POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS 2011

(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 **2011** comprising the period from **1 January 2011** to **31 December 2011**
containing the consolidated financial statements according to IFRS in PLN.

publication date: 30 March 2012

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

	SELECTED FINANCIAL DATA	in '000 PLN		in '000 EUR	
		year 2011 period from 1 January 2011 to 31 December 2011	**year 2010** period from 1 January 2010 to 31 December 2010	**year 2011** period from 1 January 2011 to 31 December 2011	**year 2010** period from 1 January 2010 to 31 December 2010
I.	Continued operations				
	Sales	22 107 230	16 766 504	5 339 782	4 187 020
	Operating profit	13 153 649	5 506 309	3 177 133	1 375 065
	Profit before income tax	13 289 673	5 742 771	3 209 988	1 434 115
	Profit for the period from continued operations	11 004 372	4 645 709	2 657 997	1 160 151
II.	Discontinued operations				
	Profit for the period from discontinued operations	59 631	84 715	14 403	21 155
III.	Profit for the period	11 064 003	4 730 424	2 672 400	1 181 307
IV.	Profit for the period attributable to shareholders of the Parent Entity	11 063 456	4 724 507	2 672 268	1 179 829
V.	Profit for the period attributable to non-controlling interests	547	5 917	132	1 478
VI.	Other comprehensive income	363 297	83 520	87 751	20 858
VII.	Total comprehensive income	11 427 300	4 813 944	2 760 151	1 202 165
VIII.	Total comprehensive income attributable to the shareholders of the Parent Entity	11 408 559	4 808 027	2 755 624	1 200 687
IX.	Total comprehensive income attributable to non-controlling interest	18 741	5 917	4 527	1 478
X.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XI.	Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	55.32	23.62	13.36	5.90
XII.	Net cash generated from operating activities	9 098 650	5 661 275	2 197 688	1 413 764
XIII.	Net cash generated from/(used in) investing activities	3 048 579	(3 070 123)	736 354	(766 687)
XIV.	Net cash used in financing activities	(2 978 408)	(707 497)	(719 405)	(176 680)
XV.	Total net cash flow	9 168 831	1 883 655	2 214 637	470 397
		At 31 December 2011	**At 31 December 2010**	**At 31 December 2011**	**At 31 December 2010**
XVI.	Non-current assets	12 037 063	12 480 642	2 725 290	3 151 439
XVII.	Current assets	18 516 811	8 760 087	4 192 359	2 211 975
XVIII.	Total assets	30 553 874	21 240 729	6 917 649	5 363 414
XIX.	Non-current liabilities	2 806 375	2 915 769	635 386	736 250
XX.	Current liabilities	4 365 142	3 402 837	988 304	859 237
XXI.	Equity	23 382 357	14 922 123	5 293 959	3 767 927
XXII.	Non-controlling interest	282 907	255 889	64 052	64 614

Average EUR/PLN exchange rate of the National Bank of Poland

	31 December 2011	**31 December 2010**
Average exchange rate for the period	4.1401	4.0044
Average exchange rate at the end of the period	4.4168	3.9603

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

KGHM POLSKA MIEDŹ S.A. GROUP

CONSOLIDATED ANNUAL REPORT RS 2011 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**

Lubin, March 2021

KGHM POLSKA MIEDŹ S.A.
GROUP

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2011

Lubin, March 2012

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 the consolidated statement of financial position as at 31 December 2011, showing total assets and total liabilities and equity of PLN 30.553.874 thousand, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2011, showing a total comprehensive income of PLN 11.427.300 thousand, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Parent Company's Management Board is responsible for preparing the consolidated financial statements and the Directors' Report for the Group in accordance with the applicable regulations. The Management Board and Members of the Supervisory Board are required to ensure that the consolidated financial statements and the Director's Report 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 perform an audit of the accompanying consolidated financial statements and to express an opinion on whether the consolidated financial statements comply in all material respects with the applicable accounting policies and whether they present fairly, in all material respects, the Group's financial position and results.

We conducted our audit in accordance with the following:

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

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

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 provides a reasonable basis for our opinion.

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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.)

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

a. present fairly the Group's financial position as at 31 December 2011 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;

b. comply in form and content with the applicable laws applicable to the Group;

c. have been prepared on the basis of properly maintained accounting records.

The information in the Group' Report for the year ended 31 December 2011 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 of 2009, No. 33, item 259, with further amendments) and is consistent with the information presented in the audited consolidated 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, 27 March 2012 r.

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KGHM Polska Miedź Spółka Akcyjna Group

Report on the consolidated financial statements as at and for the year ended 31 December 2011

Report on the consolidated financial statements for the financial year ended 31 December 2011 to the General Shareholders' Meeting and Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

This report contains 20 consecutively numbered pages and consists of:

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I. General information about the Group

a. The Parent Company of KGHM Polska Miedź S.A. Group ("the Group") is KGHM Polska Miedź S.A. („the Parent Company") with its seat in Lubin, 48 Marii Skłodowskiej-Curie Street.

b. 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 privatisation of state-owned enterprises (*Jurnal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary Public's Office No. 18 in Warsaw and registered with Rep. no. 8648/91. On 29 June 2001, the District Court Register decided to enter the Parent Company in the Commercial Register with the reference number KRS 23302.

c. In the audited year, the Parent Company operated on the basis of a concession granted by Minister of the Environmental Protection, Natural Resources and Forestry.

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

e. As at 31 December 2011 the Parent Company's registered share capital amounted to PLN 2.000.000.000 and consisted of 200.000.000 shares, with a nominal value of PLN 10 per value.

f. As at 31 December 2011, the shareholders of the Parent Company were:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
The Polish State Treasury	63.589.900	635.899.000	ordinary	31,79
Other shareholders	136.410.100	1.364.101.000	ordinary	68,21
	200.000.000	**2.000.000.000**		**100,00**

g. In the audited year, 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 metals 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,
- construction of mining machinery and equipment,
- transport services,
- production of road-building material,
- telecommunication and IT activities.

I. General information about the Company (cont.)

h. During the audited year the Management Board of the Parent Company comprised:

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

i. The Parent Company is an issuer of securities admitted for 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 (IFRS) as adopted by the European Union. The Group adopted IFRS in 2005.

I. General information about the Company (cont.)

j. As at 31 December 2011 KGHM Polska Miedź S.A. Group comprise of the following entities:

Entity	Type of capital telationship (% 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
Biowind Sp. z o.o.	Indirect subsidiary (100%)	Full	Not subject to audit	-
Bipromet S.A.	Subsidiary (66%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
Bipromet Ecosystem Sp. z o.o.	Indirect subsidiary (33,66%)	Full	Not subject to audit	-
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
Ecoren DKE Sp. z o.o.	Indirect subsidiary (100%)	Full	Accord'ab Biegli Rewidenci Sp. z o.o.	Qualified opinion concerning going concern risk and with emphasis of matter concerning obligation to pass a resolution regarding going concern assumption
Energetyka Sp. z o.o.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Fermat 1 S.à r.l	Subsidiary (100%)	Full	Not subject to audit	-
Fermat 2 S.à r.l	Indirect subsidiary (100%)	Full	Not subject to audit	-
Fundusz Hotele 01 Sp. z o.o.	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	With emphasis of matter concerning going concern risk
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	With emphasis of matter concerning going concern risk
Fundusz Uzdrowiska 01 Sp. z o.o.	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	With emphasis of matter concerning going concern risk
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	With emphasis of matter concerning going concern risk
INOVA Sp. z o.o.	Subsidiary (100%)	Full	ELIKS Audytorska Spółka z o.o.	Unqualified
INTERFERIE S.A.	Indirect subsidiary (66,82%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified

I. General information about the Company (cont.)

Interferie Medical SPA Sp z o.o.	Indirect subsidiary (89,17%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
KGHM AJAX MINING INC.	Subsidiary (51%)	Full	Ernst & Young LIP Chartered Accountants	With emphasis of matter concerning going concern risk
KGHM CUPRUM Sp. z o.o. - CBR	Subsidiary (100%)	Full	DGA Audyt Sp. z o.o.	Unqualified
KGHM Ecoren S.A.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM Kupfer AG	Subsidiary (100%)	Full	TRINAVIS GmbH Et Co. KG	Unqualified
KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
KGHM Kupferhandelsges. m.b.H. i. L.	Subsidiary (100%)	Full	Ernst & Young Wirtschaftsprufungsgesellschaft mbH	-
KGHM LETIA S.A.	Subsidiary (85,45%)	Full	Grupa Aktywa Sp. z o.o.	Unqualified
KGHM Metraco S.A.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Subsidiary (100%)	Full	Orient Best Certified Public Accountants	Unqualified
KGHM TFI S.A.	Subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
Mercus Software Sp. z o.o.	Indirect subsidiary (100%)	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
NITROERG S.A.	Subsidiary (85%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Przedsiębiorstwo Budowlane Katowice S.A.	Indirect subsidiary (58,08%)	Full	Ernst & Young Audit Sp z o.o.	The opinion has not been issued until the date of signing this report.
PHP Mercus Sp. z o.o.	Subsidiary (100%)	Full	Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością sp. k.	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

TRANSLATION ONLY

I. General information about the Company (cont.)

POL-MIEDŹ TRANS Sp. z o.o.	Subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
Towarzystwo Ubezpieczeń Wzajemnych Cuprum	Indirect subsidiary (100%)	Excluded	FINANS-SERVIS Zespół Doradców Finansowych- Księgowych Sp. z o.o.	The opinion has not been issued until the date of signing this report.
Uzdrowisko Cieplice Sp. z o.o.	Indirect subsidiary (91,67%)	Full	Ernst & Young Audit Sp z o.o.	Qualified opinion because of the lack of verification of depreciation rates and the lack of valuation of perpetual usefruct
Uzdrowisko Połczyn S.A.	Indirect subsidiary (90,45%)	Full	Ernst & Young Audit Sp z o.o.	Qualified opinion because of the lack of verification of depreciation rates and with emphasis of matter concerning going concern risk
Uzdrowisko Świeradów-Czerniawa Sp. z o.o.	Indirect subsidiary (87,74%)	Full	Ernst & Young Audit Sp z o.o.	Qualified opinion because of the lack of verification of depreciation rates and with emphasis of matter concerning going concern risk
Warszawska Fabryka Platerów Hefra S.A.	Indirect subsidiary (98,5%)	Full	ZBR Faber Spółka z o.o.	Qualified opinion because of the going concern risk
Walcownia Metali Nieżelaznych Łabędy S.A.	Indirect subsidiary (84,96%)	Full	Rewit Południe Spółka z ograniczoną odpowiedzialnością	With emphasis of matter concerning the first audited reporting period
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 obligation to pass a resolution regarding going concern assumption
Zespół Uzdrowisk Kłodzkich S.A.	Indirect subsidiary (91,8%)	Full	Ernst & Young Audit Sp z o.o.	Qualified opinion because of the lack of verification of depreciation rates

(*) Financial statement of all entities of the Group were prepared as at 31 December 2011.

I. General information about the Company (cont.)

k. KGHM Polska Miedź S.A. is the Parent Company in the Group which, in the audited year, comprised 47 subsidiaries (including 45 consolidated subsidiaries). During the audited period there were the following changes within the Group's structure:
   - three subsidiaries have been acquired;
   - two subsidiaries have been established;
   - two subsidiaries within the Group have been combined through the founding of a new entity;
   - three subsidiaries have been disposed;
   - three subsidiaries have been liquidated.

Additionally at the end of the financial year there were two associated entities. The financial data of one of them have been presented in the consolidated financial statements under the equity accounting method. During the financial year the investment in one associate has been disposed.

In the year prior to the audited year the Group comprised 49 subsidiaries (including 47 consolidated subsidiaries). Additionally there were two associated entities. The financial 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 to the consolidated financial statement.

II. Information about the audit

a. The audit of the consolidated financial statements as at and for the year ended 31 December 2011 was conducted by PricewaterhouseCoopers Sp. z o.o. having its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Marcin Sawicki (no. 11393).

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

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

d. The audit was performed on the basis of an agreement dated 25 May 2010, and conducted in the period from 20 February to 27 March 2012.

III. The Group's results and financial position

The following comments are based on information obtained during the audit of the consolidated financial statements.

The consolidated financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 4.6% in the audited year (3.1% in 2010).

As a result of final measurement of net assets in the acquired entities (Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A. oraz „Uzdrowisko Cieplice" Sp. z o.o.) at the fair value, which has been described in Note 2.1. to the Accounting policies and other explanatory information to the consolidated financial statements, the data for 2010 were restated in order to maintain comparability.

The factors described below had a significant impact on the Group's profit and on its financial position as at the end of the reporting period.

- In 2011 the Group continued the strategy adopted in previous year, 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 87% of total sales revenue (91% in the previous year).

- At the end of the financial year the Group's total assets amounted to PLN30.533.874 thousand. During the year total assets increased by PLN 9.313.145 thousand (i.e. by 43,8%). This increase was financed by net profit of PLN 11.064.003 thousand, an increase of current income tax liabilities (by PLN 923.376 thousand), while the liabilities due to valuation of derivatives were decreased (by PLN 324.047 thousand). In 2011 the Parent Company paid a dividend of PLN 2.980.000 thousand to its shareholders.

- Total revenues from continuing operations amounted to PLN 22.107.230 thousand and increased by PLN 5.340.726 thousand, i.e. 31,9% when compared to the previous year. The Company's core activities in the current financial year consisted of production and sales of copper, precious metals and smelter by-products. This growth was mainly due to favourable 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 to the prior period (of 16,9% and 73,9% respectively). In the same period the average exchange rate of US Dollar decreased by 2,0% when compared to 2010. The revenues include also profit on foreign currencies' and commodities' hedge transactions amounted to PLN 241.565 thousand.

- The operating expenses (the total of cost of sales, selling and administrative expenses) from continuing operations amounted to PLN 12.704.740 thousand and increased by PLN 2.584.101 thousand (25,5%) when compared to 2010. The change was mainly due to the growth of material and energy costs.

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

- Profitability measured with net profit amounted to 50% and was 22 percentage points higher than in the previous year. The change in the Group's profitability was primarily due to high prices of metals, mainly cooper, on international commodity markets during 2011 and disposal of shares of Polkomtel S.A.

- The Group's structure of debt has changed. The debt ratio decreased from 30% at the end of prior year to 23% at the end of the audited period.

- The Group's liquidity has changed. The current ratio amounted to 4,2 (2,6 in 2010), whereas the quick ratio amounted to 3,6 (1,9 in 2010).

IV. Discussion of consolidated financial statement components

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011

	Note	31.12.2011 PLN'000	31.12.2010* PLN'000	Change PLN'000	Change (%)	31.12.2011 Structure (%)	31.12.2010 Structure (%)
ASSETS							
Non-current assets							
Property, plant and equipment		9.045.777	8.670.554	375.223	4,3	29,6	40,8
Intangible assets		613.994	473.215	140.779	29,7	2,0	2,2
Investment properties		59.930	59.760	170	0,3	0,2	0,3
Investments in associates	1	472	1.431.099	(1.430.627)	(100,0)	-	6,8
Deferred tax assets		272.331	592.792	(320.461)	(54,1)	0,9	2,8
Available-for-sale financial assets	2	993.960	751.718	242.242	32,2	3,3	3,5
Held-to-maturity investment		111.709	84.157	27.552	32,7	0,4	0,4
Derivatives	3	899.400	403.839	495.561	>100,0	2,9	1,9
Trade and other receivables	4	39.490	13.508	25.982	>100,0	0,1	0,1
		12.037.063	**12.480.642**	**(443.579)**	**(3,6)**	**39,4**	**58,8**
Current assets							
Inventories		2.658.253	2.222.231	436.022	19,6	8,7	10,5
Trade and other receivables	4	1.838.979	2.727.935	(888.956)	(32,6)	6,0	12,8
Current corporate tax receivables		7.759	4.511	3.248	72,0	-	-
Available-for-sale financial assets	2	15.668	415.662	(399.994)	(96,2)	0,1	2,0
Held-to-maturity investments		2.147	4.129	(1.982)	(48,0)	-	-
Derivatives	3	860.042	297.584	562.458	>100,0	2,8	1,4
Cash and cash equivalents	5	13.130.401	3.086.957	10.043.444	>100,0	43,0	14,5
Non-current assets held for sale		3.562	1.078	2.484	>100,0	-	-
		18.516.811	**8.760.087**	**9.756.724**	**>100,0**	**60,6**	**41,2**
Total assets		**30.553.874**	**21.240.729**	**9.313.145**	**43,8**	**100,0**	**100,0**

*) restated data

IV. Discussion of consolidated financial statement components (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2011 (cont.)

	Note	31.12.2011 PLN'000	31.12.2010* PLN'000	Change PLN'000	Change (%)	31.12.2011 Structure (%)	31.12.2010 Structure (%)
EQUITY	6						
Share capital	7	2.000.000	2.000.000	-	-	6,5	9,4
Other accumulated comprehensive income		554.924	209.821	345.103	>100,0	1,8	1,0
Retained earnings	8	20.544.526	12.456.413	8.088.113	64,9	67,3	58,7
Non- controlling interest		282.907	255.889	27.018	10,6	0,9	1,2
	9	**23.382.357**	**14.922.123**	**8.460.234**	**56,7**	**76,5**	**70,3**
LIABILITIES							
Non-current liabilities							
Trade and other payables		129.749	119.860	9.889	8,3	0,4	0,5
Borrowings and financial lease liabilities		194.370	173.652	20.718	11,9	0,6	0,8
Derivatives	3	538.320	711.580	(173.260)	(24,3)	1,8	3,3
Deferred tax liabilities		120.153	168.156	(48.003)	(28,5)	0,4	0,8
Liabilities due to employee benefits		1.338.743	1.221.794	116.949	9,6	4,4	5,8
Provisions for other liabilities and charges		485.040	520.727	(35.687)	(6,9)	1,6	2,5
		2.806.375	**2.915.769**	**(109.394)**	**(3,8)**	**9,2**	**13,7**
Current liabilities							
Trade and other payables		2.182.093	1.994.577	187.516	9,4	7,2	9,4
Borrowings and financial lease liabilities		103.587	96.162	7.425	7,7	0,3	0,5
Current income tax liabilities	10	1.595.528	672.152	923.376	>100,0	5,2	3,1
Derivatives	3	331.331	482.118	(150.787)	(31,3)	1,1	2,3
Liabilities due to employee benefits		126.563	110.912	15.651	14,1	0,4	0,5
Provisions for liabilities and other charges		26.040	46.916	(20.876)	(44,5)	0,1	0,2
		4.365.142	**3.402.837**	**962.305**	**28,3**	**14,3**	**16,0**
Total equity and liabilities		**30.553.874**	**21.240.729**	**9.313.145**	**43,8**	**100,0**	**100,0**

*) restated data

TRANSLATION ONLY

IV. Discussion of consolidated financial statement components (cont.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the period from 1 January to 31 December 2011

	Note	2011 PLN'000	2010* PLN'000	Change PLN'000	Change (%)	2011 (%) of revenue	2010 (%) of revenue
Revenues		22.107.230	16.766.504	5.340.726	31,9	100,0	100,0
Cost of sales		(11.619.941)	(9.288.411)	(2.331.530)	25,1	(52,6)	(55,4)
Gross profit		**10.487.289**	**7.478.093**	**3.009.196**	**40,2**	**47,4**	**44,6**
Selling costs		(186.917)	(132.771)	(54.146)	40,8	(0,8)	(0,8)
Administrative expenses		(897.882)	(699.457)	(198.425)	28,4	(4,1)	(4,2)
Other operating income	1,11	4.563.818	648.925	3.914.893	>100,0	20,7	3,9
Other operating expenses	11	(812.659)	(1.788.481)	975.822	(54,6)	(3,7)	(10,7)
Operating profit		**13.153.649**	**5.506.309**	**7.647.340**	**>100,0**	**59,5**	**32,8**
Finance costs		(51.705)	(44.080)	(7.625)	17,3	(0,3)	(0,3)
Share of profits of associated accounted for using the equity method		187.729	280.542	(92.813)	(33,1)	0,8	1,7
Profit before income tax		**13.289.673**	**5.742.771**	**7.546.902**	**>100,0**	**60,0**	**34,2**
Income tax expense	10,12	(2.285.301)	(1.097.062)	**(1.188.239)**	>100,0	(10,2)	(6,5)
Profit for the period from continuing operations		**11.004.372**	**4.645.709**	**6.358.663**	**>100,0**	**49,8**	**27,7**
Profit for the period from discontinued operations		59.631	84.715	(25.084)	(29,6)	0,3	0,5
Net profit	8	**11.064.003**	**4.730.424**	**6.333.579**	**>100,0**	**50,0**	**28,2**
Attributable to shareholders of the Parent Entity		11.063.456	4.724.507	6.338.949	>100,0	50,0	28,2
Attributable to non-controlling interest		547	5.917	(5.370)	(90,8)	-	-
Other comprehensive income	13	363.297	83.520	279.777	>100,0	1,7	0,5
Total comprehensive income		**11.427.300**	**4.813.944**	**6.613.356**	**>100,0**	**51,7**	**28,7**

*) restated data

IV. Discussion of consolidated financial statement components (cont.)

Presentation of the Group's financial position and results

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

	2011	**2010***	**2009**
Asset ratios			
- receivables turnover	27 days	34 days	26 days
- inventory turnover	76 days	83 days	84 days
Profitability ratios			
- net profitability of sales	50%	28%	19%
- gross margin	59%	33%	22%
- return on capital employed	58%	37%	22%
Liability ratios			
- gearing ratio	23%	30%	29%
- payables turnover	24 days	24 days	26 days
	31.12.2011	**31.12.2010***	**31.12.2009**
Liquidity ratios			
- current ratio	4,2	2,6	2,2
- quick ratio	3,6	1,9	1,3

*) restated data

IV. Discussion of consolidated financial statement components (cont.)

The consolidated statement of financial position as at 31 December 2011

1. Investments in associates

The value of investments in associates decreased due to disposal of shares of Polkomtel S.A. in the amount of PLN 1.359.568 thousand in 2011.

