum and minimum closing prices from the last 52 weeks were used for sensitivity analysis.

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

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

|                                         | Carrying amount<br>At 31 December 2010<br>(in PLN '000) | Percentage change of share<br>price |         |
|-----------------------------------------|---------------------------------------------------------|-------------------------------------|---------|
|                                         |                                                         | -36%                                | 22%     |
| Listed shares                           | 748 772                                                 |                                     |         |
| Impact on other<br>comprehensive income |                                                         | (263 476)                           | 164 730 |

#### 35.2 Liquidity risk and capital management

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

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

In 2010, as well as in the comparable period, due to positive cash flow and the significant amount of cash and cash equivalents balances, the Group companies barely used external sources of financing.

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

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

#### Contractual maturities for financial liabilities as at 31 December 2010

| Financial liabilities                              | Contractual maturities from the end of the reporting<br>period |                |                |                |                 | Total (without<br>discounting) | Carrying<br>amount |
|----------------------------------------------------|----------------------------------------------------------------|----------------|----------------|----------------|-----------------|--------------------------------|--------------------|
|                                                    | Up to 3<br>months                                              | 3-12<br>months | 1-3<br>years   | 3-5<br>years   | Over 5<br>years |                                |                    |
| Trade payables                                     | 888 926                                                        | 1 224          | 11 486         | 498            | -               | 902 134                        | 901 882            |
| Loans, including bank loans                        | 41 274                                                         | 55 787         | 94 207         | 24 517         | 36 773          | 252 558                        | 228 033            |
| Derivatives – Currency<br>contracts                | 19 268                                                         | 50 211         | -              | -              | -               | 69 479                         | 129 846            |
| Derivatives – Commodity<br>contracts - Metals      | 12 767                                                         | 42 978         | 30 671         | -              | -               | 86 416                         | 1 063 852          |
| Other financial liabilities                        | 66 931                                                         | 15 218         | 27 748         | 99 910         | 3 270           | 213 077                        | 192 161            |
| <b>Total financial liabilities by<br/>maturity</b> | <b>1 029 166</b>                                               | <b>165 418</b> | <b>164 112</b> | <b>124 925</b> | <b>40 043</b>   | <b>1 523 664</b>               |                    |

#### Contractual maturities for financial liabilities as at 31 December 2009 - restated

| Financial liabilities                              | Contractual maturities from the end of the reporting<br>period |                |                |               |                 | Total (without<br>discounting) | Carrying<br>amount |
|----------------------------------------------------|----------------------------------------------------------------|----------------|----------------|---------------|-----------------|--------------------------------|--------------------|
|                                                    | Up to 3<br>months                                              | 3-12<br>months | 1-3<br>years   | 3-5<br>years  | Over 5<br>years |                                |                    |
| Trade payables                                     | 614 992                                                        | 4 737          | 9 335          | 1 003         | 4               | 630 071                        | 629 951            |
| Loans, including bank loans                        | 31 278                                                         | 179 898        | 63 277         | 22 580        | 27 930          | 324 963                        | 299 285            |
| Derivatives - Currency                             | 40 560                                                         | 108 673        | -              | -             | -               | 149 233                        | 165 902            |
| Derivatives – Commodity<br>contracts - Metals      | -                                                              | 31 514         | 6 360          | -             | -               | 37 874                         | 169 169            |
| Other financial liabilities                        | 66 235                                                         | 12 527         | 25 873         | 50 893        | 6 498           | 162 026                        | 148 067            |
| <b>Total financial liabilities by<br/>maturity</b> | <b>753 065</b>                                                 | <b>337 349</b> | <b>104 845</b> | <b>74 476</b> | <b>34 432</b>   | <b>1 304 167</b>               |                    |

### 35. Financial risk management (continuation)

#### 35.2 Liquidity risk and capital management (continuation)

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

As at 31 December 2010 the Group had overdraft facilities in the amount of PLN 161 447 thousand (as at 31 December 2009: PLN 135 100 thousand).

As at 31 December 2010 unused overdraft facilities amounted to PLN 110 726 thousand (as at 31 December 2009: PLN 88 345 thousand).

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

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

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

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

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

|                                          | <b>31 December 2010</b> | <b>31 December 2009<br/>restated</b> |
|------------------------------------------|-------------------------|--------------------------------------|
| Equity                                   | 14 891 779              | 10 575 339                           |
| Less: intangible assets                  | 523 874                 | 218 124                              |
| Net assets                               | 14 367 905              | 10 357 215                           |
| Total assets                             | 21 177 323              | 14 890 420                           |
| <b>Equity ratio</b>                      | <b>0.68</b>             | <b>0.70</b>                          |
| Operating profit                         | 5 545 338               | 2 679 338                            |
| Plus: depreciation/amortisation          | 843 938                 | 743 790                              |
| EBITDA                                   | 6 389 276               | 3 423 128                            |
| Borrowings and finance lease liabilities | 269 814                 | 340 670                              |
| <b>Ratio of Debt/EBITDA</b>              | <b>0.042</b>            | <b>0.100</b>                         |

Due to the low level of debt of the Group as at 31 December 2010, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.042.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.68 at 31 December 2010.

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

#### 35.3 Credit risk

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

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

## 35. Financial risk management (continuation)

### 35.3 Credit risk (continuation)

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

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

#### 35.3.1 Credit risk related to cash and cash equivalents and bank deposits

All entities with which the Group enters into deposit transactions operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with medium<sup>4</sup> credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of a single bank in respect of cash and cash equivalents deposited by the Group amounted to 27% as at 31 December 2010.

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

#### 35.3.2 Credit risk related to derivative transactions

All entities with which the Group enters into derivative transactions operate in the financial sector. These are financial institutions (mainly banks), with the highest<sup>5</sup> (40.7%), medium - high<sup>6</sup> (48.2%) or medium<sup>4</sup> (11.1%) credit ratings. At 31 December 2010, based on fair value the maximum exposure of the Group to a single entity in respect of derivative transactions amounts to 29.7 %.

Fair value of derivative transactions entered into by the Group at 31 December 2010 amounted to <sup>7</sup>:

|                        |                                                                 |
|------------------------|-----------------------------------------------------------------|
| PLN 541 965 thousand   | (negative balance on the measurement of derivatives), of which: |
| PLN 701 423 thousand   | financial assets (note 12),                                     |
| PLN 1 243 388 thousand | financial liabilities (notes 12, 21).                           |

All entities with which the Group entered into derivative transactions in 2009 operated in the financial sector. These are financial institutions (mainly banks), with the highest<sup>5</sup> (39.1%), medium-high<sup>6</sup> (55.2%) or medium<sup>4</sup> (8.7%) credit ratings. The maximum exposure of the Group to a single entity in respect of derivative transactions amounted to 46.1%.

The fair value of derivative transactions entered into by the Group at 31 December 2009 amounted to <sup>8</sup>:

|                      |                                                                 |
|----------------------|-----------------------------------------------------------------|
| PLN 44 273 thousand  | (negative balance on the measurement of derivatives), of which: |
| PLN 321 409 thousand | financial assets (note 12),                                     |
| PLN 365 682 thousand | financial liabilities (notes 12, 21).                           |

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<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> The measurement of transactions includes the measurement of both open positions as well as transactions which were settled on 5 January 2011, which were presented in the statement of financial position of the Group under other financial liabilities (Note 21).

<sup>8</sup> The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2010, which were presented in the statement of financial position of the Group at 31 December 2009 under other financial liabilities.



### 35. Financial risk management (continuation)

#### 35.3 Credit risk (continuation)

##### 35.3.2 Credit risk related to derivative transactions (continuation)

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

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

##### 35.3.3 Credit risk related to trade and other financial receivables

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

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

|                                                 | At               |                      |                    |                              |                      |                    |
|-------------------------------------------------|------------------|----------------------|--------------------|------------------------------|----------------------|--------------------|
|                                                 | 31 December 2010 |                      |                    | 31 December 2009<br>restated |                      |                    |
|                                                 | Poland           | EU (excl.<br>Poland) | Other<br>Countries | Poland                       | EU (excl.<br>Poland) | Other<br>Countries |
| Net receivables from sales of copper and silver | 34.26%           | 33.95%               | 31.79%             | 33.41%                       | 56.76%               | 9.83%              |

The Parent Entity makes the significant part of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always secured. The Parent Entity has secured the majority of its receivables by promissory notes<sup>9</sup>, frozen funds on bank accounts, registered pledges<sup>10</sup>, bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers which hold buyer's credit on contracts have ownership rights confirmed by a date certain<sup>11</sup>. To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral. Taking into account the collateral held and the credit limits received from the insurance company, at 31 December 2010 the Parent Entity had secured 69.1% of its trade receivables.

The total value of the Group's trade receivables as at 31 December 2010, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 972 186 thousand (at 31 December 2009: PLN 1 199 512 thousand).

The concentration of credit risk in the Parent Entity results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 31 December 2010 the balance of receivables of the Group from 7 of the Parent Entity's largest clients, calculated as a percentage of trade receivables at the end of the reporting period, represented 57% of the balance of trade receivables (at 31 December 2009: 66%). Despite the concentration of this type of risk, the Parent Entity believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

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

<sup>9</sup> In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

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

<sup>11</sup> A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Parent Entity transfers substantially all of the risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

### 35. Financial risk management (continuation)

#### 35.3 Credit risk (continuation)

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

The following Group companies have significant trade receivables: CENTROZŁOM WROCŁAW S.A. PLN 78 224 thousand, DIALOG S.A. PLN 69 364 thousand, KGHM Metraco S.A. PLN 59 541 thousand, WPEC w Legnicy S.A. PLN 31 249 thousand, Walcownia Metali Nieżelaznych spółka z o. o. PLN 13 907 thousand, PHP "MERCUS" sp. z o.o. PLN 13 833 thousand, ZUK S.A. PLN 10 494 thousand, POL-MIEDŹ TRANS Sp. z o.o. PLN 9 692 thousand.

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

The KGHM Polska Miedź S.A. Group believes that the maximum amount of exposure of the Group to credit risk at the end of the reporting period approximates the amount of the balance of trade receivables, without taking into account the fair value of any collateral. Nevertheless, the real risk that there will be no cash inflow to the Group due to trade receivables is low.

##### 35.3.4 Credit risk related to loans granted

At 31 December 2010 the carrying amount of loans granted was PLN 0 (at 31 December 2009, PLN 0 thousand). The balance is composed of loans granted in the gross amount of PLN 1 595 thousand. Due to the arising of a high level of credit risk, these loans were fully covered by an allowance for impairment.

##### 35.3.5. Credit risk related to investments in debt securities and participation units of investment funds

Credit risk related to investments in participation units of investment funds with a value of PLN 475 503 thousand at 31 December 2010 is immaterial. Fund management institutions hold a medium-high rating.

##### 35.3.6. Other information related to credit risk

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

|                             | At 31 December 2010 |               |                    |                    |                     |             |
|-----------------------------|---------------------|---------------|--------------------|--------------------|---------------------|-------------|
|                             | Value               | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | Over 1 year |
| Trade receivables           | 99 246              | 69 178        | 13 567             | 4 973              | 9 333               | 2 195       |
| Other financial receivables | 525                 | 245           | 271                | 3                  | 2                   | 4           |

|                             | At 31 December 2009 - restated |               |                    |                    |                     |             |
|-----------------------------|--------------------------------|---------------|--------------------|--------------------|---------------------|-------------|
|                             | Value                          | Up to 1 month | From 1 to 3 months | From 3 to 6 months | From 6 to 12 months | Over 1 year |
| Trade receivables           | 75 046                         | 56 450        | 3 952              | 2 200              | 10 648              | 1 796       |
| Other financial receivables | 394                            | 215           | 107                | 9                  | 6                   | 57          |

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

### 35. Financial risk management (continuation)

#### 35.3 Credit risk (continuation)

##### 35.3.6. Other information related to credit risk (continuation)

Changes in allowances for impairment of financial assets by asset classes are presented in the tables below:

##### a) trade receivables (category: loans and financial receivables)

|                                                                          | Note      | For the period                             |                                                        |
|--------------------------------------------------------------------------|-----------|--------------------------------------------|--------------------------------------------------------|
|                                                                          |           | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Impairment allowance at the beginning of the period</b>               | <b>13</b> | <b>83 422</b>                              | <b>54 687</b>                                          |
| Increase due to obtaining control of a subsidiary                        |           | 5 078                                      | 2 168                                                  |
| Impairment allowance recognised in profit or loss                        | 29        | 19 585                                     | 45 035                                                 |
| Impairment allowance reversed through profit or loss                     | 29        | (7 932)                                    | (11 985)                                               |
| Impairment allowance on foreign exchange differences                     |           | 258                                        | (1 047)                                                |
| Impairment allowance utilised during the period                          |           | (14 204)                                   | (5 107)                                                |
| Impairment allowance recognised/(reversed) on costs of legal proceedings |           | 110                                        | (118)                                                  |
| Decrease due to loss of control of a subsidiary                          |           | -                                          | (211)                                                  |
| <b>Impairment allowance at the end of the period</b>                     | <b>13</b> | <b>86 317</b>                              | <b>83 422</b>                                          |

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

|                                                            | Note      | For the period                             |                                                        |
|------------------------------------------------------------|-----------|--------------------------------------------|--------------------------------------------------------|
|                                                            |           | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Impairment allowance at the beginning of the period</b> | <b>13</b> | <b>14 029</b>                              | <b>10 252</b>                                          |
| Increase due to obtaining control of a subsidiary          |           | 1 327                                      | -                                                      |
| Impairment allowance recognised in profit or loss          | 32        | 2 148                                      | 6 471                                                  |
| Impairment allowance reversed through profit or loss       | 31        | (2 508)                                    | (1 785)                                                |
| Impairment allowance on foreign exchange differences       |           | 50                                         | (49)                                                   |
| Impairment allowance utilised during the period            |           | (5 573)                                    | (863)                                                  |
| Impairment allowance on costs of legal proceedings         |           | 3 193                                      | 3                                                      |
| <b>Impairment allowance at the end of the period</b>       | <b>13</b> | <b>12 666</b>                              | <b>14 029</b>                                          |

##### c) debt securities (category: available-for-sale financial assets)

|                                                            | For the period                             |                                                        |
|------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                            | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Impairment allowance at the beginning of the period</b> | -                                          | <b>248</b>                                             |
| Increase due to obtaining control of a subsidiary          | 512                                        | -                                                      |
| Impairment allowance utilised during the period            | -                                          | (248)                                                  |
| <b>Impairment allowance at the end of the period</b>       | <b>512</b>                                 | -                                                      |

### 36. Share of profits/losses of associates accounted for using the equity method

|                                | For the period                             |                                                        |
|--------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Share of profits of associates | 280 542                                    | 239 463                                                |

### 37. Income tax

| Income tax                                   | Note | For the period                             |                                                        |
|----------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                              |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Current income tax                           |      | 1 272 339                                  | 624 738                                                |
| Deferred income tax                          | 24   | (202 903)                                  | (92 555)                                               |
| Adjustments to income tax from prior periods |      | (6 749)                                    | 12 798                                                 |
| <b>Total</b>                                 |      | <b>1 062 687</b>                           | <b>544 981</b>                                         |

The tax on the Group's profit before tax differs in the following manner from the theoretical amount that would arise if the theoretical tax rate was applied, as a sum of profits before tax, multiplied by the income tax rate of the home country of each company and then divided by profit before tax.

|                                                                                                                        | For the period                             |                                                        |
|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                                        | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Profit before tax                                                                                                      | <b>5 777 550</b>                           | <b>2 873 542</b>                                       |
| Tax calculated using the average weighted rates applicable to incomes in individual countries is 19.00% (2009: 19.02%) | <b>1 097 622</b>                           | <b>546 683</b>                                         |
| Non-taxable income                                                                                                     | (43 044)                                   | (88 090)                                               |
| Expenses not deductible for tax purposes                                                                               | 92 729                                     | 61 872                                                 |
| Utilisation of previously-unrecognised tax losses                                                                      | (43 811)                                   | (3 844)                                                |
| Tax losses on which deferred tax assets were not recognised                                                            | 126                                        | 13 884                                                 |
| Deductible temporary differences on which deferred tax assets were not recognised                                      | 1 216                                      | 1 678                                                  |
| Temporary tax differences due to investments in associates, on which deferred tax was not prior recognised             | (35 402)                                   | -                                                      |
| Adjustments to income tax from prior periods                                                                           | (6 749)                                    | 12 798                                                 |
| <b>Income tax expense</b><br>the average income tax rate applied was 18.39% (2009: 18.97%)                             | <b>1 062 687</b>                           | <b>544 981</b>                                         |

### 38. Earnings per share

|                                                          | For the period                             |                                                        |
|----------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                          | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Profit attributable to shareholders of the Parent Entity | 4 708 946                                  | 2 327 993                                              |
| Weighted average number of ordinary shares ('000)        | 200 000                                    | 200 000                                                |
| Basic/diluted earnings per share (PLN/share)             | 23.54                                      | 11.64                                                  |

There are no dilutive potential ordinary shares.

### 39. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2010 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 17 May 2010 regarding the appropriation of Parent Entity's profit for financial year 2009 and setting of the right to dividend date and dividend payment date, the amount of PLN 600 000 thousand, representing PLN 3.00 per share, was allocated as a shareholders dividend from profit for financial year 2009.

The right to dividend date was set at 17 June 2010, and dividend payment date - at 8 July 2010.

All shares of the Parent Entity are ordinary shares.

#### 40. Notes to the consolidated statement of cash flows

##### Adjustments to profit for the period

|                                                                                                                              | For the period                             |                                                        |
|------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                                              | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Income tax recognised in profit or loss                                                                                      | 1 062 687                                  | 544 981                                                |
| Depreciation/amortisation                                                                                                    | 843 938                                    | 743 790                                                |
| Impairment losses on goodwill                                                                                                | 743                                        | 2 359                                                  |
| Losses on sales of property, plant and equipment and intangible assets                                                       | 19 975                                     | 22 358                                                 |
| Gains on the sale of available-for-sale financial assets                                                                     | (4 925)                                    | (7 500)                                                |
| Gains from loss of control over a subsidiary                                                                                 | -                                          | (21 457)                                               |
| (Gains)/losses on the sale of and change in fair value of investment property                                                | (4 349)                                    | 919                                                    |
| Impairment losses on property, plant and equipment, intangible assets and loans                                              | 19 582                                     | 43 151                                                 |
| Share of profits of associates accounted for using the equity method                                                         | (280 542)                                  | (239 463)                                              |
| Interest and share in profits (dividends)                                                                                    | 13 084                                     | 9 655                                                  |
| Foreign exchange gains/(losses)                                                                                              | (2 203)                                    | 19 001                                                 |
| Change in provisions                                                                                                         | 36 131                                     | 155 905                                                |
| Change in derivatives                                                                                                        | 576 401                                    | 687 023                                                |
| Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives       | (142 187)                                  | (433 187)                                              |
| Balances of assets and liabilities items at date of obtaining control over subsidiaries and losing control over a subsidiary | 71 741                                     | 61 869                                                 |
| Other adjustments                                                                                                            | (40 255)                                   | (27 650)                                               |
| Changes in working capital:                                                                                                  | (555 689)                                  | (536 359)                                              |
| Inventories                                                                                                                  | (148 779)                                  | (463 438)                                              |
| Trade and other receivables                                                                                                  | (786 554)                                  | (36 292)                                               |
| Trade and other payables                                                                                                     | 379 644                                    | (36 629)                                               |
| <b>Total adjustments to profit for the period</b>                                                                            | <b>1 614 132</b>                           | <b>1 025 395</b>                                       |

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

|                                                                                                               | For the period                             |                                                        |
|---------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                               | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal | 31 607                                     | 48 783                                                 |
| Losses on sales of property, plant and equipment and intangible assets                                        | (19 975)                                   | (22 358)                                               |
| Positive change in receivables due to sales                                                                   | (3 506)                                    | (2 245)                                                |
| Capitalised gains from the liquidation of property, plant and equipment and intangible assets                 | (909)                                      | (794)                                                  |
| <b>Proceeds from sales of property, plant and equipment and intangible assets</b>                             | <b>7 217</b>                               | <b>23 386</b>                                          |

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

|                                                                                                                                                                                         | For the period                             |                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                                                                                                         | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Acquisition of assets used in the exploration for and evaluation of mineral resources recognised in profit or loss                                                                      | (4 025)                                    | (3 115)                                                |
| (Negative)/Positive change in liabilities recognised in operating activities due to assets used in the exploration for and evaluation of mineral resources recognised in profit or loss | (189)                                      | 603                                                    |
| <b>Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in operating activities</b>                                        | <b>(4 214)</b>                             | <b>(2 512)</b>                                         |

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

|                                                                                                                                                  | Note | For the period                             |                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------------------------------------|--------------------------------------------------------|
|                                                                                                                                                  |      | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| Purchase                                                                                                                                         | 7    | (46 607)                                   | (35)                                                   |
| Positive change in liabilities due to acquisition of assets used in the exploration for and evaluation of mineral resources                      |      | 1 737                                      | -                                                      |
| <b>Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in investing activities</b> |      | <b>(44 870)</b>                            | <b>(35)</b>                                            |

#### 41. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A., the State Treasury Companies (in accordance with the list published by the State Treasury) at 31 December 2010 meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

| <b>Sales to related entities</b>       | <b>For the period<br/>from 1 January 2010 to 31 December 2010</b> |                                                   |                               |
|----------------------------------------|-------------------------------------------------------------------|---------------------------------------------------|-------------------------------|
|                                        | <b>Sales of products</b>                                          | <b>Sales of<br/>merchandise<br/>and materials</b> | <b>Other<br/>transactions</b> |
| - to associates                        | 3 337                                                             | 35                                                | 20                            |
| - to other related entities*           | 51 466                                                            | 24 935                                            | 6 554                         |
| <b>Total sales to related entities</b> | <b>54 803</b>                                                     | <b>24 970</b>                                     | <b>6 574</b>                  |

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

\*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group earned revenues (5 largest items) during the period from 1 January to 31 December 2010:

|                                              |        |
|----------------------------------------------|--------|
| 1. Fabryka Przewodów Energetycznych S.A.     | 44 197 |
| 2. Zakłady Chemiczne "POLICE" S.A.           | 17 102 |
| 3. Zakłady Górniczo-Hutnicze „BOLESŁAW” S.A. | 5 401  |
| 4. EnergiaPro Gigawat sp. z o.o.             | 5 354  |
| 5. Huta Cynku "MIASTECZKO ŚLĄSKIE" S.A.      | 3 234  |

Sales to the above-mentioned entities represent around 93% of sales to the State Treasury subsidiaries. The remaining 7% represent revenues earned from 95 entities – the remaining clients of the Group related to the State Treasury.

| <b>Sales to related entities</b>       | <b>For the period<br/>from 1 January 2009 to 31 December 2009 - restated</b> |                                                   |                               |
|----------------------------------------|------------------------------------------------------------------------------|---------------------------------------------------|-------------------------------|
|                                        | <b>Sales of products</b>                                                     | <b>Sales of<br/>merchandise and<br/>materials</b> | <b>Other<br/>transactions</b> |
| - to associates                        | 4 011                                                                        | 33                                                | 19                            |
| - to other related entities*           | 53 782                                                                       | 18 724                                            | 1 304                         |
| <b>Total sales to related entities</b> | <b>57 793</b>                                                                | <b>18 757</b>                                     | <b>1 323</b>                  |

\*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group earned revenues (5 largest items) during the period from 1 January to 31 December 2009:

|                                                                   |        |
|-------------------------------------------------------------------|--------|
| 1. Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej w Legnicy S.A. | 24 481 |
| 2. Fabryka Przewodów Energetycznych S.A.                          | 19 948 |
| 3. CENTROZŁOM WROCŁAW S.A.                                        | 7 191  |
| 4. Zakłady Chemiczne "POLICE" S.A.                                | 4 353  |
| 5. Huta Cynku "MIASTECZKO ŚLĄSKIE" S.A.                           | 3 908  |

Sales to the above-mentioned entities represent around 83% of sales to the State Treasury subsidiaries. The remaining 17% represent revenues earned from 104 entities – the remaining clients of the Group related to the State Treasury.

#### 41. Related party transactions (continuation)

| Purchases from related entities              | For the period<br>from 1 January 2010 to 31 December 2010 |                                             |                                                                                                        |                                |
|----------------------------------------------|-----------------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------------------------------------|--------------------------------|
|                                              | Purchase<br>of services                                   | Purchase of<br>merchandise<br>and materials | Purchase of<br>property,<br>plant and<br>equipment,<br>intangible<br>assets,<br>investment<br>property | Other purchase<br>transactions |
| - from associates                            | 7 257                                                     | 90                                          | 42                                                                                                     | -                              |
| - from other related entities*               | 554 872                                                   | 234 898                                     | 6 441                                                                                                  | 579 053                        |
| <b>Total purchases from related entities</b> | <b>562 129</b>                                            | <b>234 988</b>                              | <b>6 483</b>                                                                                           | <b>579 053</b>                 |

\*The State Treasury and State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group made purchases (5 largest items) during the period from 1 January to 31 December 2010:

|                                                 |         |
|-------------------------------------------------|---------|
| 1. State Treasury                               | 577 128 |
| 2. EnergiaPro Gigawat Sp. z o.o.                | 446 120 |
| 3. EnergiaPro S.A.                              | 136 064 |
| 4. Polskie Górnictwo Naftowe i Gazownictwo S.A. | 116 433 |
| 5. NITROERG S.A.                                | 44 769  |
| 6. PPUP Poczta Polska                           | 10 134  |

Purchases from the above-mentioned entities represent around 97% of purchases from State Treasury subsidiaries. The remaining 3% represent purchases from 76 entities - the remaining clients of the Group related to the State Treasury.

| Purchases from related entities              | For the period<br>from 1 January 2009 to 31 December 2009 - restated |                                             |                                                                                                     |                                |
|----------------------------------------------|----------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------------------------|
|                                              | Purchase of<br>services                                              | Purchase of<br>merchandise<br>and materials | Purchase of<br>property, plant<br>and equipment,<br>intangible<br>assets,<br>investment<br>property | Other purchase<br>transactions |
| - from associates                            | 12 603                                                               | 80                                          | 38                                                                                                  | -                              |
| - from other related entities*               | 386 523                                                              | 367 318                                     | 6 822                                                                                               | 1 350                          |
| <b>Total purchases from related entities</b> | <b>399 126</b>                                                       | <b>367 398</b>                              | <b>6 860</b>                                                                                        | <b>1 350</b>                   |

\*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group made purchases (5 largest items) during the period from 1 January to 31 December 2009:

|                                                 |         |
|-------------------------------------------------|---------|
| 1. EnergiaPro Gigawat Sp. z o.o.                | 430 121 |
| 2. EnergiaPro S.A.                              | 133 841 |
| 3. Polskie Górnictwo Naftowe i Gazownictwo S.A. | 103 729 |
| 4. NITROERG S.A.                                | 39 831  |
| 5. PPUP Poczta Polska                           | 8 925   |

Purchases from the above-mentioned entities represent around 96% of purchases from State Treasury subsidiaries. The remaining 4% represent purchases from 83 entities - the remaining clients of the Group related to the State Treasury.

Acquisition transactions of State Treasury companies shares are presented in note 4 of the consolidated financial statements.