2. Available-for-sale financial assets

The value of available-for-sale financial assets (long- and short-term) amounted to PLN 1.009.628 thousand, at the end of the audited period and decreased by PLN 157.752 thousand in comparison to 2010. The main reason of change was the sale of the certificates in open-end investments funds (at a book value as at 31 December 2010 of PLN 405.193 thousand) and acquisition of additional shares of Tauron Polska Energia S.A by the Parent Company.

The balance of available-for-sale financial assets as at the end of financial year consisted mainly of shares of companies listed on stock exchanges in Poland and Canada.

3. Derivatives

At the end of the accounting period assets related to valuation of derivatives (long- and short-term) amounted to PLN 1.759.442 thousand and increase by PLN 1.058.019 thousand comparing to the previous year.

At the end of the accounting period liabilities related to valuation of derivatives (long- and short-term) amounted to PLN 869.651 thousand and decrease by PLN 324.047 thousand comparing to 2010.

4. Current trade and other receivables

The balance of trade and other receivables decreased by PLN 862.974 thousand comparing to the previous year and amounted to PLN 1.878.469 thousand on 31 December 2011. The main reason for the drop was the decrease of the balance of trade receivables compared to the previous year and termination of deposits with a maturity over 3 to 12 months, which have been entered in 2010, by the end of 2011.

5. Cash and cash equivalents

Cash and cash equivalents at the end for the period amounted to PLN 13.130.401 thousand and increased by PLN 10.043.444 thousand. The increase of cash and cash equivalents compared to the previous year was mainly due to an increase of cash flows from operating activities and obtaining cash flows from disposal of shares of Polkomtel S.A. and Telefonia Dialog S.A.

IV. Discussion of consolidated financial statement components (cont.)

6. Equity

	31.12.2010*	Dividend paid	Other comprehensive income	Profit for the year 2011	Obligation to repurchase of non-controlling interest	Other changes in equity attributable to non-controlling interest	31.12.2011
	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	209.821	-	345.103	-	-	-	554.924
Retained earnings	12.456.413	(2.980.000)	-	11.063.456	(2.478)	7.135	20.544.526
Equity attributable to shareholders of the Parent Company	**14.666.234**	**(2.980.000)**	**345.103**	**11.063.456**	**(2.478)**	**7.135**	**23.099.450**
Equity attributable to non-controlling interest	255.889	-	18.194	547	-	8.277	282.907
Total	**14.922.123**	**(2.980.000)**	**363.297**	**11.064.003**	**(2.478)**	**15.412**	**23.382.357**

*) restated data

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

IV. Discussion of consolidated financial statement components (cont.)

7. Share capital of the Parent Company – ownership structure

As at 31 December 2011 the only shareholder of the Parent Company holding more than 5% of share capital was the Polish 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.

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

	2011 PLN '000
(a) Profit of the Parent Company	11.334.520
Sum of profit or loss of the consolidated companies	112.661
Total profit according to the financial statements	**11.447.181**
(b) Total consolidation adjustments	(383.725)
Profit of the Group attributable to the shareholders of the Parent Company	**11.063.456**
(c) Profit attributable to non-controlling interest	547
Profit of the Group	**11.064.003**
including profit from discontinued operations	59.631

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

	31.12.2011 PLN '000
(a) Net assets of the Parent Company	23.135.511
Net assets of subsidiaries (consolidated)	2.979.774
Total net assets	**26.115.285**
(b) Elimination of share capital of subsidiaries	(2.507.555)
(c) Elimination of other equity	(234.197)
(d) Other consolidated adjustments	8.824
Net assets of the Group	**23.382.357**

10. Current income tax liabilities

As at the end of the reporting period the balance of current income tax liabilities amounted to PLN 1.595.528 thousand and increased by PLN 923.376 thousand when compared with the previous accounting period. The increase was a consequence of significantly higher taxable profit obtained by the Parent Company in 2011.

IV. Discussion of consolidated financial statement components (cont.)

The consolidated statement of comprehensive income for the period from 1 January to 31 December 2011

11. Other operating income and expenses

The profit on other operating activities for the audited period amounted to PLN 3.751.159 thousand and increased by PLN 4.890.715 thousand when compared with previous year's loss, mainly due to profit on disposal of associate in the amount of PLN 2.312.579 thousand, recognition of result on settlement and valuation of derivatives in the amount of PLN 322.798 thousand (in the previous year in the amount of PLN (1.162.023) thousand) and obtaining foreign exchange gains amounted to PLN 899.943 thousand (in the previous year foreign exchange losses in the amount of PLN 34.385 thousand).

12. Income tax

The amount of deferred and current income tax for the audited period equaled to PLN 2.285.301 thousand and increased by PLN 1.188.239 thousand comparing to 2010 due significantly higher taxable profit obtained by the Parent Company in 2011.

13. Other comprehensive income

Other comprehensive income contained mainly other comprehensive income due to cash flow hedges in the value of PLN 598.159 thousand and valuation of available-for-sale financial assets in the value of PLN (195.485) thousand. Other comprehensive income for the audited period amounted to PLN 363.297 thousand and increased by PLN 279.777 thousand comparing to the previous year mainly due to the valuation of cash flow hedges.

V. Statements of the independent registered auditor

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 accounting records and the disclosure of all contingent liabilities and subsequent events which occurred up to the date on which that letter was signed.

b. The scope of the audit was not limited.

c. The accounting policies and disclosures specified by the Parent Company's Management complied with the International Financial Reporting Standardes as adopted by the European Union in all material respects. There were no changes to the accounting policies compared with the previous year.

d. The calculation of goodwill and the excess of the acquirer's share in the fair value of identifiable assets, liabilities and contingent liabilities of acquire 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.

e. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.

f. The elimination of mutual balances (receivables and payables) and transaction (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.

g. 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.

h. The impact of disposal or partial disposal of shares in subordinated entities was accounted for properly in accordance with the IFRSs as adopted by the European Union in all material respects.

i. The consolidated documentation was complete and correct, and method of storage provides adequate protection.

j. The consolidated financial statements of the Group for the period from 1 January to 31 December 2010 were approved by Resolution No. 22/2011 passed by the General Shareholders' Meeting on 15 June 2011, filed with the National Court Register in Wrocław on 20 June 2011 and published in Monitor Polski B No. 2421 on 14 December 2011.

k. The consolidated financial statements for the previous financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

l. The notes to the consolidated financial statements present all material information required by the IFRS as adopted by the European Union.

m. The information in the Directors' Report for the year ended 31 December 2011 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 of 2009, No. 33, item 259, as amended).

VI. Final information and comments

This report has been prepared in connection with our audit of the consolidated financial statements of KGHM Polska Miedź Spółka Akcyjna Group, of which KGHM Polska Miedź Spółka Akcyjna with registered office in Lubin, 48 Marii Skłodowskiej-Curie Street is the Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board on 27 March 2012.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the General Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna dated 27 March 2012, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses 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 statement 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, 27 March 2012

KGHM POLSKA MIEDŹ S.A.
GROUP

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

Lubin, March 2012

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.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
27 March 2012	Herbert Wirth	President of the Management Board	
27 March 2012	Maciej Tybura	I Vice President of the Management Board	
27 March 2012	Wojciech Kędzia	Vice President of the Management Board	

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

KGHM POLSKA MIEDŹ S.A.
GROUP

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

Lubin, March 2012

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.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
27 March 2012	Herbert Wirth	President of the Management Board	
27 March 2012	Maciej Tybura	I Vice President of the Management Board	
27 March 2012	Wojciech Kędzia	Vice President of the Management Board	

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

KGHM POLSKA MIEDŹ S.A.
GROUP

PRESIDENT'S LETTER

Lubin, March 2012

Dear Shareholders,

It is with great pleasure that I present to you the Consolidated Annual Report of the KGHM Polska Miedź S.A. Group for 2011, a year which was particularly successful.

In 2011, the KGHM Polska Miedź S.A. Group achieved the highest financial results in its history. Revenues from sales amounted to over PLN 22 billion, and profit for the period over PLN 11 billion.

At the end of 2011, the KGHM Polska Miedź S.A. Group comprised 50 entities, though it was the Parent Entity which had a decisive impact on its results.

In 2011, the Management Board of KGHM Polska Miedź S.A. consistently realised the adopted strategy of growing the resource base, aimed at increasing annual mined copper production to 700 thousand tonnes in 2018. Near the end of 2011 the Parent Entity submitted a binding offer for the friendly purchase of all of the shares of the Canadian mining company Quadra FNX Mining Ltd. with its registered head office in Vancouver. Thanks to closure of the transaction in March 2012, KGHM Polska Miedź S.A. became a global player on the non-ferrous metals market, holding fourth place in the world in terms of total copper resources.

The KGHM Polska Miedź S.A. Group now owns a diversified portfolio of assets in low-risk countries as well as a portfolio of projects ensuring growth of the production base. This includes 9 mines and 5 projects at the investment and pre-investment stage, located in five countries: Poland, Canada, the USA, Chile, Germany and Greenland. The Group is also engaged in exploration projects in Poland, Germany and Canada.

Another significant element of the realised strategy is the diversification of sources of income through investments in the energy sector. In 2011, KGHM Polska Miedź S.A. realised the construction of gas-steam blocks and worked on a project related to the construction, together with a sector partner, of a power generation facility using natural gas as an energy source.

In 2011, the Parent Entity sold all of its shares held in Polkomtel S.A. and DIALOG S.A., thereby realising its plan to exit the telecommunications sector. Realisation of these transactions enabled the partial financing of the resource projects of the KGHM Polska Miedź S.A. Group.

In 2011, the companies of the Group realised the ownership strategy of KGHM Polska Miedź S.A., among others by developing those activities which support the core business of KGHM. Investment programs were realised using new technology and aimed at reducing production costs.

Apart from its business objectives, the KGHM Polska Miedź S.A. Group consistently realises an active social policy. With respect to activities in 2011 related to corporate social responsibility, a Program for the Promotion of Health and Counteracting Environmental Threats was realised. The main goal of this project is to provide preventative medical coverage for the inhabitants of the Copper Belt, with particular regard to children. This project is being continued in 2012.

Last year, KGHM Polska Miedź S.A. celebrated its 50th anniversary Golden Jubilee. To mark this occasion, numerous interesting events were organised for the inhabitants of the Copper Belt, recalling the achievements of KGHM.

Our success would not have been possible without the efforts and commitment of the Group's employees, to whom we offer our sincerest thanks. I also wish to thank our Shareholders and the Members of the Supervisory Board for their trust and support, which enabled us to fulfil our stated strategic objectives and to achieve such solid results with benefits for the entire KGHM Polska Miedź S.A. Group.

The past year was a watershed moment for the KGHM Polska Miedź S.A. Group. Beginning in 2011, international expansion has become of crucial importance for the future of the Parent Entity, as a major player on the global market for copper and associated metals. Through integration of the assets owned, as well as through further realisation of the strategy of growing the resource base, we intend to increase the value of the KGHM Polska Miedź S.A. Group. The sound financial condition of the Group and the strong market position of KGHM Polska Miedź S.A. ensure the success of our plans and allow us to look in peace towards the future.

Herbert Wirth

President
of the Management Board

Lubin, 27 March 2012

KGHM POLSKA MIEDŹ S.A. GROUP

CONSOLIDATED FINANCIAL STATEMENTS FOR 2011

Lubin, March 2012

Table of contents to the consolidated financial statements

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

Consolidated statement of financial position

	Note	At 31 December 2011	31 December 2010 restated	1 January 2010
ASSETS				
Non-current assets				
Property, plant and equipment	6	9 045 777	8 670 554	7 747 112
Intangible assets	7	613 994	473 215	218 124
Investment property	8	59 930	59 760	17 164
Investments in associates	9	472	1 431 099	1 315 663
Deferred tax assets	24	272 331	592 792	347 395
Available-for-sale financial assets	10	993 960	751 718	19 412
Held-to-maturity investments	11	111 709	84 157	67 144
Derivatives	12	899 400	403 839	58 034
Trade and other receivables	13	39 490	13 508	10 586
		12 037 063	**12 480 642**	**9 800 634**
Current assets				
Inventories	14	2 658 253	2 222 231	2 072 434
Trade and other receivables	13	1 838 979	2 727 935	1 531 341
Current corporate tax receivables		7 759	4 511	9 329
Available-for-sale financial assets	10	15 668	415 662	8 976
Held-to-maturity investments	11	2 147	4 129	580
Derivatives	12	860 042	297 584	263 375
Cash and cash equivalents	15	13 130 401	3 086 957	1 197 077
Non-current assets held for sale	16	3 562	1 078	6 674
		18 516 811	**8 760 087**	**5 089 786**
TOTAL ASSETS		**30 553 874**	**21 240 729**	**14 890 420**
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the Parent Entity				
Share capital	17	2 000 000	2 000 000	2 000 000
Accumulated other comprehensive income	18	554 924	209 821	126 301
Retained earnings	19	20 544 526	12 456 413	8 371 956
		23 099 450	**14 666 234**	**10 498 257**
Non-controlling interest	20	**282 907**	**255 889**	**77 082**
TOTAL EQUITY		**23 382 357**	**14 922 123**	**10 575 339**
LIABILITIES				
Non-current liabilities				
Trade and other payables	21	129 749	119 860	63 316
Borrowings and finance lease liabilities	22	194 370	173 652	120 854
Derivatives	12	538 320	711 580	61 354
Deferred tax liabilities	24	120 153	168 156	56 182
Employee benefits liabilities	25	1 338 743	1 221 794	1 183 350
Provisions for other liabilities and charges	26	485 040	520 727	527 421
		2 806 375	**2 915 769**	**2 012 477**
Current liabilities				
Trade and other payables	21	2 182 093	1 994 577	1 575 896
Borrowings and finance lease liabilities	22	103 587	96 162	219 816
Current corporate tax liabilities		1 595 528	672 152	79 104
Derivatives	12	331 331	482 118	273 717
Employee benefits liabilities	25	126 563	110 912	106 704
Provisions for other liabilities and charges	26	26 040	46 916	47 367
		4 365 142	**3 402 837**	**2 302 604**
TOTAL LIABILITIES		**7 171 517**	**6 318 606**	**4 315 081**
TOTAL EQUITY AND LIABILITIES		**30 553 874**	**21 240 729**	**14 890 420**

The accounting policies and other explanatory information presented on pages 7 to 123 represent an integral part of these financial statements

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

Consolidated statement of comprehensive income

	Note	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010 restated
Continued operations			
Sales	28	22 107 230	16 766 504
Cost of sales	29	(11 619 941)	(9 288 411)
Gross profit		**10 487 289**	**7 478 093**
Selling costs	29	(186 917)	(132 771)
Administrative expenses	29	(897 882)	(699 457)
Other operating income	31	4 563 818	648 925
Other operating costs	32	(812 659)	(1 788 481)
Operating profit		**13 153 649**	**5 506 309**
Finance costs	33	(51 705)	(44 080)
Share of profits of associates accounted for using the equity method	36	187 729	280 542
Profit before income tax		**13 289 673**	**5 742 771**
Income tax expense	37	(2 285 301)	(1 097 062)
Profit for the period from continued operations		**11 004 372**	**4 645 709**
Discontinued operations			
Profit for the period from discontinued operations	48	59 631	84 715
Profit for the period		**11 064 003**	**4 730 424**
Other comprehensive income – continued operations due to:			
Available-for-sale financial assets	18	(195 485)	147 512
Cash flow hedging instruments	18	598 159	(44 401)
Exchange differences from the translation of foreign operations	18	37 131	-
Income tax related to items presented in other comprehensive income	18	(76 508)	(19 591)
Other comprehensive net income for the financial period	18	**363 297**	**83 520**
TOTAL COMPREHENSIVE INCOME		**11 427 300**	**4 813 944**
Profit for the period attributable to:			
shareholders of the Parent Entity		11 063 456	4 724 507
non-controlling interest		547	5 917
Total comprehensive income attributable to:			
shareholders of the Parent Entity		11 408 559	4 808 027
non-controlling interest		18 741	5 917
Earnings per share from continued operations attributable to the shareholders of the Parent Entity during the period (in PLN per share)			
- basic	38	55.02	23.20
- diluted	38	55.02	23.20
Earnings per share from discontinued operations attributable to the shareholders of the Parent Entity during the period (in PLN per share)			
- basic	38	0.30	0.42
- diluted	38	0.30	0.42

The accounting policies and other explanatory information presented on pages 7 to 123 represent an integral part of these financial statements

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

Consolidated statement of changes in equity

		Equity attributable to shareholders of the Parent Entity							
			Accumulated other comprehensive income due to:						
	Note	**Share capital**	**Available-for-sale financial assets**	**Cash flow hedging instruments**	**Exchange differences from the translation of foreign operations**	**Retained earnings**	**Total**	**Equity attributable to non-controlling interest**	**Total equity**
At 1 January 2011 restated		**2 000 000**	**120 046**	**89 775**	**-**	**12 456 413**	**14 666 234**	**255 889**	**14 922 123**
Dividends for 2010, paid	39	-	-	-	-	(2 980 000)	(2 980 000)	-	(2 980 000)
Total comprehensive income		**-**	**(158 342)**	**484 508**	**18 937**	**11 063 456**	**11 408 559**	**18 741**	**11 427 300**
Profit for the period		-	-	-	-	11 063 456	11 063 456	547	11 064 003
Other comprehensive income	18	-	(158 342)	484 508	18 937		345 103	18 194	363 297
Obligation to repurchase of non-controlling interest		-	-	-	-	(2 478)	(2 478)	-	(2 478)
Changes due to obtaining control/(loss of control) of subsidiaries	20.1	-	-	-	-	-	-	15 923	15 923
Changes in ownership shares in subsidiaries which do not lead to a loss of control	20.1	-	-	-	-	7 135	7 135	(7 646)	(511)
At 31 December 2011		**2 000 000**	**(38 296)**	**574 283**	**18 937**	**20 544 526**	**23 099 450**	**282 907**	**23 382 357**
At 1 January 2010		**2 000 000**	**561**	**125 740**	**-**	**8 371 956**	**10 498 257**	**77 082**	**10 575 339**
Dividends for 2009, paid	39	-	-	-	-	(600 000)	(600 000)	-	(600 000)
Total comprehensive income		**-**	**119 485**	**(35 965)**	**-**	**4 724 507**	**4 808 027**	**5 917**	**4 813 944**
Profit for the period		-	-	-	-	4 724 507	4 724 507	5 917	4 730 424
Other comprehensive income	18	-	119 485	(35 965)	-	-	83 520	-	83 520
Obligation to repurchase of non-controlling interest		-	-	-		(40 296)	(40 296)	-	(40 296)
Changes due to obtaining control of subsidiaries	20.1	-	-	-	-	-	-	173 993	173 993
Changes in ownership shares in subsidiaries which do not lead to a loss of control	20.1	-	-	-	-	246	246	(1 103)	(857)
At 31 December 2010 restated*		**2 000 000**	**120 046**	**89 775**	**-**	**12 456 413**	**14 666 234**	**255 889**	**14 922 123**

* explanation in note 2.1

The accounting policies and other explanatory information presented on pages 7 to 123 represent an integral part of these financial statements

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

Consolidated statement of cash flows

	Note	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31December 2010 restated
Cash flow from operating activities			
Profit for the period		11 064 003	4 730 424
Adjustments to profit for the period	40	(649 512)	1 598 571
Income tax paid		(1 315 831)	(667 720)
Net cash generated from operating activities		**9 098 660**	**5 661 275**
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents		(116 630)	(380 413)
Proceeds from sale and liquidation of subsidiaries		891 560	-
Proceeds from sale of an associate		3 672 147	-
Purchase of property, plant and equipment and intangible assets		(1 858 942)	(1 401 111)
Advances granted for purchase of property, plant and equipment and intangible assets		(68 123)	(80 432)
Proceeds from sale of property, plant and equipment and intangible assets	40	18 876	7 217
Purchase of investment property		(2 227)	-
Proceeds from sale of investment property		-	461
Purchase of available-for-sale financial assets		(1 585 813)	(1 298 141)
Proceeds from sale of available-for-sale financial assets		1 560 198	310 994
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(25 568)	(20 567)
Establishment of deposits		(518 369)	(350 000)
Termination of deposits		800 000	-
Loans granted		(180)	-
Interest received		8 510	63
Dividends received		277 484	146 728
Other investment expenses		(4 344)	(4 922)
Net cash generated from/(used in) investing activities		**3 048 579**	**(3 070 123)**
Cash flow from financing activities			
Expenses connected with purchase of own shares for their redemption		-	(2)
Proceeds from bank and other loans		140 630	121 195
Repayments of bank and other loans		(104 549)	(202 349)
Payments of finance leases liabilities		(24 033)	(12 208)
Interest paid		(11 568)	(14 166)
Dividends paid to shareholders of the Parent Entity		(2 980 000)	(600 000)
Other financial proceeds		1 112	33
Net cash used in financing activities		**(2 978 408)**	**(707 497)**
Total net cash flow		**9 168 831**	**1 883 655**
Exchange gains on cash and cash equivalents		874 613	6 225
Movements in cash and cash equivalents		**10 043 444**	**1 889 880**
Cash and cash equivalents at beginning of the period	15	**3 086 957**	**1 197 077**
Cash and cash equivalents at end of the period	15	**13 130 401**	**3 086 957**
including restricted cash and cash equivalents		9 838	5 097

The accounting policies and other explanatory information presented on pages 7 to 123 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 assigned a 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 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,
- scheduled and non-scheduled air transport, and
- telecommunication and IT activities.

Activities involving the exploitation of copper ore, salt deposits and common minerals are carried out 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 obtaining 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 obtaining 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 have an unlimited period of operation.
The legal antecedent of KGHM Polska Miedź S.A. was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin transformed into a State-owned joint stock company in accordance with principles set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

Composition of the Management Board of the Parent Entity

From 1 January to 31 December 2011, the Management Board of the Parent Entity 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).

1. General information (continued)

At the date of authorisation of these financial statements for issue, the composition of the Management Board of KGHM Polska Miedź S.A. had not changed.

Authorisation of the financial statements

The consolidated financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 27 March 2012.

Going concern assumption

The consolidated 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 consolidated 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 2011. These financial statements will be available on the website of the Parent Entity www.kghm.pl on dates consistent with the current report concerning dates of publication of the annual report of the Parent Entity and the consolidated annual report of the Group for 2011.

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

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union based on the principle of historical cost (adjusted for the effects of hyperinflation in respect of property, plant and equipment and equity), except for available-for-sale financial assets and derivatives.

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

These financial statements have been prepared applying the same principles for the current and comparable periods, restating the comparable period to changes in accounting principles and in methods of presentation adopted in the financial statements in the current period.
Comparative period data were restated due to final settlement of the acquisition of the following companies' shares: Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A. and „Uzdrowisko Cieplice" Sp. z o.o. pursuant to IFRS 3. As a result of this settlement, the net asset value of these companies was adjusted to final fair value. The impact of differences between the provisional and final settlement of acquisition on the consolidated statement of financial position at 31 December 2010 is presented in the following table. As a result of the restatement of comparative data, the statement of financial position includes data at 1 January 2010 under IAS 1, but the final settlement of acquisition did not impact the carrying amounts of assets and liabilities at 1 January 2010.

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

2. Main accounting policies (continued)

2.1 Basis of preparing financial statements (continued)

	Zespół Uzdrowisk Kłodzkich S.A.	Uzdrowisko Połczyn S.A.	„Uzdrowisko Cieplice" Sp. z o.o.	Total adjustments
ASSETS				
Non-current assets				
Property, plant and equipment	74 080	18 900	23 940	**116 920**
Intangible assets	(39 808)	4 276	(15 127)	**(50 659)**
including goodwill	(87 044)	(7 383)	(23 429)	**(117 856)**
Other non-current assets	113	(155)		**(42)**
	34 385	**23 021**	**8 813**	**66 219**
Current assets				
Inventories	(37)	(53)	-	**(90)**
Receivables	(468)	(2 250)	(5)	**(2 723)**
	(505)	**(2 303)**	**(5)**	**(2 813)**
TOTAL ASSETS	**33 880**	**20 718**	**8 808**	**63 406**
EQUITY AND LIABILITIES				
Equity				
Retained earnings – equity attributable to shareholders of the Parent Entity	2 570	12 973	18	**15 561**
including profit for the period	2 570	12 973	18	**15 561**
Equity attributable to non-controlling interest	9 810	2 284	2 689	**14 783**
	12 380	**15 257**	**2 707**	**30 344**
Non-current liabilities				
Trade and other payables	(1 670)	-	(30)	**(1 700)**
Deferred tax liabilities	23 322	5 311	6 131	**34 764**
	21 652	**5 311**	**6 101**	**33 064**
Current liabilities	**(152)**	**150**	-	**(2)**
TOTAL EQUITY AND LIABILITIES	**33 880**	**20 718**	**8 808**	**63 406**

Details on the final settlement of the above-mentioned acquisitions are described in note 4.

Since 1 January 2011 the following standards and interpretations applied by the Group have been in force:

- Amendment to IAS 32 Financial instruments: *Presentation, Classifications of rights issues*
- Amended IFRS 1 First-time Adoption of IFRS, *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters,*
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments,
- Amended IAS 24 Related Party Disclosures and changes to IFRS 8 *Operating Segments*,
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement ,
- Amendments to International Financial Reporting Standards 2010.

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

The Group, based on the updated IAS 24, made use of the exemptions provided for in paragraph 25, and presents information on transactions between companies of the KGHM Polska Miedź S.A. Group and the government (the Republic of Poland) and with entities controlled or jointly controlled by the government, or over which the government has significant influence, pursuant to the requirements set forth in paragraph of 27 IAS 24.
Besides, the Group estimates that application of the above-mentioned standards did not affect significantly its financial statements.

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

2. Main accounting policies (continued)

2.1 Basis of preparing financial statements (continued)

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

<u>Amendments to IFRS 7 *Disclosures - Transfers of Financial Assets*</u>
On 7 October 2010, the International Accounting Standards Board issued *Disclosures - Transfers of Financial Assets - Amendments to* IFRS 7 *Financial Instruments: Disclosures*. 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 amendment to IFRS 7 expands the scope of required disclosures by information regarding transferred financial assets which were not entirely derecognised from the financial statements. The additional disclosures encompass the nature and carrying amount of the 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, by each class of continuing involvement, including in particular 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 entities 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.
Amendments are effective for annual periods beginning on or after 1 July 2011.

Standards and interpretations which are not in force and have not been adopted by the European Union up to the date of publication of these financial statements

<u>IFRS *for Small and Medium-sized Entities*</u>

On 9 July 2009, the International Accounting Standards Board issued a standard 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.

<u>IFRS 9 Financial instruments</u>

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, at the initial recognition, 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 2015 and will affect the financial statements of the Group, in particular with respect to presentation. 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 are measured at cost less any impairment. It is however expected that the changes will not have a significant impact on the financial statements of the Group.

On 28 October 2010, the International Accounting Standards Board reissued IFRS 9 *Financial Instruments*. This reissue is the result of the conclusion of a further phase of the Board's work aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*. To IFRS 9 the Board added requirements regarding the classification and measurement of financial liabilities, the majority of which were transferred to the new standard directly from IAS 39.

2. Main accounting policies (continued)

2.1 Basis of preparing financial statements (continued)

Under IFRS 9, liabilities representing derivatives which are related to and settled through the delivery of an unquoted equity instrument are measured at fair value, as in the case of investments in unquoted equity instruments and derivative financial assets related to these investments.
In addition, the standard introduces the requirement to recognise changes in the fair value of financial liabilities measured at fair value through profit or loss resulting from changes in credit risk related to these liabilities, in other comprehensive income. The remaining amount of change in the fair value of liabilities is presented in profit or loss, unless recognition of the affects of these changes in the credit risk of these liabilities would create or enlarge an accounting mismatch; in such a case the entity would recognise the full amount of the change in the fair value in profit or loss.

This standard will be effective for annual periods beginning on or after 1 January 2015, and will affect the Group's financial statements, in particular with regard to presentation, although it is estimated that the impact will be immaterial.

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

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

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 based on 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.

IFRS 10 *Consolidated Financial Statements*

On 12 May 2011, the International Accounting Standards Board published IFRS 10 *Consolidated Financial Statements.* The new standard supersedes SIC 12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* with regard to consolidated financial statements.

The purpose of introducing the new standard was primarily to unify definitions of control, which due to inconsistencies between IAS 27 and SIC 12 led to various interpretations by economic entities.

IFRS 10 establishes a revised concept of control as being the deciding factor in whether to include an entity in consolidated financial statements, comprising three elements:
- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

This standard will be effective for annual periods beginning on or after 1 January 2013, and will have an effect on the financial statements of the Group in terms of deciding whether or not to exercise control.

2. Main accounting policies (continued)

2.1 Basis of preparing financial statements (continued)

IFRS 11 *Joint Arrangements*

On 12 May 2011, the International Accounting Standards Board published IFRS 11 *Joint Arrangements.* The new standard supersedes IAS 31 *Interests In Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*.
IFRS 11 describes two types of joint arrangements: joint operations and joint ventures. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. The standard eliminates incoherence by eliminating proportional consolidation as a method for recognising a joint venture, allowing solely for the valuation of assets in a jointly-controlled entity by the joint operator using the equity method.
This standard will be effective for annual periods beginning on or after 1 January 2013, and will not have an effect on the consolidated financial statements of the Group.

IFRS 12 *Disclosure of Interests in Other Entities*

On 12 May 2011, the International Accounting Standards Board published IFRS 12 *Disclosure of Interests in Other Entities.* This standard will be applicable to entities having interests in subsidiaries, joint ventures, associates or unconsolidated structured entities.

The new standard combines the disclosure requirements regarding interests in other entities which are currently described in IAS 27, IAS 28 and IAS 31, introducing coherence and completeness in disclosures, and also expanding their scope. The purpose of introducing the changes was to ensure that users of financial statements have a better opportunity to evaluate the nature of, and risks associated with, the interests of a given entity in other entities, and to understand the effects of those interests on the investor's financial position, profit or loss and cash flows. The standard sets forth the minimum scope of disclosures which the investor can expand, if it is felt that additional disclosures are required to meet the purposes of the standard. In addition, the investor may decide as to the level of aggregation and disaggregation of disclosed information and may select those areas which the investor wishes to emphasise in its disclosures.

IFRS 12 will be effective for annual periods beginning on or after 1 January 2013 and will affect the presentation of information in the Group's consolidated financial statements through the standard's updated scope of disclosures.

IFRS 13 *Fair Value Measurement*

On 12 May 2011, the International Accounting Standards Board published IFRS 13 *Fair Value Measurement.* This standard is the result of the process carried out by the IASB, introducing unified accounting standards in terms of international and American standards.
IFRS 13 introduces a new definition of fair value, unified conceptual assumptions and amended disclosure requirements with respect to fair value measurements, without expanding the scope of fair value measurements. The new requirements are to be applied to those standards (with certain exceptions), which at present require or allow for the measurement of assets and liabilities to fair value, in respect of which the current guidelines regarding fair value measurements and disclosures are incoherent.
IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). Consequently, the standard provides guidelines as to the method of measurement to fair value, both at the moment of initial recognition as well as on subsequent reporting period end days.
In the current standards, a broad range of disclosures concerning measurement to fair value are mainly in respect of financial instruments. The application of IFRS 13 will encompass those disclosures as well as other assets and liabilities which are subject to fair value measurement.
This standard will be effective for annual periods beginning on or after 1 January 2013. The Group estimates that although IFRS 13 will affect the presentation of disclosures involving measurement to fair value in the financial statements, this will depend on those assets and liabilities held at the date of application which are measured to fair value.

2. Main accounting policies (continued)

2.1 Basis of preparing financial statements (continued)

IAS 27 *Separate Financial Statements*

On 12 May 2011, the International Accounting Standards Board published the amended IAS 27 *Separate Financial Statements*, which supersedes the existing IAS 27 *Consolidated and Separate Financial Statements* in that part involving separate financial statements. The change in the standard is a result of the Board's „Consolidation” project, as a result of which the existing content of IAS 27 was divided between IFRS 10 *Consolidated Financial Statements* and IAS 27, which will only deal with separate financial statements. Likewise, the requirements regarding separate financial statements set forth in IAS 28 and IAS 31 were transferred to the amended IAS 27.
The definitions and terminology of the amended standard were unified with IFRS 10, IFRS 11 and IFRS 12. This standard will be effective for annual periods beginning on or after 1 January 2013 and will not affect the Group’s financial statements.

IAS 28 *Investments in Associates and Joint Ventures*

On 12 May 2011, the International Accounting Standards Board published the amended IAS 28 *Investments in Associates and Joint Ventures*, which superseded the existing IAS 28 *Investments in Associates.* The change in the standard was due to the Board project „Joint Ventures”.
In this project, the IASB decided to include accounting for joint ventures within the scope of the amended IAS 28, as the new standard IFRS 11 *Joint Arrangements* will only allow for the measurement of interests in joint ventures using the equity method. As a result, an entity should apply IFRS 11 solely for the purpose of determining the type of enterprise in which it participates, and upon determining that the interests are in a joint venture, the investment is recognised and is measured using the equity method, in accordance with the amended IAS 28. Although the amended standard introduces no changes in the methodology of measurement using the equity method, it no longer contains requirements concerning disclosures, as these were included in IFRS 12.
The amended standard will be effective for annual periods beginning on or after 1 January 2013, and will not affect the consolidated financial statements of the Group.

Presentation of Other Comprehensive Income* Amendments to IAS 1 *Presentation of Financial Statements

On 16 June 2011, the International Accounting Standards Board published amendments to IAS 1 *Presentation of Financial Statements* titled *Presentation of Other Comprehensive Income*.
Changes were introduced in the title of one of the basic financial statements, from „Statement of comprehensive income” to „Statement of profit or loss and other comprehensive income”, leaving the possibility to present the statement of profit or loss separately. Entities may apply titles for these statements other than those set forth in IAS 1.
Also introduced were clear rules regarding positions which should be presented through profit or loss and through other comprehensive income.
The amended IAS 1 also introduces the requirement to separately group positions presented in other comprehensive income based on their potential reclassification to profit or loss in accordance with other IFRSs.
The amendments to IAS 1 will be effective for annual periods beginning on or after 1 July 2012, and will not have a material effect on the financial statements of the Group.

Amended IAS 19 *Employee Benefits*

On 16 June 2011, the International Accounting Standards Board published an amended IAS 19 *Employee Benefits*. Work on the standard was carried out in conjunction with the American Financial Accounting Standards Board to unify certain regulations concerning employee benefit programs between IFRS and US GAAP.
The amendments to the standard introduce significant changes with respect to accounting for specified employee benefit programs. Among the items eliminated was the so-called 'corridor' approach enabling deferral in the recognition of actuarial gains and losses. This results in the necessity to recognise actuarial gains and losses when they arise. Elimination of this recognition option introduces consistency and clarity to the presented data. The requirement for early recognition (usually in the period in which they initially arise), was also introduced for costs of past employment.

Changes in the standard also involve the means of presentation of changes arising in the assets and liabilities of specified benefit programs. Among others the principle of recognising changes arising as a result of measurement of assets and liabilities of a program in other comprehensive income was introduced.
The amendment significantly expands the scope of disclosures for specified benefit programs, mainly with respect to the nature of these programs and the risk to which an entity is exposed due to participation in a program.

2. Main accounting policies (continued)

2.1 Basis of preparing financial statements (continued)

The amended IAS 19 will be effective for annual periods beginning on or after 1 January 2013. The Group considers that application of the amended standard will cause a change in the presentation of actuarial profit or loss in other comprehensive income, and not as until now in profit or loss and one-off recognition in other comprehensive income of unsettled costs of past employment, recognised until now under the straight line method for a period of 13.5 years. The result of this would be to decrease other comprehensive income at 1 January 2013 by the amount of PLN 2 531 thousand, due to the costs of past employment, which were not depreciated to 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

On 19 October 2011, the International Accounting Standards Board published Interpretation IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine.* The Interpretation is applied to the recognition of costs of accessing ore through the removal of overburden during the production phase of a surface mining operation. The Interpretation regulates among others the manner of recognition of these costs as an element of assets, their initial measurement and subsequent measurements of these assets. The Interpretation will be effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact of the standard on the financial statements.

***Mandatory Effective Date and Transition Disclosures from IAS 39 to IFRS 9. Amendments to IFRS 9 and* IFRS 7**

On 16 December 2011, the International Accounting Standards Board published the document *Mandatory Effective Date and Transition Disclosures* as an amendment to IFRS 9 and IFRS 7. This document amends the effective date of IFRS 9 from on or after 1 January 2013 to on or after 1 January 2015, and allows for early voluntary application. The Board also amended IFRS 7, requiring additional disclosures in terms of the transition from IAS 39 to IFRS 9. Deferment of the Mandatory Effective Date to apply IFRS 9 is a result of the Board's deferral of the work on the remaining parts of the project aimed at replacing IAS 39 by IFRS 9 to later periods. The change introduced will cause a deferment in application by the Group of the standard in respect of the initial deadline, due to the high probability that IFRS 9 will be adopted by the European Union only in its complete form.

Offsetting Financial Assets and Financial Liabilities.* Amendments to IAS 32 *Financial Instruments: Presentation

On 16 December 2011, the International Accounting Standards Board published the document *Offsetting Financial Assets and Financial Liabilities* as an amendment to IAS 32. The Board supplemented the Application Guidance accompanying the standard with respect to the conditions for offsetting and presenting financial assets and liabilities in a net amount in the statement of financial position. Under paragraph 42 of IAS 32, an entity may offset financial assets and liabilities, if (a) it currently has a legally enforceable right to set off the recognised amounts, and (b) it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Due to practical doubts in interpretation, in terms of the legally enforceable right to set off and in terms of recognising a given settlement as a net settlement (even for gross cash flows) with the participation of settlement institutions, the Board introduced additional explanations, enabling uniform implementation of the requirements of para. 42 of IAS 32 by financial institutions. The amendments will be effective for annual periods beginning on or after 1 January 2014, and will not have an impact on the Group's financial statements.