#### 41. Related party transactions (continuation)

##### Remuneration of the Management Board in 2010

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

\* the item „Salaries” includes salaries during the termination period

##### Remuneration of the Management Board in 2009

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

\* the item „Salaries” includes salaries during the termination period



#### 41. Related party transactions (continuation)

##### Remuneration of the Supervisory Board in 2010

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

##### Remuneration of the Supervisory Board in 2009

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

#### 41. Related party transactions (continuation)

|                                                | <b>At</b>               |                                      |
|------------------------------------------------|-------------------------|--------------------------------------|
| <b>Trade receivables from related entities</b> | <b>31 December 2010</b> | <b>31 December 2009<br/>restated</b> |
| - from associates                              | 734                     | 887                                  |
| - from other related entities*                 | 10 863                  | 8 613                                |
| <b>Total receivables from related entities</b> | <b>11 597</b>           | <b>9 500</b>                         |

\*State Treasury subsidiaries from whom the KGHM Polska Miedź S.A. Group at 31 December 2010 had receivables balance due to sales (5 largest items):

|                                              |       |
|----------------------------------------------|-------|
| 1. Zakłady Chemiczne "POLICE" S.A.           | 3 207 |
| 2. Zakłady Górniczo-Hutnicze "BOLESŁAW" S.A. | 1 813 |
| 3. EnergiaPro S.A.                           | 1 192 |
| 4. Huta "Będzin" S.A.                        | 913   |
| 5. EnergiaPro Gigawat sp. z o.o.             | 740   |

Receivables from the above-mentioned entities represent around 91% of receivables from sales to the State Treasury subsidiaries. The remaining 9% represent receivables from sales earned from 80 entities - the remaining clients of the Group related to the State Treasury.

State Treasury subsidiaries from whom the KGHM Polska Miedź S.A. Group at 31 December 2009 had receivables balance due to sales (5 largest items):

|                                                 |       |
|-------------------------------------------------|-------|
| 1. EnergiaPro Gigawat sp. z o.o.                | 1 299 |
| 2. Huta Cynku "MIASTECZKO ŚLĄSKIE" S.A.         | 989   |
| 3. Polskie Górnictwo Naftowe i Gazownictwo S.A. | 921   |
| 4. Huta „Będzin” S.A.                           | 913   |
| 5. Zakłady Górniczo-Hutnicze "BOLESŁAW" S.A.    | 844   |

Receivables from the above-mentioned entities represent around 75% of receivables from sales to the State Treasury subsidiaries. The remaining 25% represent receivables from sales earned from 85 entities - the remaining clients of the Group related to the State Treasury.

The amount of the allowance for impairment of receivables from related entities at the end of the reporting period is PLN 900 thousand (at 31 December 2009, PLN 904 thousand) and the amount of the allowance concerning related entities recognised in profit or loss during the period is PLN 64 thousand (in the period from 1 January 2009 to 31 December 2009, PLN 921 thousand).

The most important amount at 31 December 2010 is the allowance for impairment of receivables from Huta "Będzin" S.A. in the amount of PLN 900 thousand.

At 31 December 2009 the most important amount is the allowance for impairment of receivables from Huta "Będzin" S.A. in the amount of PLN 879 thousand.

#### 41. Related party transactions (continuation)

|                                                   | At               |                              |
|---------------------------------------------------|------------------|------------------------------|
|                                                   | 31 December 2010 | 31 December 2009<br>restated |
| <b>Trade payables towards related entities</b>    |                  |                              |
| - towards associates                              | 938              | 787                          |
| - towards other related entities *                | 112 013          | 66 765                       |
| <b>Total liabilities towards related entities</b> | <b>112 951</b>   | <b>67 552</b>                |

\*State Treasury subsidiaries towards which the KGHM Polska Miedź S.A. Group at 31 December 2010 recognised trade payables (5 largest items):

|                                                 |        |
|-------------------------------------------------|--------|
| 1. EnergiaPro Gigawat Sp. z o.o.                | 90 434 |
| 2. NITROERG S.A.                                | 5 252  |
| 3. EnergiaPro S.A.                              | 5 128  |
| 4. Polskie Górnictwo Naftowe i Gazownictwo S.A. | 3 417  |
| 5. STOMIL-POZNAŃ S.A.                           | 1 071  |

Liabilities towards the above-mentioned entities represent around 96% of liabilities due to purchases from the State Treasury subsidiaries. The remaining 4% represent liabilities towards 42 entities - the remaining clients of the Group related to the State Treasury.

State Treasury subsidiaries towards which the KGHM Polska Miedź S.A. Group at 31 December 2009 recognised trade payables (5 largest items):

|                                                 |        |
|-------------------------------------------------|--------|
| 1. EnergiaPro Gigawat Sp. z o.o.                | 50 864 |
| 2. EnergiaPro S.A.                              | 4 599  |
| 3. NITROERG S.A.                                | 3 674  |
| 4. Polskie Górnictwo Naftowe i Gazownictwo S.A. | 1 419  |
| 5. PPUP Poczta Polska                           | 932    |

Liabilities towards the above-mentioned entities represent around 95% of liabilities due to purchases from the State Treasury subsidiaries. The remaining 5% represent liabilities towards 42 entities - the remaining clients of the Group related to the State Treasury.

All related party transactions were carried out under arm's length conditions.

In addition, entities of the KGHM Polska Miedź S.A. Group make with the State Treasury settlements in respect of various types of taxes and charges. These transactions have been described in other notes of the financial statements.

#### Guarantees with related entities

In 2010 guarantees were granted to other related entities in the amount of PLN 500 thousand. Guarantees were not received from other related entities.

In 2009 guarantees were neither granted to nor received from other related entities.

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

|                                                                           | For the period                             |                                            |
|---------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
|                                                                           | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009 |
| <b>PricewaterhouseCoopers Sp. z o.o.</b>                                  | <b>1 738</b>                               | -                                          |
| From contract for the review and audit of financial statements, of which: | 1 481                                      | -                                          |
| - audit of annual financial statements                                    | 1 079                                      | -                                          |
| - review of financial statements                                          | 402                                        | -                                          |
| From realisation of other contracts                                       | 257                                        | -                                          |
| <b>Other companies of the PricewaterhouseCoopers Group in Poland</b>      | <b>598</b>                                 | -                                          |
| From contracts of tax consultancy                                         | 598                                        | -                                          |

|                                                                           | For the period                             |                                            |
|---------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------|
|                                                                           | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009 |
| <b>Ernst &amp; Young Audit Sp. z o.o.</b>                                 | -                                          | <b>2 235</b>                               |
| From contract for the review and audit of financial statements, of which: | -                                          | 1 999                                      |
| - audit of annual financial statements                                    | -                                          | 1 407                                      |
| - review of financial statements                                          | -                                          | 592                                        |
| From realisation of other contracts                                       | -                                          | 236                                        |
| <b>Other companies of the Ernst &amp; Young Group in Poland</b>           | -                                          | <b>1 355</b>                               |
| From contract of tax consultancy                                          | -                                          | 1 124                                      |

#### 43. Liabilities due to operating leases not recognised in the consolidated statement of financial position

##### Total value of future minimum payments due to perpetual usufruct of land

|                        | At               |                              |
|------------------------|------------------|------------------------------|
|                        | 31 December 2010 | 31 December 2009<br>restated |
| Up to one year         | 10 422           | 8 069                        |
| From one to five years | 43 609           | 35 425                       |
| Over five years        | 613 587          | 507 218                      |
| <b>Total:</b>          | <b>667 618</b>   | <b>550 712</b>               |

|                                                                                | For the period                             |                                                        |
|--------------------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                                                | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Payments due to perpetual usufruct of land recognised in profit or loss</b> | 9 856                                      | 8 042                                                  |

##### Total value of future minimum lease payments

|                        | At               |                              |
|------------------------|------------------|------------------------------|
|                        | 31 December 2010 | 31 December 2009<br>restated |
| Up to one year         | 19 184           | 19 766                       |
| From one to five years | 34 643           | 48 142                       |
| Over five years        | 1 830            | 6 454                        |
| <b>Total:</b>          | <b>55 657</b>    | <b>74 362</b>                |

|                                                    | For the period                             |                                                        |
|----------------------------------------------------|--------------------------------------------|--------------------------------------------------------|
|                                                    | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009<br>restated |
| <b>Lease payments recognised in profit or loss</b> | 30 187                                     | 33 784                                                 |

#### 44. Contingent assets and liabilities

The value of contingent assets was determined based on estimates.

|                                                                                            | <b>At</b>               |                                      |
|--------------------------------------------------------------------------------------------|-------------------------|--------------------------------------|
|                                                                                            | <b>31 December 2010</b> | <b>31 December 2009<br/>restated</b> |
| <b>Contingent assets</b>                                                                   | <b>291 180</b>          | <b>162 506</b>                       |
| - disputed State Budget issues                                                             | 38 764                  | 45 779                               |
| - guarantees received                                                                      | 178 881                 | 62 569                               |
| - promissory note receivables                                                              | 40 206                  | 22 923                               |
| - inventions, implementation of projects                                                   | 33 329                  | 31 235                               |
| <b>Contingent liabilities</b>                                                              | <b>236 630</b>          | <b>201 481</b>                       |
| - guarantees                                                                               | 32 897                  | 15 050                               |
| - promissory note liabilities                                                              | 80 930                  | 62 514                               |
| - disputed issues, pending court proceedings                                               | 16 226                  | 15 062                               |
| - contingent penalties                                                                     | -                       | 23                                   |
| - preventive measures in respect of mine-related damages                                   | 2 475                   | 2 491                                |
| - liabilities due to implementation of projects, inventions and other unrealised contracts | 104 098                 | 106 341                              |
| - other                                                                                    | 4                       | -                                    |

#### Potential liabilities due to offsetting of general service costs

Since 8 May 2006 Telekomunikacja Polska S.A. has been designated by the President of the Electronic Communications Office (UKE) to provide universal service throughout the country (49 numeral zones). The range of the universal services provided comprises:

- 1) connecting individual network outlets at the main location of the subscriber, excluding integrated services digital networks (ISDN);
- 2) maintaining the subscriber connection with the network outlet, as described in point 1), in readiness to provide telecommunications services;
- 3) domestic and international telephone calls, including mobile networks connections, additionally assuring fax and data transmissions and connections to the Internet;
- 4) providing information on telephone numbers and providing subscriber lists;
- 5) providing assistance to the handicapped;
- 6) providing telephone services through the use of public equipment.

In accordance with art. 95 of the Telecommunications Act, designated companies are entitled to reimbursement of the costs of providing universal service should they be unprofitable. The President of the UKE will set the amount of this reimbursement at the level of the net cost of providing services included in universal service, and including only those costs which a given company would not incur if it had not been required to provide universal service. The net amount of this cost is calculated in the manner set out in the decree of the Minister of Transportation and Construction dated 15 December 2005 regarding the manner of calculating the net cost of services included in universal telecommunication service (Journal of Laws from 2005, No. 255, item 2141).

Telecommunication companies whose revenues from telecommunications activities exceed PLN 4 million in the calendar year for which reimbursement is due are required to participate in covering the reimbursement of costs for providing universal service. The amount of reimbursement which a given company is required to cover can not exceed 1 % of its revenues. The share of individual companies in covering this reimbursement is determined by the President of the UKE, once the amount of the reimbursement due to a designated company is determined. As at the date of preparation of these financial statements, neither the final amount of the above-mentioned reimbursement nor the share in it of individual telecommunications companies has been determined by the UKE.

#### 45. Employment structure

Average employment in the Group was as follows:

|                        | For the period                             |                                            |
|------------------------|--------------------------------------------|--------------------------------------------|
|                        | from 1 January 2010<br>to 31 December 2010 | from 1 January 2009<br>to 31 December 2009 |
| White-collar employees | 10 051                                     | 8 957                                      |
| Blue-collar employees  | 20 877                                     | 19 927                                     |
| <b>Total:</b>          | <b>30 928</b>                              | <b>28 884</b>                              |

#### 46. Social Fund assets and liabilities

The net balance of the Social Fund at 31 December 2010 amounted to PLN 2 164 thousand – liability towards Social Fund, and at 31 December 2009 amounted to PLN 2 227 thousand - liability towards Social Fund. The Group has netted the assets of the Fund with the liabilities towards the Fund.

Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

| Social Fund assets and liabilities | At               |                              |
|------------------------------------|------------------|------------------------------|
|                                    | 31 December 2010 | 31 December 2009<br>restated |
| Housing loans granted to employees | 116 250          | 111 587                      |
| Other receivables                  | 354              | 402                          |
| Cash and cash equivalents          | 22 308           | 17 263                       |
| Liabilities towards Social Fund    | (141 076)        | (131 479)                    |
| <b>Net balance</b>                 | <b>(2 164)</b>   | <b>(2 227)</b>               |

The balance is settled in the following periods after refunding.

|                                                                      |         |         |
|----------------------------------------------------------------------|---------|---------|
| <b>Transfers made to the Social Fund during the financial period</b> | 121 757 | 113 327 |
|----------------------------------------------------------------------|---------|---------|

#### 47. Government grants

The balance of government grants recognised in deferred income at 31 December 2010 is PLN 3 750 thousand (at 31 December 2009: PLN 949 thousand). These are cash grants received for the acquisition of property, plant and equipment, for the performance of development work, which result in capitalised intangible assets and for the subsidising of employee training.

The companies of the Group also receive government grants from the Voivodeship Fund for Environmental Protection and Water Management (Fundusz Ochrony Środowiska i Gospodarki Wodnej) in the form of preferential interest rates on loans, or annulment of loans.

#### **48. Subsequent events**

##### **Telecom assets being considered for sale**

Information on events that occurred after the end of the reporting period in respect of telecom assets may be found in note 3.3.

##### **Combination of Group subsidiaries**

On 3 January 2011, the Regional Court in Gliwice, Section X Economic of the National Court of Registration, issued a decree on the combination of the entities WMN Sp. z o.o. and WM „Łabędy” S.A. through the foundation of a new entity called Walcownia Metali Nieżelaznych „Łabędy” S.A. Registration by the National Court of Registration of the new company was on 4 January 2011. The share capital of the newly-created Company amounts to PLN 49 145 thousand.

##### **Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.**

On 18 January 2011 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2011 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 622 900 thousand (PLN 1 796 943 thousand) to USD 753 428 thousand (PLN 2 173 490 thousand).

##### **Forecast of results for 2011**

On 31 January 2011 the Supervisory Board of KGHM Polska Miedź S.A. approved the Parent Entity Budget for 2011 as presented by the Management Board. The basis for preparation of the Budget were the anticipated results for 2010 and the assumptions contained in specific operating plans. For detailed information on the forecast see Report of the Management Board on the Parent Entity activities, note 4.4.

##### **Acquisition of shares of "NITROERG" S.A.**

On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the acquisition by KGHM Polska Miedź S.A. of 5 260 820 shares of "NITROERG" S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand. The controlling interest acquired represents 85% of the share capital of "NITROERG" S.A. in Bieruń.

##### **Significant contract with MKM Mansfelder Kupfer und Messing GmbH**

On 4 February 2011 a significant contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2011. The estimated value of this contract is USD 692 092 thousand, i.e. PLN 1 967 205 thousand.

##### **Agreement for the purchase of shares of TAURON Polska Energia S.A.**

On 22 March 2011, the Ministry of the State Treasury commenced the process of selling 208 478 000 shares of TAURON Polska Energia S.A., representing 11.9% of the share capital at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. KGHM Polska Miedź S.A. participated in this process, submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, KGHM Polska Miedź S.A. acquired 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share. Following this transaction, KGHM Polska Miedź S.A. owns a total of 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital.

| <b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b> |                         |                                             |                  |
|-------------------------------------------------------------------------------|-------------------------|---------------------------------------------|------------------|
| <b>DATE</b>                                                                   | <b>FIRST, LAST NAME</b> | <b>POSITION / FUNCTION</b>                  | <b>SIGNATURE</b> |
| 28 March 2011                                                                 | Herbert Wirth           | President<br>of the Management Board        |                  |
| 28 March 2011                                                                 | Maciej Tybura           | I Vice President<br>of the Management Board |                  |
| 28 March 2011                                                                 | Wojciech Kędzia         | Vice President<br>of the Management Board   |                  |

| <b>SIGNATURE OF PERSON RESPONSIBLE FOR PARENT ENTITY ACCOUNTING</b> |                         |                                                                                  |                  |
|---------------------------------------------------------------------|-------------------------|----------------------------------------------------------------------------------|------------------|
| <b>DATE</b>                                                         | <b>FIRST, LAST NAME</b> | <b>POSITION / FUNCTION</b>                                                       | <b>SIGNATURE</b> |
| 28 March 2011                                                       | Ludmiła Mordylak        | Chief Accountant of KGHM<br>General Director<br>of Accounting Services<br>Center |                  |



**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**REPORT ON THE ACTIVITIES  
OF THE GROUP  
IN 2010**

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Lubin, March 2011

## Contents of the Report on the activities of the Group in 2010

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## 1. Organisation of the KGHM Polska Miedź S.A. Group

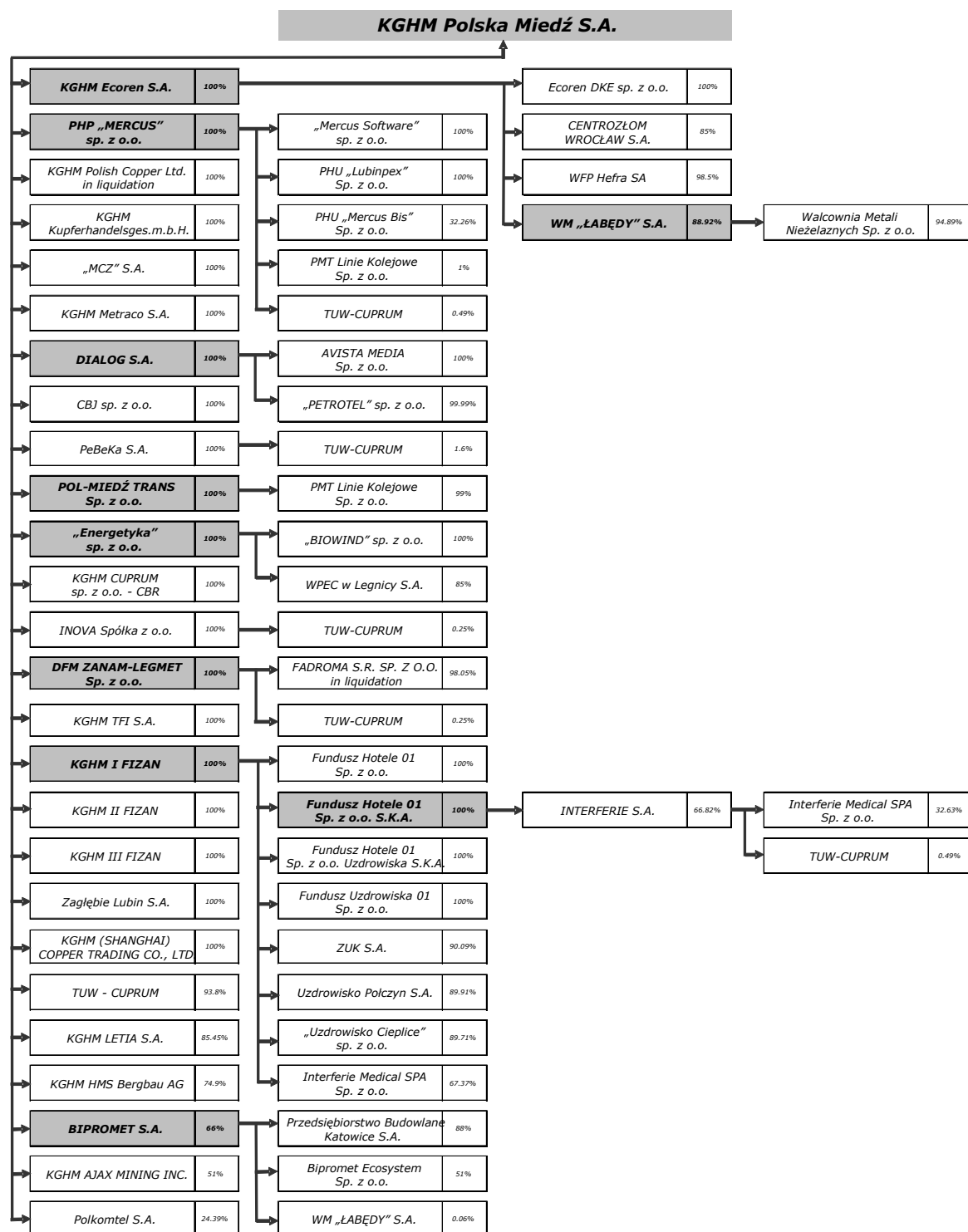
### 1.1. Composition of the Group

The Parent Entity of the Group is KGHM Polska Miedź S.A.

At 31 December 2010 the Group was composed of forty-nine subsidiaries, including three closed-end non-public investment funds. Ten of these subsidiaries formed their own groups (see diagram, marked): KGHM Ecoren S.A., PHP „MERCUS” sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., „Energetyka” sp. z o.o., DFM ZANAM-LEGMET Sp. z o.o., WM „ŁABĘDY” S.A., BIPROMET S.A., KGHM I FIZAN, and Fundusz Hotele 01 Sp. z o.o. S.K.A. At the end of the reporting period the Group owned a significant share of two associates.

Relations of the KGHM Polska Miedź S.A. Group entities are shown in the diagram below.

**Diagram 1.** Group structure at 31 December 2010



## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.1. Composition of the Group (continued)

In terms of the annual consolidated financial statements for 2010, three levels of consolidation may be distinguished within the KGHM Polska Miedź S.A. Group, with respect to which at the end of 2010 entities at every level were consolidated using the simultaneous method at the level of KGHM Polska Miedź S.A., regardless of whether they are consolidated at lower levels of the Group.

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of a Group, consolidated forty-seven subsidiaries and accounted for one associate – Polkomtel S.A. – using the equity method.

The following entities were not consolidated and were not accounted for using the equity method, as their impact is immaterial on the data of the consolidated statement of financial position and the consolidated statement of comprehensive income:

- TUV – CUPRUM,
- „Mercus Software” sp. z o.o.,
- PHU „Mercus Bis” Sp. z o.o.

### 1.2. Changes in the structure of the Group

In 2010 the following changes occurred in the structure of the Group:

#### – Founding of the company Interferie Medical SPA Sp. z o.o.

On 1 February 2010, INTERFERIE S.A. founded the company Interferie Medical SPA Sp. z o.o. with its registered head office in Lubin, in which it acquired 100% of the shares, paid in cash based on their nominal value, i.e. in the total amount of PLN 50 thousand. Interferie Medical SPA Sp. z o.o. was court registered on 18 February 2010 in the Regional Court for Wrocław-Fabryczna, Section IX (Economic) of the National Court of Registration.

On 15 September 2010, INTERFERIE S.A. acquired 19 908 newly-issued shares in the increased share capital of Interferie Medical SPA Sp. z o.o., paid in cash at their nominal amount, in the amount of PLN 100 thousand and a contribution in kind in the form of property situated in Świnoujście having a value of PLN 19 808 thousand.

The share of the KGHM Polska Miedź S.A. Group in the share capital of Interferie Medical SPA Sp. z o.o. at its founding amounted to PLN 65.67%.

At 31 December 2010, there was a change in the share of the KGHM Polska Miedź S.A. Group in the share capital of Interferie Medical SPA Sp. z o.o., amounting to 89.17%. This change was due to:

- the acquisition on 20 September 2010 by the fund KGHM I FIZAN of 41 309 newly-issued shares in the increased share capital of Interferie Medical SPA Sp. z o.o., paid in cash at their nominal amount, in the total amount of PLN 41 309 thousand, the increase of share capital was registered on 11 October 2010,
- a transaction resulting from a public call for the sale of shares of INTERFERIE S.A. announced by Fundusz Hotele 01 Sp. z o.o. S.K.A. as a result of this the share of the KGHM Polska Miedź S.A. Group in the share capital of INTERFERIE S.A. increased by 1.15%.

The subject of activities of Interferie Medical SPA Sp. z o.o. comprises services respecting hotels, recreation, rehabilitation, health tourism and wellness. The company is responsible for the construction of a recreation – rehabilitation complex in Świnoujście.

During the financial period Interferie Medical SPA Sp. z o.o. did not earn revenues from sales. The profit earned in 2010 in the amount of PLN 2 270 thousand represents the difference between the gains on measurement of derivatives and interest on deposits in the amount of PLN 3 464 thousand, and general administrative costs incurred in the amount of PLN 586 thousand and income tax in the amount of PLN 608 thousand.

#### – Acquiring of Investment Certificates of the KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN)

On 2 February 2010, KGHM Polska Miedź S.A. acquired 2 095 investment certificates, series A, of the fund KGHM I FIZAN with its registered head office in Wrocław, with a total issuance price of PLN 20 950 thousand. KGHM I FIZAN was entered into the register of funds on 9 February 2010.

During 2010, KGHM Polska Miedź S.A. twice more acquired investment certificates of the KGHM I FIZAN fund: on 17 September 2010 22 789 certificates were acquired, series B, with a total issuance price of PLN 216 633 thousand, and on 20 December 2010 11 276 certificates were acquired, series C, with a total issuance price of PLN 105 392 thousand.

The funds acquired from the issuance of these certificates were used to the acquisition from the State Treasury: 90.09% of shares of ZUK S.A., 89.91% of shares of Uzdrowisko Połczyn S.A. and 89.71% of shares of „Uzdrowisko Cieplice” Sp. z o.o., and the acquisition of newly-issued shares in the increased share capital of Interferie Medical SPA Sp. z o.o. and in the increased share capital of Fundusz Hotele 01 Sp. z o.o. S.K.A. (for acquisition of shares of INTERFERIE S.A.).

KGHM I FIZAN was registered by the Regional Court in Warsaw Section VII Civil Registrations on 9 February 2010.

The Managing Body of KGHM I FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A.

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.2. Changes in the structure of the Group (continued)

At the end of 2010, KGHM Polska Miedź S.A. was the sole participant in the Fund.

The subject of activities of KGHM I FIZAN is the investing of cash resources in – as specified in the Act on Investment Funds and in the Statutes - securities, money market instruments and other property rights.

During the reporting period KGHM I FIZAN incurred a loss in the amount of PLN 1 287 thousand.

#### – Founding of the company Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.)

On 12 March 2010, KGHM I FIZAN founded the company Fundusz Uzdrowiska Sp. z o.o. with its registered head office in Warsaw, in which it acquired 100% of the shares, paid in cash based on their nominal value, i.e. in the total amount of PLN 15 thousand.

On 20 May 2010, KGHM I FIZAN acquired newly-issued shares in the increased share capital of Fundusz Uzdrowiska Sp. z o.o., paid in cash based on their nominal value, i.e. in the total amount of PLN 201 thousand. On the same day the name was changed to Fundusz Hotele 01 Sp. z o.o.

At the end of 2010, the share capital of Fundusz Hotele 01 Sp. z o.o. amounted to PLN 216 thousand. KGHM I FIZAN owned all of the shares.

Fundusz Hotele 01 Sp. z o.o. has a varied scope of activities, including functioning as a holding company and managing companies.

During the reporting period the company earned profit in the amount of PLN 31 thousand.

#### – Founding of the company Fundusz Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Hotele 01 Sp. z o.o. S.K.A.)

On 17 May 2010, KGHM I FIZAN and Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.) as a complementary company, founded the company Fundusz Uzdrowiska Sp. z o.o. S.K.A. with its registered head office in Warsaw. KGHM I FIZAN acquired 100% of the newly-issued shares of this entity, paid in cash based on their nominal value, i.e. in the total amount of PLN 50 thousand.

By a notary act dated 22 June 2010 the name was changed to Fundusz Hotele 01 Sp. z o.o. S.K.A.

On 21 December 2010, KGHM I FIZAN acquired newly-issued shares in the increased share capital of Fundusz Hotele 01 Sp. z o.o. S.K.A., paid in cash based on their nominal value, i.e. in the total amount of PLN 50 300 thousand.

Fundusz Hotele 01 Sp. z o.o. S.K.A. has a varied scope of activities.

During the reporting period the company earned profit in the amount of PLN 4 584 thousand.

#### – Founding of the company Fundusz Uzdrowiska 01 Sp. z o.o.

On 19 May 2010, KGHM I FIZAN founded the company Fundusz Uzdrowiska 01 Sp. z o.o. with its registered head office in Warsaw, in which it acquired 100% of the newly-issued shares, paid in cash based on their nominal value, i.e. in the total amount of PLN 15 thousand.

The subject of activities of Fundusz Uzdrowiska 01 Sp. z o.o. is functioning as a holding company, managing companies, whose subject of activities is the acquisition of shares, in particular in companies providing holiday services, sanatoriums and spas and other services related to improving fitness.