Disclosures - Offsetting Financial Assets and Financial Liabilities* Amendments to IFRS 7 *Financial Instruments: Disclosures

On 22 December 2011, the International Accounting Standards Board published the document *Disclosures - Offsetting Financial Assets and Financial Liabilities* as an amendment to IFRS 7. The amendments introduce additional information disclosure requirements, which enable users of financial statements to evaluate the impact, or potential impact, of offsetting agreements, with the actual or potential impact from realisation of a legally enforceable right to set off financial assets and liabilities recognised by an entity in its statement of financial position. Additional detailed disclosures will deal with all those amounts which an entity may potentially offset in its statement of financial position, regardless of whether or not an entity made use of this right. The amendments will be effective for annual periods beginning on or after 1 January 2013, and will affect the Group's financial statements through the expanded scope of disclosures.

These consolidated financial statements do not apply standards or interpretations prior to their effective date or prior to adoption by the European Union.

2. Main accounting policies (continued)

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.
If payment for an item of property, plant and equipment 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.

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

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

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

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

As at the end of the reporting period, items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated 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 these expenditures will flow to the entity, and the cost of the expenditures 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.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.1 Property, plant and equipment (continued)

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

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

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

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

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

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

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

2.2.2 Intangible assets

Intangible assets include the following identifiable non-monetary assets without physical substance:
- development costs,
- goodwill,
- software,
- acquired concessions, patents, licenses,
- other intangible assets, and
- intangible assets not yet available for use (under construction).

Goodwill

Goodwill represents the excess of the 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 and liabilities.

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.

2. Main accounting policies (continued)

2.2. Accounting policies (continued)

2.2.2 Intangible assets (continued)

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.

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 in accordance with the principles described in point 2.2.10

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

2. Main accounting policies (continued)
2.2 Accounting policies (continued)

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 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 on a bargain purchase, is recognised directly in profit or loss.

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 of 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.

2. Main accounting policies (continued)
2.2 Accounting policies (continued)
2.2.4 Investment in subsidiaries and associates (continued)

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 acquired 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 acquire 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.

2.2.5 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 have 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:

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.5 Financial Instruments (continued)

2.2.5.1 Classification of financial instruments (continued)

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.

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. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.5 Financial Instruments (continued)

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.

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. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.5 Financial Instruments (continued)

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.

The fair value of unquoted debt securities is established as the present value of future cash flows, 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).

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.5 Financial Instruments (continued)

2.2.5.5 Impairment of financial assets (continued)

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 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 risk of the embedded derivative are not closely related to the characteristics and risk of the host contract, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Re-assessment of contracts for possible separation of embedded 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.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.5 Financial Instruments (continued)

2.2.5.7 Hedge accounting (continued)

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 recognised in 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.

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.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.6 Inventories (continued)

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.

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. Main accounting policies (continued)

2.2 Accounting policies (continued)

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 operate, 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 than 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 or cash-generating unit which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

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

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

Impairment losses are recognised in profit or loss.

Non-financial non-current assets, other than goodwill, for which an impairment loss was recognised in prior periods, are tested at the end of each reporting period 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 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 available-for-sale financial assets,
   - exchange differences from translation of foreign operations, and
   - 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,
   - valuation of the put option for employee shares,
   - 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, "equity attributable to non-controlling interest" is a separate position of equity.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

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.

Liabilities are measured at amortised cost in accordance with IAS 39.

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

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

2.2.13 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*.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.15 Provisions (continued)

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 finance costs,
- increases/decreases due to changes in the discount rate – recognised in the initial value of property, plant and equipment*,
- increases/decreases due to changes in assumptions, including changes in construction-assembly prices – recognised in the initial value of property, plant and equipment*,
- increases due to the acquisition of new assets under the future decommissioning program,
- decreases due to early, unplanned liquidation of assets under the future decommissioning program.

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

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

2.2.16 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 reflects 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 yield 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.

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

2.2.17 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.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.17 Income taxes (continued)

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

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

Deferred tax is recognised in 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 outside profit or loss if individual standards allow or require it. In other comprehensive income the Group recognises profit and loss for the period relating to the fair value measurement of financial assets classified as available for sale, and of profit and loss from fair value measurement of the effective portion of future cash flow hedging instruments and exchange differences from translation of foreign operations, 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 (continued)

2.2 Accounting policies (continued)

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 (including income from dividends and interest),
- 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 (bank and other loans, bonds, finance leases etc.),
- gains on realisation and fair value measurement of derivatives used to hedge liabilities financing the Group's activities.

Moment of recognition of revenues
<u>Revenues from the sale of products, merchandise and materials are recognised when:</u>
- 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.

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

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.

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

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

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

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, bank loans 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 of Group entities 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 presentation currency of the Group.

Transactions and balances

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

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.22 Foreign currency transactions and the measurement of items denominated in foreign currencies (continued)

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), 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 (continued)

2.2 Accounting policies (continued)

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.

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). As a result of analysis of the manner of supervision of Group companies and of management of the Group, reflecting aggregation criteria and quantitative thresholds from IFRS 8, the following reporting segments were identified: production and resource base development, equity-portfolio investments, commerce and hedging, and Corporate Social Responsibility - CSR. These reporting segments are presented in note 5.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

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 purchased allowances are measured at cost and recognised in intangible assets.

Emission allowances received from the government are treated as a non-cash subsidy and are presented in the financial statements at net amounts together with the emission allowances granted, representing intangible assets.

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

At the end of the reporting period, the emission allowances are recognised at initial cost at the moment of recognition, less any impairment.

Under the principle of net obligations, in a situation where actual emissions exceed the amount of allowances granted and still held, the Group recognises a provision in the amount of fair value of the emission allowances, plus any potential 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). 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 attributable 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.

In order to maintain financial liquidity and the creditworthiness to obtain 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 Net Debt/EBITDA* at a level of up to 2.0.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.31 Exploration for and evaluation of mineral resources

Property, plant and equipment (as fixed assets under construction) and intangible assets (as intangible assets not yet available for use - exploration and evaluation expenditures) used in the exploration for and evaluation of mineral resources from the moment the right is acquired to carry out exploratory activities are recognised as exploration and evaluation assets. These assets are presented in the financial statements as a separate asset group under property, plant and equipment and/or intangible assets. At the end of the reporting period exploration and evaluation expenditures are presented in a separate column under intangible assets (note 7).

Exploration and evaluation assets do not include expenditures on development work related to mineral resources or expenditures incurred:

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

Activities related to the exploration for and evaluation of mineral resources include expenditures on work performed as part of a geological project, such as geochemical analysis of terrain, geological charting, exploratory drilling, taking samples for chemical, mineralogical and geophysical analysis, performing geological, hydrological and geological-engineering documentation, whose goal is to develop documentation in the form of an ore management project and the technical feasibility and commercial viability of the ore management project.

Exploration and evaluation assets are measured at the moment of initial recognition at cost. As at the end of each reporting period expenditures are measured at cost less any impairment. Testing for impairment is required at the moment:
- when the technical feasibility and commercial viability of extracting a mineral resource is demonstrable, i.e. prior to reclassification of these assets to another asset group (including to fixed assets under construction or intangible assets not yet available for use other than those used in the exploration for and evaluation of mineral resources), and
- when the facts and circumstances indicate that the carrying amount of the exploration and evaluation assets may exceed their recoverable amount.

Any potential impairment losses are recognised prior to reclassification.

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

2.2.32 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 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.

Property rights in power 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.

2. Main accounting policies (continued)

2.2 Accounting policies (continued)

2.2.32 Property rights resulting from certificates of origin for energy from renewable resources and cogeneration (continued)

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 to coloured energy obtained free of charge from the government 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 are 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.

A description of rights resulting from certificates of origin for energy from renewable resources and cogeneration held by the Group may be found in note 14.

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 2011 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 Group companies analyses significance of the impact of separated embedded derivatives on the consolidated financial statements. Following this analysis, the Group determined that separation of these instruments at 31 December 2011 would not have a significant impact on the consolidated financial statements.

3. Important estimations and assumptions (continued)

3.2. Financial instruments (continued)

Afton-Ajax project
In implementation of the approved strategy, in the fourth quarter of 2011 work continued on the Afton-Ajax project. In accordance with the agreement signed on 12 October 2010, KGHM Polska Miedź S.A. acquired 51% of shares in the company KGHM AJAX MINING INC. formed together with Abacus Mining & Exploration Corp. (Abacus), through a cash contribution in the amount of USD 37 million (as at 31 December 2011 carrying amount of shares was PLN 109 763 thousand). Abacus has brought to KGHM AJAX MINING INC. all the rights it owns to the Afton-Ajax deposit. The cash was used to carry out a Bankable Feasibility Study and for further exploration. In accordance with this agreement, KGHM Polska Miedź S.A. holds the option to acquire 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 (at 31 December 2011: PLN 119 609 thousand).
In December 2011 the work on the Bankable Feasibility Study was completed and KGHM Polska Miedź S.A. received the document. The Study confirmed the chief geologic and mining parameters of the Afton-Ajax project, which until now had been estimated. Measured & Indicated mineral resources increased to 512 million tonnes of ore containing 0.31% copper and 0.19 g/t of gold, versus the previous 442 million tonnes of ore containing 0.30% copper and 0.19 g/t of gold. Proven & Probable mineral reserves were calculated at 1.34 million tonnes of copper and 2.75 million ounces of gold. Average annual production of copper and gold in concentrate amounts respectively to 50 000 tonnes of copper and 100 000 ounces of gold. Mine life was calculated at 23 years.

Applying conservative market assumptions, NPV ratio is positive. Under the base scenario, the investment payback period is approx. 8 years, while at current metals prices this period is less than 3 years. Capital expenditure, estimated at USD 795 million (the equivalent of PLN 2 687 million, according to the average USD/PLN exchange rate of the National Bank of Poland of 21 December 2011), reflects several important changes, aimed at optimising technological solutions through increasing metals recovery during processing, decreasing operating costs, and reducing environmental impact (such as changes in preliminary milling and ore transport systems, technological solutions at the processing plant, and in the waste storage system).

The cost of producing one tonne of copper was calculated in the range of USD 1740 – USD 2800. Mine construction will last two years. Considering the progress to date and the time needed to obtain further permits and administrative approval, the start-up date for the mine has been set at 2015.
The Bankable Feasibility Study was prepared in accordance with Canadian standard NI 43-101 by a consortium of independent consultants under the direction of Tetra Tech WEI (Wardrop).

Counting from the date of receipt of the Bankable Feasibility Study, the Parent Entity had 14 days to review the document, and had another 90 days to decide on the realisation of the option to purchase additional 29% of shares in the company KGHM AJAX MINING INC.

If the option to acquire additional 29% of shares in KGHM AJAX MINING INC. is exercised, KGHM Polska Miedź S.A. will be obliged to organise a capital expenditure of the project financing in the amount of USD 795 million (the equivalent of PLN 2 687 million, according to the average USD/PLN exchange rate of the National Bank of Poland of 21 December 2011)
If this option is not executed by KGHM Polska Miedź S.A., Abacus will have an exclusive right for a period of 90 days to buy back 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 (at 31 December 2011: PLN 126 444 thousand). 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 KGHM AJAX MINING INC. to Abacus, increasing the share of this company to 51% for the amount of USD 1 451 thousand (at 31 December 2011: PLN 4 959 thousand).
Under IAS 39, KGHM Polska Miedź S.A. is required to measure the options included in this agreement as derivatives. However, at the moment of publication of the Financial statements of the Parent Entity and the Consolidated financial statements of the Group at 31 December 2010, the Parent Entity was not able to make a reliable estimation of the fair value of these options, as work on the Bankable Feasibility Study had not yet been concluded. After receiving this document on 22 December 2011, its results and the possibility of calculating the fair value of these options as at 31 December 2011 have been analysed. Due to the assumptions in the methodology applied in the Bankable Feasibility Study and the nature of the scenarios foreseen for the project, in the opinion of the Parent Entity the possibility of determining the reliable fair value of these options is very limited. There exists therefore the risk of substantial uncertainty in estimating the fair value of these options. As a result of facts described above and based on IAS 39.46(c) it was determined that these options should be measured at cost, as derivatives related to an investment in an equity instrument which is not a traded market instrument and whose fair value cannot be reliably measured. Cost at initial recognition is therefore the amount of the premium paid for these options, which in this case is immaterial.

The deadline for making a corporate decision in the matter described above is 4 April 2012.

3. Important estimations and assumptions (continued)

3.3 Testing for impairment

Pursuant to IAS 36, the Management Board of the Parent Entity, at the end of the reporting period, performs annual testing for the impairment of cash-generating units to which goodwill was allocated. The tests performed in the current year involved goodwill allocated to two cash-generating units in the total amount of PLN 99 280 thousand. At 31 December 2011, as a result of the tests performed, no impairment losses have been recognised. Details are presented in note 7.

3.4 Provisions

The sensitivity of provisions was set based on Parent Entity amounts. In the remaining Group companies, due to the immaterial amounts of individual categories for established provisions, the impact of changes in basic parameters used to calculate these provisions on their amounts would be immaterial.

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 121 688 thousand,
   - a decrease in the discount rate by 1% would cause an increase in the provision by PLN 167 693 thousand,
   - an increase by 1% in the coal price and salary increase rates would cause an increase in the provision by PLN 177 518 thousand,
   - a decrease by 1% in the coal price and salary increase rates would cause a decrease in the provision by PLN 132 131 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. Detailed information on revaluation of provisions is presented in Note 26.

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 5.8%) 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 115 966 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 152 987 thousand.

The programme and schedule of decommissioning of technological facilities and estimates of decommissioning costs have been worked on since 2001 in cooperation with the subsidiary, KGHM Cuprum sp. z o.o. CBR. Revaluations of the basic decommissioning costs, calculated in 2001, are made periodically based on the changes of the price index for the construction–assembly industry, which are published by the Main Statistical Office (GUS), and movements in tangible fixed assets encompassed by the plan.

Subsequent updates are made should there occur significant economic events affecting the amount of the provision, while also utilising experience gained during the decommissioning of individual facilities. The last update to the decommissioning plan was made in 2011. As a result of work carried out, the present decommissioning plan reflects the technological objects mine decommissioning schedule of 2009 and on-going updating of a decommissioning costs forecast. According to the update, the greatest impact on the change in estimates came from labour costs, verified on the basis of the Parent Entity forecasts and, to a lesser extent, other costs estimated using indices for price changes in the production-assembly sector published by GUS. The update assumes that mine production by KGHM Polska Miedź S.A. in the existing licensed areas will end in 2042.

3. Other non-current provisions – they are estimated using a discount rate and inflation rate applied to measurement of provisions for employee benefits (Note 25).

3.5 Contingent liabilities

1. Contingent liabilities due to projects and inventions are estimated at their maximum possible payable amount based on the calculated, anticipated effects of implementation.

2. The value of remaining contingent liabilities are set at their maximum possible payable amount based on the possible risk of the need to realise the liabilities.

Information on contingent liabilities is presented in note 44.

3. Important estimations and assumptions (continued)

3.6 Deferred tax assets/liabilities

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

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

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

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, consolidated in the consolidated financial statements 45 subsidiaries in the current period.

Entity	Head office	Scope of activities	% of Group's share 31 December 2011	% of Group's share 31 December 2010
AVISTA MEDIA Sp. z o. o.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	-	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; measurement of imissions and emissions; industrial research	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	wireless and wired telecommunications services, re-emission of television channels and rental of audiovisual content	-	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; water-sewage management	100	100
FADROMA S.R. SP. Z O. O. in liquidation	Wrocław	servicing and maintenance with respect to construction and mining machinery	-	98.05
Fermat 1 S.á r.l.	Luxembourg	foundation, development, management and exercise of control of other companies	100	-
Fermat 2 S.á r.l.	Luxembourg	foundation, development, management and exercise of control of other companies	100	-
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 Uzdrowiska 01 Sp. z o.o.	Warsaw	financial holding activities, financial services, turnover and real estate services	100	100
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.	Warsaw	financial activities, retail and wholesale of different merchandise and products	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	hotel services, recreation, rehabilitation, health tourism 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 ammonium perrhenate and road-building material; sale of raw materials for the production of abrasives; the processing and recovery of metals from ores, mineral resources and industrial waste	100	100
KGHM Kupfer AG (until 15 May 2011 – KGHM HMS Bergbau AG)	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	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.i L.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation; technology transfer; operation of a technology park; property sale and rental	85.45	85.45
KGHM Metraco S.A.	Legnica	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt, spedition services	100	100

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

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

Entity	Head office	Scope of activities	% of Group's share 31 December 2011	31 December 2010
KGHM Polish Copper Ltd. in liquidation	London	copper trading	-	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
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	hospital services; physician practice; activities related to protecting human health; occupational medicine	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	-
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
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	railway and road transportation services; trade in fuels	100	100
„Uzdrowisko Cieplice" Sp. z o.o.	Jelenia Góra	spa services	91.67	89.71
Uzdrowisko Połczyn S.A.	Połczyn Zdrój	spa services	90.45	89.91
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	Świeradów Zdrój	spa services	87.74	-
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice	production of sheeting	-	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
WMN "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	84.96	-
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	91.80	90.09

In the current period in the consolidated financial statements one associated entity - BAZALT-NITRON Sp. z o.o. was accounted for using the equity method for purposes of consolidation.

At 31 December 2011, based on IAS 8.8, which allows exemption from the application of IFRS in a case where the effects of exemption are immaterial, the following subsidiaries were excluded from consolidation - „Mercus Software" Sp. z o.o., and TUW Cuprum. Altogether, in the presented consolidated financial statements 2 subsidiaries were not consolidated, and one associated entity was not accounted for using the equity method. At the end of the reporting period they were measured at cost less impairment. Exclusion of these entities from consolidation does not affect the honest presentation of the assets, profit or loss and cash flows of the Group.

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

Purchase of shares of NITROERG S.A.

On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the purchase by KGHM Polska Miedź S.A. of 5 260 820 shares of NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand (i.e. PLN 22.82 per share). The shares were paid for in cash. The shares purchased represent 85% of the share capital of NITROERG S.A. in Bieruń. The carrying value of assets of NITROERG S.A. at the date control was obtained was PLN 84 068 thousand, of which PLN 71 458 thousand is attributable to shareholders of the Parent Entity, and PLN 12 610 thousand is attributable to non-controlling interests. Goodwill, provisionally set in the amount of PLN 48 594 thousand, will be settled during the 12 months from the date of purchase following fair value measurement of the assets and liabilities of NITROERG S.A.

The control held by KGHM Polska Miedź S.A. over NITROERG S.A. (one of the largest producers of explosive materials) enables the strengthening of competitiveness in supplying the production needs of the core business, as well as new future resource projects (in accordance with realisation of the strategy of increasing the copper ore resource base).

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

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

Purchase of shares of Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o.
On 20 September 2011, KGHM I FIZAN, a subsidiary of KGHM Polska Miedź S.A., purchased from the State Treasury 13 459 shares of Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o. with its registered head office in Świeradów Zdrój with a nominal value of PLN 500.00 per share, at the price of PLN 1 560.30 per share, i.e. the total amount of PLN 21 000 thousand. KGHM I FIZAN holds 87.74% of the share capital of Uzdrowisko „Świeradów Czerniawa" Sp. z o.o. The shares purchased were paid for in cash.
The net carrying amount of the assets of Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o. at the date control was obtained was PLN 8 121 thousand, of which the net carrying amount of the assets attributable to the Group amounted to PLN 7 125 thousand. Goodwill, provisionally set at the end of the third quarter, amounted to PLN 13 875 thousand. In the fourth quarter of 2011 the acquired assets and liabilities were measured at fair value and as a result of final settlement a gain on a bargain purchase in the amount of PLN 2 751 thousand has been recognized.

The purchase by KGHM I FIZAN of shares of Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o. is a subsequent step in the realisation of the investment policy of the fund, comprising among others the development of a Polish Spa Group, which will enable enrichment of the offering of spa and tourism services and utilisation of the effects of synergy.

Disclosures on purchased subsidiaries in accordance with IFRS 3.59 and IFRS 3.60

	Note	NITROERG S.A. carrying amount	Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. fair value
Property, plant and equipment		50 754	30 695
Intangible assets		42	8 586
Investments in associates		449	-
Deferred tax assets		3 062	390
Available-for-sale financial assets		5	-
Trade and other non-current receivables - gross		161	-
Trade and other non-current receivables - net		161	-
Inventories		15 874	295
Trade and other current receivables – gross		46 885	1 647
Trade and other current receivables - net		43 884	1 646
Cash and cash equivalents		27 283	143
Total assets		**141 514**	**41 755**
Trade and other non-current payables		1 609	-
Borrowings - non-current		1 241	2 346
Trade and other current payables		33 379	4 749
Borrowings - current		3 154	1 277
Employee benefits liabilities		16 445	1 300
Deferred tax liabilities		-	4 512
Provisions for other liabilities and charges		1 618	500
Total liabilities		**57 446**	**14 684**
Net assets at the purchase date		**84 068**	**27 071**
Net assets attributable to the Group		71 458	23 751
% in net assets		85.00%	87.74%
Purchase price		120 052	21 000
Purchase-related cost		1 221	210
Total cash flow from the purchase less cash and cash equivalents received		93 990	21 067
Goodwill determined provisionally in accordance with IFRS 3.45	**7**	**48 594**	**-**
Gain on a bargain purchase – final settlement		-	**2 751**

Gain on a bargain purchase was recognised in other operating income in the consolidated statement of comprehensive income.

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

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

Companies purchased in the reporting period	Sales for the period from 1 January 2011 to 31 December 2011	Other operating income for the period from 1 January 2011 to 31 December 2011	Profit/(loss) for the period from 1 January 2011 to 31 December 2011	Sales for the period from purchase date to 31 December 2011	Profit/(loss) for the period from purchase date to 31 December 2011
NITROERG S.A.	278 033	8 236	13 815	259 536	14 263
Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o.	19 918	410	(469)	4 609	(721)
Accumulated sales and profit/(loss) of purchased companies	297 951	8 646	13 346		
Total for the whole Group	22 141 036	4 562 410	11 063 807		

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

Purchase of shares and increase in the share capital of KGHM Kupfer AG (formerly KGHM HMS Bergbau AG)

On 20 April 2011, a sale and surrender agreement was signed between KGHM Polska Miedź S.A. and HMS Bergbau AG for the purchase by KGHM Polska Miedź S.A. of 12 551 shares of KGHM HMS Bergbau AG held by HMS Bergbau AG, for the price of EUR 127 895, i.e. PLN 509 thousand. The shares purchased were paid for in cash on 21 April 2011. Following this purchase the Group holds 100% of the share capital of KGHM HMS Bergbau AG.

As a result of settlement of this transaction with non-controlling interests, the difference between the purchase price of the non-controlling interests and the value of the non-controlling interests at the purchase date in the amount of PLN (578) thousand was recognised in retained earnings in the consolidated statement of financial position.

On 27 April 2011, the Ordinary General Meeting of KGHM HMS Bergbau AG resolved to increase the company's share capital by EUR 750 thousand, representing PLN 2 953 thousand. The newly-issued shares, with a nominal value of EUR 1 per share and an issue price of EUR 17.71, were acquired by KGHM Polska Miedź S.A.

The shares were paid for in cash in the amount of PLN 52 364 thousand on 27 April 2011. The surplus of the issue amount over the nominal amount from the increase in the share capital of KGHM Kupfer AG amounts to PLN 49 348 thousand.

Increase of share capital in subsidiaries

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

- on 3 February 2011, in the company Uzdrowisko Połczyn S.A. in the amount of PLN 1 000 thousand, which represents 0.54% of the share capital and increases the share of the Group to 90.45%. The entire amount of the guaranteed increase will be allocated to acquire or increase the value of company property, plant and equipment,
- on 18 March 2011, in the company „Uzdrowisko Cieplice" Sp. z o.o. in the amount of PLN 1 500 thousand, which represents 1.96% of the share capital and increases the share of the Group to 91.67%.

The funds of the guaranteed increase will be allocated to acquiring, manufacturing, rebuilding, developing and modernising property, plant and equipment, and to acquiring or prolonging water exploitation licenses.

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

As a result of the transaction with non-controlling interests resulting from the change in the percentage held by the Group in the share capital of the above-mentioned companies, equity attributable to shareholders of the Parent Entity was increased in the consolidated financial statements, and equity attributable to non-controlling interests was decreased by PLN 2 595 thousand.

The Parent Entity increased share capital in subsidiaries:

- on 17 October 2011, in KGHM Metraco S.A. in the amount of PLN 10 000 thousand, the share of the Group in the share capital of the company following the increase did not change, and amounts to 100%,
- on 5 October 2011, in „MCZ" S.A. in the amount of PLN 4 480 thousand, the share of the Group in the share capital of the company following the increase did not change, and amounts to 100%.

Combination of subsidiaries in the Group

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

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

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

Liquidation of the company "FADROMA-SERWIS-REMONTY" Sp. z o.o. in liquidation
On 12 August 2011, the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register issued a judgment on the removal of "FADROMA-SERWIS-REMONTY" Sp. z o.o. in liquidation from the National Court Register, attaching to the register a report on liquidation of the company together with the auditor's opinion and report on the audit of the financial statements for the period from 1 January 2011 to 30 June 2011. The liquidation proceedings were concluded as a result of the division of company assets between creditors and shareholders.

Liquidation of KGHM Polish Copper Ltd
On 23 December 2011, the dissolution of KGHM Polish Copper Ltd. was registered in the register of the United Kingdom. At the date of closure of the company's liquidation, its assets were distributed by payment to the owner (the Parent Entity) of the net assets (cash) in the amount of PLN 12 947 thousand. The net assets earned by KGHM Polish Copper Ltd. during the period of the Group's control equal the cash paid to KGHM Polska Miedź S.A. within the liquidation.

Sale of DIALOG S.A. Group – discontinued operations
On 16 December 2011, KGHM Polska Miedź S.A. sold to Netia S.A. 19 598 000 shares of Telefonia DIALOG spółka akcyjna with its registered head office in Wrocław, with a nominal value of PLN 489 950 thousand, representing 100% of the share capital of DIALOG and 100% of the votes at the general meeting of DIALOG.
The sale of these shares took place in performance of obligations arising from the contingent binding agreement on the sale of the shares of DIALOG entered into between KGHM and Netia on 29 September 2011. The final price at which the Parent Entity sold these shares was calculated in accordance with the formula set forth in the contingent agreement, and amounted to PLN 968 927 thousand (paid in cash).
For settling the sales of the DIALOG S.A. Group (a pre-tax loss of PLN 2 035 thousand) cost was set at PLN (970 962) thousand, in accordance with IAS 27.34, composed of the following items:

- the net asset of the Dialog Group in the amount of PLN (1 015 216) thousand,
- the unamortised value of the assets of a subsidiary of the Dialog Group measured at fair value at the purchase date PLN (3 357) thousand,
- unamortised goodwill from consolidation PLN (1 864) thousand,
- the value of shares of the Dialog Group's subsidiaries PLN 49 475 thousand.

The activities of the DIALOG S.A. Group were classified as discontinued activities (further information is presented in note 48).
The result on sales (loss) was recognised in profit for the period from discontinued operations.

Establishment of Fermat 1 S.á r.l. and Fermat 2 S.á r.l.
On 30 December 2011, KGHM Polska Miedź S.A. established a company under the name Fermat 1 S.á r.l. with its registered head office in Luxembourg, in which, through a cash transfer of EUR 12 500, it acquired 12 500 shares with a nominal value of 1 EUR/share, representing 100% of the share capital of Fermat 1 S.á r.l. (as at 31 December 2011 the carrying value amounted to PLN 55 thousand).

On 30 December 2011, Fermat 1 S.á r.l. established a company under the name Fermat 2 S.á r.l. with its registered head office in Luxembourg, with share capital of EUR 12 500 (as at 31 December 2011 the carrying value amounted to PLN 55 thousand).

Both companies were established as part of the activities related to the creation of a holding structure for purchase the shares of Quadra FNX.

Changes in the structure of the Group after the end of the reporting period was described in the Note 49.

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

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

Changes in the structure of the KGHM Polska Miedź S.A. Group during period from 1 January 2010 to 31 December 2010

Description	Transaction date	% of purchased shares with voting rights	Number of purchased/ acquired shares	Nominal per-share value (in PLN)	Purchase price	Payment method	Direct parent entity
Purchase							
BIPROMET S.A. Group	12.07.2010	66%	4 091 868	10	30 689	cash	KGHM Polska Miedź S.A.
Zespół Uzdrowisk Kłodzkich S.A.	20.10.2010	90.09%	3 450 500	10	138 227	cash	KGHM I FIZAN
Uzdrowisko Połczyn S.A.	22.11.2010	89.91%	1 600 621	10	26 426	cash	KGHM I FIZAN
CENTROZŁOM WROCŁAW S.A.	30.11.2010	85%	9 350 000	10	176 435	cash	KGHM Ecoren S.A.
"Uzdrowisko Cieplice" Sp. z o.o.	22.12.2010	89.71%	114 290	50	29 316	cash	KGHM I FIZAN
Acquisition of Investment Certificates							
KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN)	2.02.2010	100%	2 095	10 000	20 950	cash	KGHM Polska Miedź S.A.
KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN)	23.06.2010	100%	700	10 000	7 000	cash	KGHM Polska Miedź S.A.
KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM III FIZAN)	3.12.2010	100%	500	10 000	5 000	cash	KGHM Polska Miedź S.A.
Founding of new entities							
Interferie Medical SPA Sp. z o.o.	1.02.2010	65.67%	50	1 000	50 000	cash	INTERFERIE S.A.
Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.	12.03.2010	100%	150	100	15	cash	KGHM I FIZAN
Fundusz Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Hotele 01 Sp. z o.o. S.K.A.)	17.05.2010	100%	500	100	50	cash	KGHM I FIZAN
Fundusz Hotele 01 Sp. z o.o. Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.)	17.05.2010	100%	500	100	50	cash	KGHM I FIZAN
Fundusz Uzdrowiska 01 Sp. z o.o.	19.05.2010	100%	150	100	15	cash	KGHM I FIZAN
KGHM (SHAGHAI) COPPER TRADING CO., LTD.	09.2010	100%	not applicable		1 545	cash	KGHM Polska Miedź S.A.
KGHM AJAX MINING INC.	12.10.2010	51%	not applicable		105 543	cash	KGHM Polska Miedź S.A.
Increase in share capital							
Fundusz Hotele 01 Sp. z o.o.	20.05.2010	-	2 010	100	201	cash	KGHM I FIZAN
Interferie Medical SPA Sp. z o.o.	1.09.2010	-	19 908	1 000	19 908	contribution in kind 19 808, cash 100	INTERFERIE S.A.
Interferie Medical SPA Sp. z o.o.	11.10.2010	-	41 309	1 000	41 309	cash	KGHM I FIZAN
Fundusz Hotele 01 Sp. z o.o. S.K.A.	21.12.2010	-	503 000	100	50 300	cash	KGHM I FIZAN
Takeover within the Group							**Purchase/seller**
KGHM HMS Bergbau AG (now KGHM Kupfer AG)	16.06.2010	74.90%	37 449	1 EUR	169	cash	KGHM Polska Miedź S.A. / KGHM CUPRUM Sp. z o.o.-CBR
DFM ZANAM - LEGMET Sp. z o.o.	3.11.2010	100%	719 397	50	48 149	cash	KGHM Polska Miedź S.A. / KGHM Ecoren S.A.
INOVA Sp. z o.o.	3.11.2010	100%	6 600	1 000	13 054	cash	KGHM Polska Miedź S.A. / KGHM Ecoren S.A.
INTERFERIE S.A.	23.12.2010	61.55%	8 964 200	5	45 897	cash	Fundusz Hotele 01 Sp. z o.o. SKA / KGHM Ecoren S.A.
INTERFERIE S.A.	23.12.2010	2.06%	300 000	5	1 536	cash	Fundusz Hotele 01 Sp. z o.o. SKA / KGHM Polska Miedź S.A.
INTERFERIE S.A.	27.12.2010	2.06%	300 000	5	1 536	cash	Fundusz Hotele 01 Sp. z o.o. SKA / CBJ sp. z o.o.

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

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

In 2011, assets and liabilities purchased in 2010 were measured at fair value at the date control was obtained of subsidiaries, and final settlement of the impact of acquisition was made, as shown in the following table:

	Note	BIPROMET S.A. Group	Zespół Uzdrowisk Kłodzkich S.A.	Uzdrowisko Połczyn S.A.	CENTROZŁOM WROCŁAW S.A.	"Uzdrowisko Cieplice" Sp. z o.o.	Total
Property, plant and equipment		14 598	134 218	45 843	85 213	35 797	315 669
Intangible assets		3 887	49 013	11 678	28 713	8 357	101 648
Property investment		37 675	-	-	-	-	37 675
Deferred tax assets		51	822	-	-	206	1 079
Available-for-sale financial assets		30	153	-	-	-	183
Non-current trade and other receivables - gross		2 008	1	-	37	27	2 073
Non-current trade and other receivables - net		2 008	1	-	37	27	2 073
Inventories		458	2 775	205	42 479	34	45 951
Current trade and other receivables - gross		12 454	14 311	1 766	106 684	1 261	136 476
Current trade and other receivables - net		10 847	13 347	1 416	103 386	1 102	130 098
Cash and cash equivalents		5 113	7 458	1 900	16 040	1 080	31 591
Non-current assets held for sale		85	-	-	-	-	85
Total assets		**74 752**	**207 787**	**61 042**	**275 868**	**46 603**	**666 052**
Non-current trade and other payables		2 254	8 057	3 801	731	1 071	15 914
Deferred tax liability		6 811	23 224	5 311	9 238	6 131	50 715
Current trade and other payables		11 509	13 829	4 366	52 717	1 805	84 226
Borrowings		1 579	3 567	2 132	817	3 845	11 940
Liabilities due to employee benefits		540	3 290	1 313	1 960	1 052	8 155
Provisions for other liabilities and charges		2 208	-	301	497	-	3 006
Total liabilities		**24 901**	**51 967**	**17 224**	**65 960**	**13 904**	**173 956**
Net assets at the purchase date		**49 851**	**155 820**	**43 818**	**209 908**	**32 699**	**492 096**
Net assets attributable to the Group		31 970	140 379	39 399	178 419	29 334	419 501
% 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
Purchase-related costs		123	1 387	265	1 764	293	3 832
Gain on a bargain purchase – final settlement	**31**	**1 281**	**2 152**	**12 973**	**1 984**	**18**	**18 408**

Gain on a bargain purchase arose as a result of the fair value measurement of the net assets purchased at the date control was obtained, exceeded estimated fair value of the net assets prior to the purchase date was recognised in the consolidated statement of comprehensive income under other operating income.

Adjustment of the net assets of the companies Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A. and „Uzdrowisko Cieplice" Sp. z o.o. due to fair value measurement of their net assets due to final settlement is presented in note 2.1.
The fair value measurement of the net assets of the companies BIPROMET S.A. and CENTROZŁOM S.A. did not differ substantially from the carrying amount assumed for provisional settlement, as a result of which there was no adjustment of settlement, with gain on a bargain purchase being recognised as final.

In agreements for the purchase of State Treasury companies in 2010, the liabilities to incur investment expenditures in the following companies were included:
- ZUK S.A. in the amount of PLN 25 000 thousand,
- Uzdrowisko Połczyn S.A. in the amount of PLN 5 000 thousand,
- „Uzdrowisko Cieplice" Sp. z o.o. in the amount of PLN 6 000 thousand,
- CENTROZŁOM WROCŁAW S.A. in the amount of PLN 35 000 thousand.

5. Information on business segments

With respect to the process of adapting the supervision of companies of the Group to the strategy and investment policy of KGHM Polska Miedź S.A., the Management Board of the Parent Entity implemented in 2011 a new management model for the Group, based on individual business supervisory units:

- Production,
- International expansion and resource base development,
- Equity-portfolio investments,
- Commerce and hedging,
- A group of entities realising corporate social responsibility – CSR.

Taking into consideration IFRS 8 and the utility of information to users of the financial statements, four reporting segments were identified:

- production and resource base development, combining the production and international expansion and resource base development units in fulfilment of IFRS 8.12,
- equity-portfolio investment,
- commerce and hedging, and
- corporate social responsibility - CSR.

The ordering of KGHM Polska Miedź S.A. Group subsidiaries by segment is presented in the following diagram.

To maintain data comparability, the adopted segregation of reporting segments was also applied to data for 2010.

5. Information on business segments (continued)

KGHM Polska Miedź S.A. Group as at 31 December 2011

Production and resource base development

KGHM Polska Miedź S.A.
"Energetyka" sp. z o.o.
"BIOWIND" sp. z o.o.
WPEC w Legnicy S.A.
BIPROMET S.A.
Przedsiębiorstwo Budowlane Katowice S.A.
Bipromet Ecosystem Sp. z o.o.
KGHM CUPRUM sp. z o.o. – CBR
CBJ sp. z o.o.
PeBeKa S.A.
INOVA Spółka z o.o.
DFM ZANAM - LEGMET Sp. z o.o.
KGHM Kupfer AG
KGHM AJAX MINING INC.
Fermat 1 S.á r.l.
Fermat 2 S.á r.l.

Commerce and hedging

KGHM Kupferhandelsges. m.b.H.i.L.
KGHM Metraco S.A.
KGHM (SHANGHAI) COPPER TRADING CO., LTD.

Corporate social responsibility - CSR

Zagłębie Lubin S.A.
KGHM LETIA S.A.
"MIEDZIOWE CENTRUM ZDROWIA" S.A.

Equity-portfolio investments

POL-MIEDŹ TRANS Sp. z o.o.
INTERFERIE S.A.
Ecoren DKE spółka z o.o.
PHU "Lubinpex" Sp. z o.o.
PMT Linie Kolejowe Sp. z o.o.
Interferie Medical SPA Sp. z o.o.
Fundusz Hotele 01 Sp. z o.o.
Fundusz Hotele 01 Sp. z o.o. S.K.A.
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.
Fundusz Uzdrowiska 01 Sp. z o.o.
ZUK S.A.
Uzdrowisko Połczyn S.A.
„Uzdrowisko Cieplice” Sp. z o.o.
Uzdrowisko „Świeradów - Czerniawa” Sp. z o.o.
CENTROZŁOM WROCŁAW S.A.
PHP "MERCUS" sp. z o.o.
WMN "ŁABĘDY" S.A.
KGHM Ecoren S.A.
WFP Hefra SA
KGHM TFI S.A.
KGHM I FIZAN
KGHM II FIZAN
KGHM III FIZAN
NITROERG S.A.

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

5. Information on business segments (continued)

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.