During the reporting period the company incurred a loss in the amount of PLN 16 thousand.

#### – Founding of the company Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.

On 17 May 2010, KGHM I FIZAN and Fundusz Hotele 01 Sp. z o.o. (as a complementary company) founded the company Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. with its registered head office in Warsaw. KGHM I FIZAN acquired 100% of the newly-issued shares of this entity, paid in cash based on their nominal value, i.e. in the total amount of PLN 50 thousand. The acquisition-related costs of these shares was PLN 50 thousand.

The subject of activities of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. is the management of special purpose companies, whose subject of activities is the providing of holiday services, sanatoriums and spas and other services related to improving fitness.

During the reporting period the company incurred a loss in the amount of PLN 17 thousand.

#### – Acquiring of Investment Certificates of KGHM II FIZAN

On 23 June 2010, KGHM Polska Miedź S.A. acquired 700 Investment Certificates, series A, of the KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN) with its registered head office in Wrocław, with a total issue price of PLN 7 000 thousand.

Acquiring of these certificates was aimed at enabling the registration of this Fund in the registry of investment funds. The Fund will deposit the cash acquired in investment accounts pursuant to the investment decision of the General Meeting of Investors.

The Managing Body of KGHM II FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. At the end of 2010, KGHM Polska Miedź S.A. was the sole participant in this fund.

During the reporting period the Fund incurred a loss in the amount of PLN 178 thousand.

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.2. Changes in the structure of the Group (continued)

#### – Putting FADROMA S.R. SP. Z O.O. into liquidation

On 5 July 2010 the Extraordinary General Shareholders Meeting of FADROMA S.R. Sp. Z O.O. resolved to put the company into liquidation and to choose a liquidator – Krzysztof Brzostek. An application for the liquidation of the company was submitted to the court on 6 July 2010. ZANAM-LEGMET Sp. z o.o., as the owner of 98.05% of shares of FADROMA S.R. SP. Z O.O., decided to strengthen its service potential through taking over the employees of FADROMA S.R. SP. Z O.O. Actions connected with taking over the employees of the company and its liquidation are an element of the restructurisation and reordering of the Group.

#### – Acquisition of BIPROMET S.A.

On 12 July 2010, a transaction involving the acquisition of shares of BIPROMET S.A. through a published call for the sale of shares was settled (rights attached to shares were acquired). KGHM Polska Miedź S.A. acquired 4 091 868 shares of the company, at PLN 7.50 per share, granting the right to 66% of the votes at the General Meeting of BIPROMET S.A. The acquisition-related costs of these shares were PLN 30 812 thousand. The carrying amount of net assets of BIPROMET S.A. was PLN 43 494 thousand, with a net asset value attributable to the Group of PLN 28 706 thousand.

The decision to acquire a controlling interest of BIPROMET S.A. was due to the identification of significant smelting-related synergies which may occur between KGHM Polska Miedź S.A. and this company.

By acquiring the shares of BIPROMET S.A., the KGHM Polska Miedź S.A. Group obtained indirect control over the subsidiaries of BIPROMET S.A.:

- Przedsiębiorstwo Budowlane Katowice S.A., in which BIPROMET S.A. owns 88% of the share capital. The share of the KGHM Polska Miedź S.A. Group was set at 58.08%. The acquisition price of the shares of this company in the accounts of BIPROMET S.A. is PLN 3 591 thousand.
- Bipromet Ecosystem Sp. z o.o., in which BIPROMET S.A. owns 51% of the share capital. The indirect share of the Group is 33.66%. The purchase price of the shares of Bipromet Ecosystem Sp. z o.o. in the accounts of BIPROMET S.A. is PLN 26 thousand.

As a result of settlement of the acquisition of the BIPROMET S.A. Group, gains on a bargain purchase in the amount of PLN 1 281 thousand was recognised in the consolidated financial statements.

#### – Registration of the company KGHM (SHANGHAI) COPPER TRADING CO., LTD in the People's Republic of China

On 6 September 2010, the company KGHM (SHANGHAI) COPPER TRADING CO., LTD. was registered in the People's Republic of China. Under the laws of the country in which the head office of the company was registered, the company was granted permission to engage in business activities. The share capital of the company amounts to USD 500 thousand. The sole owner of the company is KGHM Polska Miedź S.A. The share capital was paid in October 2010. The founding of this company is aimed at gaining a competitive market position in the sector of trading and distribution of commodities such as copper, silicon, artificial materials and chemicals (with the exception of hazardous and poisonous materials).

During the reporting period the company earned profit in the amount of PLN 74 thousand.

#### – Acquisition of shares of CENTROZŁOM WROCŁAW S.A.

On 30 November 2010, there occurred the transferral from the State Treasury to KGHM Ecoren S.A. of ownership rights to 9 350 000 shares of CENTROZŁOM WROCŁAW S.A., granting the right to 85% of the votes at the General Meeting of the company. This transaction is the result of the participation of KGHM Ecoren S.A. in the privatisation of CENTROZŁOM WROCŁAW S.A. by the State Treasury and the signing of an agreement with the Minister of the State Treasury in July 2010 to acquire shares of this entity. The acquisition price of these shares was PLN 176 435 thousand.

The investment in CENTROZŁOM WROCŁAW S.A. is an element of the strategy realised by KGHM Ecoren S.A. related to its activities in the waste management sector.

#### – Acquisition of shares of KGHM AJAX MINING INC.

On 12 October 2010, KGHM Polska Miedź S.A. acquired a 51% interest in the company KGHM AJAX MINING INC. formed together with Abacus Mining & Exploration Corp. ("Abacus") with its registered head office in Vancouver through a cash contribution in the amount of PLN 105 543 thousand. Abacus brought to the company all the rights it owns to the Afton-Ajax deposit. The cash is being used to carry out a Bankable Feasibility Study and for further exploration.

This transaction was the result of the signing in May 2010 by the Management Board of KGHM Polska Miedź S.A. with Abacus of an Investment Agreement on the joint realisation of the Afton-Ajax copper-gold mining project located in British Columbia in Canada. Abacus is involved in the exploration of mineral ore resources and mining ventures.

In accordance with the above Agreement, KGHM Polska Miedź S.A. holds a call option on a further 29% in KGHM AJAX MINING INC., for an amount not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study. The Agreement also includes a commitment by KGHM Polska Miedź S.A. to arrange financing for the project CAPEX. The commitment will arise at the moment of execution by KGHM Polska Miedź S.A. of the call option on a further 29% in KGHM AJAX MINING INC. Detailed information on the valuation of this option may be found in section 3.2. of the financial statements.

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.2. Changes in the structure of the Group (continued)

#### – Acquiring of Investment Certificates of KGHM III FIZAN

On 3 December 2010, KGHM Polska Miedź S.A. acquired 500 Investment Certificates of the KGHM III FIZAN Fund, with a total issue price of PLN 5 000 thousand.

Acquiring of these certificates was aimed at enabling the registration of this Fund in the registry of investment funds. The Fund will deposit the cash acquired in investment accounts pursuant to the investment decision of the General Meeting of Investors.

The KGHM III FIZAN fund is dedicated to investing in the area of new technology. At the end of 2010, KGHM Polska Miedź S.A. was the sole participant in this fund.

KGHM III FIZAN was entered in the registry of funds in December 2010.

During the reporting period the KGHM III FIZAN incurred a loss in the amount of PLN 2 thousand.

#### – Acquisition of shares of Zespół Uzdrawisk Kłodzkich Spółka Akcyjna (ZUK S.A.)

On 20 October 2010, KGHM I FIZAN acquired from the State Treasury 3 450 500 shares of ZUK S.A. in Polanica Zdrój, granting the right to 90.09% of the votes at the General Meeting. The total acquisition-related cost was PLN 138 227 thousand.

#### – Acquisition of shares of Uzdrawisko Połczyn S.A.

On 22 November 2010, KGHM I FIZAN acquired from the State Treasury 1 600 621 shares of Uzdrawisko Połczyn S.A., granting the right to 89.91% of the votes at the General Meeting. The total acquisition-related cost was PLN 26 426 thousand.

#### – Acquisition of shares of „Uzdrawisko Cieplice” sp. z o.o.

On 22 December 2010, KGHM I FIZAN acquired from the State Treasury 114 290 shares of „Uzdrawisko Cieplice” Sp. z o.o., granting the right to 89.71% of the votes at the General Shareholders Meeting. The total acquisition-related cost was PLN 29 316 thousand.

Changes in the structure of the Group after the end of the reporting period are described in chapter 6 of this Report.

In 2010, there were no changes in the basic management principles of the Group.

### Sale of shares between Group companies

On 16 June 2010, KGHM Polska Miedź S.A. purchased from the subsidiary KGHM CUPRUM sp. z o.o. – CBR 37 449 shares of KGHM HMS Bergbau AG with its registered head office in Berlin, with a total nominal value of EUR 37 449, representing 74.9% of the share capital. The acquisition-related costs of these shares amounted to PLN 1 612 thousand. As a result of this transaction, KGHM CUPRUM sp. z o.o. – CBR no longer owns shares in KGHM HMS Bergbau AG.

KGHM HMS Bergbau AG was founded by KGHM CUPRUM sp. z o.o. – CBR and the company HMS Bergbau AG in June 2009 to realise a project of exploration for and evaluation of deposits of copper ore and other metals in Europe. This purchase by KGHM Polska Miedź S.A. of the shares of KGHM HMS Bergbau AG is in accordance with the project assumptions.

On 3 November 2010, KGHM Polska Miedź S.A. acquired the following from its subsidiary, KGHM Ecoren S.A.:

- 719 397 shares of ZANAM-LEGMET Sp. z o.o., granting the right to 100% of the votes at the General Shareholders Meeting of this company, for PLN 48 149 thousand,
- 6 600 shares of INOVA Spółka z o.o., granting the right to 100% of the votes at the General Shareholders Meeting of this company, for PLN 13 054 thousand.

The purchase by KGHM Polska Miedź S.A. of the shares of ZANAM-LEGMET Sp. z o.o. and INOVA Spółka z o.o. was aimed at gaining direct supervision by KGHM Polska Miedź S.A. of companies which support the core business.

In addition, in December 2010, KGHM Polska Miedź S.A. and two of its subsidiaries, responding to a call for the sale of shares of INTERFERIE S.A., sold to Fundusz Hotele 01 Sp. z o.o. SKA shares held in the company INTERFERIE S.A.:

- on 23 December 2010, KGHM Ecoren S.A. sold 8 964 200 shares of INTERFERIE S.A., granting the right to 61.55% of the votes at the General Meeting of this company, with a total sale price of PLN 45 897 thousand,
- on 23 December 2010, KGHM Polska Miedź S.A. sold 300 000 shares, granting the right to 2.06% of the votes at the General Meeting of this company, with a total sale price of PLN 1 536 thousand,
- on 27 December 2010 CBJ Sp. z o.o. sold 300 000 shares, granting the right to 2.06% of the votes at the General Meeting of this company, with a total sale price of PLN 1 536 thousand.

Fundusz Hotele 01 Sp. z o.o. SKA (a special purpose company of the fund KGHM I FIZAN) as the result of a call for the sale of shares, acquired altogether 9 731 625 shares of INTERFERIE S.A., granting the right to 66.82% of the votes at the General Meeting of this company. The total acquisition-related costs of these shares amounted to PLN 49 826 thousand.

## **1. Organisation of the KGHM Polska Miedź S.A. Group (continued)**

### **1.2. Changes in the structure of the Group (continued)**

#### **Acquisition of own shares**

On 23 August 2010, the company WFP Hefra SA acquired from the State Treasury for redemption purposes 25 369 of its own shares with the total nominal amount of PLN 18 thousand, representing 0.5% of the share capital of the company. This acquisition was in accordance with art. 418 of the Commercial Partnerships and Companies Code – Forced purchase of shares.

On 26 November 2010 court registration was made of the decrease of the share capital of WFP Hefra SA by PLN 18 thousand resulting from the above-mentioned operation.

The share capital of HEFRA SA following this decrease amounts to PLN 3 490 thousand. The indirect percentage of the KGHM Polska Miedź S.A. Group in the share capital following this decrease amounts to PLN 98.5%.

#### **Disposal of shares**

On 6 July 2010, KGHM Polska Miedź S.A. sold all of the shares it held in POLSKIE CENTRUM PROMOCJI MIEDZI sp. z o.o., representing 82.86% of the share capital, to another shareholder - The European Copper Institute.

#### **Conclusion of bankruptcy proceedings**

On 14 December 2010, the Regional Court in Warsaw issued a ruling regarding the conclusion of bankruptcy proceedings of the company Vivid.pl S.A. with its registered head office in Warsaw, begun in September 2008. The owner of 100% of the share capital of Vivid.pl S.A. was DIALOG S.A. – a subsidiary of KGHM Polska Miedź S.A.

### **1.3. Equity investments unrelated to changes in the structure**

In 2010, the companies of the Group realised a variety of equity investments. Some of these resulted in a change in the structure of the Group – these are described in point 1.2. of this Report. Others involve either an increase in commitment in existing Group entities, or the acquisition of non-controlling interest in external entities.

#### **Equity investments within the Group**

In 2010, the Parent Entity - KGHM Polska Miedź S.A. – carried out equity investments within the Group, through the acquisition of newly-issued shares in the increased share capital of the below-mentioned Group companies.

##### **– KGHM Ecoren S.A.**

On 25 October 2010, KGHM Polska Miedź S.A. acquired 12 066 120 newly-issued shares in the increased share capital of KGHM Ecoren S.A., paid in cash at their nominal amount, in the total amount of PLN 115 231 thousand. The funds from this increase in share capital were used by KGHM Ecoren S.A. to purchase shares of CENTROZŁOM WROCŁAW S.A. from the State Treasury.

The percentage of KGHM Polska Miedź S.A. in the share capital of this company following the increase remained unchanged.

##### **– Zagłębie Lubin S.A.**

In 2010, KGHM Polska Miedź S.A. twice acquired shares in the increased share capital of Zagłębie Lubin S.A.

On 27 April 2010, KGHM Polska Miedź S.A. acquired 28 000 newly-issued shares in the increased share capital of Zagłębie Lubin S.A., paid in cash at their nominal amount, in the total amount of PLN 28 000 thousand.

On 23 December 2010, KGHM Polska Miedź S.A. acquired 20 035 newly-issued shares in the increased share capital of Zagłębie Lubin S.A., paid in cash at their nominal amount, in the total amount of PLN 20 035 thousand.

The funds obtained from this new issue were used to complete an investment – the construction of a football stadium and the settlement of liabilities.

The percentage of KGHM Polska Miedź S.A. in the share capital of this company following the increase did not change.

On 30 November 2010, POL-MIEDŹ TRANS Sp. z o.o. acquired 3 340 newly-issued shares in the increased share capital of PMT Linie Kolejowe sp. z o.o., paid in cash at their nominal amount, in the total amount of PLN 3 340 thousand. The funds obtained from this increase in share capital were used for the purchase by PMT Linie Kolejowe sp. z o.o. from POL-MIEDŹ TRANS Sp. z o.o. of leased property.

The share of POL-MIEDŹ TRANS Sp. z o.o. in the share capital of this company following the increase rose from 99% to 99.97%.

This increase in share capital was registered on 3 January 2011. The share capital of PMT Linie Kolejowe sp. z o.o. following the increase amounts to PLN 3 440 thousand.



## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.3. Equity investments unrelated to changes in the structure (continued)

#### Equity investments outside the Group

- Acquisition of shares of Abacus Mining & Exploration Corp. with its registered head office in Vancouver in Canada  
On 7 May 2010, KGHM Polska Miedź S.A. purchased 15 000 000 registered shares of the new issue of Abacus Mining & Exploration Corp. with its registered head office in Vancouver ("Abacus"), representing 8.75% of the share capital of this company, for the total price of CAD 4 500 thousand. The total acquisition-related costs of these shares is PLN 14 660 thousand.  
This transaction is related to the intention of KGHM Polska Miedź S.A. and the shareholders of Abacus to realise a joint venture in Canada – a project to mine the Afton–Ajax copper and gold deposit, which will be realised in the Province of British Columbia in Canada.
- Purchase of shares of TAURON Polska Energia S.A.  
On 29 June 2010, KGHM Polska Miedź S.A. acquired through a public offer 77 882 499 shares of TAURON Polska Energia S.A., representing 4.9% of the share capital of the company, for the total price of PLN 399 537 thousand. Shares were subsequently purchased on the secondary market. At the end of 2010, KGHM Polska Miedź S.A. maintained its equity involvement in TAURON Polska Energia S.A. at a level above 5%. In 2011, KGHM Polska Miedź S.A. increased its equity involvement in TAURON Polska Energia S.A. to the level of 10.39%. Detailed information on this may be found in section 6 of this report.  
Purchase of the shares of TAURON Polska Energia S.A. results from realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009-2018, which foresees the diversification of sources of income and entry to the power sector. The generation of electricity is, from the point of view of KGHM Polska Miedź S.A., one of the most attractive sectors, uncorrelated with conditions on the metals markets.
- Conclusion of investment in AIG Emerging Europe Infrastructure Fund  
In the first half of 2010, KGHM Polska Miedź S.A. concluded its investment in the AIG Emerging Europe Infrastructure Fund. The inflow of funds from the final investment realised by the fund amounted to PLN 6 779 thousand.

All equity investments were financed from internal funds.

### 1.4. Scope of activities of Group companies

The scope of activities of the Parent Entity comprises the production of copper, precious metals and other smelter products. The remaining companies of the Group are diversified in terms of the type of activity. They offer products and services related to the core business of KGHM Polska Miedź S.A. (such as exploration for and mining of deposits of copper and other metals, mine construction, the generation of electrical power and heat, mining machinery and equipment and research and development) as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications, medicine and capital investment.

The following table lists the activities of individual Group companies.

**Table 1.** Scope of activities of Group companies

| Item | Entity                  | Type of activity                                                                                                                                                                                                                                                                                                                                                                                     |
|------|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.   | KGHM Polska Miedź S.A.  | mining of other non-ferrous metals ore, excavation of salt, production of copper and other non-ferrous metals, production of precious metals, casting of copper and copper alloys and other non-ferrous metals, stamping and roll forming of metal, waste management, wholesale sales of metals, metal ores, chemical products and waste and scrap, and engineering and related technical consulting |
| 2.   | KGHM Ecoren S.A.        | production of ammonium perrhenate and road-building material; sale of raw material for the production of abrasives; the processing and recovery of metals from ore, minerals and industrial waste; galvanisation services                                                                                                                                                                            |
| 3.   | CENTROZŁOM WROCŁAW S.A. | recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling (incl. vehicles withdrawn from use), sale of steel and aluminium and production of reinforcing building materials                                                                                                                                                                            |
| 4.   | DIALOG S.A.             | cable and wireless telecom services; re-emission of television channels and rental/leasing of audio-visual content                                                                                                                                                                                                                                                                                   |
| 5.   | PeBeKa S.A.             | mine construction with infrastructure; construction of roadway/railway tunnels, underground metro routes; underground and specialist construction                                                                                                                                                                                                                                                    |
| 6.   | „Energetyka” sp. z o.o. | generation, transmission and distribution of electrical and heating energy, water-sewage management                                                                                                                                                                                                                                                                                                  |

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.4. Scope of activities of Group companies (continued)

|     |                                          |                                                                                                                                                                                                                              |
|-----|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7.  | POL-MIEDŹ TRANS Sp. z o.o.               | railway cargo transport, passenger and cargo road transport; trade in fuels                                                                                                                                                  |
| 8.  | KGHM Metraco S.A.                        | wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt; expediting services                                                                                                                        |
| 9.  | PHP „MERCUS” sp. z o.o.                  | trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables                                                                                                         |
| 10. | KGHM Kupferhandelsges.m.b.H.             | copper trade                                                                                                                                                                                                                 |
| 11. | KGHM Polish Copper Ltd. in liquidation   | copper trade                                                                                                                                                                                                                 |
| 12. | KGHM (SHANGHAI) COPPER TRADING CO., LTD. | wholesale sales and intermediary for the following: copper/silicon merchandise, mine products (copper/silicon), copper/silicon materials, chemicals and related services, and commercial consulting services                 |
| 13. | KGHM AJAX MINING INC.                    | exploration for and analysis of mineral resource deposits, mining and processing of metal ores or other mineral resources, sale of products obtained from mining and processing                                              |
| 14. | CBJ sp. z o.o.                           | research and chemical-physical analysis; measurement of imissions and emissions; industrial research                                                                                                                         |
| 15. | „MCZ” S.A.                               | hospital services; physician practice; activities related to protecting human health; occupational medicine                                                                                                                  |
| 16. | KGHM CUPRUM sp. z o.o. - CBR             | R&D activities; research and technical analysis; technological and construction design; maintaining technical and technological documentation archives; geological-exploratory work and geodesic and cartographic activities |
| 17. | KGHM LETIA S.A.                          | operation of a technology park; promotion of scientific achievement; technology transfer; property sale and leasing/rental                                                                                                   |
| 18. | KGHM TFI S.A.                            | creation and management of investment funds; management of portfolios comprising one or more financial instruments                                                                                                           |
| 19. | Zagłębie Lubin S.A.                      | management of a football club, organisation of professional sporting events                                                                                                                                                  |
| 20. | TUW-CUPRUM                               | mutual insurance services for its members                                                                                                                                                                                    |
| 21. | ZANAM-LEGMET Sp. z o.o.                  | production of mining machinery and equipment, construction machinery; machinery repairs; steel constructions                                                                                                                 |
| 22. | FADROMA S.R. SP. Z O.O. in liquidation   | production of fittings for construction machinery; servicing of construction and mine loaders; steel constructions                                                                                                           |
| 23. | INOVA Spółka z o.o.                      | design and production of telecommunication systems and automated systems, measurement and control systems; lamphouse servicing; design and production of electrical machinery and equipment                                  |
| 24. | WM „ŁABĘDY” S.A.                         | coal and fine coal trading, railway scrap, smelter goods and steel grinding mediums                                                                                                                                          |
| 25. | Walcownia Metali Nieżelaznych Sp. z o.o. | production of flat goods from copper and its alloys; rolling services                                                                                                                                                        |
| 26. | WFP Hefra SA                             | production and sale of rust-proof, semi-silver-plated and silver-plated table settings                                                                                                                                       |
| 27. | Ecoren DKE sp. z o.o.                    | utilisation of used batteries and small-scale storage cells; the collection and processing of used electrical and electronic equipment                                                                                       |
| 28. | „PETROTEL” sp. z o.o.                    | telecom operator                                                                                                                                                                                                             |

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.4. Scope of activities of Group companies (continued)

|     |                                                |                                                                                                                                                                                                                                                                                                                                                        |
|-----|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 29. | AVISTA MEDIA Sp. z o.o.                        | telephone central activities                                                                                                                                                                                                                                                                                                                           |
| 30. | PHU „Lubinpex” Sp. z o.o.                      | food industry, trade, vending and catering services                                                                                                                                                                                                                                                                                                    |
| 31. | „Mercus Software” sp. z o.o.                   | implementation of complex IT systems, management and administration of computer networks, sale and servicing of computer equipment and software                                                                                                                                                                                                        |
| 32. | PMT Linie Kolejowe Sp. z o.o.                  | management of railway lines, maintenance of railway infrastructure, repair services                                                                                                                                                                                                                                                                    |
| 33. | „BIOWIND” sp. z o.o.                           | generation, transmission and distribution of electricity                                                                                                                                                                                                                                                                                               |
| 34. | WPEC w Legnicy S.A.                            | production of heat from its own sources, transmission and distribution of heat, servicing                                                                                                                                                                                                                                                              |
| 35. | KGHM HMS Bergbau AG                            | exploration and exploitation of deposits of copper and other minerals                                                                                                                                                                                                                                                                                  |
| 36. | KGHM I FIZAN                                   | capital investing                                                                                                                                                                                                                                                                                                                                      |
| 37. | KGHM II FIZAN                                  | capital investing                                                                                                                                                                                                                                                                                                                                      |
| 38. | KGHM III FIZAN                                 | capital investing                                                                                                                                                                                                                                                                                                                                      |
| 39. | Fundusz Hotele 01 Sp. z o.o.                   | diversified activities, including functioning as a holding company; management of companies                                                                                                                                                                                                                                                            |
| 40. | Fundusz Hotele 01 Sp. z o.o. S.K.A.            | acquiring shares of companies, in particular providing services related to the purchase and sale of property, the purchase, leasing and management of its own or leased property, i.e. hotels and similar quartering facilities, including overnight and tourism facilities, camping and tenting grounds, restaurants and other gastronomic facilities |
| 41. | Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. | management of special purpose companies, whose activities involve holiday services, sanatoriums and spas and others related to improving fitness                                                                                                                                                                                                       |
| 42. | Fundusz Uzdrowiska 01 Sp. z o.o.               | holding company functions, management of companies, whose activities involve the acquisition of shares, in particular of holiday, sanatorium and spa services companies and others related to improving fitness                                                                                                                                        |
| 43. | ZUK S.A.                                       | spa healing and production and sale of natural mineral waters, healing and flavoured                                                                                                                                                                                                                                                                   |
| 44. | Uzdrowisko Polczyn S.A.                        | spa healing, gastronomic activities and collection of torf                                                                                                                                                                                                                                                                                             |
| 45. | „Uzdrowisko Cieplice” sp. z o.o.               | services respecting prevention, healing, rehabilitation and health tourism, including based on thermal healing waters                                                                                                                                                                                                                                  |
| 46. | INTERFERIE S.A.                                | sale of tourism services, including tourism-recreation, sanatorium-healing and hotel                                                                                                                                                                                                                                                                   |
| 47. | Interferie Medical SPA Sp. z o.o.              | services respecting hotels, recreation, rehabilitation, health tourism and wellness                                                                                                                                                                                                                                                                    |
| 48. | BIPROMET S.A.                                  | design services, incl. feasibility studies and design, consulting, technical conceptual work; general realisation of investments; execution of complete installations and ecological facilities and environmental services                                                                                                                             |
| 49. | Przedsiębiorstwo Budowlane Katowice S.A.       | comprehensive construction work, incl. specialist                                                                                                                                                                                                                                                                                                      |
| 50. | Bipromet Ecosystem Sp. z o.o.                  | production, design, servicing and commercial; R&D and popularisation respecting heating, water-plumbing and other installations                                                                                                                                                                                                                        |

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.5. Employment in the Group

The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

**Table 2.** Average employment by period (positions)

| Description            | 2009          | 2010          | Change   |
|------------------------|---------------|---------------|----------|
|                        |               |               | 2009=100 |
| White collar employees | 8 957         | 10 051        | 112.2    |
| Blue collar employees  | 19 927        | 20 877        | 104.8    |
| <b>Total</b>           | <b>28 884</b> | <b>30 928</b> | 107.1    |

The highest employment is in the Parent Entity. In 2010 the average level of employment was 18 465 positions. Among the remaining Group companies the highest average number of employees in 2010 was recorded in the following entities (in positions):

- PeBeKa S.A. 1 595,
- ZANAM – LEGMET Sp. z o.o. 1 261,
- POL – MIEDŹ TRANS Sp. z o.o. 1 252,
- DIALOG S.A. 921.

In 2010 average employment in the Group increased in comparison to 2009 by 2 044 positions. This was mainly due to the expansion of the Group by new subsidiaries, which increased average employment by 1 881 positions. Amongst the new entities the highest employment is in ZUK S.A. (671 positions) and in CENTROZŁOM WROCŁAW S.A. (445 positions).

Amongst the most important changes in employment in existing Group entities are the increase in average employment in ZANAM – LEGMET Sp. z o.o. by 98 positions (8.4%), due to the opening by the company of new areas of activity and to an increase in average employment in the mines of KGHM Polska Miedź S.A. by 95 positions (0.5%), caused by the development of infrastructure and by the replacement of its repair services. The largest decrease in average employment amongst Group companies was recorded by POL-MIEDŹ TRANS Sp. z o.o., i.e. by 117 positions, due to realisation of the Voluntary Departure Program.