	For the period from 1 January 2011 to 31 December 2011							
	Production and resource base development	**Equity-portfolio investments**	**Commerce and hedging**	**Corporate social responsibility - CSR**	**Discontinued operations**	**Adjustment***	**Consolidation eliminations (according to IAS 27)**	**Consolidated amount**
Revenue	21 665 403	2 873 797	3 188 467	143 820	505 920	(20)	(5 782 842)	**22 594 545**
of which:								
- external sales	19 704 969	1 671 285	650 928	91 991	487 315	226	(12 169)	**22 594 545**
- inter-segment sales	1 960 434	1 202 512	2 537 539	51 829	18 605	(246)	(5 770 673)	**-**
Interest income	193 984	5 072	1 006	1 419	4 330	-	(3 609)	**202 202**
Interest costs	(8 394)	(6 555)	(166)	(18)	(1 202)	-	3 121	**(13 214)**
Depreciation/Amortisation	(744 595)	(68 869)	(2 065)	(12 069)	(64 513)	(5 354)	(13 335)	**(910 800)**
Revaluation of provisions for employee benefits	(113 489)	255	(576)	(34)	2 051	-	(2 232)	**(114 025)**
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(1 503)	2 307	-	(267)	(2 552)	(4 501)	-	**(6 516)**
Income on measurement and realisation of derivatives	1 025 018	2 190	11 007	-	-	-	-	**1 038 215**
Costs on measurement and realisation of derivatives	(704 097)	(6 660)	(4 660)	-	-	-	-	**(715 417)**
Share of profit of associates	-	-	-	-	-	-	187 729	**187 729**
Profit before income tax	13 711 465	14 684	12 756	(906)	66 246	(9 694)	(438 632)	**13 355 919**
Income tax expense	(2 333 710)	(8 623)	(2 470)	(75)	(6 615)	1 695	57 882	**(2 291 916)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	7 788	-	-	-	(7 788)	-	**-**
Profit for the period	11 377 755	13 849	10 286	(981)	59 631	(15 787)	(380 750)	**11 064 003**
	At 31 December 2011							
Segment assets	31 162 699	2 256 796	221 994	224 027	-	(339)	(3 311 303)	**30 553 874**
Segment liabilities	6 874 665	684 439	127 103	70 940	-	(6 771)	(578 859)	**7 171 517**
Borrowings and finance lease liabilities	125 733	196 730	51	17 225	-	-	(41 782)	**297 957**
Investments in associates	-	449	-	-	-	-	23	**472**
	Financial period from 1 January 2011 to 31 December 2011							
Capital expenditure	1 699 478	205 857	24 552	49 872	65 672	(94)	(22 412)	**2 022 925**

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

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

5. Information on business segments (continued)

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. At 31 December 2011, three Group companies, i.e. the Parent Entity, BIPROMET S.A. and INTERFERIE S.A., keep their account books in accordance with IFRS. The remaining companies of the Group keep their account books in accordance with Polish Accounting Standards, restating data to the principles of International Financial Reporting Standards for the preparation of consolidated financial statements.

Details of adjustments restating the amounts shown in segments to the measurement principles according to International Financial Reporting Standards as at 31 December 2011 and for the period from 1 January 2011 to 31 December 2011.

	Profit or loss					Statement of financial position		
	Sales	**Operating costs**	**Depreciation /Amortisation**	**Profit before taxation**	**Income tax**	**Segment assets**	**Segment liabilities**	**Capital expenditure**
Netting off of Social Fund assets and liabilities	-	-	-	-	-	(10 021)	(10 021)	-
Offsetting of deferred tax assets/ deferred tax liabilities	-	-	-	-	-	(8 683)	(8 683)	-
Accounting for shares using the equity method	-	-	-	1 004	-	(15 536)	-	-
Perpetual usufruct of land	-	-	-	-	-	(15 641)	-	-
Deferred tax liability due to fair value measurement of assets	-	-	-	-	1 388	-	10 078	-
Fair value measurement of assets	-	-	(5 305)	(5 379)	-	48 176	-	-
Other	226	(4 501)	(49)	(5 319)	307	1 366	1 855	(94)
Total adjustment	**226**	**(4 501)**	**(5 354)**	**(9 694)**	**1 695**	**(339)**	**(6 771)**	**(94)**

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

5. Information on business segments (continued)

Information on business segments for the comparable period

	Financial period from 1 January 2010 to 31 December 2010 - restated							
	Production and resource base development	**Equity-portfolio investments**	**Commerce and hedging**	**Corporate social responsibility - CSR**	**Discontinued operations**	**Adjustment***	**Consolidation eliminations (according to IAS 27)**	**Consolidated amount**
Revenue	17 270 167	1 484 593	3 509 040	131 115	548 460	10 307	(5 661 092)	**17 292 590**
of which:								
- external sales	15 059 107	546 625	1 047 446	88 826	526 086	10 307	14 193	**17 292 590**
- inter-segment sales	2 211 060	937 968	2 461 594	42 289	22 374	-	(5 675 285)	**-**
Interest income	68 246	2 922	812	1 169	4 141	(21)	(4 993)	**72 276**
Interest costs	(7 711)	(6 176)	(630)	(664)	(3 961)	-	4 106	**(15 036)**
Depreciation/Amortisation	(686 064)	(47 296)	(1 564)	(9 166)	(84 626)	(166)	(15 056)	**(843 938)**
Revaluation of provisions for employee benefits	(35 572)	119	(26)	(782)	(31)	-	-	**(36 292)**
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(6 573)	(12 781)	-	(702)	487	-	(743)	**(20 312)**
Income on measurement and realisation of derivatives	463 604	3 746	9 318	-	-	-	-	**476 668**
Costs on measurement and realisation of derivatives	(1 635 888)	(1 433)	(1 370)	-	-	-	-	**(1 638 691)**
Share of profit of associates	-	-	-	-	-	-	280 542	**280 542**
Profit before income tax	5 641 171	(28 120)	12 081	1 934	50 438	16 033	99 672	**5 793 209**
Income tax expense	(1 044 186)	(147)	(2 234)	(707)	34 277	591	(50 379)	**(1 062 785)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	3 070	-	-	-	(3 070)	-	**-**
Profit for the period	4 596 985	(25 197)	9 847	1 227	84 715	13 554	49 293	**4 730 424**
	At 31 December 2010 - restated							
Segment assets	21 402 096	3 001 077	209 818	190 260	-	37 690	(3 600 212)	**21 240 729**
Segment liabilities	5 940 230	551 021	127 266	38 189	-	(4 644)	(333 456)	**6 318 606**
Borrowings and finance lease liabilities	163 807	150 645	91	1 353	-	-	(46 082)	**269 814**
Investments in associates	1 159 947	-	-	-	-	-	271 152	**1 431 099**
	Financial period from 1 January 2010 to 31 December 2010 - restated							
Capital expenditure	1 378 883	88 777	3 284	27 702	63 990	-	(36 110)	**1 526 526**

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

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

5. Information on business segments (continued)

Details of adjustments restating the amounts shown in segments to the measurement principles according to International Financial Reporting Standards at 31 December 2010 and for the period from 1 January 2010 to 31 December 2010:

	Profit or loss					Statement of financial position	
	Sales	**Operating income**	**Depreciation /Amortisation**	**Profit before taxation**	**Income tax**	**Segment assets**	**Segment liabilities**
Netting off of Social Fund assets and liabilities	-	-	-	-	-	(9 469)	(9 469)
Offsetting of deferred tax assets/ deferred tax liabilities	-	-	-	-	-	(7 295)	(7 295)
Accounting for shares using the equity method	-	-	-	792	-	(8 082)	-
Separate presentation of assets and liabilities for sales transaction from prior years	10 319	-	-	33	-	-	-
Impairment losses on shares	-	-	-	(2 747)	-	-	-
Profit/loss on the sale of shares	-	-	-	20 688	-	-	-
Deferred tax liability due to fair value measurement of assets	-	-	-	-	720	-	11 320
Fair value measurement of assets	-	-	-	(3 395)	-	60 077	-
Other	(12)	(21)	(166)	662	(129)	2 459	800
Total adjustment	**10 307**	**(21)**	**(166)**	**16 033**	**591**	**37 690**	**(4 644)**

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

5. Information on business segments (continued)

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.

	Financial period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Poland, of which:	5 845 796	4 970 621
- *discontinued operations*	*487 315*	*526 086*
Germany	4 478 882	3 739 356
Great Britain	2 733 718	1 568 507
China	2 425 123	1 893 285
The Czech Republic	1 346 565	1 156 340
Italy	1 191 236	790 772
France	653 543	581 026
Hungary	523 480	412 392
Austria	482 581	345 213
Belgium	386 098	299 463
Switzerland	354 402	244 955
Slovakia	109 656	91 978
Finland	40 770	56 711
Other countries	2 022 695	1 141 971
Total	**22 594 545**	**17 292 590**

Main customers

During the period from 1 January 2011 to 31 December 2011, the revenues from any customer exceeded 10% of the revenues of the Group.

During the period from 1 January 2010 to 31 December 2010, the revenues from any customer exceeded 10% of the revenues of the Group.

98.93% of the non-current assets of the Group are located in the country of origin of the Parent Entity. The remaining 1.07% of them are located in other countries.

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

6. Property, plant and equipment

	At 31 December 2011	At 31 December 2010 restated
Land	39 165	36 922
Buildings	3 586 921	3 885 290
Technical equipment and machinery	3 208 377	3 161 839
Motor vehicles	242 955	198 773
Other fixed assets	84 337	69 152
Fixed assets under construction	1 884 022	1 318 578
Total	**9 045 777**	**8 670 554**

Changes in property, plant and equipment in the period from 1 January 2011 to 31 December 2011

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2011 - restated								
Gross carrying amount		37 202	8 345 991	7 619 675	425 480	177 311	1 360 034	17 965 693
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		**36 922**	**3 885 290**	**3 161 839**	**198 773**	**69 152**	**1 318 578**	**8 670 554**
Changes in 2011								
Settlement of fixed assets under construction		2 222	356 494	834 733	71 827	39 451	(1 304 727)	-
Purchase		246	1 206	671	2 518	4 760	1 865 864	1 875 265
Self-constructed		-	-	-	-	-	27 424	27 424
Changes due to decommissioning/scrapping, sale, donations and no-cost transfer		(45)	(5 149)	(11 299)	(3 501)	(103)	(612)	(20 709)
Changes due to acquisition/transfer of assets used based on lease agreement		-	-	4 420	1 109	-	-	5 529
Purchase of subsidiaries		104	53 823	15 503	6 134	876	4 903	81 343
Reclassification to assets held for sale		(284)	(446 499)	(191 356)	(903)	(12 312)	(23 005)	(674 359)
Change in amount of provisions for costs of decommissioning		-	(41 253)	-	-	-	-	(41 253)
Depreciation from continued operations	29	-	(196 208)	(572 042)	(31 864)	(14 905)	-	(815 019)
Depreciation from discontinued operations		-	(23 538)	(32 506)	(1 366)	(2 404)	-	(59 814)
Other changes		-	2 387	(1 143)	228	(3)	(2 764)	(1 295)
Impairment losses	27,29,32	-	(487)	(617)	-	(175)	(4 740)	(6 019)
Reversal of impairment losses	27,29,31	-	855	174	-	-	3 101	4 130
At 31 December 2011								
Gross carrying amount		39 445	7 688 870	7 349 681	464 507	175 366	1 887 812	17 605 681
Accumulated depreciation		-	(4 081 001)	(4 134 528)	(221 196)	(90 766)	-	(8 527 491)
Impairment losses		(280)	(20 948)	(6 776)	(356)	(263)	(3 790)	(32 413)
Net carrying amount		**39 165**	**3 586 921**	**3 208 377**	**242 955**	**84 337**	**1 884 022**	**9 045 777**

At 31 December 2010, the impairment loss on DIALOG S.A. in the amount of PLN 438 264 thousand was the major item of impairment losses. In 2011, in relation to the sale of DIALOG S.A. the impairment loss was reclassified to non-current assets held for sale and settled as at 15 December 2011.

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

6. Property, plant and equipment (continued)

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

		Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2010								
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		**22 598**	**3 511 327**	**2 954 097**	**175 058**	**62 474**	**1 021 558**	**7 747 112**
Changes in 2010								
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
Purchase of subsidiary		8 770	212 203	59 679	13 658	5 007	14 414	313 731
Change in amount of provisions for costs of decommissioning		-	(624)	-	-	-	-	(624)
Depreciation	29	-	(166 608)	(519 543)	(23 773)	(10 343)	-	(720 267)
Other changes		1 064	7 512	604	62	110	(10 020)	(668)
Impairment losses	27,29,32	(280)	(5 697)	(1 455)	-	(28)	(8 003)	(15 463)
Reversal of impairment losses	27,29,31	-	808	14	-	-	23	845
Discontinued operations			(31 178)	(39 190)	(1 886)	(3 613)	(3 824)	(79 691)
At 31 December 2010 - restated								
Gross carrying amount		37 202	8 345 991	7 619 675	425 480	177 311	1 360 034	17 965 693
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		**36 922**	**3 885 290**	**3 161 839**	**198 773**	**69 152**	**1 318 578**	**8 670 554**

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 783 248 thousand (for the period from 1 January 2010 to 31 December 2010, PLN 696 159 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 19 258 thousand (for the period from 1 January 2010 to 31 December 2010, PLN 18 753 thousand), in selling costs in the amount of PLN 7 563 thousand (for the period from 1 January 2010 to 31 December 2010, PLN 5 355 thousand) and in inventories in the amount of PLN 4 950 thousand (for the period from 1 January 2010 to 31 December 2010, PLN 0 thousand).

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

6. Property, plant and equipment (continued)

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

	At					
	31 December 2011			**31 December 2010 restated**		
	Initial cost	Accumulated depreciation	Net carrying amount	Initial cost	Accumulated depreciation	Net carrying amount
Technical equipment and machinery	12 016	5 517	6 499	9 333	3 286	6 047
Motor vehicles	36 274	7 358	28 916	36 854	5 495	31 359
Other property, plant and equipment	487	192	295	487	95	392
Total	**48 777**	**13 067**	**35 710**	**46 674**	**8 876**	**37 798**

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 2011				**31 December 2010 restated**			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	3 571	-	-	3 571	4 020	-	-	4 020
Buildings	32 393	791	19 437	12 956	29 951	728	18 736	11 215
Technical equipment and machinery	1 930	119	1 532	398	5 323	375	3 154	2 169
Other property, plant and equipment	588	11	539	49	573	11	541	32
Total	**38 482**	**921**	**21 508**	**16 974**	**39 867**	**1 114**	**22 431**	**17 436**

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.

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

6. Property, plant and equipment (continued)

Major investment projects recognised under fixed assets under construction

	At	
	31 December 2011	**31 December 2010 restated**
Construction of the SW-4 shaft	471 432	392 400
Głogów Głęboki – Przemysłowy	295 997	208 329
Construction of gas-steam blocks in Głogów and Polkowice Powerplants	179 593	9 305
Ventilation and air conditioning equipment in the mines	136 399	215 643
Investments related to mining region infrastructural development in mines	111 431	48 216
Program of Pyrometallurgy Modernisation	78 226	12 813
Sulphuric Acid Plant in Głogów I Smelter, Głogów II Smelter and Legnica Smelter	69 294	34 950
Exchange of floatation machinery in the Ore Enrichment Plants	69 252	60 872
Purchase of mine machinery and technical equipment	50 781	19 613
Conformatory work	42 366	10 019
Power and communications infrastructure	36 557	35 353
Investments in power and communications infrastructure, related buildings and other investments in the Ore Enrichment Plants	32 031	15 151
Construction of the LETIA Business Center (LBC) at the Legnica Technology Park	31 138	9 505
Exploratory drillings (to analyse mineral ore) in the Weisswasser concession	31 099	-
Design, construction and obtaining of permits to utilise a sulphuric acid warehouse-loading base, with required technical infrastructure	23 265	1 722
Shafts and primary equipments in mines	23 009	24 540
Conveyor belt and pipeline transport investments	20 064	6 273
Intensification of lead production – development of the 4th Doerschel furnace at the Głogów smelter	-	37 037
Modernisation of steam and water boilers	-	32 234
Construction of a hotel "Medical SPA" in Świnoujście	-	26 473
Total	**1 701 934**	**1 200 448**

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

	At	
	31 December 2011	**31 December 2010 restated**
Purchase of property, plant and equipment	709 883	434 801
Purchase of intangible assets	18 076	13 888
Total capital commitments	**727 959**	**448 689**

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

7. Intangible assets

	At 31 December 2011	At 31 December 2010 restated
Development costs	347	4 618
Goodwill	99 982	53 252
Software	13 686	41 640
Acquired concessions, patents, licenses	52 177	51 387
Other intangible assets	171 335	149 073
Exploration and evaluation assets	249 438	148 801
Other intangible assets not yet available for use	27 029	24 444
Total	**613 994**	**473 215**

Changes in intangible assets in the period from 1 January 2011 to 31 December 2011

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
At 1 January 2011 - restated									
Gross carrying amount		25 180	56 756	121 333	109 009	164 585	148 801	25 238	650 902
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		**4 618**	**53 252**	**41 640**	**51 387**	**149 073**	**148 801**	**24 444**	**473 215**
Changes in 2011									
Transfer from intangible assets not yet available for use		154	-	3 854	9 419	18 444	-	(31 871)	-
Purchase		99	-	1 584	393	8 855	63 592	39 543	114 066
Changes due to decommissioning/ scrapping, sale, donations and no-cost transfer		-	-	(7)	-	(129)	-	-	(136)
Purchase of subsidiaries		29	48 594	41	466	8 198	-	-	57 328
Reclassification to non-current assets held for sale		(3 359)	(1 864)	(26 085)	(181)	(4 060)	-	(7 176)	(42 725)
Amortisation from continued operations	29	(513)	-	(4 030)	(9 347)	(6 004)	-	-	(19 894)
Amortisation from discontinued operations		(1 046)	-	(3 425)	(230)	(2 146)	-	-	(6 847)
Other changes		365	-	114	270	899	37 045	2 369	41 062
Impairment losses	27,29,32	-	-	-	-	(1 795)	-	(280)	(2 075)
Reversal of impairment losses	27,29	-	-	-	-	-	-	-	-
At 31 December 2011									
Gross carrying amount		12 054	103 486	47 756	117 781	186 557	249 438	28 103	745 175
Accumulated amortisation		(10 890)	-	(34 071)	(65 407)	(12 956)	-	-	(123 324)
Impairment losses		(817)	(3 504)	1	(197)	(2 266)	-	(1 074)	(7 857)
Net carrying amount		**347**	**99 982**	**13 686**	**52 177**	**171 335**	**249 438**	**27 029**	**613 994**

Changes in intangible assets in the period from 1 January 2010 to 31 December 2010 - restated:

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
At 1 January 2010									
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		**3 673**	**53 996**	**22 086**	**27 413**	**66 380**	**790**	**43 786**	**218 124**
Changes in 2010									
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		-	(1)	198	28 403	74 985	101 404	-	204 989
Amortisation	29	(1 009)	-	(3 479)	(8 570)	(4 350)	-	-	(17 408)
Other changes		236	-	18	1 171	10 148	-	(3 756)	7 817
Impairment losses	27,29,32	(817)	(743)	-	-	(364)	-	-	(1 924)
Reversal of impairment losses	27,29,31	-	-	-	-	54	-	-	54
Discontinued operations		(1 330)	-	(6 640)	(1 117)	(2 861)	-	-	(11 948)
At 31 December 2010 - restated									
Gross carrying amount		25 180	56 756	121 333	109 009	164 585	148 801	25 238	650 902
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		**4 618**	**53 252**	**41 640**	**51 387**	**149 073**	**148 801**	**24 444**	**473 215**

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

7. Intangible assets (continued)

At 31 December 2011, the largest item within intangible assets not yet available for use is exploration and evaluation assets in the amount of PLN 195 790 thousand (at 31 December 2010, PLN 132 483 thousand) of the company KGHM AJAX MINING INC. related to exploratory work within the Afton – Ajax project, and exploration and evaluation expenditures incurred by KGHM Polska Miedź S.A. in the amount of PLN 37 405 thousand (at 31 December 2010 PLN 15 528 thousand) related to the nickel ore deposit management „Szklary" and for evaluation of the new reserve areas „Gaworzyce", „Radwanice" and „Niecka Grodziecka".

A significant item of intangible assets is goodwill, which arose due to:
- final settlement of the purchase of WPEC w Legnicy S.A. by Energetyka Sp. z o.o. in the amount of PLN 50 686 thousand, mainly allocated to the power generation assets of WPEC w Legnicy S.A. and Energetyka Sp. z o.o.,
- provisional settlement of the combination of NITROERG S.A. in the amount of PLN 48 594 thousand.

Pursuant to IAS 36, at 31 December 2011 goodwill was tested for impairment, estimating the value in use of cash-generating units based on the discounted cash flow of current management-approved financial plans. These plans encompass a seven-year period in the case of WPEC w Legnicy S.A. and fifteen years in the case of NITROERG S.A. The calculations assumed a rate of return on cash flow after the forecast period in the amount of 1.5% for WPEC w Legnicy S.A. and 2% for NITROERG S.A.