#### Relations with the trade unions in the Group

##### KGHM Polska Miedź S.A.

In 2010, collective disputes initiated in 2009 continued. Negotiations and mediation in these disputes ended with the signing of protocols of dispute. The main subject of the above-mentioned disputes are the demands for the signing of an „employee package” (a social agreement), which would come into force should the State Treasury lose control over the company, guaranteeing the following for a period of 10 or 20 years:

- employment for all employees,
- the application in unchanged form of the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.,
- annual valorisation of salary using the index at a level not lower than inflation,
- the maintenance of employee rights and benefits at an unworsened level.

The Management Board of KGHM Polska Miedź S.A. and individual employers – the company's Divisions – do not agree to realisation of the demands, arguing that:

- package of this type were signed by the State Treasury with the investor obtaining control over the given company prior to commencement of the privatisation process. The privatisation of KGHM Polska Miedź S.A. took place in 1997. At that time the shares were sold and made available, including to the employees of KGHM Polska Miedź S.A.
- at the present time the Management Board of the company is not authorised to incur obligations in this regard, whose realisation would occur under future unspecified conditions.
- realisation of this demand would threaten the economic security of the company, and therefore, contrary to the intentions of the trade unions, the safety of jobs as well,
- this demand is contrary to the principles of social cooperation – those currently employed would effectively obtain control over existing jobs regardless of their attitude to the work performed, which would simultaneously block jobs from professionals necessary to the company's functioning,
- maintaining the existing wording of the Collective Labour Agreement depends solely on the good will of the signing parties – the Management Board of KGHM and the trade unions. Any change in the shareholder structure of the company has no impact on the Collective Labour Agreement.

##### „MCZ” S.A.

In June 2010 a Protocol was signed regarding an increase in salaries in 2010 and the realisation of other demands of the trade unions operating within „MCZ” S.A., being the subject of collective disputes initiated in the company in prior years.

## **1. Organisation of the KGHM Polska Miedź S.A. Group (continued)**

### **1.5. Employment in the Group (continued)**

The parties determined the salary increase index and the coverage of the company's employees with an additional medical package. In addition the Management Board of the company committed to holding negotiations on the payment of a one-off bonus for 2010, to undertake actions aimed at signing an additional protocol to the Collective Labour Agreement with clauses on increasing the basic contribution to the Social Fund, and to undertake actions aimed covering interested employees of the company by an employee retirement program.

The signing of a Protocol of agreement is equivalent to a decision by the trade unions acting within „MCZ” S.A. to refrain from engaging in strikes to the end of 2010, in order to resolve existing collective disputes in the company.

Realising the clauses of the above-mentioned protocol, in 2010 the Management Board of „MCZ” S.A. increased the basic contribution to the Social Fund, covered interested employees of the company with an additional medical package under conditions offered to other entities of the KGHM Polska Miedź S.A. Group. The Management Board of the company only refrained from undertaking actions resulting in the coverage, from 1 January 2011, of interested employees of the company by an employee retirement program.

On 31 December 2010 a meeting was held by the Management Board of „MCZ” S.A. with the trade unions, as part of realisation of the above-mentioned Protocol of agreements. A new Protocol of agreements was signed, based on which, together with salary for the month of December 2010, was paid to the company's employees as a one-off bonus in the nature of an annual bonus. The signing of the above-mentioned Protocol was equivalent to the refrainment by the trade unions operating in „MCZ” S.A., until the end of the second quarter of 2011, from strike actions.

#### „Energetyka” sp. z o.o.

In May 2010, the trade unions in „Energetyka” sp. z o.o. – NSZZ „Solidarność”, Związek Zawodowy Pracowników Przemysłu Miedziowego and Związek Zawodowy „Polska Miedź” – initiated a collective dispute with this employer, the subject of which was the setting of the average monthly salary increase index in 2010. As a result of negotiations held, on 9 June 2010 an agreement was signed concluding the dispute.

An agreement was reached with respect to the average monthly salary increase index and the bonus fund increase index, coverage of employees with an additional medical package and the increase of the overtime payment for work on statutory holidays.

#### PeBeKa S.A.

Since March 2010, PeBeKa S.A. has been in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which is demanding an increase in the employee remuneration category, the payment of a one-off bonus and an increase in contributions to the Social Fund. From 28 April to 25 May 2010 negotiations were held with the participation of a mediator from the list of mediators of the Minister of Labour and Social Policy. They concluded with the signing of a protocol of dispute due to the failure of the parties to reach agreement on the disputed questions. From 14 to 16 April 2010 a strike referendum was held in the company, in which the majority of votes were cast for a strike. On 12 August 2010, the Divisional Committee of the above-mentioned trade union resolved to suspend the dispute for an unspecified period of time.

#### POL-MIEDŹ TRANS Sp. z o.o.

In March 2010 the Interdivisional trade union NSZZ „Solidarność” in POL-MIEDŹ TRANS Sp. z o.o. the Interdivisional Trade Union Organisation Związek Zawodowy Pracowników Przemysłu Miedziowego in the POL-MIEDŹ TRANS Sp. z o.o. Group initiated two separate collective disputes with this employer, making demands mainly in respect of salaries and social issues. In May 2010 the Management Board of the company signed two separate agreements concluding these collective disputes, realising a part of the demands which were modified during negotiations.

The parties reached agreement with respect to salary increases and the payment of a one-off holiday bonus. In addition, it was agreed that there will be no mass layoffs in the company, and that restructurisation in terms of reducing employment will be based on principles for voluntary departure developed mutually by the parties to the collective dispute. The employer committed to consulting with the trade unions employee benefits and employment guarantees if any entities are separated from the company structure.

In accordance with these agreements, in July 2010 a Voluntary Departure Program was introduced in the company, of which a group of employees took advantage. This Program will be realised until the end of the first quarter of 2011.

### **1.6. Remuneration of members of management and supervisory bodies of the Parent Entity**

#### **Remuneration of the Management Board**

The employment contracts which are signed with Members of the Management Board of KGHM Polska Miedź S.A. provide for the payment of remuneration, composed of the basic monthly salary, variable salary, bonuses and additional benefits resulting from the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. along with sector rules not tied to the basic monthly salary. Payment of the variable salary is contingent on the fulfilment of criteria set for the Management Board by the Supervisory Board, and amounts up to 40% of the annual basic salary. Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the Members of the Management Board up to 10% of the annual basic salary.

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.6. Remuneration of members of management and supervisory bodies of the Parent Entity (continued)

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the company of costs required for the proper fulfilment of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the budget),
- the use of business cars and rental of a flat for Management Board members (the costs associated with the use of a business car and flat are defined in a separate contract),
- medical benefits (in each calendar year of the life of the contract the company purchases a medical packet for Management Board members worth up to PLN 10 thousand),
- life insurance premiums (once every year the company covers or reimburses the amount of the premiums to an amount up to one monthly basic salary, with the principles and manner of settlement being agreed by the parties in a separate contract).

#### Contracts entered into between the Parent Entity and management personnel, providing for compensation in case of their resignation or dismissal from their position

The employment contracts which are signed with Members of the Management Board provide that, in case of the dismissal of a Member of the Management Board and the termination of their contract prior to the time stipulated in the contract, the said Member of the Management Board shall receive compensation due to the loss of an existing source of income and to the premature termination of a contract in an amount equal to the 10 basic monthly salaries. Employment contracts describe those cases in which a Member of the Management Board shall not receive the above-mentioned compensation.

The employment contracts with the Members of the Management Board of KGHM Polska Miedź S.A. do not provide for compensation with respect to forbidding any activities which would be competitive towards KGHM. One of the points of the chapter „Forbidding of employment and forbidding of competition” of the employment contract states: „The parties shall regulate in a separate contract the principles of forbidding competition following termination of employment and of the amount of compensation due in this regard.” At the date of preparation of this Report such a contract had not been signed.

#### Remuneration of the Supervisory Board

The question of remuneration of the Supervisory Board Members is regulated by Resolution No. 15/2003 of the Ordinary General Meeting regarding: changes in the principles of remuneration of the Supervisory Board members adopted on 29 May 2003.

The company also covers or reimburses those costs related to the participation in the work of the Supervisory Board, and in particular the costs of travel from the place of residence to the meeting site of the Supervisory Board and back, as well as room and board.

Presented below is information on the total amount of remuneration, bonuses or benefits paid or due to management and supervisory personnel of the Parent Entity, as well as information on the amount of remuneration and bonuses received by them, due to fulfilling a function in the bodies of subordinated entities.

**Table 3.** Remuneration of the Management Board of the Parent Entity ('000 PLN)

| Description                                            | 2009         | 2010         |
|--------------------------------------------------------|--------------|--------------|
| Salaries and other employee benefits                   | 1 915        | 2 368        |
| Earnings from related entities                         | 117          | 489          |
| Benefits due to termination of employment relationship | 572          | -            |
| Benefits, other earnings                               | 256          | 299          |
| <b>Total</b>                                           | <b>2 860</b> | <b>3 156</b> |

**Table 4.** Remuneration of the Supervisory Board of the Parent Entity ('000 PLN)

| Description                                                               | 2009         | 2010         |
|---------------------------------------------------------------------------|--------------|--------------|
| Remuneration for the period when function served in the Supervisory Board | 836          | 892          |
| Earnings from other contracts                                             | 460          | 450          |
| Earnings from related entities                                            | -            | -            |
| <b>Total</b>                                                              | <b>1 296</b> | <b>1 342</b> |

Information on remuneration, bonuses or benefits for supervisory and management personnel of the Parent Entity can be found in Note 41 of the financial statements.

In addition, potentially-due remuneration with respect to variable salary for 2010, the payment of which is decided by the Supervisory Board, amounts as follows for individual Members of the Management Board: Herbert Wirth – PLN 194 thousand, Maciej Tybura – PLN 163 thousand, Ryszard Janeczek – PLN 77 thousand and Wojciech Kędzia – PLN 39 thousand.

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.7. Share capital and ownership structure of the Parent Entity

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

In 2010 there was no change either in registered share capital or in the number of issued shares.

There was a change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The State Treasury, which at the end of 2009 held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and of the total number of votes, sold on 8 January 2010, on a regulated market, 20 000 000 shares, directed to qualified investors.

At 31 December 2010, the shareholder structure of the company was as follows:

- State Treasury - 63 589 900 (31.79%),
- other shareholders - 136 410 100 shares (68.21%).

The Management Board of the company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

At 31 December 2010, based on information held by the company, Members of the company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A. or of related entities. Ryszard Kurek, a Supervisory Board member who on 31 December 2009 was in the possession of 10 shares of the company with a total nominal value of PLN 100, sold them in December 2010.

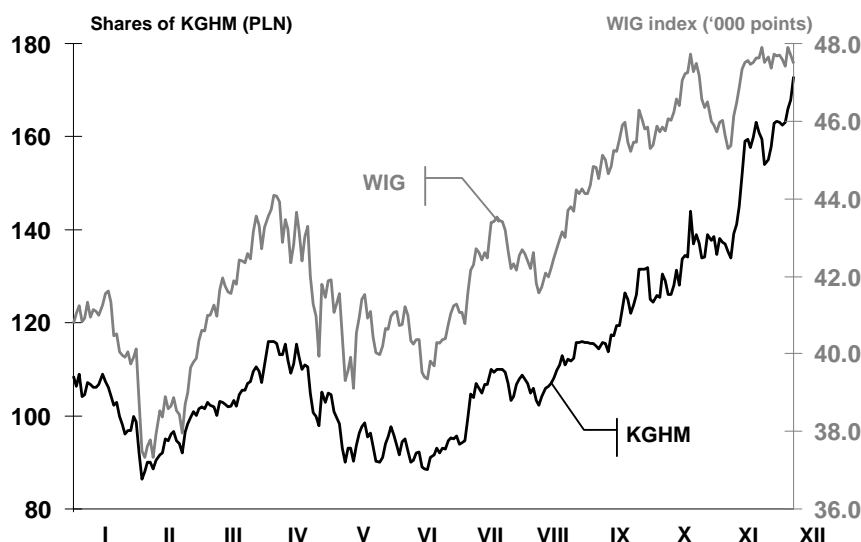
In 2010 the company did not have an employee share incentive program.

### 1.8. Parent Entity quotations on the Securities Markets in 2010

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the company are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indices, as well as the RESPECT index – an index of socially responsible companies – and since 1 January 2011 as a component of the WIGdiv index, comprising companies which regularly pay dividends to their shareholders.

The year 2010 was successful for the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange. Particularly outstanding was the second half of 2010, when the company's share price systematically rose, frequently achieving new record highs. Finally it had increased 63%, from PLN 106 on the last trading day of 2009 to PLN 173 on 31 December 2010, when it reached its record high for 2010. During this time the Warsaw Stock Exchange index WIG increased by 19%, while the WIG20 index of the twenty largest companies rose by 15%.

**Diagram 2.** Share price of KGHM Polska Miedź S.A. versus the WIG index in 2010



In 2010, KGHM Polska Miedź S.A. was the leading company in terms of turnover value on the Warsaw Stock Exchange. The average per-session trading volume of the company's shares on the Warsaw Stock Exchange in 2010 amounted to 966 thousand.

Key share data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2009-2010 is presented in the following table:

## 1. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 1.8. Parent Entity quotations on the Securities Markets in 2010 (continued)

**Table 5.** Key share data of the company on the Warsaw Stock Exchange

|                                                                                     | Unit        | 2009   | 2010   |
|-------------------------------------------------------------------------------------|-------------|--------|--------|
| Number of shares issued                                                             | million     | 200    | 200    |
| Closing price from the last day of trading in the year                              | PLN         | 106.00 | 173.00 |
| Market value of the company at year's end                                           | million PLN | 21 200 | 34 600 |
| Highest closing price in the year                                                   | PLN         | 110.70 | 173.00 |
| Lowest closing price in the year                                                    | PLN         | 27.50  | 86.50  |
| Average trading volume per session                                                  | '000        | 1 222  | 966    |
| Dividend paid in the financial year from appropriation of profit for the prior year | PLN/share   | 11.68  | 3.00   |

### 1.9. Information on the contract with and the remuneration of the entity entitled to audit the financial statements

The entity entitled to audit the separate and consolidated financial statements of the company is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14.

On 25 May 2010, a contract was signed with PricewaterhouseCoopers Sp. z o.o., covering the review of the half-year financial statements and the audit of the annual financial statements for the years 2010, 2011 and 2012.

PricewaterhouseCoopers Sp. z o.o. was also selected to audit the financial statements of the following subsidiaries of KGHM Polska Miedź S.A.: KGHM Ecoren S.A., DIALOG S.A., „Energetyka” sp. z o.o., ZANAM-LEGMET Sp. z o.o., WPEC w Legnicy S.A., CENTROZŁOM WROCLAW S.A., INTERFERIE S.A., Interferie Medical SPA Sp. z o.o.

The financial statements for the years 2007, 2008, 2009 of the Parent Entity and of selected subsidiaries, i.e. KGHM Ecoren S.A., DIALOG S.A., „Energetyka” sp. z o.o., KGHM Metraco S.A., PeBeKa S.A., POL-MIEDŹ TRANS Sp. z o.o., ZANAM-LEGMET Sp. z o.o. and Zagłębie Lubin S.A., were audited by Ernst & Young Audit Sp. z o.o. with its registered head office in Warsaw, Rondo ONZ 1.

The amount of remuneration due for the review and audit of the financial statements and remuneration for other services, of entities entitled to provide auditing, as mentioned above for the years 2009 and 2010, is shown in the table below.

**Table 6.** Remuneration of the entity entitled to audit financial statements of KGHM Polska Miedź S.A. and selected subsidiaries for 2009 ('000 PLN)

| Entity                                                                      | 2009         |
|-----------------------------------------------------------------------------|--------------|
| <b>Ernst &amp; Young Audit Sp. z o.o.</b>                                   | <b>2 235</b> |
| Due to contract for the review and audit of financial statements, of which: | 1 999        |
| - audit of annual financial statements                                      | 1 407        |
| - review of financial statements                                            | 592          |
| Due to other contracts                                                      | 236          |
| <b>Other companies from the Ernst &amp; Young Group in Poland</b>           | <b>1 355</b> |
| from tax consultancy contracts                                              | 1 124        |

**Table 7.** Remuneration of the entity entitled to audit financial statements of KGHM Polska Miedź S.A. and selected subsidiaries for 2010 ('000 PLN)

| Entity                                                                      | 2010         |
|-----------------------------------------------------------------------------|--------------|
| <b>PricewaterhouseCoopers Sp. z o.o.</b>                                    | <b>1 738</b> |
| Due to contract for the review and audit of financial statements, of which: | 1 481        |
| - audit of annual financial statements                                      | 1 079        |
| - review of financial statements                                            | 402          |
| Due to other contracts                                                      | 257          |
| <b>Other companies from the PWC Group in Poland</b>                         | <b>598</b>   |
| from consultancy contracts                                                  | 598          |



## 2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A.

In July 2007, the Supervisory Board of the Warsaw Stock Exchange resolved the principles of corporate governance for joint-stock companies that are issuers of shares, convertible bonds or bonds with priority rights admitted to exchange trading. These corporate governance principles as described in the document "Code of Best Practice for WSE Listed Companies" represent an annex to resolution no. 12/1170/2007 of the Supervisory Board dated 4 July 2007 which came into force on 1 January 2008, and remained in force until 30 June 2010. Since 1 July 2010 a group of principles have been in force representing an annex to resolution no. 17/1249/2010 of the Supervisory Board dated 19 May 2010. The contents of this document are available on the official website of the Warsaw Stock Exchange under the section on corporate governance ([www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)), as well as on the website of the Parent Entity ([www.kghm.pl](http://www.kghm.pl)) under the section on corporate governance.

The Parent Entity, whose shares are listed on the Warsaw Stock Exchange, has made every effort to apply the corporate governance principles described in document „Code of Best Practice for WSE Listed Companies“. The Parent Entity has endeavoured at every stage of its operations to carry out all of the recommendations respecting best practice for listed companies as well as suggestions directed to management boards, supervisory boards and shareholders.

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, the Parent Entity made the broadest possible use of both traditional as well as modern technology for the distribution of information about the company (recommendation I.1 of the "Code of Best Practice for WSE Listed Companies"). In 2010 the Parent Entity decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and immediately made them available on the company website in both Polish and English, accessible under the section Investor Zone/Transmissions. At present the Parent Entity is preparing to provide direct access to General Meeting transmissions, as recommended by principle IV.10. from 1 January 2012.

In accordance with principle I.9, the Parent Entity offers equal participation to men and women to fulfil management and supervisory functions. At present however, there are no women on the Management Board of the Parent Entity. In competitions for the position of President of the Management Board in 2008 and for Vice President of the Management Board (Production), realised in November 2010, no applications were received from women.

### 2.1. General Meeting

The General Meeting of the Parent Entity is the company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the company and the Bylaws of the General Meeting. The company's corporate documents are available on its website.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the company's activity and the financial statements, including the consolidated financial statements of the company Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the company,
- changing the subject of the company's activity,
- amending the company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the company,
- dissolving and liquidating the company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the establishment of the company, or from management or supervisory activities,
- purchase of the company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Parent Entity is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to execute their rights.

The introduction of changes to the Parent Entity Statutes requires a resolution by the General Meeting and an entry in the National Court Register of a constitutive nature. Changes in the Parent Entity Statutes are made by the General Meeting in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

In accordance with the Statutes of the Parent Entity, the State Treasury may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted.

Due to changes to the act dated 15 September 2000 respecting the Commercial Partnerships and Companies Code (CPCC), which came into force on 3 August 2009, in 2010 the Ordinary General Meeting adopted new Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin.

## **2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **2.1. General Meeting (continued)**

From the new regulations of the Commercial Partnerships and Companies Code, the Parent Entity has adopted only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication were, however, not adopted. The changes to the regulations of the Commercial Partnerships and Companies Code have fundamentally altered the process of organising General Meetings and granted new rights to shareholders.

### **2.2. Shareholders and their rights**

Throughout 2010, the only shareholder of the Parent Entity holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting was the Polish State Treasury.

At 1 January 2010 this shareholder held 83 589 900 shares of the Parent Entity, representing 41.79% of the share capital and of the total number of votes at the General Meeting. On 12 January 2010 the Parent Entity received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury sold on a regulated market of 20 000 000 shares of the Parent Entity directed to qualified investors. Following this sale, the State Treasury owns 63 589 900 shares of the Parent Entity, granting the same number of votes and representing 31.79% of the share capital of the company and of the total number of votes. To 31 December 2010 this situation had not changed.

Shareholders of the Parent Entity exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the company and the Bylaws of the General Meeting.

Shareholders are entitled to exercise their voting during General Meetings either personally or through a proxy. All of the shares are bearer shares. Each share grants the right to one vote. There is no limitation to the transferral of ownership rights to the shares of the company or with respect to the execution of voting rights attached to the shares of the company, other than those generally prescribed by laws in force. The Parent Entity has not issued securities which would grant special control rights in respect of the company.

### **2.3. Supervisory Board**

The Supervisory Board of the Parent Entity is the permanent supervisory body of the company, in all of its functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis or prevailing law, the Statutes of the company and the Regulations of the Supervisory Board.

The composition of the 7th-term Supervisory Board at 1 January 2010 was as follows:

- |                     |                 |
|---------------------|-----------------|
| – Marek Trawiński   | Chairman        |
| – Jacek Kuciński    | Deputy Chairman |
| – Marek Panfil      | Secretary       |
| – Marcin Dyl        |                 |
| – Arkadiusz Kawecki |                 |
| – Marzenna Weresa   |                 |

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

On 16 February 2010 Marek Trawiński submitted his resignation from membership in the Supervisory Board of KGHM Polska Miedź S.A. as of 17 February 2010.

On 26 March 2010 Jacek Kuciński became Chairman of the Supervisory Board and Marcin Dyl became Deputy Chairman.

On 17 May 2010 the Ordinary General Meeting of KGHM Polska Miedź S.A. appointed Jan Rymarczyk to the Supervisory Board of the Parent Entity.

The composition of the 7th-term Supervisory Board at 31 December 2010 was as follows:

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

## **2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **2.3. Supervisory Board (continued)**

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

#### **Supervisory Board Committees**

Under the auspices of the Supervisory Board of the Parent Entity are two committees: the Audit Committee and the Remuneration Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits. The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the Parent Entity and the Group, training and other benefits provided by the Parent Entity, as well as audits performed by the Supervisory Board in this regard.

The rights, scope of action and manner of work of these Committees are described by regulations approved by the Supervisory Board.

The specific duties and composition of the Committees are as follows:

#### Audit Committee

In accordance with the Regulations of the Supervisory Board the duties of the Audit Committee are as follows:

- supervision, on behalf of the Supervisory Board, of the process of financial reporting in the company, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles applied in the company,
- the review of transactions with parties related to the company, and of unusual transactions,
- the analysis and monitoring of post-control conclusions arising from the risk management process,
- conduct of the process of selecting independent auditors to audit the financial statements of the company in order to recommend their acceptance by the Supervisory Board, and participation in commercial negotiations prior to the company signing a contract with an auditor,
- continuous co-operation with the independent auditor of the company during the audit, analysis and formulation of conclusions from the audit and opinion of the auditor respecting the financial statements, the auditor's letter to the Management Board and/or Supervisory Board, and the preparation of draft statements and evaluations required by the by-laws for company bodies and other administrative institutions,
- providing an opinion on the internal audit plan and the internal audit regulations of the company, and of changes of the director of internal audit,
- analysis of the conclusions reached and the recommendations made by an internal audit of the company, with monitoring of the degree of implementation of these recommendations by the Management Board of the company,
- the monitoring of decrees and company's regulations as regards accounting, finances and hedging against trade and financial risks, and exposure of the company to serious harm.

The Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision, required public companies to appoint Supervisory Board Audit Committees and listed tasks which should be in particular the responsibility of such Committees.

The law in addition calls for Audit Committees to include at least 3 members, of which at least one member should meet the criteria for independence and hold qualifications in the areas of accounting or financial review.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board of the Parent Entity throughout 2010:

- Marcin Dyl
- Marek Panfil
- Marzenna Weresa

#### Remuneration Committee

In accordance with the Regulations of the Supervisory Board the duties of the Remuneration Committee are as follows:

- to carry out the recruitment and employment of members of the Management Board by developing and organising draft documents and procedures to be submitted to the Supervisory Board for their acceptance,
- to develop draft agreements and samples of other documents related to the hiring of members of the Management Board, and supervision over the realisation of the contractual obligations entered into by the parties,

## **2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **2.3. Supervisory Board (continued)**

- to supervise realisation of the system of remuneration of the Management Board, in particular to prepare documents related to variable salary and premiums, in order to submit recommendation to the Supervisory Board,
- to monitor and make periodic analyses of the remuneration system of the management staff of the company and, if necessary, to formulate recommendations to the Supervisory Board,
- to supervise realisation of additional benefits received by the Management Board arising from labour contracts, such as: insurance, automobiles, housing, etc.

The following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of the Parent Entity throughout 2010:

- Leszek Hajdacki
- Arkadiusz Kawecki
- Jacek Kuciński

After the end of the year the Audit and Remuneration Committees submit a report of their activities to the Supervisory Board. These reports, following approval by the Supervisory Board, are made available to shareholders in the materials for the General Meeting.

### **2.4. Management Board**

The Management Board conducts the business of the company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the company which have not otherwise been assigned by law or the Statutes to the duties of other company bodies. The Management Board operates based on prevailing law, the Statutes of the company and the Regulations of the Management Board. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec.1 point of 6 the Statutes of the Parent Entity, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds. The Management Board of the Parent Entity does not have the authority to increase the share capital or issue the shares of the company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The Management Board of the Parent Entity is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board. The Supervisory Board appoints and dismisses the employee-elected member of the Management Board.

At 1 January 2010 the Management Board consisted of (including segregation of duties):

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

On 14 October 2010, Ryszard Janeczek submitted his resignation from the position of Vice President of the Management Board of the Parent Entity.

On 19 November 2010, the Supervisory Board appointed, as the result of a competitive recruitment process, Wojciech Kędzia to the Management Board, granting him the function of Vice President of the Management Board.

Until 31 December 2010, the Management Board consisted of (including segregation of duties):

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

### **2.5. Description of the basic characteristics of internal control and risk management systems with respect to the process of preparing financial statements and consolidated financial statements applied in the Group**

The Parent Entity has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the financial statements of the Parent Entity, the Management Board of the company is responsible. The management of company risk in this regard is performed by the identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimalisation or total elimination.

The Parent Entity uses its many years of experience in the identification, documentation, record maintenance and control of economic operations and established audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data.

## **2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **2.5. Description of the basic characteristics of internal control and risk management systems with respect to the process of preparing financial statements and consolidated financial statements applied in the Group (continued)**

In order to ensure truth and accuracy in the keeping of accounting records of the Parent Entity and subsidiaries of the Group, based on fixed principles, and the generation on their basis of high-quality financial data for presentation, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group, in accordance with International Financial Reporting Standards, and in addition, for the Parent Entity:
- Principles for Financial Management and for an Economic System,
- Documentation for an IT system for the processing of accounting data,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets,
- Sector Chart of Accounts in accordance with IFRS

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of the Parent Entity and the Group, along with the established scope and principles of financial reporting based on International Financial Reporting Standards and other legal standards.

The Parent Entity keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of duties, uniformity of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. The technical servicing of the system is ensured by the highly experienced specialists employed by the company. The Parent Entity has full documentation of the IT system, both in the part meant for end-users, as well as in the technical part encompassing configuration, parameterization and calculation algorithms of the system. In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically updated and confirmed each time by the heads of the units, i.e. the Management Board of the Parent Entity and management boards of subsidiaries.

The Parent Entity has introduced organisational and systemic solutions with respect to ensuring the proper use and protection of systems and data, as well as secure access to data and hardware. Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

The body which supervises the process of financial reporting in the Parent Entity and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the company and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- recommends to the Supervisory Board an entity entitled to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

A significant element of risk management with respect to the process of preparing financial statements of the Parent Entity is examining the functioning of control mechanisms and the existence of risk in the operations of the company, carried out by internal audit.

Internal audit operates based on the „Regulations for internal audit in KGHM Polska Miedź S.A.“, the „Code of ethics for internal auditors in KGHM Polska Miedź S.A.“ and the „Audit Plan“ adopted by the Management Board of the company and approved by the Audit Committee of the Supervisory Board of the Parent Entity. These documents were developed based on International Professional Standards in Internal Audit Practice published by the Institute of Internal Auditors.

## **2. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **2.5. Description of the basic characteristics of internal control and risk management systems with respect to the process of preparing financial statements and consolidated financial statements applied in the Group (continued)**

In performing audit tasks in 2010, risk was identified and assessed, as well as the functioning of control mechanisms, among others in the following processes: planning and realising production, maintenance management, inventories and warehouse management, IT strategy, communications and investment. The evaluation of efficiency performed in this regard, among others in terms of the reliability and uniformity of financial data, supports the process of preparing financial statements required by law and of management reports. From 2011 internal audit (including effectiveness) will also include selected companies of the KGHM Polska Miedź S.A. Group.

The internal control system in the Parent Entity is based on the principle of independence and encompasses all company processes, including those areas which directly or indirectly affect the correctness of the financial statements. Internal control operates in the Parent Entity based on the „Internal Control Regulations of KGHM Polska Miedź S.A.” approved by the Management Board of the company. Internal (institutional) control is performed by a separate department in the organisational structure. Apart from institutional control, the obligation fully remains for each employee to control their own performance, and for every level of management staff to perform their control within supervisory-related duties.

Amongst those areas of risk to which the Parent Entity, is exposed, the most important is market risk. The process of risk management is based on policy and organisational structure and on procedures adopted by the Management Board of the Parent Entity.

Due to the exposure to market risk (copper and silver prices and the USD/PLN exchange rate), derivatives are used to manage this risk. Organisation of the market risk management process in the Parent Entity as regards entering and realising transactions on the derivatives market, separates the functions of units responsible for entering transactions from the functions of units responsible for their authorisation, settlement and the preparation of information on the measurement of these transactions. Such an organisational structure, in accordance with best practice in risk management, permits control over the process of entering into transactions and the elimination of derivatives transactions unauthorised by the Management Board.

The effectiveness of the control and risk management procedures in the process of preparing financial statements of the Parent Entity may be seen in the form of the high quality of these statements, confirmed the top position of the company as a participant in the competition The Best Annual Report.

The subsidiaries of the Group register, process and present economic and financial data based on their own procedures for the identification, documentation and control of economic operations.

In addition, the subsidiaries apply their own internal procedures with respect to control systems and the evaluation of risk related to their activities.

The Accounting Policy approved by KGHM Polska Miedź S.A., based on International Financial Reporting Standards, is obligatory for the entities of the Group, mainly with respect to the preparation of data packets for the preparation of the Consolidated financial statement, each subsidiary company prepares its own principles of economic and financial management and chart of accounts. Most subsidiaries prepare their separate statements according to the Accounting Act. Financial statements under IFRS are prepared by DIALOG S.A., INTERFERIE S.A. and BIPROMET S.A.

The subsidiaries of the Group maintain their accounts within an integrated IT system. Documentation of the IT accounting system is periodically verified and updated.

The companies implement organisational and systemic solutions with respect to ensuring the proper use and protection of systems and the securing of access to data and hardware. These entities develop their own security policies in the form of internal regulations on access to resources, the granting of authorisations, and of control over each stage of preparation of financial statements.

Internal control in the Group's companies functions on the basis of regulations approved by the management boards of the entities. In most companies, internal control has an institutional character, i.e. it is realised by a separate organisational unit. The companies themselves regulate their internal control systems, depending on the scale of activities and the needs of the management board. Control activities have a direct or indirect impact on the accuracy of the financial statements.

Most of the Group's companies have supervisory boards which, in accordance with art. 4a of the Accounting Act dated 29 September 1994, are responsible for ensuring the conformance of the financial statements and the reports on the activities of their respective companies with the laws in force.

### 3. Economic activities of the KGHM Polska Miedź S.A. Group

#### 3.1. Basic products, merchandise and services

Amongst the most important products produced by the companies of the Group, simultaneously representing the largest share in Group sales, are the basic products produced by the Parent Entity. These are copper and copper products, silver and gold. The sales share of these products in total Group sales is around 89%. The value and volume of the sales of the basic products of KGHM Polska Miedź S.A. are presented in the following table.

**Table 8.** Value of sales of the basic products of KGHM Polska Miedź S.A.\* ('000 PLN)

| Product                    | 2009      | 2010       | Change<br>2009=100 |
|----------------------------|-----------|------------|--------------------|
| Copper and copper products | 8 815 919 | 12 837 041 | 145.6              |
| Silver                     | 1 731 718 | 2 467 928  | 142.5              |
| Gold                       | 84 721    | 101 504    | 119.8              |

\* Reflecting the impact of commodity hedging transactions

**Table 9.** Volume of sales of the basic products of KGHM Polska Miedź S.A.

| Product                    | Unit  | 2009  | 2010  | Change<br>2009=100 |
|----------------------------|-------|-------|-------|--------------------|
| Copper and copper products | 000 t | 509.9 | 545.3 | 106.9              |
| Silver                     | t     | 1 198 | 1 247 | 104.1              |
| Gold                       | kg    | 818   | 840   | 102.7              |

In 2010, KGHM Polska Miedź S.A. sold 545.3 thousand tonnes of copper and copper products, meaning an increase in the volume of sales by 35.4 thousand t (7%), mainly due to an increase by 57.0 thousand t (32%) in wire rod sales. Silver sales amounted to 1 247 t and were higher by 4% (49 t) versus the comparable prior period. Gold sales also increased, by 3% (22 kg) and amounted to 840 kg.

Revenues from the sale of copper and copper products increased by 46%, while revenues from silver and gold sales, in comparison to their level in 2009 were higher respectively by 43% and 20%. This is due to the increase in metals prices on financial markets, an increased volume of sales and an improvement in the structure of sales of copper products (an increase in the share of wire rod).

Revenues from the sale of products of the Parent Entity in 2010 reflect the result from the settlement of commodity hedging instruments in the amount of PLN (26 776) thousand (in 2009 PLN 425 402 thousand) and currency hedging instruments in the amount of PLN 168 964 thousand (in 2009 PLN 7 785 thousand).

Sales of the basic products, merchandise and services of the remaining Group companies has a diverse share in the sales of the Group. Taking into consideration the share of these products in the sales of individual Group companies, the basic products, merchandise and services were chosen which are presented in the table below.

**Table 10.** Sales of basic products, merchandise and services of the remaining significant Group companies ('000 PLN)

| Company / product, good, service                     | 2009      | 2010      | Change<br>2009=100 |
|------------------------------------------------------|-----------|-----------|--------------------|
| <b>KGHM Metraco S.A.</b>                             |           |           |                    |
| trade in copper scrap                                | 1 201 883 | 2 279 641 | 189.7              |
| <b>PHP „MERCUS” sp. z o.o.</b>                       |           |           |                    |
| sales of merchandise and materials                   | 585 242   | 564 773   | 96.5               |
| <b>DIALOG S.A.</b>                                   |           |           |                    |
| telecom services                                     | 493 778   | 497 661   | 100.8              |
| <b>CENTROZŁOM WROCLAW S.A.*</b>                      |           |           |                    |
| scrap trade                                          | -         | 280 063   | -                  |
| trade in smelter products                            | -         | 296 587   | -                  |
| <b>KGHM Kupferhandelsges.m.b.H.</b>                  |           |           |                    |
| copper trade                                         | 288 153   | 724 049   | 251.3              |
| <b>PeBeKa S.A.</b>                                   |           |           |                    |
| mine work (excavation of drifts, building of shafts) | 271 239   | 341 226   | 125.8              |
| specialty mine construction                          | 49 888    | 143 386   | 287.4              |

### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.1. Basic products, merchandise and services (continued)

|                                                              |         |         |       |
|--------------------------------------------------------------|---------|---------|-------|
| <b>POL-MIEDŹ TRANS Sp. z o.o.</b>                            |         |         |       |
| railway cargo transport                                      | 135 395 | 142 594 | 105.3 |
| roadway transport of cargo and passengers                    | 65 732  | 69 113  | 105.1 |
| sales of fuels                                               | 216 545 | 228 409 | 105.5 |
| <b>WPEC w Legnicy S.A.</b>                                   |         |         |       |
| generation of heat                                           | 127 138 | 148 792 | 117.0 |
| <b>„Energetyka” sp. z o.o.</b>                               |         |         |       |
| generation of heat                                           | 97 744  | 124 165 | 127.0 |
| generation of electricity                                    | 53 332  | 59 321  | 111.2 |
| water-sewage management                                      | 55 349  | 59 549  | 107.6 |
| <b>Walcownia Metali Nieżelaznych spółka z o.o.</b>           |         |         |       |
| production of products from copper and its alloys            | 69 708  | 93 012  | 133.4 |
| <b>„MCZ” S.A.</b>                                            |         |         |       |
| medical services                                             | 87 611  | 94 960  | 108.4 |
| <b>ZANAM-LEGMET Sp. z o.o.</b>                               |         |         |       |
| production of self-propelled mining machinery                | 65 441  | 81 052  | 123.9 |
| production of steel constructions and machinery construction | 55 025  | 56 314  | 102.3 |
| <b>KGHM Ecoren S.A.</b>                                      |         |         |       |
| production of ammonium perrhenate                            | 53 356  | 46 213  | 86.6  |
| production of construction aggregate                         | 20 373  | 27 527  | 135.1 |
| <b>WM „ŁABĘDY” S.A.</b>                                      |         |         |       |
| coal trade                                                   | 35 036  | 56 327  | 160.8 |
| <b>ZUK S.A.*</b>                                             |         |         |       |
| production of spa water                                      | -       | 48 103  | -     |
| spa recuperation services                                    | -       | 48 282  | -     |

\* this company entered the KGHM Polska Miedź S.A. Group in the fourth quarter of 2010

**Table 11.** Sales volume of basic products, merchandise and services of the remaining significant Group companies

| Company / product, good, service                   | Unit           | 2009        | 2010        | Change<br>2009=100 |
|----------------------------------------------------|----------------|-------------|-------------|--------------------|
| <b>KGHM Metraco S.A.</b>                           |                |             |             |                    |
| trade in copper scrap                              | t              | 79 119      | 111 877     | 141.4              |
| <b>CENTROZŁOM WROCLAW S.A.</b>                     |                |             |             |                    |
| scrap trade                                        | t              | -           | 317 665     | -                  |
| trade in smelter products                          | t              | -           | 145 589     | -                  |
| <b>KGHM Kupferhandelsges. m.b.H.</b>               |                |             |             |                    |
| copper trade                                       | t              | 16 886      | 31 682      | 187.6              |
| <b>PeBeKa S.A.</b>                                 |                |             |             |                    |
| horizontal tunnelling work – excavation of drifts  | meters         | 24 313      | 27 847      | 114.5              |
| vertical tunnelling work – building of shafts      | meters         | 420         | 246         | 58.6               |
| <b>POL-MIEDŹ TRANS Sp. z o.o.</b>                  |                |             |             |                    |
| railway cargo transport                            | ntkm           | 719 126 133 | 808 825 720 | 112.5              |
| roadway passenger transport                        | km             | 16 813 215  | 17 090 479  | 101.6              |
| roadway own cargo transport                        | tkm            | 55 203 732  | 64 490 512  | 116.8              |
| roadway external cargo transport                   | t              | 1 172 717   | 960 076     | 81.9               |
| sales of fuels                                     | kg             | 62 397 712  | 59 021 192  | 94.6               |
| <b>WPEC w Legnicy S.A.</b>                         |                |             |             |                    |
| generation of heat                                 | GJ             | 2 628 918   | 2 877 384   | 109.5              |
| <b>„Energetyka” sp. z o.o.</b>                     |                |             |             |                    |
| generation of heat                                 | GJ             | 3 148 618   | 3 736 890   | 118.7              |
| generation of electricity                          | MWh            | 264 850     | 262 596     | 99.2               |
| water-sewage management                            | m <sup>3</sup> | 21 029 408  | 21 040 133  | 100.1              |
| <b>Walcownia Metali Nieżelaznych spółka z o.o.</b> |                |             |             |                    |
| production of products from copper and its alloys  | t              | 4 042       | 3 935       | 97.4               |



### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.1. Basic products, merchandise and services (continued)

|                                                               |             |         |            |       |
|---------------------------------------------------------------|-------------|---------|------------|-------|
| <b>ZANAM-LEGMET Sp. z o.o.</b>                                |             |         |            |       |
| production of self-propelled mining machinery                 | units       | 75      | 83         | 110.7 |
| production of steel constructions and machinery construction* | units       | 32      | 18         | 56.3  |
| <b>KGHM Ecoren S.A.</b>                                       |             |         |            |       |
| production of ammonium perrhenate                             | kg          | 3 589   | 6 812      | 189.8 |
| production of construction aggregate                          | t           | 621 192 | 1 359 070  | 218.8 |
| <b>WM „ŁABĘDY” S.A.</b>                                       |             |         |            |       |
| coal trade                                                    | t           | 142 242 | 233 522    | 164.2 |
| <b>ZUK S.A.</b>                                               |             |         |            |       |
| production of spa water                                       | l           | -       | 61 799 916 | -     |
| spa recuperation services                                     | persons/day | -       | 448 875    | -     |

\* - amount only in respect of produced machines

In the table above, sales volume was not presented for the companies PHP „MERCUS” sp. z o.o., DIALOG S.A. and „MCZ” S.A. and for some products, due to the application of differing quantitative measures for the products and services presented.

Nearly 100% of the trade in copper scrap by KGHM Metraco S.A. is with KGHM Polska Miedź S.A. The share of copper scrap in the total sales of KGHM Metraco S.A. was as follows: in 2010 82%, in 2009 73%. The significant increase in 2010 (by 90%) of revenues from the sale of copper scrap was due to the need to ensure increased deliveries to the Parent Entity. KGHM Metraco S.A. is one of the strategic trade entities of KGHM Polska Miedź S.A. It supplies materials and raw materials to guarantee the uninterrupted work of the divisions of the Parent Entity and also sells the by-products produced by KGHM Polska Miedź S.A. on external markets.

83% of the sales of merchandise and materials by PHP „MERCUS” sp. z o.o. are to KGHM Polska Miedź S.A. This company serves as logistical coordinator for the core business of KGHM Polska Miedź S.A. in materials and spare parts. The share of sales of merchandise and materials in the total sales of PHP „MERCUS” sp. z o.o. in 2010 amounted to 92% and was essentially unchanged versus 2009.

The telecom services performed by DIALOG S.A. are mainly provided to an external market, and account for around 100% of the revenues of this company.

Copper trade – the company KGHM Kupferhandelsges.m.b.H. with its registered head office in Vienna sells the products of KGHM Polska Miedź S.A., i.e. wire rod and cathodes. Copper trade accounts for 100% of the company’s turnover. KGHM Kupferhandelsges.m.b.H. operates on the central- and southern-European market. Its main area of operations is Austria. The substantial increase in revenues of the company in 2010 (by 151%) was due to the high level of orders and the increase in copper prices.

Mining services are the main business of PeBeKa S.A. and are provided mainly to KGHM Polska Miedź S.A. PeBeKa S.A. specialises in mine construction. In the KGHM Polska Miedź S.A. Group it is the main contractor for mine tunnels and shafts, and also plays a significant role as a contractor in accessing a new deposit (Głogów Głęboki). Revenues from the sale of mining work in 2010 increased by 26% versus the prior year, while their share in the total sales of PeBeKa S.A. decreased by 14% (in 2009 84%, in 2010 70%), due to the substantial increase in revenues from the sale of specialty construction work (by 187%). This increase is mainly due to the realisation of two important projects for KGHM Polska Miedź S.A.: ventilation stations and a central climate-control facility at one of the mines of KGHM Polska Miedź S.A.

Transport services - POL-MIEDŹ TRANS Sp. z o.o. is a leading railway and roadway carrier, and the direct supplier of fuels to the divisions of KGHM Polska Miedź S.A. From 60% to 70% of revenues from the sale of these services are from the KGHM Polska Miedź S.A. The largest share in total sales of POL-MIEDŹ TRANS Sp. z o.o. is from the sale of fuels (52%) and railway transport (32%).

Electricity and heat, water-sewage management - „Energetyka” sp. z o.o. generates electricity together with heat. The main recipient of electricity and heat is KGHM Polska Miedź S.A. In 2010 sales of heat accounted for around 46% of the total sales of „Energetyka” sp. z o.o. Sales of electricity accounted for 22% of total sales, similarly as sales of services for water-sewage management.

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

The production of products from copper and its alloys accounts for the main source of the revenues of Walcownia Metali Nieżelaznych sp. z o.o. The main recipients for company are entities from outside the KGHM Polska Miedź S.A. The increase in 2010 of revenues from sales by 34% is due to the increase in copper prices.

### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.1. Basic products, merchandise and services (continued)

Medical services account for nearly 100% of the sales of „MCZ” S.A., of which sales to KGHM Polska Miedź S.A. account for approx. 17% of total revenues (occupational medicine services).

Mining machinery, steel constructions - ZANAM-LEGMET Sp. z o.o. is a significant supplier and service provider for the mining machinery and equipment of KGHM Polska Miedź S.A. The company produces machines designed to work in deep, non-methanic, non-ferrous metals ore and salt mines. Amongst the products produced by the company which determine its position are mining machines (loaders, haulers, drilling-bolting rigs and auxiliary machines) and conveyor belts. Around 84% of revenues from the sale of self-propelled mining machinery is from KGHM Polska Miedź S.A. ZANAM-LEGMET Sp. z o.o. is also a producer of steel constructions. Revenues in this regard account for around 20% of total revenues.

Ammonium perrhenate is the main product of KGHM Ecoren S.A. Its recipients are entities from outside the KGHM Polska Miedź S.A. Group. The share of revenues from the sale of ammonium perrhenate in total sales of this company amounted to 52% in 2010, and was unchanged versus the prior year. This product is used and purchased by companies which process it into metallic rhenium for the producers of alloys, which are used mainly in the aircraft and petrochemical industries. In 2010, despite the significant increase in the volume of sales of ammonium perrhenate by the company, revenues in this regard decreased by 13%, due to the decrease in prices. Another important product for KGHM Ecoren S.A. is construction aggregate, with production based on materials from the smelters of KGHM Polska Miedź S.A. Their share in the company's revenues from sales in 2010 amounted to PLN 26%, and increased versus the prior year by 8%.

Coal trade accounts for nearly 95% of the revenues from sales of WM „ŁABĘDY” S.A., earned mainly from entities outside the KGHM Polska Miedź S.A. Group. The substantial increase in revenues from sales in 2010 (by 61%) was due to an increased sales volume.

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

#### 3.2. Sales markets

##### Geographical structure of sales markets

Based on the analysis of the geographical structure of sales markets of the KGHM Polska Miedź S.A. Group the largest portion, i.e. 29% of revenues from the sales earned by the Group in 2010, came from the domestic market. The largest foreign recipients of the products, merchandise and services offered by Group companies are Germany – 22% of revenues from sales and China - 11% of revenues from sales.

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

**Table 12.** Group sales by market ('000 PLN)

|                 | 2009              | Structure %  | 2010              | Structure %  | Change 2009=100 |
|-----------------|-------------------|--------------|-------------------|--------------|-----------------|
| Poland          | 3 374 310         | 27.8         | 4 970 621         | 28.7         | 147.3           |
| Germany         | 2 053 935         | 16.9         | 3 739 356         | 21.6         | 182.1           |
| China           | 1 674 758         | 13.8         | 1 893 285         | 10.9         | 113.0           |
| United Kingdom  | 1 298 036         | 10.7         | 1 568 507         | 9.1          | 120.8           |
| France          | 752 682           | 6.2          | 581 027           | 3.4          | 77.2            |
| Czech Republic  | 563 983           | 4.7          | 1 156 340         | 6.7          | 205.0           |
| Hungary         | 240 215           | 2.0          | 412 392           | 2.4          | 171.7           |
| Austria         | 190 944           | 1.6          | 345 213           | 2.0          | 180.8           |
| Other countries | 1 971 047         | 16.3         | 2 625 849         | 15.2         | 133.2           |
| <b>Total</b>    | <b>12 119 910</b> | <b>100.0</b> | <b>17 292 590</b> | <b>100.0</b> | <b>142.7</b>    |

The largest increase in sales in terms of value was on the Polish and German markets.

In addition, during the analysed period, in comparison to 2009, the following was recorded:

- an increase by 105% of sales on the Czech market,
- an increase by over 80% of sales on the German and Austrian markets,
- an increase by 72% of sales on the Hungarian market,
- a decrease by 23% of sales on the French market.

##### Export sales and sales to the EU countries

Around 93% of revenues from Group sales for export and to European Union countries in 2010 were realised by the Parent Entity.

### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.2. Sales markets (continued)

The sales volume of copper and copper products for export and to European Union countries accounted for 74% of total copper sales. During the analysed period, the largest foreign recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and Italy.

Silver export sales and sales to European Union countries accounted for 97% of the total volume of silver sales. The largest foreign recipients of silver were the United Kingdom, Belgium, Germany and the USA.

Amongst the remaining Group entities, export sales and sales to European Union countries in 2010 were realised by:

- KGHM Kupferhandelsges.m.b.H. - company share in Group sales – 5%; the company sold copper mainly to the Austrian, Czech and Slovak markets,
- KGHM Metraco S.A. - company share in Group sales – 1.5%; the company mainly sold lead to the Czech Republic, Germany and the United Kingdom and copper sulphate to Germany.

#### Domestic sales

Sales of the Parent Entity on the domestic market in 2010 accounted for around 67% of sales of the entire Group. The sales volume of copper and copper products on the domestic market accounted for 26% of total copper sales. Silver sales on the domestic market accounted for 3% of the total volume of silver sold.

Significant share of the revenues of other companies in the Group revenues on the domestic market:

- DIALOG S.A. (10% share) – sale of telecom services,
- KGHM Metraco S.A. (5% share) – sale mainly of refined lead, copper and nickel sulphate and salt,
- WPEC w Legnicy S.A. (3% share) – sale of heat.

#### Suppliers to and customers of Group companies

In 2010 revenues from no single contracting party exceeded 10% of Group revenues.

There was no instance in 2010 of dependence by KGHM Polska Miedź S.A., as the entity realising the largest sales of the Group, on a single or multiple customers or suppliers. Customers whose share in revenues from sales of the Parent Entity exceeds 10% are Tele-Fonika Kable S.A. and MKM Mansfelder Kupfer und Messing GmbH, whose share in the revenues from sales of KGHM Polska Miedź S.A. are respectively 10.8% and 10.3%. These entities aren't related to KGHM Polska Miedź S.A.

The Parent Entity is a significant customer as well as supplier of most of the companies of the Group. KGHM Polska Miedź is a supplier i.e. to entities such as KGHM Kupferhandelsges.m.b.H., Walcownia Metali Nieżelaznych sp. z o.o., KGHM Metraco S.A. and KGHM Ecoren S.A.; and a customer i.e. for the companies KGHM CUPRUM sp. z o.o. – CBR, KGHM Metraco S.A., „MCZ” S.A., „Energetyka” sp. z o.o., CBJ sp. z o.o., POL-MIEDŹ TRANS Sp. z o.o., PeBeKa S.A., PHP „MERCUS” sp. z o.o., INOVA sp. z o.o., ZANAM-LEGMET Sp. z o.o. and TUW-CUPRUM.

Significant external suppliers and customers of the remaining Group companies:

- Telekomunikacja Polska S.A. – both a supplier to and customer of the services of DIALOG S.A.,
- Kompania Węglowa S.A. – a supplier of coal to „Energetyka” sp. z o.o. and WM „ŁABĘDY” S.A.,
- NFZ (National Health Fund) and ZUS – a customer of the medical services of „MCZ” S.A.,  
ZUK S.A., Uzdrowisko Połczyn S.A. „Uzdrowisko Cieplice” sp. z o.o.,  
(Social Insurance Institution)
- LOTOS Paliwa Sp. z o.o. – a supplier of fuel to POL-MIEDŹ TRANS Sp. z o.o.,
- STRABAG – a customer of construction aggregate from KGHM Ecoren S.A.,
- Rolls-Royce plc. – a customer of ammonium perrhenate from KGHM Ecoren S.A.,
- DROP S.A. – a supplier of copper scrap to KGHM Metraco S.A.

#### Market position of significant Group companies

##### KGHM Polska Miedź S.A. on the copper and silver markets

In 2010 global copper mine production amounted to 15 883 thousand tonnes (preliminary estimated data from CRU International Ltd). KGHM Polska Miedź S.A. produced 425 thousand tonnes of copper in concentrate, representing 2.7% of global production. Global production of refined copper, according to preliminary estimates by CRU International Ltd., amounted to 18 636 thousand tonnes. Refined copper production in KGHM Polska Miedź S.A. amounted to 547 thousand tonnes, representing 2.9% of global production.

During this same period global silver mine production amounted to 733 million troz (estimated data from GFMS Ltd). The company produced 38 million troz of silver in concentrate, representing 5.2% of global production of this metal.

### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.2. Sales markets (continued)

##### DIALOG S.A. on the domestic telecom services market

DIALOG S.A. operates in four segments of the electronic communications market:

- fixed-line voice telephony,
- DLISP – internet access, data transmission and connection leasing services,
- pay-tv services,
- mobile telephony services.

**Table 13.** Estimated share of DIALOG S.A. by market segment in 2010

| Segment of market / indicator | Polish market |
|-------------------------------|---------------|
| Fixed-line voice services     | 4.30%         |
| DLISP                         | 1.52%         |
| Pay-tv                        | 0.21%         |
| Mobile telephony              | 0.02%         |

*Source: internal estimates based on Audytyt „Trends and directions of growth in pricing policy 2010-2015” (July 2010, updated December 2010)*

With respect to fixed-line telephony services, in 2010 DIALOG S.A. operated on the basis of its own network infrastructure, and offered WLR services using the Telekomunikacja Polska S.A. (TP S.A.) network. In the case of voice services using its own network, the main competitors of DIALOG S.A. were Telekomunikacja Polska S.A. and CaTV networks. The company also competed with substitute voice services offered by mobile network operators (PTK Centertel/Orange, Polkomtel/Plus, PTC/Era, P4/Play). In the WLR sector, the main competitor for DIALOG S.A. was Netia. The company's national market share in this segment in 2010 increased in comparison to 2009.

In the DLISP segment the largest competitor for DIALOG S.A. in 2010 was TP S.A. In internet access services using its own infrastructure, the company also competed with large cable network operators, such as Vectra, Multimedia Polska and UPC, as well as local ISP networks (local internet suppliers). With respect to internet access services using the TP S.A. network (BSA), the largest competitor was Netia. With respect to data transmission services for businesses, the company mainly competed with operators such as TP S.A., Exatel, Netia and GTS Energis.

In the pay-tv segment DIALOG S.A., acting under the DIALOGmedia brand, competed with digital platform operators (such as Cyfrowy Polsat, Cyfra+) and large CaTV networks (such as Multimedia Polska, UPC, Vectra), and to a lesser degree with IPTV suppliers (TP S.A.). The share by value of the company in this segment in Poland in 2010 nearly doubled versus 2009 (during this period the segment itself increased in value by approx. 16%). This means that the growth of DIALOG S.A. in 2010 was visibly faster than both its chief competitors and the market as a whole.

In the mobile telephony segment, DIALOG S.A. operates as a virtual operator (MVNO) under the Diallo brand, providing voice services since the first quarter of 2010, and mobile Internet services since the fourth quarter of 2010. The company competes chiefly with four large operators with extensive infrastructure (PTK Centertel/Orange, Polkomtel/Plus, PTC/Era and P4/Play), and to a lesser extent with other MVNO operators (Cyfrowy Polsat). The share of the company in this segment is minimal, due to the fact that it is the largest telecom segment in Poland (the highest value and penetration of services), while 2010 also saw the market debut of Diallo services.