As a result of these tests and of estimated future benefits due to synergy gained from this combination, impairment of goodwill was not identified of WPEC w Legnicy S.A. An immaterial impairment was identified for the provisionally set goodwill in NITROERG S.A. In the case of NITROERG S.A., the fair value of the acquired net assets at the date control was obtained will be determined in the first quarter of 2012. Consequently, at the end of the reporting period no impairment loss was recognised.

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 period 2008-2012 amounts to 486 196 allowances. In 2011 the exploitation of installations caused the utilisation of 515 283 allowances (in 2010, 783 335.5 allowances). The companies of the Group may cover the resulting deficit for 2011 of 29 087 allowances (years 2008-2011: 120 263 allowances) by purchasing the allowances they need, for which a provision was recognised in the amount of PLN 3 578 thousand. 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 15 917 thousand (for the period from 1 January 2010 to 31 December 2010 in the amount of PLN 11 808 thousand). The amortisation of other intangible assets was recognised in administrative expenses: PLN 3 196 thousand (for the period from 1 January 2010 to 31 December 2010: PLN 5 468 thousand), selling costs: PLN 248 thousand (for the period from 1 January 2010 to 31 December 2010: PLN 132 thousand) and in inventories: PLN 533 thousand (for the period from 1 January 2010 to 31 December 2010: PLN 0 thousand).

Perpetual usufruct of land

At 31 December 2011, the Group entities used land under perpetual usufruct rights comprising a total area of 6 659 ha (at 31 December 2010: 6 281 ha).

	At	
	31 December 2011	**31 December 2010 restated**
	(ha)	**(ha)**
KGHM Polska Miedź S.A.	5 700	5 700
Subsidiaries of the Group	959	581

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 2011.

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

7. Intangible assets (continued)

Future fees due to perpetual usufruct of land

	At	
	31 December 2011	**31 December 2010 restated**
Under one year	11 644	10 422
From one to five years	48 721	43 609
Over five years	667 063	613 587
Total value of future minimum fees due to perpetual usufruct of land	**727 428**	**667 618**

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Fees due to perpetual usufruct of land recognised in profit or loss	11 541	9 856

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

		For the period	
	Note	**from 1 January 2011 to 31 December 2011**	**from 1 January 2010 to 31 December 2010 restated**
Beginning of financial period		**59 760**	**17 164**
Changes during the financial period due to:		170	42 596
- subsidiaries purchase		1 653	37 675
- settlement of fixed assets under construction		574	1 033
- fair value measurement	31, 32	(878)	4 358
- transfer to property, plant and equipment of used property for internal use		(1 179)	-
- sale of properties		-	(470)
End of financial period		**59 930**	**59 760**

Investment property in the amount of PLN 59 930 thousand was set based on the measurement carried out by a valuer at 31 December 2011.

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

		For the period	
	Note	**from 1 January 2011 to 31 December 2011**	**from 1 January 2010 to 31 December 2010**
Beginning of financial period		**1 431 099**	**1 315 663**
Purchase - BAZALT-NITRON sp. z o.o.		449	-
Share of profits of associates	36	187 729	280 542
Changes in equity due to payment of dividend		(250 013)	(146 658)
Amortisation of relations with customers identified in the process of allocating purchase cost	29	(9 224)	(18 448)
Reclassification to assets held for sale Polkomtel S.A.		(1 359 568)	-
End of financial period		**472**	**1 431 099**

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

9. Investments in associates (continued)

On 9 November 2011, the Parent Entity transferred the ownership of ordinary registered shares representing 24.39% of the share capital of Polkomtel S.A. and 24.39% of the total number of votes at Polkomtel S.A.'s general meeting to Spartan Capital Holdings Sp. z o.o. The price for the shares paid by the Purchaser to KGHM amounted to PLN 3 672 147 thousand and was paid in cash by the purchaser.
The carrying amount of the shares in the consolidated financial statements of the Parent Entity at the sale date amounted to PLN 1 359 568 thousand.
Profit from sale in the amount of PLN 2 312 579 thousand was recognised in other operating income in the profit from sale of subsidiaries and associates.

Interests held by the Group in associates

At 31 December 2011 BAZALT-NITRON Sp. z o.o. was an associate of the Group. At 31 December 2010 Polkomtel S.A. was an associate of the Group.

	At	
	31 December 2011	**31 December 2010**
% of share capital held	25.50	24.39
% of voting power	25.50	24.39
Total assets	3 856	7 965 918
Non-current liabilities	560	1 892 622
Current liabilities	1 444	2 321 642

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010**
Sales	8 082	7 672 409
Loss for the period	(188)	1 150 159

10. Available-for-sale financial assets

	Note	**At**	
		31 December 2011	**31 December 2010 restated**
Shares in unlisted companies		11 388	11 387
Shares in listed companies		982 568	740 324
Other		4	7
Non-current available-for-sale financial assets	**34.1**	**993 960**	**751 718**
Participation units in open-end investment funds		2 126	407 214
Treasury bonds		8 263	-
Shares in listed companies		5 279	8 448
Current available-for-sale financial assets	**34.1**	**15 668**	**415 662**
Total available-for-sale financial assets:	**34.1**	**1 009 628**	**1 167 380**

The increase in the value of non-current available-for-sale assets during the reporting period was due to the acquisition of shares of Tauron Polska Energia S.A. In 2011 participation units of open-end, liquidity investment funds, whose carrying amount was PLN 405 193 thousand, with profit from their sale amounting to PLN 16 855 thousand were sold.

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

11. Held-to-maturity investments

	Note	At	
		31 December 2011	**31 December 2010 restated**
Cash held in the Mine Closure Fund		111 665	84 115
Other securities		44	42
Non-current held-to-maturity investments		**111 709**	**84 157**
Cash held in the Mine Closure Fund		2 147	4 129
Current held-to-maturity investments		**2 147**	**4 129**
Total held-to-maturity investments:	**34.1**	**113 856**	**88 286**

The major item of held-to-maturity investments is cash held in the Mine Closure Fund.

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 cash 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 2011 the balance of held-to-maturity investments comprised MCF bank deposits in the amount of PLN 113 812 thousand and cash on MCF bank account in the amount of PLN 1 thousand.

Information on the fair value of held-to-maturity investments was presented in Note 34.2.

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

12. Derivatives

	Note	At 31 December 2011	At 31 December 2010 restated
Non-current assets			
Hedging instruments		896 375	402 234
Trade instruments		3 025	1 605
Non-current assets due to derivatives, total:		**899 400**	**403 839**
Current assets			
Hedging instruments		850 530	211 186
Trade instruments		9 512	9 137
Instruments initially designated as hedging instruments excluded from hedge accounting		-	77 261
Current assets due to derivatives, total:		**860 042**	**297 584**
Total assets due to derivatives	**35.1**	**1 759 442**	**701 423**
Non-current liabilities			
Hedging instruments		427 049	606 154
Trade instruments		111 064	105 426
Instruments initially designated as hedging instruments excluded from hedge accounting		207	-
Non-current liabilities due to derivatives, total:		**538 320**	**711 580**
Current liabilities			
Hedging instruments		125 754	294 161
Trade instruments		205 168	187 503
Instruments initially designated as hedging instruments excluded from hedge accounting		409	454
Current liabilities due to derivatives, total:		**331 331**	**482 118**
Total liabilities due to derivatives	**35.1**	**869 651**	**1 193 698**

12. Derivatives (continued)

TRADE INSTRUMENTS			**At 31 December 2011**				**At 31 December 2010 - restated**			
	Volume/ Notional	**Avg. weighted price/ex. rate**	**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative	Cu [t] Ag ['000 troz] Currency ['000 USD] ['000 EUR]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN] [EUR/PLN]	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper										
Swaps/forwards										
Swap/forwards - purchased							375			
Options										
Sold call options	7 922	1			(188 331)	(16 474)			(98 644)	(61 438)
Purchased put options	117 000	4 633	8 713	2 818			742	1 605		
Sold put options	136 500	4 643			(8 713)	(12 061)			(742)	(23 580)
TOTAL			**8 713**	**2 818**	**(197 044)**	**(28 535)**	**1 117**	**1 605**	**(99 386)**	**(85 018)**
Derivatives – Commodity contracts - Metals - Silver										
Options										
Purchased call options	3 600	62.00	410	207						
Sold put options	7 200	19.90			(4 183)	(22 599)				
TOTAL			**410**	**207**	**(4 183)**	**(22 599)**	-	-	-	-
Derivatives – Currency contracts										
Forwards/swaps										
Forwards/swaps – sold USD	11 309	3.3377-3.3493	7		(927)		170		(220)	
Forwards/swaps – sold EUR	8 059	4.4662-4.5362	382		(57)		3 393		(46)	
Options USD										
Purchased call options							454			
Purchased put options							4 003			
Sold put options	1 020 000	2.6529			(2 957)	(59 930)			(87 851)	(20 408)
TOTAL			**389**	**-**	**(3 941)**	**(59 930)**	**8 020**	**-**	**(88 117)**	**(20 408)**
TOTAL TRADE INSTRUMENTS			**9 512**	**3 025**	**(205 168)**	**(111 064)**	**9 137**	**1 605**	**(187 503)**	**(105 426)**

12. Derivatives (continued)

HEDGING INSTRUMENTS							At 31 December 2011				At 31 December 2010 - restated			
	Volume/ Notional	**Avg. weighted price/ ex. rate**	**Maturity/ settlement period**		**Period of profit/loss impact**		**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	**From**	**Till**	**From**	**Till**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper														
Options														
Collar	42 000	8 350-11 750	Jan-13	Dec-13	Feb-13	Jan-14		253 654		(49 212)	817		(61 730)	
Collar- seagull	136 500	7 000-9 300	Jan-12	June-13	Feb-12	July-13	156 744	90 889	(96 075)	(60 413)	26 198	208 333	(224 011)	(593 707)
Purchased put options – producer's put	88 500	8 278	Jan-12	Dec-12	Feb-12	Jan-13	313 489	39 363			25 300	45 704		
TOTAL							**470 233**	**383 906**	**(96 075)**	**(109 625)**	**52 315**	**254 037**	**(285 741)**	**(593 707)**
Derivatives – Commodity contracts - Metals - Silver														
Options														
Purchased put options	7 200	35.00	Jan-12	Dec-12	Feb-12	Jan-13	183 366	19 008			1 333	406		
Collar	3 600	37.00-62.00	Jan-12	Dec-12	Feb-12	Jan-13	107 594	10 811	(410)	(207)				
Collar- seagull	3 600	40.00-65.00	Jan-13	Dec-13	Feb-13	Jan-14		172 364		(6 001)				
TOTAL							**290 960**	**202 183**	**(410)**	**(6 208)**	**1 333**	**406**	**-**	**-**
Derivatives – Currency contracts														
Options USD														
Purchased put options	360 000	2,6000	Jan-12	June-12	Jan-12	June-12	731				86 063			
Collar	900 000	3.2400-4.2600	Jan-12	Dec-13	Jan-12	Dec-13	64 778	94 796	(23 787)	(95 064)		79 369		(5 678)
Collar- seagull	1 020 000	3.3000-4.2471	Jan-12	Dec-14	Jan-12	Dec-14	23 828	215 490	(5 482)	(216 152)	71 475	68 422	(8 420)	(6 769)
TOTAL							**89 337**	**310 286**	**(29 269)**	**(311 216)**	**157 538**	**147 791**	**(8 420)**	**(12 447)**
TOTAL HEDGING INSTRUMENTS							**850 530**	**896 375**	**(125 754)**	**(427 049)**	**211 186**	**402 234**	**(294 161)**	**(606 154)**

12. Derivatives (continued)

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING

Type of derivative	Volume	Avg. weighted price	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2011				At 31 December 2010 - restated			
							Financial assets		Financial liabilities		Financial assets		Financial liabilities	
	Ag ['000 troz]	Ag [USD/troz]	From	Till	From	Till	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivatives – Metals - Silver														
Options														
Sold call options	3 600	62.00	Jan-12	Dec-12	Feb-12	Jan-13			(409)	(207)				
TOTAL							**-**	**-**	**(409)**	**(207)**				
Derivatives – Currency contracts														
Options USD														
Collar											77 261		(454)	
TOTAL											**77 261**	**-**	**(454)**	**-**
TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING							**-**	**-**	**(409)**	**(207)**	**77 261**	**-**	**(454)**	**-**

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

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

13. Trade and other receivables

	Note	At 31 December 2011	31 December 2010 restated
Trade and other non-current receivables			
Trade receivables		-	14 715
Retentions (collateral) due to long-term construction contracts		2 084	2 474
Deposits of over 12 months		34 291	1 187
Other financial receivables		2 530	1 747
Impairment allowances	35.2.6	(1 010)	(13 158)
Total loans and financial receivables, net:	**34.1**	**37 895**	**6 965**
Other non-financial receivables		39	1 719
Prepayments		1 556	4 824
Total non-financial receivables, net		**1 595**	**6 543**
Trade and other non-current receivables, net:		**39 490**	**13 508**
Trade and other current receivables			
Trade receivables		1 387 659	2 041 065
Retentions (collateral) due to long-term construction contracts		845	837
Unsettled derivative instruments receivables	35.1.5	29 834	-
Loans granted		1 687	1 595
Deposits of over 3 up to 12 months		35 415	351 280
Other financial receivables		67 400	55 918
Impairment allowances	35.2.6	(71 493)	(85 825)
Total loans and financial receivables, net	**34.1**	**1 451 347**	**2 364 870**
Other non-financial receivables, including:		397 263	370 907
- due to taxes and other charges		346 391	258 457
Prepayments		17 918	24 171
Impairment allowances		(27 549)	(32 013)
Total non-financial receivables, net		**387 632**	**363 065**
Trade and other current receivables, net		**1 838 979**	**2 727 935**
Total trade and other non-current and current receivables, net		**1 878 469**	**2 741 443**

The amount of payables due to unsettled derivatives represents the derivatives whose date of settlement falls on 4 January 2012 for the balance as at 31 December 2011.

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

14. Inventories

	Note	At 31 December 2011	At 31 December 2010 restated
Materials		307 343	247 187
Half-finished products and work in progress		1 681 837	1 683 819
Finished goods		581 208	209 316
Merchandise		87 865	81 909
Total carrying amount of inventories		**2 658 253**	**2 222 231**

Write-down of inventories in the financial period		For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010 restated
Write-down of inventories recognised in cost of sales	29	(11 261)	(6 933)
Reversal of write-down recognised in cost of sales	29	3 409	3 852

As at 31 December 2011, the carrying amount of merchandise includes among others property rights purchased and received free-of-charge resulting from certificates of origin for energy from renewable resources and cogeneration in the amount of PLN 2 900 thousand, with respect to green energy (3 816 229 allowances), yellow energy (5 324 606 allowances), red energy (109 345 259 allowances) and violet energy (175 000 allowances).
In accordance with executive regulations related to 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:

- 43 109 366 allowances - green energy,
- 13 378 935 allowances - yellow energy,
- 92 021 915 allowances - red energy,
- 513 042 allowances – violet energy.

During the reporting period, 14 708 316 allowances for green energy were purchased, and 133 826 321 allowances for red energy were received free-of-charge. In terms of partial settlement, all green, yellow and violet allowances, and 59 503 262 allowances for red energy were redeemed. Companies of the Group which had a deficit of rights for obligatory redemption created provisions in the amount of PLN 8 071 thousand. Companies which received free-of-charge allowances for red energy, designated an excess of allowances above the permissible limit for sale.

15. Cash and cash equivalents

	Note	At 31 December 2011	At 31 December 2010 restated
Cash in hand		984	847
Cash at bank		51 949	103 046
Other cash		8 016	1 361
Other financial assets with a maturity of up to 3 months from the date of acquisition		13 069 452	2 981 703
Total cash and cash equivalents	**34.1**	**13 130 401**	**3 086 957**

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 13 053 368 thousand (as at 31 December 2010: PLN 2 906 645 thousand), and interest on financial assets in the amount of PLN 16 084 thousand (as at 31 December 2010: PLN 6 769 thousand).
Components of cash and cash equivalents presented in the consolidated statement of cash flows are the same as those presented in the consolidated statement of financial position.

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

16. Non-current assets held for sale

	At	
	31 December 2011	**31 December 2010 restated**
Property, plant and equipment	3 173	689
Intangible assets	389	389
Total non-current assets held for sale	**3 562**	**1 078**

	Note	For the period	
		from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Beginning of the financial period		**1 078**	**6 674**
Reclassification of property, plant and equipment		2 488	4
Reclassification of investments in associates	9	1 359 568	-
Reclassification of the DIALOG S.A. Group net assets	48	1 015 216	-
Sales		(2 374 788)	(5 600)
End of the financial period		**3 562**	**1 078**

17. Share capital

At 31 December 2011, 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 2011 and 31 December 2010 there were no changes in the registered share capital or in the number of shares.

In 2011 there were no changes in ownership of significant packets of shares of KGHM Polska Miedź S.A. In 2010 the State Treasury decreased its share in the share capital and the total number of votes at the General Meeting from 41.79% to 31.79%.

At 31 December 2011 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**	**percentage held in share capital/ total number of votes**
State Treasury	63 589 900	635 899 000	31.79%
Other shareholders	136 410 100	1 364 101 000	68.21%
Total	200 000 000	2 000 000 000	100.00%

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

18. Accumulated other comprehensive income

	Note	Accumulated other comprehensive income due to: Available-for-sale financial assets	Cash flow hedging financial instruments	Exchange differences from the translation	Total accumulated other comprehensive income
At 1 January 2011 - restated		**120 046**	**89 775**	**-**	**209 821**
Fair value loss on available-for-sale financial assets		(189 633)	-	-	(189 633)
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(10 692)	-	-	(10 692)
Amount transferred to profit or loss due to impairment of available-for-sale financial assets		4 840	-	-	4 840
Impact of effective cash flow hedging transactions	35.1.6	-	839 724	-	839 724
Amount transferred to profit or loss due to the settlement of hedging instruments	35.1.6	-	(241 565)	-	(241 565)
Exchange differences from the translation of foreign operations		-	-	37 131	37 131
Deferred income tax	24	37 143	(113 651)	-	(76 508)
Other comprehensive income		**(158 342)**	**484 508**	**37 131**	**363 297**
At 31 December 2011		**(38 296)**	**574 283**	**37 131**	**573 118**

	Note	Accumulated other comprehensive income due to: Available-for-sale financial assets	Cash flow hedging financial instruments	Total accumulated other comprehensive income
At 1 January 2010		**561**	**125 740**	**126 301**
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	35.1.6	-	97 786	97 786
Amount transferred to profit or loss due to the settlement of hedging instruments	35.1.6	-	(142 187)	(142 187)
Deferred income tax	24	(28 027)	8 436	(19 591)
Other comprehensive income		**119 485**	**(35 965)**	**83 520**
At 31 December 2010 restated		**120 046**	**89 775**	**209 821**

Accumulated other comprehensive income is not subject to distribution.