#### 3.3. Contracts of significance for the Group

In 2010 the Parent Entity entered into the following significant trade contracts.

**Trade contracts of KGHM Polska Miedź S.A.** (value of contracts based on data current at the time contract signed):

- contract for the sale of copper cathodes in 2010, entered into on 14 January 2010 between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH; the estimated value of this contract is USD 523 million (i.e. around PLN 1 460 million);
- contract for the sale of copper wire rod and oxygen-free copper rod, entered into on 20 January 2010 between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A.; the estimated value of this contract is from USD 479 million (i.e. around PLN 1 355 million) to USD 579 million (i.e. around PLN 1 638 million);
- contract for the sale of copper wire rod in the years 2010-2011 entered into on 4 May 2010 between KGHM Polska Miedź S.A. and nkt cables GmbH Cologne and its subsidiaries (i.e. nkt cables Warszawice Sp. z o.o., nkt cables Kladno s. r. o., nkt cables Velke Mezerici k.s., nkt cables Vrchlabi k.s, nkt cables a/s Asnaes); the estimated value of the contracts within this group is estimated to be from PLN 2 290 million to PLN 2 613 million;

### **3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)**

#### **3.3. Contracts of significance for the Group (continued)**

- contract for the supply of natural gas in the years 2012-2033, entered into on 30 July 2010 between KGHM Polska Miedź S.A. and PGNiG S.A.; the estimated value of this contract is around PLN 4 000 million;
- contract for the sale of copper cathodes in 2011, entered into on 3 November 2010 between KGHM Polska Miedź S.A. and China Minmetals Corporation; the estimated value of this contract is from USD 425 million (i.e. around PLN 1 202 million) to USD 850 million (i.e. around PLN 2 405 million);
- contract for the sale of silver in 2010, entered into on 29 December 2010 between KGHM Polska Miedź S.A., and HSBC Bank USA N.A. London Branch; the estimated value of this contract is PLN 60 million; this contract meets the criteria to be considered as significant together with other contracts from the last 12 months preceding its signing (the highest-value contract entered into during this period is the contract for silver sales in 2010 entered into on 20 January 2010 with an estimated value of PLN 1 195 215 thousand).

#### **Bond Issuance Program Agreement**

On 10 May 2010 a Bond Issuance Program Agreement was signed. The parties to the agreement are KGHM Polska Miedź S.A. as Issuer, Bank Pekao S.A. as Organiser, Issue Agent and Dealer, and PKO Bank Polski S.A. and Bank Handlowy in Warsaw S.A. as Co-Organisers, Sub-Agents and Dealers.

The Program provides for the possible multiple issuance of bearer bonds by KGHM Polska Miedź S.A., with maturity of from 30 days to 10 years. Bonds under the Program will be issued in Polish zloties, in respect of which the per-bond face value will be PLN 10 000, or a multiple of this amount. The issue price will be set during the Bond offer process. The maximum total amount of debt due to bonds from this Program may not exceed PLN 500 million.

The funds obtained from the issuance of Bonds will be allocated to finance the current activities of the company. The Agreement has an unspecified lifetime.

#### **Agreement with Abacus Mining & Exploration Corporation**

On 4 May 2010 the Parent Entity signed an Investment Agreement with Abacus Mining & Exploration Corp. ("Abacus") with its registered head office in Vancouver, regarding the formation of a joint venture to advance the Afton-Ajax copper-gold mining project located in British Columbia in Canada.

Realisation of the Investment Agreement required the agreement of the shareholders of Abacus. Consequently, the Parties agreed to the deadline of the second quarter of 2010 for the signing of the final agreement, though no later than 30 September 2010. An Annex to the Agreement dated 30 September 2010 extended the above-mentioned deadline to 12 October 2010.

In accordance with the Agreement (with Annex), on 12 October 2010 an Agreement was signed regarding entrance to a company under the name KGHM AJAX MINING INC. to advance the Afton-Ajax copper-gold ore mining project in Canada.

Based on the agreement, KGHM Polska Miedź S.A. acquired a 51% interest in the company KGHM AJAX MINING INC. formed together with Abacus Mining & Exploration Corp. through a cash contribution in the amount of USD 37 million. Abacus brought to KGHM AJAX MINING INC. all the rights it owns to the Afton-Ajax deposit. The cash will be used to carry out a Bankable Feasibility Study and for further exploration.

In accordance with the above agreement, KGHM Polska Miedź S.A. holds a call option on a further 29% in KGHM AJAX MINING INC., for an amount calculated as a multiple of USD 0.025 per pound of copper in 29% of the probable and proven industrial ore resources, though not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study, which will include the balance of industrial ore resources.

The Agreement also includes a commitment by KGHM Polska Miedź S.A. to arrange financing for the project CAPEX, in the amount of USD 535 million (the equivalent of PLN 1 585.8 million, per the average National Bank of Poland rate for USD/PLN from 31 December 2010). The commitment will arise at the moment of execution by KGHM of the call option on a further 29% in KGHM AJAX MINING INC.

If this option is not executed by KGHM, Abacus will have an exclusive call option for a period of 90 days on all of the shares belonging to KGHM Polska Miedź S.A. for an amount representing the equivalent of their fair market value, though not higher than USD 37 million. If Abacus decides not to acquire the shares from KGHM Polska Miedź S.A. within this timeframe, KGHM shall transfer, within 60 days, 2% of its shares in company KGHM AJAX MINING INC. to Abacus, increasing the share of this company to 51% for the amount of USD 1 451 thousand.

In accordance with the Technical report by Wardrop Engineering Inc. dated 29 July 2009, the project assumes annual copper production at the level of 50 thousand tonnes, and gold production at the level of 100 thousand ounces. A 23-year mine-life is predicted.

Detailed information on the measurement and recognition of options included in the agreement may be found in note 3.2 of the financial statements.

### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.3. Contracts of significance for the Group (continued)

##### Information on significant transactions entered into between related entities, under other than arm's length conditions

In 2010 the companies of the KGHM Polska Miedź S.A. Group did not enter into significant transactions between related entities under other than arm's length conditions.

#### 3.4. Capital expenditure

In 2010 the highest capital expenditure in the Group were incurred by the Parent Entity. The amount and structure of expenditures on property, plant and equipment by KGHM Polska Miedź S.A. is presented in the following table.

**Table 14.** Investment expenditures by KGHM Polska Miedź S.A. ('000 PLN)

|                                 | 2009             | 2010             | Change 2009=100 |
|---------------------------------|------------------|------------------|-----------------|
| Development-related investments | 513 195          | 742 932          | 144.8           |
| Replacement-related investments | 556 617          | 520 060          | 93.4            |
| <b>Total</b>                    | <b>1 069 812</b> | <b>1 262 992</b> | <b>118.1</b>    |

Major projects and facilities realised by KGHM Polska Miedź S.A. in 2010:

- **continued sinking of the SW-4 shaft** – since the investment began, 811 meters have been excavated,
- **Głogów Głęboki Przemysłowy** – 5.7 thousand meters of tunnels were dug (since 2005, 37.6 thousand meters of the planned 129.9 thousand meters of tunnels); with respect to preparatory work for the sinking of the GG-1 shaft, a freezing plate was executed along with 11 freezing openings,
- **ventilation and air conditioning equipment** – the main surface ventilation station of the SG-2 shaft was realised and the central air conditioning system was built,
- **replacement of floatation machinery** – suppliers were selected for all machines to be built in the years 2010-2013 (in 2010 replacement was completed of 14 floatation machines and construction was begun on others),
- **investments related to developing the infrastructure of the excavation sections of the mines** - equipping the mines, investments in power and communications equipment and general mine infrastructure
- with respect to **development of a 4th Doerschel furnace**, an agreement was signed to receive EU financing for the project, with renovation of the furnace completed together with installations and associated equipment – completion of the project will occur in the first half of 2011,
- a project was realised called **„Development of the Sulphuric Acid Plant at the Głogów-I smelter”**,

Significant investments realised by the remaining companies of the Group in 2010:

**DIALOG S.A.** – development of telecommunications infrastructure – expenditures incurred: PLN 49 606 thousand, of which: realisation of a PON optical network (PLN 14 453 thousand), IPTV - digital interactive television (PLN 8 325 thousand),

**Interferie Medical SPA Sp. z o.o.** – construction of the hotel “Medical SPA” in Świnoujście - expenditures incurred: PLN 26 473 thousand,

**Zagłębie Lubin S.A.** – construction of a football stadium - expenditures incurred: PLN 12 832 thousand,

**POL-MIEDŹ TRANS Sp. z o.o.** – purchase of electrical locomotives - expenditures incurred: PLN 12 382 thousand,

**PeBeKa S.A.** – purchase of heavy mining machinery - expenditures incurred: PLN 17 250 thousand, purchase of other machinery and equipment - expenditures incurred: PLN 8 990 thousand,

**„Energetyka” Sp. z o.o.** – construction of a boiler - expenditures incurred: PLN 7 055 thousand.

#### 3.5. Research and Development

##### KGHM Polska Miedź S.A.

R&D work in KGHM Polska Miedź S.A. is closely connected to the company's strategy and is aimed at development and growth of the core business, diversifying activities and supporting the development of KGHM.

Total expenditures on research and development in the Parent Entity in 2010 amounted to PLN 6 252 thousand and increased versus the prior year by PLN 1 978 thousand.

External funding for R&D work in 2010 in KGHM Polska Miedź S.A. and the development of feasibility studies and analyses in R&D amounted in total to PLN 18 474 thousand. This amount was slightly higher in comparison to expenditures incurred in 2009, by PLN 2 333 thousand.

### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.5 Research and Development (continued)

R&D work is mainly financed by the company's internal funds. In certain cases the company makes use of public funds. In 2010 KGHM Polska Miedź S.A. signed an agreement with the Polish Agency for Enterprise Development on financing from the funds of the European Regional Development Fund for an R&D project titled „Development of mining technology through the use of an ACT complex by KGHM”. The total amount granted was PLN 39 560 thousand, representing 32% of total planned expenditures on this project. Total external and internal expenditures incurred by KGHM Polska Miedź S.A. on this project in 2010 amounted to PLN 8 171 thousand. External expenditures for R&D amounted to PLN 1 712 thousand. It is planned that the R&D portion of this project will be realised by 2013. In the years 2014 and 2015 implementation of this project is planned through investments.

Public funds are also being used in part to finance an R&D project called „Technology for hydrometallurgical treatment of half-finished products and copper concentrates by the Lubin Ore Enrichment Plant”, which is being realised by the Chemical Department of the Wrocław University of Technology. In this project, KGHM Polska Miedź S.A. is acting as an industrial partner and an end-user of the solutions developed. In addition, in cooperation with the Wrocław University of Technology, an application was prepared for the Ministry of Education and Higher Learning to realise a project called „Adaptation and implementation of Lean methodology in copper mines”. This project was provisionally accepted, and KGHM Polska Miedź S.A. received a grant in the amount of PLN 800 thousand.

The company has also joined academic-industrial consortiums with respect to a strategic research program called „Improving safety for mine workers” initiated by the National Centre for Research and Development. Applications have been prepared for R&D projects called „Development of a new table of natural threats in underground mines with academic review” and „Development of principles for the employment of workers in environmentally hazardous conditions in underground mines”, which has received positive formal evaluation.

Examples of active participation in domestic and international sector projects in terms of R&D are the participation of KGHM in academic-industrial projects by the Centre in domestically-applied geological research called „Geocentrum Polska EFRB (EXPLOSIVE - FREE ROCK BREAKAGE INITIATIVE), involving the search for alternative methods for explosion-free breakage of hard rock, and the initiative MIFU (MINE OF THE FUTURE), i.e. designing model future mines. KGHM Polska Miedź S.A. is also engaged in applied research and development work with respect to the seventh framework program of the EU.

Important projects realised in mining:

- work on developing technology for the mechanical mining of rock in the mines of KGHM Polska Miedź S.A.,
- attempts to utilise combines for drift work,
- improving safety during mining operations under conditions of seismic and roof-collapse threats,
- research into the possibility of controlling the calorific value of concentrates sent to the smelters,
- preliminary analysis and research with respect to the implementation of technology enabling the achievement of energy savings in the core business of the company,
- research with respect to the safe operation and expansion of the capacity of the Żelazny Most mine waste treatment tailings pond.

Important projects realised in smelting:

- work on a spatial program concept for the Pyrometallurgy Modernisation Program, including construction of an installation for the pyrometallurgical elimination of coal from concentrate,
- research into optimising the flash furnace process by applying a single concentrate burner in the flash furnace at the Głogów smelter,
- research into the composition of purchased copper-bearing batch materials in terms of ensuring the current high level of quality of electrolytic copper,
- minimising the impact of the company's smelters on the environment.

Amongst the main directions in the search for innovative technology in future years will be the following:

- research into developing mining and drift development technology in the mines of KGHM Polska Miedź S.A. utilising mining complexes,
- development of modified and/or new technology for mining deep deposits,
- research into improving mine work safety under conditions of seismic and roof-collapse threats,
- searching for possibilities to reduce production costs, to improve the use of machinery and equipment, the consumption of materials and energy, and better organisation of work,
- development of processing procedures in terms of increasing the amount of recovered useful elements aimed at reducing the costs of this procedure,
- research into optimising flash furnace technology,
- minimising the impact of the company's smelters on the environment.

### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.5. Research and Development (continued)

##### KGHM Ecoren S.A.

The activities of this company with respect to R&D in 2010 focused on three basic directions of development:

- the recovery of rhenium from acidic waste and alloys,
- the management of industrial waste to recover metals and produce construction materials,
- the management of post-user waste and the production of metals and their compounds.

##### KGHM Metraco S.A.

In 2010 the company carried out work on the utilisation of sulphuric acid for the production of magnesium sulphate, which is widely used in industry (mainly for the production of fertilisers).

##### „Energetyka” sp. z o.o.

In 2010 the company carried out R&D work with respect to wind power on the grounds of the Głogów smelter in Żukowice and in the vicinity of Radwanice. At the current stage, in Żukowice, research is being carried out wind strength, whose results will form the basis for deciding on whether to begin investing, the type of wind turbines and the strength of the wind farm.

#### 3.6. Environmental protection

##### Parent Entity

KGHM Polska Miedź S.A., as one of the largest enterprises in Lower Silesia, may not and does not wish to avoid its responsibility to the environment in which we live. The idea of balanced growth, and in particular respect for the environment, is an important element of the strategy of the company. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations serving the environment, both those built in the past as well as new investments in this area. In 2010 the company spent PLN 78 969 thousand on the realisation of projects related to environmental protection.

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2010 amounted to PLN 26 707 thousand. The amount of fees paid was similar to that paid in 2009, despite the annual increase in fees to match inflation.

In 2010 the largest fees paid by the Parent Entity were for waste discharge: PLN 17 876 thousand, including PLN 17 872 thousand for the drainoff of excess water from the Żelazny Most waste treatment tailings pond.

KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits at the Głogów smelter,
- an installation titled The Biechów industrial waste storage facility at the Głogów smelter,
- an installation titled The Biechów II industrial waste storage facility at the Głogów smelter,
- an installation for the production of refined lead at the Legnica smelter,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electrical processes, the tailings waste facility „Polowice”, a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica smelter,
- an installation for the melting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Plant,
- an installation for the storage of tailings from the floatation of copper ore at the Tailings Plant, and
- an installation for the neutralisation of sulphuric acid waste at the Ore Enrichment Plants.

The remaining Divisions of the Parent Entity possess environmental sector administrative decisions.

In 2010 the procedure was continued to acquire a permit by the Tailings Plant to operate a waste treatment facility in accordance with the law on mining waste. Based on this law, the Żelazny Most tailings pond is a mining waste treatment facility and by the end of April 2012 the company is required to adapt its status to the provisions of this law.

In performance of the requirements of Regulation (EC) no. 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), in November 2010 the company completed the process of registering 7 end substances: copper, silver, lead (crude, refined and bismuth), copper sulphate, nickel sulphate, end slag (shaft and granulate), sulphuric acid and 20 indirect substances. In accordance with the principles of this Regulation: „one substance – one document” European producers and importers have cooperated in the mutual completion of required documentation for so-called leading registered entities. Next, each company had to register individually. To meet these requirements, KGHM Polska Miedź S.A. joined six international consortiums. The costs of meeting the requirements of the REACH Regulation by KGHM in 2010 amounted in total to PLN 1 500 thousand.



### 3. Economic activities of the KGHM Polska Miedź S.A. Group (continued)

#### 3.6. Environmental protection (continued)

KGHM Polska Miedź S.A. has achieved a high level of technical solutions which enable the operation of installations in accordance with prevailing environmental law. In the near future it will be necessary to keep up with changes in EU law with respect to environmental protection in order to make the process of production compliant with the law. In addition, it will be necessary to modernise our installations in such a way as to increase production while minimising environmental impact. Amongst the most important investments planned in the near term are the following:

- implementation of a program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones,
- adaptation of administrative decisions possessed to legal changes with respect to air pollution,
- preparing the company to participate in the European system for trading CO<sub>2</sub> emissions,
- obtaining a decision on environmental parameters for enterprises involved in the underground excavation of ores,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- continued modernisation of atmospheric protection equipment at the Głogów II smelter – the electric furnace dedusting installation,
- completing construction of a concentrate warehouse at the Głogów II smelter,
- completing construction of a fourth Doerschel furnace together with infrastructure in the lead section of the Głogów smelter to increase the utilisation of lead-bearing waste,
- work related to the restoration of land following liquidation of a shaft at the Polkowice–Sieroszowice mine.
- registration by 1 June 2018 with respect to REACH: selenium and gold as end substances and silver chloride and copper chloride as indirect substances,
- detailed analysis of new ECHA guidelines, which tighten permissible conditions for indirect products.

#### Other Group companies

The remaining companies of the KGHM Polska Miedź S.A. Group operate while maintaining a balanced impact on the natural environment. They continually update the required permits, incur those expenses required by law for use of the environment, and undertake actions aimed at restricting their environmental impact.

The highest environmental fees were incurred in 2010 by the following companies:

- „Energetyka” sp. z o.o. - PLN 2 921 thousand,
- POL-MIEDŹ TRANS Sp. z o.o. - PLN 268 thousand.

Fees incurred by „Energetyka” sp. z o.o. are primarily in respect of fees for the intake of water and the discharging of sewage (PLN 1 824 thousand) and for the emission of atmospheric pollutants (PLN 953 thousand). Among the significant actions taken by the company in respect of environmental protection are the growing of biofuel willows. The total area planted by „Energetyka” sp. z o.o. with biofuel willows at the end of 2010 amounted to 56.8 hectares.

The fees incurred by POL-MIEDŹ TRANS Sp. z o.o. are mainly in respect of the emission of atmospheric pollutants.

The companies of the Group also engage in minor activities aimed at environmental protection, including environmental monitoring, waste segregation, waste recovery and the modernisation of installations.

#### 4. Current and projected financial position

##### 4.1. Assets

At the end of 2010, total assets increased versus the prior year by PLN 6 286 903 thousand (42%).

The most important changes in assets primarily involved cash and cash equivalents, receivables, property, plant and equipment, and available-for-sale financial assets.

**Table 15.** Assets ('000 PLN)

|                                     | 31.12.2009<br>restated | 31.12.2010        | Structure<br>% | Change<br>2009=100 |
|-------------------------------------|------------------------|-------------------|----------------|--------------------|
| <b>Non-current assets</b>           | <b>9 800 634</b>       | <b>12 414 423</b> | <b>58.6</b>    | <b>126.7</b>       |
| Property, plant and equipment       | 7 747 112              | 8 553 634         | 40.4           | 110.4              |
| Intangible assets                   | 218 124                | 523 874           | 2.5            | 240.2              |
| Investment property                 | 17 164                 | 59 760            | 0.3            | x3.5               |
| Investments in associates           | 1 315 663              | 1 431 099         | 6.7            | 108.8              |
| Deferred tax assets                 | 347 395                | 592 947           | 2.8            | 170.7              |
| Available-for-sale financial assets | 19 412                 | 751 605           | 3.5            | x38.7              |
| Held-to-maturity investments        | 67 144                 | 84 157            | 0.4            | 125.3              |
| Derivatives                         | 58 034                 | 403 839           | 1.9            | x7.0               |
| Trade and other receivables         | 10 586                 | 13 508            | 0.1            | 127.6              |
| <b>Current assets</b>               | <b>5 089 786</b>       | <b>8 762 900</b>  | <b>41.4</b>    | <b>172.2</b>       |
| Inventories                         | 2 072 434              | 2 222 321         | 10.5           | 107.2              |
| Trade and other receivables         | 1 531 341              | 2 730 658         | 12.9           | 178.3              |
| Current corporate tax receivables   | 9 329                  | 4 511             | -              | 48.4               |
| Available-for-sale financial assets | 8 976                  | 415 662           | 2.0            | x46.3              |
| Held-to-maturity investments        | 580                    | 4 129             | -              | x7.1               |
| Derivatives                         | 263 375                | 297 584           | 1.4            | 113.0              |
| Cash and cash equivalents           | 1 197 077              | 3 086 957         | 14.6           | 257.9              |
| Non-current assets held for sale    | 6 674                  | 1 078             | -              | 16.2               |
| <b>TOTAL ASSETS</b>                 | <b>14 890 420</b>      | <b>21 177 323</b> | <b>100.0</b>   | <b>142.2</b>       |

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

Property, plant and equipment was the largest item in assets. At the end of 2010 they accounted for 40% of total assets. Their value increased in 2010 by PLN 806 522 thousand (10%). The largest capital expenditures were incurred by the Parent Entity. They amounted to PLN 1 262 992 thousand, and were twice as much as depreciation on property, plant and equipment and amortisation of intangible assets. The most important investments realised were the construction of the SW-4 shaft (PLN 392 400 thousand), and of the Głogów Głęboki-Przemysłowy shaft (PLN 208 329 thousand) as well as ventilation and air conditioning equipment in the mines (PLN 215 643 thousand).

Investments in associates are represented by the shares of Polkomtel S.A., accounted for using the equity method. Their value at the end of the reporting period increased by PLN 115 436 thousand.

The value of assets available for sale (non-current and current) increased during 2010 by PLN 1 138 879 thousand. This item is mainly composed of shares of listed companies and of participation units in investment funds.

Current assets amounted to PLN 8 762 900 thousand and were nearly three times as much as current liabilities. In the structure of current assets the highest-value item was cash and cash equivalents, whose value at the end of 2010 increased by PLN 1 889 880 thousand (158%). Such a substantial increase was due to the continued positive situation in 2010 on the metals markets and to lower expenses due to the dividend paid to shareholders of the Parent Entity. Unallocated funds were mainly invested in short-term financial assets with a maturity up to three months, and will be used to finance the investment program.

The second most important item in current assets is current receivables in the amount of PLN 2 730 658 thousand, including trade receivables of PLN 2 043 788 thousand. Current trade receivables increased at the end of the reporting period by PLN 777 419 thousand, due to the increase in copper prices, which in turn increased the value of sales.

The increase at the end of 2010 of inventories by 7% was in respect of half-finished products and work in progress, and was mainly due to the higher valuation of copper-bearing batch materials and increase in the amount of production of silver in progress.

Assets due to derivatives (current and non-current) amounted to PLN 701 423 thousand, which means a more than doubled increase in comparison to the end of 2009.

#### 4. Current and projected financial position (continued)

##### 4.2. Equity and liabilities

In 2010 the basic source for financing assets was equity, exceeding by 20% the amount of non-current assets. The share of equity in total assets was 70%.

**Table 16.** Equity and liabilities ('000 PLN)

|                                                                 | 31.12.2009<br>restated | 31.12.2010        | Structure<br>% | Change<br>2009=100 |
|-----------------------------------------------------------------|------------------------|-------------------|----------------|--------------------|
| <b>EQUITY</b>                                                   | <b>10 575 339</b>      | <b>14 891 779</b> | <b>70.3</b>    | <b>140.8</b>       |
| Share capital                                                   | 2 000 000              | 2 000 000         | 9.4            | 100.0              |
| Accumulated other comprehensive income                          | 126 301                | 209 821           | 1.0            | 166.1              |
| Retained earnings                                               | 8 371 956              | 12 440 852        | 58.8           | 148.6              |
| <b>Equity attributable to shareholders of the Parent Entity</b> | <b>10 498 257</b>      | <b>14 650 673</b> | <b>69.2</b>    | <b>139.6</b>       |
| <b>Non-controlling interest</b>                                 | <b>77 082</b>          | <b>241 106</b>    | <b>1.1</b>     | <b>x3.1</b>        |
| <b>Non-current liabilities</b>                                  | <b>2 012 477</b>       | <b>2 882 705</b>  | <b>13.6</b>    | <b>143.2</b>       |
| Trade and other payables                                        | 63 316                 | 121 560           | 0.6            | 192.0              |
| Borrowings and finance lease liabilities                        | 120 854                | 173 652           | 0.8            | 143.7              |
| Derivatives                                                     | 61 354                 | 711 580           | 3.4            | x11.6              |
| Deferred tax liabilities                                        | 56 182                 | 133 392           | 0.6            | 237.4              |
| Liabilities due to employee benefits                            | 1 183 350              | 1 221 794         | 5.8            | 103.2              |
| Provisions for other liabilities and charges                    | 527 421                | 520 727           | 2.4            | 98.7               |
| <b>Current liabilities</b>                                      | <b>2 302 604</b>       | <b>3 402 839</b>  | <b>16.1</b>    | <b>147.8</b>       |
| Trade and other payables                                        | 1 575 896              | 1 994 579         | 9.4            | 126.6              |
| Borrowings and finance lease liabilities                        | 219 816                | 96 162            | 0.5            | 43.7               |
| Current corporate tax liability                                 | 79 104                 | 672 152           | 3.2            | x8.5               |
| Derivatives                                                     | 273 717                | 482 118           | 2.3            | 176.1              |
| Liabilities due to employee benefits                            | 106 704                | 110 912           | 0.5            | 103.9              |
| Provisions for other liabilities and charges                    | 47 367                 | 46 916            | 0.2            | 99.0               |
| <b>TOTAL LIABILITIES</b>                                        | <b>4 315 081</b>       | <b>6 285 544</b>  | <b>29.7</b>    | <b>145.7</b>       |
| <b>TOTAL EQUITY AND LIABILITIES</b>                             | <b>14 890 420</b>      | <b>21 177 323</b> | <b>100.0</b>   | <b>142.2</b>       |

Equity increased during 2010 by PLN 4 316 440 thousand (41%), primarily due to the profit for 2010 in the amount of PLN 4 714 863 thousand and to the dividend paid to shareholders of the Parent Entity in the amount of PLN 600 000 thousand. The dividend paid in 2009 was substantially higher and amounted to PLN 2 336 000 thousand.

At the end of 2010 total liabilities increased versus the prior year by PLN 1 970 463 thousand.

The largest item was trade (non-current and current) and other payables in the amount of PLN 2 116 139 thousand, comprised of:

- trade payables excluding investment liabilities in the amount of PLN 668 250 thousand (an increase by 42% versus the end of 2009),
- payables due to the purchase and construction of fixed assets and intangible assets in the amount of PLN 233 632 thousand (an increase by 46% versus the end of 2009),
- other payables in the amount of PLN 1 214 257 thousand, including taxation and social security, PLN 307 039 thousand, and accruals, PLN 377 981 thousand, mainly respecting the annual bonus paid in the Parent Entity after the approval of the Financial Statements.

A significant item is liabilities due to employee benefits in the total amount of PLN 1 332 706 thousand, of which:

- the coal equivalent payment PLN 764 060 thousand,
- jubilee bonuses PLN 298 001 thousand,
- retirement and disability benefits PLN 220 300 thousand.

Liabilities due to derivatives amounted in total to PLN 1 193 698 thousand, and during the year more than tripled, mainly with respect to hedging instruments.

The prevailing part of provisions for other liabilities (PLN 567 643 thousand - total non-current and current) is a revalued provision for decommissioning costs of mines and other facilities (PLN 515 877 thousand).

#### 4. Current and projected financial position (continued)

##### 4.3. Borrowings

Total debt of the Group due to borrowings at the end of 2010 amounted to PLN 228 033 thousand, and decreased versus 2009 by PLN 71 252 thousand, i.e. by 24%.

**Table 17.** Borrowings in the Group ('000 PLN)

|                               | 31.12.2009     | 31.12.2010     | Change<br>2009=100 |
|-------------------------------|----------------|----------------|--------------------|
| <b>Non-current borrowings</b> | <b>90 055</b>  | <b>144 249</b> | <b>160.2</b>       |
| of which:                     |                |                |                    |
| – bank loans                  | 86 340         | 141 829        | 164.3              |
| – other loans                 | 3 715          | 2 420          | 65.1               |
| <b>Current borrowings</b>     | <b>209 230</b> | <b>83 784</b>  | <b>40.0</b>        |
| of which:                     |                |                |                    |
| – bank loans                  | 204 442        | 81 901         | 40.1               |
| – other loans                 | 4 788          | 1 883          | 39.3               |
| <b>Total</b>                  | <b>299 285</b> | <b>228 033</b> | <b>76.2</b>        |

In 2010 the Parent Entity did not make use of external sources of financing in the form of bank loans.

At 31 December 2010, KGHM Polska Miedź S.A. also did not use financing in the form of loans. During 2010, repayment was made on a loan received on 21 November 2003 from the Regional Fund for Environmental Protection and Water Management in Wrocław (a total of PLN 3 000 thousand in instalments paid on principal, of which on 16 September 2010 the final instalment was paid on the loan in the amount of PLN 1 000 thousand).

Significant bank loans drawn in 2010 by the remaining Group companies:

##### DIALOG S.A.

- a loan in the total amount of PLN 150 000 thousand (of which PLN 50 000 thousand for the financing of existing debt), drawn from Bank Pekao S.A., with repayment by May 2013; liabilities in this regard at the end of 2010 amounted to PLN 50 071 thousand,

##### ZANAM-LEGMET Sp. z o.o.

- a bank overdraft in the amount of PLN 30 000 thousand, drawn from Raiffeisen Bank Polska S.A., with repayment by June 2012; liabilities in this regard at the end of 2010 amounted to PLN 16 694 thousand,
  - a bank overdraft in the amount of PLN 10 000 thousand, drawn from BRE Bank SA, with repayment by June 2011; liabilities in this regard at the end of 2010 amounted to PLN 9 919 thousand,
- (this line of credit refers to loan agreements from prior years amended in 2010),

##### KGHM Metraco S.A.

- a bank overdraft in the amount of PLN 13 000 thousand, drawn from Deutsche Bank Polska S.A., with repayment by July 2011; liabilities in this regard at the end of 2010 amounted to PLN 0 thousand,
  - a bank overdraft in the amount of PLN 25 000 thousand (with a credit limit of up to 1 000 thousand USD and EUR), drawn from Bank Pekao S.A., with repayment by July 2011; liabilities in this regard at the end of 2010 amounted to PLN 0 thousand,
- (this line of credit refers to loan agreements from prior years amended in 2010),

##### POL-MIEDŹ TRANS Sp. z o.o.

- a bank overdraft in the amount of PLN 20 000 thousand, drawn from Kredyt Bank S.A., with repayment by September 2011; liabilities in this regard at the end of 2010 amounted to PLN 5 162 thousand,
- an investment bank loan in the amount of PLN 20 000 thousand, drawn from Kredyt Bank S.A., with repayment by August 2021; liabilities in this regard at the end of 2010 amounted to PLN 9 306 thousand.

##### „Energetyka” sp. z o.o.

- a multi-purpose bank loan (including bank overdraft and renewable portions) in the amount of PLN 30 000 thousand, drawn from PKO BP S.A., with repayment by October 2013; liabilities in this regard at the end of 2010 amounted to PLN 12 467 thousand (this line of credit refers to loan agreement from prior years amended in 2010),

#### 4. Current and projected financial position (continued)

##### 4.3. Borrowings (continued)

###### PHP „MERCUS” sp. z o.o.

- a bank overdraft in the amount of PLN 12 000 thousand, drawn from BZ WBK S.A., with repayment by June 2011; liabilities in this regard at the end of 2010 amounted to PLN 4 334 thousand,
- a bank overdraft in the amount of PLN 6 000 thousand, drawn from ING Bank Śląski S.A., with repayment by June 2011; liabilities in this regard at the end of 2010 amounted to PLN 4 677 thousand,
- a bank overdraft in the amount of PLN 4 000 thousand, drawn from Bank Millennium S.A., with repayment by July 2011; liabilities in this regard at the end of 2010 amounted to PLN 3 517 thousand,

(this line of credit refers to loan agreements from prior years amended in 2010),

###### KGHM LETIA S.A.

- an investment bank loan to PLN 15 843 thousand, drawn from Bank BPS S.A., with repayment by June 2026; liabilities in this regard at the end of 2010 amounted to PLN 1 253 thousand,

###### Interferie Medical SPA Sp. z o.o.

- an investment bank loan in an amount up to the equivalent of EUR 75 000 thousand, drawn from Bank Pekao S.A., with repayment by December 2021; liabilities in this regard at the end of 2010 amounted to PLN 0 thousand,
- a renewable VAT bank loan in the amount of PLN 6 000 thousand, drawn from Bank Pekao S.A., with repayment by December 2011; liabilities in this regard at the end of 2010 amounted to PLN 0 thousand, (bank loans drawn to finance construction of a hotel in Świnoujście),

###### BIPROMET S.A.

- a multi-purpose, multi-currency open credit line up to the equivalent of PLN 17 000 thousand, drawn from Bank Pekao S.A., with repayment by May 2010; liabilities in this regard at the end of 2010 amounted to PLN 0 thousand (this line of credit refers to loan agreement from prior years amended in 2010).

##### **Owner loans granted**

At 31 December 2009 the balance of loans granted by KGHM Polska Miedź S.A. to the Group subsidiaries Zagłębie Lubin S.A. and „Energetyka” sp. z o.o. amounted to PLN 76 814 thousand. At 31 December 2010 the balance of receivables due to loans granted decreased to PLN 45 499 thousand due to:

- full repayment on loans granted to Zagłębie Lubin S.A.

On 28 April 2010, Zagłębie Lubin S.A. made full early repayment on a loan in the amount of PLN 7 000 thousand. The loan was granted on 15 April 2008 and, under the agreement, was to be fully repaid by 31 December 2010.

On 27 December 2010, Zagłębie Lubin S.A. made full early repayment on a loan in the amount of PLN 19 132 thousand. The loan was granted on 9 July 2009 and, under the agreement, was to be repaid by 31 December 2011.

- partial repayment of a loan granted to „Energetyka” sp. z o.o.

On 21 December 2009, the Parent Entity granted „Energetyka” sp. z o.o. a loan in the amount of PLN 50 300 thousand. Interest on the loan is based on WIBOR 1M + a margin of 2.77%, with interest payable monthly. Repayment is in forty equal instalments in the amount of PLN 1 257.5 thousand payable at the end of each quarter, beginning from 31 March 2010. At 31 December 2010 the balance of the loan granted was PLN 45 499 thousand.

In addition, on 29 June 2010, KGHM Polska Miedź S.A. granted a short-term loan to the subsidiary KGHM Ecoren S.A. in the amount of PLN 40 000 thousand. The full amount of the loan was granted on 29 June 2010. According to agreement, the loan was fully repaid together with interest on 30 July 2010.

In 2010, subsidiaries of KGHM Polska Miedź S.A. granted loans to related companies:

- on 21 January 2010, „Energetyka” sp. z o.o. granted to the subsidiary „BIOWIND” sp. z o.o. a loan in the amount of PLN 100 thousand; interest based on WIBOR 12M + a margin of 1.5%; maturity falls on 31 December 2011;

at 31 December 2010, the total amount of loans granted by „Energetyka” sp. z o.o. to „BIOWIND” sp. z o.o. amounted to PLN 300 000.00;

- on 21 May 2010, Fundusz Hotele 01 Sp. z o.o. granted to the company INTERFERIE S.A. a loan in the amount of PLN 2 000 thousand; interest based on WIBOR 3M + a margin of 3%; maturity falls on 20 August 2010. On 10 August 2010 an annex to the loan agreement was signed, based on which maturity was deferred to 20 November 2010; the loan was repaid on time;

#### 4. Current and projected financial position (continued)

##### 4.3. Borrowings (continued)

- in 2010, WM „ŁABĘDY” S.A. granted to Walcownia Metali Nieżelaznych Sp. z o.o. loans in the total amount of PLN 3 500 thousand; annual interest on the loan was from 5% to 6%; maturity on the final loan fell on 28 December 2010. All of the loans were repaid by the end of 2010.

Liabilities due to borrowings (including owner) of selected Group companies at the end of 2010 are shown in the following table. Liabilities due to borrowings from the remaining Group companies at the end of 2010 did not exceed PLN 5 000 thousand.

**Table 18.** Borrowings (including owner) of selected Group companies at 31 December 2010 ('000 PLN)

|                                     | <b>31 December<br/>2010</b> |
|-------------------------------------|-----------------------------|
| <b>„Energetyka” sp. z o.o.</b>      | <b>102 275</b>              |
| – bank loans                        | 56 753                      |
| – other loans                       | 45 522                      |
| <b>DIALOG S.A.</b>                  | <b>50 071</b>               |
| – bank loans                        | 50 071                      |
| – other loans                       | -                           |
| <b>ZANAM-LEGMET Sp. z o.o.</b>      | <b>26 612</b>               |
| – bank loans                        | 26 612                      |
| – other loans                       | -                           |
| <b>KGHM Ecoren S.A.</b>             | <b>22 106</b>               |
| – bank loans                        | 18 725                      |
| – other loans                       | 3 381                       |
| <b>KGHM CUPRUM sp. z o.o. - CBR</b> | <b>20 673</b>               |
| – bank loans                        | 20 673                      |
| – other loans                       | -                           |
| <b>POL-MIEDŹ TRANS Sp. z o.o.</b>   | <b>14 802</b>               |
| – bank loans                        | 14 468                      |
| – other loans                       | 334                         |
| <b>PHP „MERCUS” sp. z o.o.</b>      | <b>12 528</b>               |
| – bank loans                        | 12 528                      |
| – other loans                       | -                           |
| <b>INTERFERIE S.A.</b>              | <b>5 456</b>                |
| – bank loans                        | 5 456                       |
| – other loans                       | -                           |

Interest on the majority of loans drawn by Group companies is based on variable interest rates. In the case of borrowings denominated in PLN, most interest is based on the reference rate WIBOR 1M plus a loan margin dependent on the creditworthiness of the borrowing entities, within a range of 1% to 4%, with interest payable monthly. Interest on loans denominated in EUR is mainly based on EURIBOR 1M plus a loan margin of up to 2%.

##### Financial guarantees granted

On 8 July 2010, INTERFERIE S.A., Interferie Medical SPA Sp. z o.o. and Bank Polska Kasa Opieki S.A. signed an agreement of support, based on which INTERFERIE S.A. provided a guarantee to the bank of the realisation of all cash liabilities of the borrower, which are or could arise due to the bank loan agreement signed by Interferie Medical SPA Sp. z o.o. and the bank on 8 July 2010 (to finance construction of a hotel in Świnoujście), as described above.

Based on the signed agreement, INTERFERIE S.A. voluntarily submits to execution towards the bank due to all liabilities and creditors due to bank loans, whose execution or repayment may effectively be demanded by the bank from INTERFERIE S.A. in the maximum amount: the PLN equivalent of EUR 26 700 thousand in respect of the Investment Bank Loan and PLN 9 000 thousand in respect of the VAT bank loan.

#### 4. Current and projected financial position (continued)

##### 4.4. Payments to subsidiaries

In 2010, KGHM Polska Miedź S.A. granted returnable payments to capital to two subsidiaries, in the total amount of PLN 6 846 thousand.

###### KGHM CUPRUM sp. z o.o. – CBR

In August and November 2010, the company was granted two returnable payments to capital in the total amount of PLN 5 351 thousand, for the purchase of land related to the construction of a conference-hotel centre CUPRUM III in Wrocław.

In June 2010, KGHM CUPRUM sp. z o.o. – CBR returned to KGHM Polska Miedź S.A. a payment of PLN 1 500 thousand, granted to the company in 2008 to finance the first stage of exploratory work in the Weisswasser region.

###### CBJ sp. z o.o.

In July 2010, the company was granted a returnable payment to reserve capital in the amount of PLN 1 495 thousand, payable in 5 instalments in the period 2010-2012. The returnable payment was aimed at the financing by the company of the purchase and implementation of an integrated IT system.

##### 4.5. Contingent assets and liabilities

At 31 December 2010, contingent assets amounted to PLN 291 180 thousand and related to disputed State budget issues, guarantees received, promissory note receivables and projects and inventions.

Contingent liabilities at the end of 2010 amounted to PLN 236 630 thousand, including due to:

- guarantees granted PLN 32 897 thousand,
- promissory note payables PLN 80 930 thousand,
- disputed issues, pending court proceedings PLN 16 226 thousand,
- preventive safety measures in respect of mine-related damage PLN 2 475 thousand,
- liabilities due to projects and inventions, and other unrealised contracts PLN 104 098 thousand.

##### 4.6. Statement of comprehensive income

**Table 19.** Consolidated statement of comprehensive income (‘000 PLN)

|                                                                         | <b>2009<br/>restated</b> | <b>2010</b>      | <b>Change<br/>2009=100</b> |
|-------------------------------------------------------------------------|--------------------------|------------------|----------------------------|
| Sales                                                                   | 12 119 910               | 17 292 590       | 142.7                      |
| Cost of sales                                                           | (7 923 233)              | (9 612 905)      | 121.3                      |
| <b>Gross profit</b>                                                     | <b>4 196 677</b>         | <b>7 679 685</b> | <b>183.0</b>               |
| Selling costs                                                           | (230 159)                | (251 255)        | 109.2                      |
| Administrative expenses                                                 | (783 444)                | (738 722)        | 94.3                       |
| Other operating income                                                  | 495 572                  | 653 917          | 132.0                      |
| Other operating costs                                                   | (999 308)                | (1 798 287)      | 180.0                      |
| <b>Operating profit</b>                                                 | <b>2 679 338</b>         | <b>5 545 338</b> | <b>207.0</b>               |
| Finance costs - net                                                     | (45 259)                 | (48 330)         | 106.8                      |
| Share of profits of associates<br>accounted for using the equity method | 239 463                  | 280 542          | 117.2                      |
| <b>Profit before income tax</b>                                         | <b>2 873 542</b>         | <b>5 777 550</b> | <b>201.1</b>               |
| Income tax expense                                                      | (544 981)                | (1 062 687)      | 195.0                      |
| <b>Profit for the period</b>                                            | <b>2 328 561</b>         | <b>4 714 863</b> | <b>202.5</b>               |

The sales revenues of the Group in 2010 were higher compared to those in 2009 by PLN 5 172 680 thousand (43%). A significant cause was the increase of revenues in the Parent Entity, due to an increase in copper prices (an increase in the average copper price by 46%), and an increase in the volume of sales of copper products (an increase by 35.5 thousand tonnes).

The sales revenues of KGHM Polska Miedź S.A. accounted for around 86% of the revenues of the entire Group.

#### 4. Current and projected financial position (continued)

##### 4.6. Statement of comprehensive income (continued)

The costs of sales increased during the analysed period by PLN 1 689 672 thousand (21%). This was mainly due to an increase in costs of materials in the Parent Entity, due to the higher value of purchased copper-bearing batch materials (higher purchase price and volume consumed).

The increase in revenues impacted the increase in profit on sales. Profit on sales amounted to PLN 6 689 708 thousand (an increase by 110%).

A loss was recorded on other operating activities in the amount of PLN 1 144 370 thousand, mainly impacted by the loss on the measurement and realisation of derivatives in the amount of PLN 1 162 023 thousand.

Adjustment of the result due to accounting using the equity method of shares of the associate Polkomtel S.A., caused an increase in profit before income tax by PLN 280 542 thousand.

Finally, profit for the period of 2010 increased versus the prior year by PLN 2 386 302 thousand (103%).

The results of individual Group entities are presented in the following table.

**Table 20.** Structure of the profit for the period ('000 PLN)

| Details                                                                      | Profit/loss for 2010 |
|------------------------------------------------------------------------------|----------------------|
| <b>KGHM Polska Miedź S.A.</b>                                                | <b>4 568 589</b>     |
| <b>Subsidiaries</b>                                                          | <b>112 543</b>       |
| <i>including the most important:</i>                                         |                      |
| DIALOG S.A.                                                                  | 76 049               |
| KGHM Metraco S.A.                                                            | 8 478                |
| PeBeKa S.A.                                                                  | 7 784                |
| WPEC w Legnicy S.A.                                                          | 7 559                |
| INTERFERIE S.A.                                                              | 6 862                |
| „PETROTEL” sp. z o.o.                                                        | 5 436                |
| KGHM AJAX MINING INC.                                                        | 5 275                |
| Fundusz Hotele 01 Sp. z o.o. S.K.A.                                          | 4 585                |
| PHP „MERCUS” sp. z o.o.                                                      | 4 470                |
| CENTROZŁOM WROCŁAW S.A. (from 1.12.2010 to 31.12.2010)                       | (3 062)              |
| POL-MIEDŹ TRANS Sp. z o.o.                                                   | (3 666)              |
| ZUK S.A. (from 1.11.2010 to 31.12.2010)                                      | (4 078)              |
| KGHM Ecoren S.A.                                                             | (16 761)             |
| <b>Total profits of Group entities</b>                                       | <b>4 681 132</b>     |
| Consolidation adjustments                                                    | 27 814               |
| <b>Profit of the Group attributable to shareholders of the Parent Entity</b> | <b>4 708 946</b>     |
| Profit attributable to non-controlling interest                              | 5 917                |
| <b>Total profit for the period</b>                                           | <b>4 714 863</b>     |

##### 4.7. Results of major Group companies

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

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



#### 4. Current and projected financial position (continued)

##### 4.7. Results of major Group companies (continued)

###### KGHM Polska Miedź S.A.

In 2010, the revenues from sales of KGHM Polska Miedź S.A. products amounted to PLN 15 945 032 thousand and were 44% higher than revenues achieved in 2009, mainly due to the high level of copper prices and the increased volume of copper sales.

Nearly 99% of the revenues from sales were from sales of products, of which: 41% from the sale of cathodes and their parts, 37% - from wire rod, 15% - from metallic silver. Revenues from the sale of products, excluding hedging transactions, were higher by PLN 5 156 005 thousand, i.e. by 49% versus the prior year.

**Table 21.** Financial data of KGHM Polska Miedź S.A. ('000 PLN)

|                          | 2009       | 2010       | Change<br>2009=100 |
|--------------------------|------------|------------|--------------------|
| Sales                    | 11 060 540 | 15 945 032 | 144.2              |
| Profit on sales          | 3 196 905  | 6 657 346  | x2.1               |
| Operating profit         | 3 098 092  | 5 638 148  | 182.0              |
| EBITDA                   | 3 645 745  | 6 253 616  | 171.5              |
| Profit before income tax | 3 066 569  | 5 605 567  | 182.8              |
| Profit for the period    | 2 540 185  | 4 568 589  | 179.9              |

Profit for 2010 was 80% higher than in the comparable prior period and was earned from the operating activities.

Profit on sales increased by PLN 3 460 441 thousand, impacted by the increase in revenues from sales by PLN 4 884 492 thousand, mainly due to:

- change in the PLN exchange rate from 3.12 to 3.02 USD/PLN PLN (350 690) thousand,
- higher average prices of copper by 46% PLN 4 024 899 thousand,
- an increase by 35.5 thousand t in the volume of sales of copper products PLN 583 678 thousand,
- a lower positive adjustment of revenues due to hedging of copper and silver prices PLN (290 999) thousand

alongside an increase in basic operating costs by PLN 1 424 051 thousand.

The loss on other operating activities of PLN 1 019 198 thousand was mainly impacted by the following:

- loss on measurement and realisation of derivatives PLN (1 172 284) thousand,
- income from dividends PLN 146 658 thousand,
- interest income on financial instruments PLN 59 395 thousand,
- foreign exchange losses PLN (30 445) thousand.

Finance costs in the amount of PLN 32 581 thousand were mainly impacted by the change in the amount of provisions (unwinding of the discount) in the amount of PLN 32 174 thousand.

Profit before income tax was decreased by income tax in the amount of PLN 1 036 978 thousand. Current income tax in the amount of PLN 1 256 172 thousand was decreased by PLN 212 458 thousand due to changes in the balance of deferred income tax for prior periods in the amount of PLN (6 749) thousand.

###### DIALOG S.A.

DIALOG S.A. is the parent entity of the DIALOG S.A. Group, which at 31 December 2010 was composed of the following subsidiaries:

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

**Table 22.** Financial data of the DIALOG S.A. Group ('000 PLN)

|                        | 2009*   | 2010**  | Change<br>2009=100 |
|------------------------|---------|---------|--------------------|
| Sales                  | 520 886 | 528 803 | 101.5              |
| Profit on sales        | 34 189  | 40 047  | 117.1              |
| Operating profit       | 36 053  | 50 309  | 139.5              |
| EBITDA                 | 136 535 | 137 232 | 100.5              |
| Profit before taxation | 28 414  | 46 059  | 162.1              |
| Profit for the period  | 11 635  | 80 156  | x6.9               |

\* the data for 2009 differ from the data presented in the report for 2009 as they are data from audited financial statements (reflecting settlement of the purchase of shares of „PETROTEL” sp. z o.o.)

\*\* data for 2010 prior to auditing

#### 4. Current and projected financial position (continued)

##### 4.7. Results of major Group companies (continued)

**Table 23.** Financial data of DIALOG S.A. ('000 PLN)

|                        | 2009*   | 2010    | Change<br>2009=100 |
|------------------------|---------|---------|--------------------|
| Sales                  | 493 790 | 499 457 | 101.1              |
| Profit on sales        | 34 154  | 35 028  | 102.6              |
| Operating profit       | 29 878  | 45 132  | 151.1              |
| EBITDA                 | 120 202 | 123 123 | 102.4              |
| Profit before taxation | 22 679  | 41 151  | 181.4              |
| Profit for the period  | 7 030   | 76 048  | ×10.8              |

\* The data for 2009 differ from the data presented in the report for 2009 as they are data from audited financial statements

In 2010 the sales of the DIALOG S.A. Group were higher than those in the comparable prior period by PLN 7 917 thousand. This increase in sales was due primarily to the sector of services based on external infrastructure (mainly WLR services) and to the sector of IPTV digital television.

There was also a higher, versus the comparable prior period, result on sales (an increase by PLN 5 858 thousand) and operating profit (an increase by PLN 14 256 thousand).

Profit for the period was also substantially higher than that achieved in 2009, by PLN 68 521 thousand. Apart from better operating results, this is also the effect of a substantial difference in the level of the income tax due (the main deferred tax due to remeasurement of the deferred tax asset). In 2009 this amounted to PLN 16 779 thousand, while in 2010 the level of this tax was negative and amounted to PLN 34 097 thousand, also improving profit for the period.

At the end of 2010, the DIALOG S.A. Group had 723.9 thousand ringing lines. The number of data transmission services amounted to 156.1 thousand.

In 2010 the company recorded an increase in the number of active IPTV services (digital television offered within the DIALOGmedia package with fixed-line telephony and Internet access) by 14.4 thousand versus the end of 2009.

In the first quarter of 2010 the DIALOG S.A. Group introduced the mobile phone service Diallo, realised based on the virtual operator (MVNO) model. In September 2010, a further product was added to the group of mobile phone services - mobile Internet access. At the end of the year the total number of all active SIM cards and data transmission modems amounted to 26.4 thousand.

DIALOG S.A. is using financing from EU funds to implement an innovative project based on a passive optical network (PON) - so-called „fiber to the premises”, whose planned coverage target by 2012 is around 80 thousand homes, among others in Wrocław, Legnica, Zielona Góra and Łódź. This is the largest project of its type in Poland and one of the largest in Europe. In October 2010, the company received additional financing from EU funds for realisation of the project „Development of a regional wide-band network in the voivodeship of Łódź”.

##### Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. in the consolidated financial statement at 31 December 2010 accounted for using the equity method was PLN 1 431 099 thousand.

**Table 24.** Financial results of Polkomtel S.A. ('000 PLN)

|                        | 2009*     | 2010**    | Change<br>2009=100 |
|------------------------|-----------|-----------|--------------------|
| Sales                  | 7 773 120 | 7 672 409 | 98.7               |
| Result on sales        | 1 427 645 | 1 521 504 | 106.6              |
| Operating profit       | 1 378 019 | 1 534 825 | 111.4              |
| EBITDA                 | 2 685 807 | 2 889 105 | 107.6              |
| Profit before taxation | 1 230 236 | 1 429 302 | 116.2              |
| Profit for the period  | 981 747   | 1 150 159 | 117.2              |

\* the data for 2009 differ from the data presented in the report for 2009 as they are data from audited financial statements

\*\* data prior to auditing

#### **4. Current and projected financial position (continued)**

##### **4.7. Results of major Group companies (continued)**

Revenues from sales for 2010 were slightly lower than in the comparable prior period. However, both the result on sales (an increase by PLN 93 859 thousand) and the profit for the period (an increase by PLN 168 412 thousand) were higher.

In June 2010, KGHM Polska Miedź S.A. received dividends from Polkomtel S.A. in the amount of PLN 24 051 thousand, from the appropriation of profit for 2009. Total dividends from Polkomtel S.A. for 2009 amounted to PLN 137 307 thousand. An interim dividend in the amount of PLN 113 256 thousand was received by the company in December 2009.

In September 2010, the Supervisory Board of Polkomtel S.A. passed a resolution agreeing to the payment of an interim dividend for 2010, based on the financial statements prepared at 30 June 2010. The amount of the interim dividend is PLN 317 545 thousand, of which KGHM Polska Miedź S.A. received the amount, proportional to its share, of PLN 77 454 thousand. The interim dividend was paid in November 2010.

In November 2010, the Supervisory Board of Polkomtel S.A. passed a resolution expressing its consent to the payment of a second interim dividend for 2010, based on the financial statements prepared at 30 September 2010. This interim dividend amounted to PLN 185 115 thousand, of which KGHM Polska Miedź S.A. received, proportionally to its share, the amount of PLN 45 152 thousand. This interim dividend was paid in December 2010.

##### **4.8. Risk management**

The KGHM Polska Miedź S.A. Group is exposed to the following types of financial risk:

- market risk,
- liquidity risk,
- credit risk.

The Group actively manages that market risk to which it is exposed. The process of managing market risk is regulated by unified principles applied in the companies of the Group.

The main technique applied by the Group in managing market risk is the use of hedging strategies using derivatives. Natural hedging is also used.

In the Group, only the Parent Entity applies hedging strategies (as understood by hedge accounting). To reduce market risk the company primarily uses derivatives.

The Group is exposed to the risk of changes in exchange rates and KGHM Polska Miedź S.A. is also exposed to the risk of changes in copper, silver and gold prices.

In addition the Group is exposed to interest rate risk. At 31 December 2010 the Group held borrowings in the amount of PLN 226 603 thousand (at 31 December 2009, PLN 295 863 thousand) with interest based on variable and fixed rates. At the end of the reporting period the Group did not hold instruments hedging against interest rate risk.

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

In 2010 the result on derivatives in the KGHM Polska Miedź S.A. Group was at the level of PLN (1 019 836) thousand (in 2009 PLN 99 193 thousand), of which:

- revenues from sales were increased by PLN 142 187 thousand (in 2009 PLN 433 187 thousand) – reclassified from accumulated other comprehensive income to revenues from sales in the reporting period,
- PLN 128 669 thousand (in 2009 PLN 187 486 thousand) increased other operating costs – loss from the realisation of derivatives,
- PLN 1 033 354 thousand (in 2009 PLN 344 894 thousand) increased other operating costs - loss from the measurement of derivatives. The adjustment of other operating costs due to the measurement of derivative transactions results mainly from changes in the time value of options which are to be settled in future periods. Due to the existing hedge accounting of the Parent Entity, changes in the time value of options are accounted for in accumulated other comprehensive income.

In 2010, the Parent Entity implemented copper price hedging strategies of a total volume of 336.4 thousand tonnes and a time horizon from July 2010 to June 2013. The Parent Entity made use of options (Asian options) including puts, and option strategies (collars, seagulls and producer's puts). Additionally, the Parent Entity performed a restructure, implemented during the analysed period, of its seagull options strategy for 2011 and the first half of 2012 of a total volume of 117 thousand tonnes through the repurchase of sold puts. Option strategy restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of this metal in 2011 and the first half of 2012. During the reporting period the Parent Entity implemented adjustment hedge transactions for 250 tonnes of copper which will be settled in April 2011.

#### 4. Current and projected financial position (continued)

##### 4.8. Risk management (continued)

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

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

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

At 31 December 2010, the fair value of open positions in derivatives amounted to PLN (492 275) thousand, of which financial assets amounted to PLN 701 423 thousand, and financial liabilities, PLN 1 193 698 thousand.

Derivatives whose maturity date falls on 5 January 2011 were measured at fair value in the amount of PLN (49 690) thousand and were recognised in trade and other payables as liabilities due to unsettled derivatives.

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

Details of the risk management policy in the Group together with identification of the main types of risk can be found in Notes 12, 33 and 34 of the financial statements.

##### 4.9. Financial ratios

Basic financial ratios of the Group are presented below.

Ratios calculated according to methodology in APPENDIX A of the report.

**Table 25.** Assets effectiveness ratios

|                                   | 2009 | 2010 |
|-----------------------------------|------|------|
| Assets turnover ratio             | 0.8  | 0.8  |
| Non-current assets turnover ratio | 1.2  | 1.4  |
| Current assets turnover ratio     | 2.4  | 2.0  |
| Liquid assets turnover ratio      | 4.4  | 3.0  |

The decrease in the liquid assets turnover ratio was mainly due to an increase in current receivables and cash and cash equivalents. The remaining assets effectiveness ratios were at similar levels to those achieved in 2009.

**Table 26.** Assets financing ratios

|                                                     | 2009 | 2010 |
|-----------------------------------------------------|------|------|
| Coverage of assets by equity                        | 0.7  | 0.7  |
| Coverage of non-current assets by equity            | 1.1  | 1.2  |
| Coverage of non-current assets by long-term capital | 1.3  | 1.4  |
| Coverage of current assets by current liabilities   | 0.5  | 0.4  |

The ratios describing the relationship between assets and equity did not change significantly versus 2009.

#### 4. Current and projected financial position (continued)

##### 4.9. Financial ratios (continued)

**Table 27.** Ratios describing economic activity

|                                       | 2009 | 2010 |
|---------------------------------------|------|------|
| Current liquidity                     | 2.2  | 2.6  |
| Quick liquidity                       | 1.3  | 1.9  |
| ROA - return on assets (%)            | 15.6 | 22.3 |
| ROE - return on equity (%)            | 22.0 | 31.7 |
| Debt ratio (%)                        | 29.0 | 29.7 |
| Durability of financing structure (%) | 84.5 | 83.9 |

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The increase in the liquidity ratios was mainly due to an increase in cash and cash equivalents.

The increase in profit resulted in the improvement of the return on assets (ROA) and the return on equity (ROE) ratios.

The increase in the debt ratio is due to the greater increase in liabilities (46%) than the increase in equity (41%).

##### 4.10. Disputed issues

At 31 December 2010, the value of receivables due to ongoing court proceedings, in which KGHM Polska Miedź S.A. and its subsidiaries are parties, amounted to PLN 95 354 thousand, of which PLN 42 639 thousand relates to the issues of the Parent Entity and PLN 52 715 thousand to subsidiaries.

The largest proceedings being pursued by KGHM Polska Miedź S.A. and its subsidiaries in respect of debtors at the end of 2010 related to the following:

– **return of undue royalties for use of invention project no. 1/97/KGHM**

On 21 January 2008 KGHM Polska Miedź S.A. filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 195 thousand for use of invention project no. 1/97/KGHM. The court has combined both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project in the amount of PLN 42 413 thousand with the claims of the company for the payment of undue royalties paid for use of invention project in the amount of PLN 25 195 thousand, for mutual hearing. Proceedings are in progress. In the company's opinion the payment of royalties to the project's authors was unfounded.

– **setting the amount of corporate income tax liabilities for KGHM Polska Miedź S.A. for the year 2003**

On 10 July 2009 KGHM Polska Miedź S.A. submitted an appeal to the Director of the Tax Chamber in Wrocław of a decision of the Director of the Legnica branch of the Tax Inspection Office in Wrocław dated 30 June 2009, calling for a decrease in the amount of liabilities set by the Director of the Tax Inspection Office by PLN 13 915 thousand.

The appeal involves a decision – which the company considers as unfounded – by the tax authority not to recognise as tax deductible costs a portion of expenses incurred by the company related to a business activity and income earned, as well as refusal of the right to deduct subsidies related to environmental protection, health, etc., for which the tax law (as worded and in force in 2003) allowed deduction. Proceedings are in progress.

On 25 February 2011, the body of appeal issued a final decision, in which it partially recognised the soundness of the appeal submitted by the company, and in consequence reduced the liabilities by PLN 4 740 thousand. The company decided to submit an appeal to the Regional Administrative Court.

– **return of excise tax**

A claim was filed with the Voivodeship Administrative Court by the subsidiary POL-MIEDŹ TRANS Sp. z o. o. against a decision of the Director of the Customs Office setting excise taxation for the months from March to December 2003. Value of amount under dispute: PLN 12 531 thousand.

The proceedings respecting March 2003 were suspended at the mutual request of the parties. The Court suspended the remaining nine claims ex officio. This suspension due to the question of the conformance of tax law and executory provisions, based on which decisions were issued setting the amount of excise tax for January and February 2003, being forwarded by the Supreme Administrative Court to the Constitutional Tribunal.

#### 4. Current and projected financial position (continued)

##### 4.10. Contested issues (continued)

If the Constitutional Tribunal declares that the legal solutions set forth by the decree are unconstitutional, the amount of excise tax in question, which was paid based on decisions, should be returned to the company in whole or part.

The Regional Administrative Court in July 2010 issued a ruling to recommence the suspended proceedings to determine the amount of excise tax liabilities for March 2003.

In October 2010, POL-MIEDŹ TRANS Sp. z o. o. submitted a request to declare as invalid the decision setting excise taxation for the months from March to December 2003 and clarified the demands set forth in the request from November 2010. Proceedings are in progress.

At 31 December 2010, the value of liabilities due to ongoing court proceedings, in which KGHM Polska Miedź S.A. and its subsidiaries are parties, amounted to PLN 109 549 thousand, of which PLN 89 731 thousand relates to the issues of the Parent Entity and PLN 19 818 thousand to subsidiaries.

The largest proceedings being pursued with respect to the liabilities of KGHM Polska Miedź S.A. and its subsidiaries at the end of 2010 related to the following:

– **royalties for use of invention project no. 1/97/KGHM**

Value of amount under dispute: PLN 42 413 thousand. A claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received a summons on 14 January 2008. Each of the plaintiffs in this complaint is demanding royalties equivalent to the given plaintiff's share in the economic effects from the use of this project. The Regional Court in Legnica admitted evidence in this matter – an opinion prepared by a scientific institute to determine whether project no. 1/97/KGHM meets the conditions to be considered an invention project as understood by the internal regulations on innovation in KGHM Polska Miedź S.A. Proceedings are in progress.

In the company's opinion the royalties being pursued by the Court is undue, because KGHM Polska Miedź S.A. covered receivables due to the authors of the project due to use of an invention project.

– **return of costs of protecting against mining damage**

Value of amount under dispute: PLN 16 409 thousand. A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by a company from Polkowice on 4 August 2009 for payment of the amount of PLN 16 409 thousand due to the return of protection costs incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA” in Lubin. Proceedings are in progress. In the company's opinion the claim is unfounded and should be dismissed.

– **royalties for use of invention project no. 2/97/KGHM**

Value of amount under dispute: PLN 11 760 thousand. A claim was filed with the Regional Court in Legnica by eleven co-authors and two heirs of authors of invention project no. 2/97/KGHM. The plaintiffs are demanding additional compensation due to the use by KGHM Polska Miedź S.A. of a patent from the submitted project no. 2/97/KGHM. Proceedings have been suspended until the case can be heard by the Patent Office of the Republic of Poland for the annulment of patent no. 185036. On 22 March 2011, a hearing was held at the Deciding Board of the Patent Office, although the issuance of a decision was deferred until 31 March 2011.

In the company's opinion the claim does not deserve to be considered due to the lack of patentability of invention project no. 2/97/KGHM, based on failure to meet the unobviousness requirement.

##### 4.11. Realisation of projected financial results

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

The Parent Entity publishes its projections of results. In a current report dated 1 February 2010, the company published its Budget assumptions for 2010 as accepted by the Supervisory Board on the same day. The Budget assumed the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit of PLN 2 898 million.

Along with the improvement in macroeconomic conditions during the year, the company updated its forecast. The final projection of financial results was published in a current report on 6 December 2010.

#### 4. Current and projected financial position (continued)

##### 4.11. Realisation of projected financial results (continued)

Basic assumptions, projected results and their realisation are shown in the following table.

**Table 28.** Realisation of projected results of KGHM Polska Miedź S.A. for 2010

|                                                       |                | Forecast<br>(1.02.2010) | Forecast<br>update<br>(6.09.2010) | Forecast<br>update<br>(6.12.2010) | Execution<br>2010 | Realisation<br>of forecast<br>(%) |
|-------------------------------------------------------|----------------|-------------------------|-----------------------------------|-----------------------------------|-------------------|-----------------------------------|
| <b>Sales</b>                                          | million<br>PLN | <b>11 736</b>           | <b>14 395</b>                     | <b>15 464</b>                     | <b>15 945</b>     | <b>103.1</b>                      |
| <b>Profit for the period</b>                          | million<br>PLN | <b>2 898</b>            | <b>3 910</b>                      | <b>4 462</b>                      | <b>4 569</b>      | <b>102.4</b>                      |
| Average annual copper price                           | USD/t          | 6 700                   | 6 700                             | 7 475                             | <b>7 539</b>      | 100.9                             |
| Average annual silver price                           | USD/troz       | 17.00                   | 18.00                             | 19.95                             | <b>20.19</b>      | 101.2                             |
| Exchange rate                                         | USD/PLN        | 2.70                    | 3.10                              | 3.015                             | <b>3.02</b>       | 100.2                             |
| Electrolytic copper production                        | '000 t         | 512.0                   | 541.0                             | 546.2                             | <b>547.1</b>      | 100.2                             |
| - of which from purchased<br>copper-bearing materials | '000 t         | 84.0                    | 120.0                             | 120.2                             | <b>120.0</b>      | 99.8                              |
| Silver production                                     | t              | 1 100                   | 1 158                             | 1 136                             | <b>1 161</b>      | 102.2                             |
| Unit cost of electrolytic copper<br>production        | PLN/t          | 12 548                  | 13 465                            | 13 465                            | <b>12 983</b>     | 96.4                              |
| Capital expenditures                                  | million PLN    | 1 633                   | 1 535                             | 1 535                             | <b>1 263</b>      | 82.3                              |
| Equity expenditures*                                  | million PLN    | 1 738                   | 2 206                             | 2 206                             | <b>1 367</b>      | 62.0                              |

\* includes purchase of shares and investment certificates, increases of share capital and owner loans and payments to subsidiaries

The higher-than-assumed profit is mainly the result of the higher-than-planned volume of copper and silver sales and more favourable metals prices.

The relatively low realisation of planned equity investments is due to the level of equity investment in TAURON Polska Energia S.A., which the company ties to favourable market conditions for the purchase of shares.

##### 4.12. Projected Group financial situation

As mentioned above, forecasts of the consolidated results of the Group are not prepared. Each company develops its own budget and multi-year plans. The subsidiaries of the Group follow unified principles for budgeting and planning. The structure of annual budgets and five-year plans is based on separate centres of responsibility. The plans of Group entities are evaluated based on their conformance with the Strategy of the Parent Entity and Group, from which in turn arise basic questions associated with the directions of equity investment, the development of specific areas of activities and with the dividend policy. A significant role in Group planning is played by the effective management of cash flow, the optimal financing of current activities, risk management and controlling costs.

Execution of these plans of the subsidiaries is continuously monitored by the supervisory boards of these entities as well as by the equity supervision unit of the Parent Entity. The KGHM Polska Miedź S.A. Group also applies unified reporting principles. The financial and economic condition of Group entities is evaluated in detail on a quarterly basis, with monthly monitoring. Planning and budgeting in Group entities is supported by the integrated IT systems which have been implemented in these companies.

The financial results of subsidiaries do not substantially impact the consolidated results of the Group. The budgets of the subsidiaries for 2011 are correlated with the Budget of the Parent Entity, mainly with respect to the directions of development of the Group. They reflect the results of realisation of projects included in the equity investment plan of KGHM Polska Miedź S.A. and of the cash flow between entities within the Group. Analysis of the projected financial results of subsidiaries for 2011, does not cast doubt about their going concern.

The Budget of the Parent Entity for 2011, approved by the Supervisory Board of the company on 31 January 2011, assumes the achievement in 2011 of revenues from sales in the amount of PLN 16 067 million and profit for the period of PLN 8 345 million. The basis for preparation of the Budget were the preliminary results for 2010 and the assumptions contained in specific operating plans.

#### 4. Current and projected financial position (continued)

##### 4.12. Projected Group financial situation (continued)

Details of the basic assumptions of the Budget of KGHM Polska Miedź S.A. for 2011 are presented in the following table.

**Table 29.** Budget assumptions of KGHM Polska Miedź S.A. for 2011

|                                                                  | Unit               | 2010          | Budget 2011   | Change 2010=100 |
|------------------------------------------------------------------|--------------------|---------------|---------------|-----------------|
| <b>Sales</b>                                                     | <b>million PLN</b> | <b>15 945</b> | <b>16 067</b> | <b>100,8</b>    |
| <b>Profit for the period</b>                                     | <b>million PLN</b> | <b>4 569</b>  | <b>8 345</b>  | <b>182,6</b>    |
| Average annual copper price                                      | USD/t              | 7 539         | 8 200         | 108.8           |
| Average annual silver price                                      | USD/troz           | 20.19         | 25.00         | 123.8           |
| USD/PLN exchange rate                                            | USD/PLN            | 3.02          | 2.80          | 92.7            |
| Electrolytic copper production                                   | '000 t             | 547.1         | 543.0         | 99.3            |
| - of which from purchased copper-bearing materials               | '000 t             | 120.0         | 111.0         | 92.5            |
| Silver production                                                | t                  | 1 161         | 1 027         | 88.5            |
| Unit cost of electrolytic copper production from own concentrate | PLN/t              | 10 486        | 12 634        | 120.5           |
| Capital expenditures                                             | million PLN        | 1 263         | 1 892         | 149.8           |
| Equity expenditures*                                             | million PLN        | 1 367         | 9 046         | x6.6            |

\* Includes purchase of shares and investment certificates, increases of share capital and loans and payments to subsidiaries

The level of expenditures on equity investments was set with the assumption of earning income from the sale of the telecom assets. The most important item with respect to assumed equity investments is the acquisition of foreign, low-cost mine assets, representing an element in the realisation of the company's strategic assumptions. The goal from realisation of these projects is the achievement in subsequent years of mine production in the KGHM Polska Miedź S.A. Group at the level of 700 thousand tonnes of copper in concentrate annually.

The capital expenditures plan assumes the continuation of tangible projects begun mainly with respect to: accessing the Głogów Głęboki Przemysłowy deposit, continued construction of the SW-4 shaft, the Pyrometallurgy Modernisation Program and the construction of gas-steam blocks.

The increase in the electrolytic copper production cost from own concentrate with respect to 2010 is mainly due to the increased scope of preparatory mine work, an increase in labour costs and the lower value of anode slimes (the lower amount of silver in slimes) alongside the higher utilisation of stored internal half-finished products.

It should be noted that, given the high level of hedging of future company revenues, the continued high volatility in metals prices and in the exchange rate has a substantial impact on the measurement of derivatives at the end of the reporting period and on profit for the period.

Realisation of this forecast will be monitored by KGHM Polska Miedź S.A. on an on-going basis. Should there occur significant deviation from the amounts forecasted, the company will perform an adjustment to the forecast and will publish it in the form of a current report.

##### 4.13. Investment intentions: equity investments

The intentions of KGHM Polska Miedź S.A. with respect to equity investments are primarily aimed at:

- investments in the core strategic area – mining, to expand the resource base,
- investments in the KGHM Polska Miedź S.A. Group, to improve the effectiveness of Group entities,
- investments in the power sector,
- acquisition of investment certificates in Closed-End Investment Funds, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A., to diversify investment risk.

KGHM Polska Miedź S.A. intends to continue realisation of investments aimed at expanding the resource base, in order to increase copper production. These include the acquisition of mining entities at the pre-production and/or production stage.

The intentions of KGHM Polska Miedź S.A. with respect to investments in the Group are aimed among others at investments supporting the core business, including those aimed at reducing production costs. In carrying out these strategic intentions, those subsidiaries which provide services to the Divisions of KGHM Polska Miedź S.A. are developing investment programs reflecting these aspects. Investments planned within the Group are also aimed at increasing value through the realisation in these companies of development-related investment plans, aimed at strengthening their market positions. This includes the continuation of investments related to the development by POL-MIEDŹ TRANS Sp. z o.o. of its expertise in railway transport. The strategy of increasing the effectiveness of the Group will also be realised by investing in the property sector.

The realisation of investments involving the power sector will take place among others through the subsidiary „Energetyka” sp. z o.o. and involve the acquisition of new, alternative energy sources.



#### **4. Current and projected financial position (continued)**

##### **4.13. Investment intentions: equity investments (continued)**

Plans with respect to equity investments assume further investment in the certificates of Closed-End Investment Funds created in 2010, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A. (KGHM TFI S.A.) - a company 100% owned by KGHM Polska Miedź S.A. This investment is of a long-term nature, is not related to the core business and does not require operational commitment in the activities of companies belonging to the funds. KGHM Polska Miedź S.A., as the owner of KGHM TFI S.A. has influence over the investment strategies of the founded funds. These funds are of a sector nature, and their primary areas of focus are health protection, renewable energy and new technology.

In implementing the strategy of responsibility to the local community, KGHM Polska Miedź S.A. provides equity support for investments of social significance, including among others the development of medical activities by „MCZ” S.A.

In addition, actions taken within the Group will aim at liquidating selected entities. In 2011 the conclusion of the process of liquidating the company KGHM Polish Copper Ltd. with its registered head office in London and continuation of the process of liquidating the company KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi in the Democratic Republic of Congo are planned.

##### **Intentions and actions taken regarding telecom assets**

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

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

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

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

While KGHM Polska Miedź S.A. is considering exiting from its equity investment in DIALOG S.A., at the end of the reporting period a decision had not been made as to commencing the selling process, nor had any corporate decision been taken in terms of disposal of the shares held.

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

Detailed information regarding investments in telecom assets whose sale is being considered may be found in section 3.3. of the financial statements.

#### **5. Strategy of KGHM Polska Miedź S.A.**

On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018. In realising the Strategy, KGHM Polska Miedź S.A. intends to become a major, global copper producer and will increase copper production in the Group to approx. 700 thousand tonnes annually. It is assumed that total expenditures on the realisation of projects will amount to approx. PLN 20 billion.

The Strategy for the years 2009-2018 is based on five pillars:

**Pillar I - Improving productivity**, aimed at reversing/halting the trend of rising unit production costs through:

- investments in new technology,
- modernisation of infrastructure,
- optimisation of production procedures and organisation,

**Pillar II - Developing the resource base**, aimed at increasing the production of mined copper in the Group to 700 thousand tonnes annually, through:

- developing the system for mining deep ore,
- mining new regional ore deposits,
- acquisitions in the mining sector,
- intensifying the processing of scrap,

## 5. Strategy of KGHM Polska Miedź S.A. (continued)

**Pillar III - Diversifying sources of revenues and gaining independence from energy prices**, which assumes that by 2018 approx. 30% of the revenues of KGHM Polska Miedź S.A. will be generated from outside the core business, through:

- continued investment in the telecoms sector, and
- entrance into the power sector,

**Pillar IV - Regional support** – the creation of 750 new jobs and development of social activities through:

- the creation of jobs using the infrastructure of KGHM LETIA S.A.,
- supporting regional sport, health, arts, education and the regional environment,

**Pillar V - Developing organisational know-how and capabilities** through:

- management through goals,
- transparent information and data,
- staff development programs, and
- building a holding structure.

Due to the proposal of the other shareholders of Polkomtel S.A. and approval of a model of cooperation with respect to the possibility of a potential sale of shares in this company, KGHM Polska Miedź S.A. took actions aimed at reviewing its strategic assumptions in terms of the equity investments of the company in its telecom assets.

### Realisation of Strategy in the years 2009-2010

Since the Strategy was approved in the years 2009-2010 approx. 90% of planned projects have been initiated. Expenditures related to the realisation of projects amounted to nearly PLN 2 billion, of which the largest involved investments in the core business.

With respect to Pillar I, the greatest progress was achieved in work related to improving effectiveness, where most identified projects are at the stage of realisation, including: „Replacement of mining machinery”, „Replacement of floatation machinery”, „Project „Effectiveness”, „Program for saving energy”, „CMMS – system for the IT servicing of underground machinery”, „Deposit Mining IT management System”. In addition, with respect to the initiative „Mechanical ore mining” a project was begun called „Development of technology for mining thin ore seams using the Bucyrus ACT mining complex”. Also of importance is the realisation of the project involving the Centralisation of Procurement. As a result of the introduction of a unified procurement policy for the Divisions and the KGHM Polska Miedź S.A. Group and the commencement of a Procurement Support System, substantial savings were achieved in 2010 with respect to procurement.

With respect to realisation of Strategic Pillar II, work was continued on gaining access to the researched Głogów Głęboki Przemysłowy deposit, and work was realised on researching the Weisswasser copper deposit in Germany, as a result of which in 2009 an exploration company was founded with a German partner (KGHM HMS Bergbau AG). Work was also begun on a program of geological work (drill holes) under licenses held for the Gaworzyce-Radwanice deposit, and copper ore exploration projects were prepared in the regions of Synklina Grodziecka and Nowiny.

Of great importance is the project to acquire foreign assets associated with the production of copper and gold from the Afton-Ajax deposit in Canada. In 2010 the company signed an Investment Agreement with Abacus Mining & Exploration Corp. regarding the joint realisation of the project.

Simultaneously, with respect to the initiative to intensify the processing of scrap, a project was begun called „Change in the profile of the Legnica smelter”. Stage one of the project involves the analysis of a project called „Construction of a scrap melting unit”.

In 2010, work was continued with respect to increasing the involvement of the company in the development of alternative energy sources of income (Pillar III). Work was mainly carried out on investments in the power sector – preparing for the construction of gas-steam blocks at the Głogów and Polkowice power plants, as well as the development of business assumptions for the project to build power plant with the sector partner TAURON Polska Energia S.A.

With respect to supporting the region (Pillar IV) KGHM Polska Miedź S.A. carried out its business while considering the natural environment. An active policy with respect to the local communities was continued by ensuring access to health care for the employees of KGHM and the region's inhabitants, promoting sport, and improving selected elements of the cultural infrastructure of the region (renovating monuments, cultural events).

With respect to KGHM LETIA S.A., tasks were held aimed at creating a region attractive to businesses and investing in activities based on new technology and creating new jobs. In 2010 the company began the construction of a modern office building LETIA BUSINESS CENTER in Legnica.

In Pillar V, involving the development of the organisational know-how and capabilities of KGHM, the company KGHM TFI S.A. was founded, with respect to which three Closed-End Non-Public Investment Funds were created.

## **5. Strategy of KGHM Polska Miedź S.A. (continued)**

KGHM Polska Miedź S.A. continued realisation of its ownership Strategy with respect to the Group, aimed at realisation of equity investments and the growth in value and development of companies. Among the more important development projects are the following: the opening of a production line for the industrial recovery of rhenium and a production line for the processing of used electrical and electronic equipment (KGHM Ecoren S.A.), the purchase of 85% of the shares of CENTROZŁOM WROCŁAW S.A. (KGHM Ecoren S.A.), a project to build its own sulphuric acid storage-loading base at a Polish port (KGHM Metraco S.A.), a system for the automated preparation and measurement of samples from the production line of the Ore Enrichment Plants (CBJ sp. z o.o.), and separation of the developer company CUPRUM III (KGHM CUPRUM sp. z o.o. - CBR).

With respect to the telecom assets owned by the Parent Entity, work was realised aimed at undertaking the optimum decision in terms of the effective exit from these equity investments at an appropriate moment for KGHM Polska Miedź S.A.

With respect to programs supporting realisation of the Strategy, work was initiated on updating the social potential management system and its integration with the current company Strategy. Projects were begun with respect to development of a remuneration system in KGHM Polska Miedź S.A., as well as the implementation of a new IT system for employee evaluations.

Substantial progress was made in the implementation of approved strategic initiatives, and the operating results achieved by the company in 2010 demonstrate the soundness of the approved Strategy. The course which its realisation has taken thus far augurs well for the effective achievement of the intended goals.

In 2011 the review and updating of the strategy is anticipated, with respect to individual pillars identified in the Strategy of KGHM Polska Miedź S.A. for the years 2009-2018.

## **6. Significant subsequent events**

### **Telecom assets being considered for sale**

Information on events that occurred after the end of the reporting period in respect of telecom assets may be found in note 3.3. of the financial statements.

### **Combination of Group subsidiaries**

On 3 January 2011, the Regional Court in Gliwice, Section X Economic of the National Court of Registration, issued a decree on the combination of the entities Walcownia Metali Nieżelaznych Sp. z o.o. and WM „Łabędy” S.A. through the foundation of a new entity called Walcownia Metali Nieżelaznych „Łabędy” S.A. Registration by the National Court of Registration of the new company was on 4 January 2011. The share capital of the newly-created entity amounts to PLN 49 145 thousand.

### **Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.**

On 18 January 2011 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2011 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 622 900 thousand (PLN 1 796 943 thousand) to USD 753 428 thousand (PLN 2 173 490 thousand).

### **Forecast of results for 2011**

On 31 January 2011 the Supervisory Board of KGHM Polska Miedź S.A. approved the company's Budget for 2011 as presented by the Management Board. The basis for preparation of the Budget were the anticipated results for 2010 and the assumptions contained in specific operating plans. Detailed information on the forecast may be found in section 4.12. of the financial statements.

### **Acquisition of shares of "NITROERG" S.A.**

On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the acquisition by KGHM Polska Miedź S.A. of 5 260 820 shares of NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand. The controlling interest acquired represents 85% of the share capital of NITROERG S.A. in Bieruń.

### **Significant contract with MKM Mansfelder Kupfer und Messing GmbH**

On 4 February 2011 a significant contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2011. The estimated value of this contract is USD 692 092 thousand, i.e. PLN 1 967 205 thousand.

### **Agreement for the purchase of shares of TAURON Polska Energia S.A.**

On 22 March 2011, the Ministry of the State Treasury commenced the process of selling 208 478 000 shares of TAURON Polska Energia S.A., representing 11.9% of the share capital at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. KGHM Polska Miedź S.A. participated in this process, submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, KGHM Polska Miedź S.A. acquired 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share. Following this transaction, KGHM Polska Miedź S.A. owns a total of 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital.

**APPENDIX A: Methodology of calculating ratios used in the report**

**Assets effectiveness ratios**

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

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

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

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

**Assets financing ratios**

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

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

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

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

**Economic activity ratios**

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

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

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

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

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

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

**APPENDIX B: List of tables and diagrams**

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