18.1 Accumulated other comprehensive income components

	At 31 December 2011 Gross value	Net value	31 December 2010 restated Gross value	Net value
Accumulated other comprehensive income due to available-for-sale financial assets	**(47 278)**	**(38 296)**	**148 207**	**120 046**
Fair value gains/(losses)	(47 278)	(38 296)	148 207	120 046
Accumulated other comprehensive income due to cash flow hedging instruments	**708 991**	**574 283**	**110 832**	**89 775**
Gains on measurement	708 991	574 283	110 832	89 775
Exchange differences from the translation of foreign operations	**37 131**	**37 131**	**-**	**-**
Total accumulated other comprehensive income	**698 844**	**573 118**	**259 039**	**209 821**

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

19. Retained earnings

	At	
	31 December 2011	**31 December 2010 restated**
Undistributed profit/(loss) from prior years	(151 505)	(615 872)
including obligation to repurchase of non-controlling interest	(69 860)	(67 382)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	693 541	692 559
Reserve capital created and utilised in accordance with the Statutes of Group entities	8 939 034	7 655 219
Profit for the current period	11 063 456	4 724 507
Total retained earnings	**20 544 526**	**12 456 413**

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 2011 this statutory reserve capital in the Group entities amounts to PLN 693 541 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 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
At beginning of the period		**255 889**	**77 082**
Non-controlling interest in profits of subsidiaries		547	5 917
Changes in equity attributable to non-controlling interest due to obtaining /(losing) control of subsidiaries	20.1	15 923	173 993
Changes in ownership shares in subsidiaries which do not result in loss of control	20.1	(7 646)	(1 103)
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations		18 194	-
At end of the period		**282 907**	**255 889**

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

20. Changes in equity attributable to non-controlling interest (continued)

20.1 Transactions with non-controlling interest

For the period from 1 January 2011 to 31 December 2011	Note	Net assets at the day of obtaining control/ change in % held	% of non-controlling interest in respect of the change	Equity attributable to non-controlling interest
Changes due to obtaining control/(loss of control) of subsidiaries	**20**	**161 653**	**-**	**15 923**
Purchase of NITROERG S.A.	4	84 068	15%	12 610
Purchase of Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	4	27 071	12.26%	3 319
Sale of DIALOG S.A. Group – loss of control of indirect subsidiary Petrotel S.A.		50 514	0.012%	(6)
Changes in ownership shares in subsidiaries which do not result in loss of control	**20**	-	**-**	**(7 646)**
Increase in the share capital of ZUK S.A.		113 802	1.71%	(1 946)
Increase in the share capital of Uzdrowisko Połczyn S.A.		24 308	0.54%	(131)
Increase in the share capital of "Uzdrowisko Cieplice" Sp. z o.o.		26 329	1.96%	(518)
Settlement of WMN Sp. z o.o. due to combination with WM "ŁABĘDY" S.A.		47 722	15.63%	(7 459)
Settlement of WM "ŁABĘDY" S.A. due to combination with WMN Sp. z o.o.		52 292	11.08%	(5 794)
WMN "ŁABĘDY" – new entity founded from the combination of WMN Sp. z o.o. and WM „ŁABĘDY" S.A.		54 076	15.04%	8 133
Purchase of non-controlling interest of KGHM Kupfer AG		(270)	25.10%	69

The method of percentage share in the net assets of acquired companies was used to measure non-controlling shares.

For the period from 1 January 2010 to 31 December 2010 - restated	Note	Net assets at the day of obtaining control/change in % held	% of non-controlling interest in respect of the change	Equity attributable to non-controlling interest
Changes due to obtaining control of subsidiaries	**20**	**699 038**	**-**	**173 993**
Purchase of BIPROMET S.A. Group		49 851	34%	17 880
Purchase of KGHM AJAX MINING INC.		206 946	49%	101 404
Purchase of CENTROZŁOM S.A.		209 904	15%	31 486
Purchase of ZUK S.A.		155 820	9.91%	15 439
Purchase of Uzdrowisko Połczyn S.A.		43 818	10.09%	4 419
Purchase of „Uzdrowisko Cieplice" Sp. z o.o.		32 699	10.29%	3 365
Changes in ownership shares in subsidiaries which do not result in loss of control	**20**	-	**-**	**(1 103)**
INTERFERIE S.A.		95 913	1.15%	(1 103)

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

21. Trade and other payables

	Note	At 31 December 2011	31 December 2010 restated
Trade and other non-current payables			
Trade payables		8 024	11 732
including payables due to purchase, construction of property, plant and equipment and intangible assets		79	2 933
Put option liabilities for employee shares		74 437	68 872
Other financial liabilities		13 718	11 562
Total financial liabilities (scope of IFRS 7)	**34.1**	**96 179**	**92 166**
Deferred income			
Other non-financial liabilities		32 864	27 568
Total non-financial liabilities		706	126
		33 570	**27 694**
Total trade and other non-current payables		**129 749**	**119 860**
Trade and other current payables			
Trade payables		989 030	890 300
including payables due to purchase, construction of property, plant and equipment and intangible assets		278 894	230 699
Payables due to unsettled derivatives*		17 073	49 690
Other financial liabilities		29 587	20 956
Total financial liabilities (scope of IFRS 7)	**34.1**	**1 035 690**	**960 946**
Other financial liabilities (IAS 19 – Employee benefits)		181 316	168 419
Total financial liabilities		**1 217 006**	**1 129 365**
Liabilities due to taxes and social security		316 741	307 039
Other non-financial liabilities		53 747	46 006
Special funds		138 307	112 054
Deferred income		35 732	22 132
Accruals		420 560	377 981
Total non-financial liabilities		**965 087**	**865 212**
Total trade and other current payables		**2 182 093**	**1 994 577**
Total trade and other non-current and current payables		**2 311 842**	**2 114 437**

*Payables due to unsettled derivatives represent the derivatives whose date of settlement falls on 4 January 2012 for the balance as at 31 December 2011 and 5 January 2011 for the balance as at 31 December 2010.

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 305 389 thousand (PLN 294 930 thousand as at 31 December 2010) and costs due to unused annual leave in the amount of PLN 22 308 thousand (PLN 19 395 thousand as at 31 December 2010).

Put option liabilities for employee shares in the amount of PLN 74 437 thousand presented as non-current payables (as at 31 December 2010, PLN 68 872 thousand) 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 Połczyn S.A., Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o., CENTROZŁOM WROCŁAW 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. The put option liabilities for employee shares are discounted by applying a discount rate at the level of 5.8% assuming a 5-year period of realisation. The put option liabilities for employee shares are recognised with debit entry in retained earnings in „Valuation of the put option for employee shares".

21. Trade and other payables (continued)

Details on measurement of put option liabilities for employee shares 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 at	
			31 December 2011	31 December 2010 restated
WPEC w Legnicy S.A.	1 770 000	20.00	29 891	28 576
"Uzdrowisko Cieplice" Sp. z o.o.	13 110	256.50	2 684	2 573
Zespół Uzdrowisk Kłodzkich S.A.	379 500	40.06	12 133	11 632
Uzdrowisko Połczyn S.A.	179 550	16.51	2 366	2 268
Uzdrowisko "Świeradów-Czerniawa" Sp z o.o.	1 881	1 560.30	2 514	-
CENTROZŁOM WROCŁAW S.A.	1 650 000	18.87	24 849	23 823
Put option liabilities for employee shares			**74 437**	**68 872**

22. Borrowings and finance lease liabilities

	Note	At	
		31 December 2011	31 December 2010 restated
Non-current borrowings and finance lease liabilities			
Bank loans		176 909	141 829
Loans		1 738	2 420
Finance lease liabilities		15 723	29 403
Total non-current borrowings and finance lease liabilities		**194 370**	**173 652**
Current borrowings and finance lease liabilities			
Bank loans		91 269	81 901
Loans		2 032	1 883
Finance lease liabilities		10 286	12 378
Total current borrowings and finance lease liabilities		**103 587**	**96 162**
Total borrowings and finance lease liabilities	**34.1**	**297 957**	**269 814**

22.1 Borrowings

Bank and other loans as at 31 December 2011

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	2012 (current)	2013	2014	2015-2016	2017 and beyond
EUR	Variable	16 335	72 149	3 188	9 539	5 458	16 607	37 357
PLN	Variable		199 061	89 931	25 396	15 933	25 037	42 764
PLN	Fixed		738	182	181	181	122	72
Total bank and other loans			**271 948**	**93 301**	**35 116**	**21 572**	**41 766**	**80 193**

22. Borrowings and finance lease liabilities (continued)

22.1 Borrowings (continued)

Bank and other loans as at 31 December 2010 - 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	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	692	182	182	282	92
Total bank and other loans			**228 033**	**83 784**	**18 452**	**65 345**	**22 837**	**37 615**

22.2 Finance lease liabilities

As at 31 December 2011, the amount of the finance lease liabilities amounted to PLN 26 009 thousand (at 31 December 2010: PLN 41 781 thousand, respectively).
At 31 December 2011, the largest item is liabilities due to agreements entered into with Fortis Lease Sp. z o.o. to finance the purchase of rolling stock. The amount of liabilities in this regard amounts to PLN 14 349 thousand (at 31 December 2010, PLN 20 074 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%.

Finance lease liabilities as at 31 December 2011

	2012 (current)	2013	2014	2015-2016	Total
Nominal value of minimum lease payments	**11 411**	**8 664**	**6 290**	**1 659**	**28 024**
Future finance costs due to finance leases	(1 125)	(652)	(236)	(2)	(2 015)
Present value of minimum lease payments	**10 286**	**8 012**	**6 054**	**1 657**	**26 009**

Finance lease liabilities as at 31 December 2010 - restated

	2011 (current)	2012	2013	2014-2015	Total
Nominal value of minimum lease payments	**13 718**	**13 236**	**9 305**	**8 927**	**45 186**
Future finance costs due to finance leases	(1 340)	(1 007)	(647)	(411)	(3 405)
Present value of minimum lease payments	**12 378**	**12 229**	**8 658**	**8 516**	**41 781**

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

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 74 200 thousand,
- mortgages to the total amount of PLN 86 873 thousand,
- contractual mortgage on investment properties of PLN 30 000 thousand,
- blank promissory notes with a declaration of rights,
- statement on submitting to the enforcement regime,
- assignment of rights under insurance policies,
- assignment of receivables up to PLN 56 296 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 on motor vehicle up to PLN 24 000 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,
- 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).

The carrying amount of Group companies net assets which are pledged as collateral for financial liabilities or contingent liabilities at the end of the reporting period:

	At	
	31 December 2011	**31 December 2010 restated**
Property, plant and equipment, including:	204 209	159 213
• Fixed assets under construction	-	9 506
• Buildings	77 659	80 927
• Motor vehicles[1)]	57 244	29 300
• Technical equipment and machinery[1)]	69 306	39 480
Intangible assets	-	305
Investment property	16 806	25 523
Inventories	40 835	32 571
Trade receivables[2)]	20 199	18 407
Other financial and non-financial receivables	208	-
Cash and cash equivalents	3 126	56 245
Total carrying amount of assets which are pledged as collateral for financial liabilities	**285 383**	**292 264**

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

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

24. Deferred tax

	Note	At 31 December 2011	At 31 December 2010 restated
Net deferred tax assets at the beginning of the period, of which:		**424 636**	**291 213**
Deferred tax assets at the beginning of the period		**592 792**	**347 395**
Deferred tax liabilities at the beginning of the period		**168 156**	**56 182**
(Charged)/Credited to profit	37	(50 474)	167 170
Decrease in other accumulated comprehensive income	18	(76 508)	(19 591)
Deferred tax assets at the date of acquisition of shares in subsidiaries		1 676	(49 889)
Reclassification of deferred tax to assets held for sale		(147 152)	-
Discontinued activities		-	35 733
Net deferred tax assets at the end of the period, of which:		**152 178**	**424 636**
Deferred tax assets at the end of the period		**272 331**	**592 792**
Deferred tax liabilities at the end of the period		**120 153**	**168 156**

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

24. Deferred tax (continued)

Deferred tax assets prior to offsetting

	At 1 January 2011 based on the rate of 19% restated	Increase due to obtaining control of a subsidiary	Credited/(Charged) to profit due to a change in the balance of temporary differences and tax loss	Increase/(decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	Decrease due to reclassification to assets held for sale	At 31 December 2011 based on the rate of 19%
Exchange differences	115	18	919	-	-	1 052
Interest	63	-	73	-	(1)	135
Allowances for impairment of receivables	9 991	-	1 118	-	(4 226)	6 883
Short-term accruals for salaries	58 062	-	1 782	-	(175)	59 669
Employee benefits (holidays)	3 598	158	912	-	(329)	4 339
Provision for decommissioning of mines and other facilities	102 058	-	(7 103)	-	-	94 955
Measurement of forward transactions	429 215	-	(1 983)	-	-	427 232
Re-measurement of hedging instruments	30	-	90	79 470	-	79 590
Depreciation and amortisation	137 175	-	13 020	-	(116 523)	33 672
Future employee benefits liabilities	251 174	3 510	22 648	-	(456)	276 876
Unpaid remuneration with surcharges	13 824	-	569	-	(42)	14 351
Measurement of available-for-sale financial assets	318	-	(193)	13 779	-	13 904
Other	133 860	-	7 342	-	(30 194)	111 008
Total	**1 139 483**	**3 686**	**39 194**	**93 249**	**(151 946)**	**1 123 666**

	At 1 January 2010 based on the rate of 19%	Increase due to obtaining control of a subsidiary	Credited/(Charged) to profit due to a change in the balance of temporary differences and tax loss	Increase/(decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	Discontinued operations	At 31 December 2010 based on the rate of 19% restated
Exchange differences	27	17	71	-	-	115
Interest	36	5	30	-	(8)	63
Allowances for impairment of receivables	13 358	199	(4 503)	-	937	9 991
Short-term accruals for salaries	53 305	721	4 036	-	-	58 062
Employee benefits (holidays)	4 180	17	(560)	-	(39)	3 598
Provision for decommissioning of mines 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	-	2 509	-	3 934	137 175
Future employee benefits liabilities	243 540	959	6 621	-	54	251 174
Unpaid remuneration with surcharges	12 223	229	1 358	-	14	13 824
Measurement of available-for-sale financial assets	218	-	-	100	-	318
Other	85 951	1 963	14 605	-	31 341	133 860
Total	**817 486**	**4 588**	**281 076**	**100**	**36 233**	**1 139 483**

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 26 732 thousand (at 31 December 2010: PLN 21 486 thousand). The recognition of deferred tax assets was based on current, approved financial plans and on the current activities of the Group.

At 31 December 2011 the amount of deductible temporary differences and unused tax losses in respect of which the Group did not recognise deferred tax assets is immaterial.

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

24. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At 1 January 2011 based on the rate of 19% restated	Increase due to obtaining control of a subsidiary	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/ Decrease in other accumulated comprehensive income due to change in the balance of temporary differences	Decrease due to reclassification to assets held for sale	At 31 December 2011 based on the rate of 19%
Exchange differences	209	4	72	-	-	285
Interest	1 892	8	2 159	-	(81)	3 978
Measurement of forward transactions	67 077	-	114 131	-	-	181 208
Re-measurement of hedging instruments	21 674	-	(616)	193 121	-	214 179
Depreciation/amortisation	419 728	50	22 422	-	(2 003)	440 197
Measurement of available-for-sale financial assets	28 477	-	-	(23 364)	-	5 113
Accounting for an associate reclassified to assets held for sale using the equity method	51 519	-	-	-	(51 519)	-
Other	124 271	1 948	(48 500)	-	(2 710)	75 009
Total	**714 847**	**2 010**	**89 668**	**169 757**	**(56 313)**	**919 969**

	At 1 January 2010 based on the rate of 19%	Increase due to obtaining control of a subsidiary	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/ Decrease in other accumulated comprehensive income due to change in the balance of temporary differences	Discontinued operations	At 31 December 2010 based on the rate of 19% restated
Exchange 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 instruments	29 494	-	616	(8 436)	-	21 674
Depreciation/amortisation	384 860	9 674	24 842	-	352	419 728
Measurement of available-for-sale financial assets	350	-	-	28 127	-	28 477
Accounting for an associate reclassified to assets held for sale using the equity method	-	-	51 519	-	-	51 519
Other	73 286	44 359	6 478	-	148	124 271
Total	**526 273**	**54 477**	**113 906**	**19 691**	**500**	**714 847**

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

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
Present value of obligations - at 1 January 2011 - restated	**30**	**1 338 609**	**298 001**	**226 203**	**764 060**	**50 345**
Interest costs		71 454	15 331	12 113	41 376	2 634
Current service cost		43 873	21 035	12 889	11 010	(1 061)
Past service cost		610	534	76	-	-
Benefits paid		(89 363)	(39 210)	(13 619)	(34 547)	(1 987)
Actuarial losses		87 491	5 912	2 866	73 375	5 338
(Gains)/losses due to limitation of the employee benefit plans		324	214	141	-	(31)
Liabilities transferred due to business combination		18 576	12 557	5 188	-	831
Reclassification to assets held for sale		(2 051)	(1 447)	(598)	-	(6)
Present value of obligations - at 31 December 2011	**30**	**1 469 523**	**312 927**	**245 259**	**855 274**	**56 063**
Past service cost unrecognised at the end of the reporting period		(4 217)	-	(4 217)	-	-
Carrying amount of liabilities - at 31 December 2011		**1 465 306**	**312 927**	**241 042**	**855 274**	**56 063**
of which:						
Carrying amount of non-current liabilities		1 338 743	267 887	205 060	814 546	51 250
Carrying amount of current liabilities		126 563	45 040	35 982	40 728	4 813

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
Present value of obligations - at 1 January 2010	**30**	**1 297 643**	**288 191**	**211 414**	**753 305**	**44 733**
Interest costs		70 602	15 003	11 510	41 592	2 497
Current service cost		46 620	20 268	11 997	11 074	3 281
Benefits paid		(91 232)	(42 814)	(13 715)	(32 315)	(2 388)
Actuarial losses/(gains)		9 204	13 435	3 182	(9 596)	2 183
(Gains) due to limitation of the employee benefit plans		(558)	(506)	(52)	-	-
Liabilities transferred due to business combination		6 360	4 407	1 914	-	39
Discontinued operations		(30)	17	(47)	-	-
Present value of obligations - at 31 December 2010 - restated	**30**	**1 338 609**	**298 001**	**226 203**	**764 060**	**50 345**
Past service cost unrecognised at the end of the reporting period		(5 903)	-	(5 903)	-	-
Carrying amount of liabilities - at 31 December 2010 - restated		**1 332 706**	**298 001**	**220 300**	**764 060**	**50 345**
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

At	Present value of employee benefits
31 December 2011	1 469 523
31 December 2010	1 338 609
31 December 2009	1 297 643
31 December 2008	1 132 229
31 December 2007	1 008 286

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

25. Employee benefits (continued)

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

	Note	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010 restated
Interest costs		71 454	70 602
Current service cost		43 873	46 620
Actuarial losses		87 491	9 204
(Gains)/losses due to limitation of the employee benefit plans		324	(558)
Past service cost	**30**	2 296	1 686
Total costs recognised in profit or loss		**205 438**	**127 554**

Main actuarial assumptions at 31 December 2011

	2012	2013	2014	2015	2016 and beyond
- discount rate	5.80%	5.80%	5.80%	5.80%	5.80%
- rate of increase in coal prices	8.00%	3.30%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	8.20%	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	5.30%	3.80%	3.50%	3.50%	3.50%

Main actuarial assumptions at 31 December 2010

	2011	2012	2013	2014	2015 and beyond
- discount rate	5.50%	5.50%	5.50%	5.50%	5.50%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	5.20%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	3.50%	4.00%	4.00%	4.00%	4.00%

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.

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

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
Provisions at 1 January 2011 - restated		**567 643**	**515 877**	**5 609**	**12 297**	**33 860**
Provisions created		12 557	-	644	6 034	5 879
Provisions transferred due to business combinations		945	-	-	-	945
Changes in provisions after updating of estimates		(42 081)	(43 906)	(32)	-	1 857
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount)	33	32 052	31 490	217	-	345
Utilisation of provisions		(9 817)	(3 614)	(699)	(1 399)	(4 105)
Release of provisions		(22 912)	-	(175)	(10 024)	(12 713)
Transfer to Mine Closure Fund		(22 866)	(22 866)	-	-	-
Reclassification to assets held for sale		(3 188)	-	-	(940)	(2 248)
Other		(1 253)	-	101	470	(1 824)
Provisions at 31 December 2011		**511 080**	**476 981**	**5 665**	**6 438**	**21 996**
of which:						
Non-current provisions		**485 040**	**467 692**	**3 476**	**-**	**13 872**
Current provisions		**26 040**	**9 289**	**2 189**	**6 438**	**8 124**

	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2010		**574 788**	**511 384**	**5 307**	**24 124**	**33 973**
Provisions created		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)
Provisions at 31 December 2010 restated		**567 643**	**515 877**	**5 609**	**12 297**	**33 860**
of which:						
Non-current provisions		**520 727**	**501 247**	**4 546**	**-**	**14 934**
Current provisions		**46 916**	**14 630**	**1 063**	**12 297**	**18 926**

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 2011, 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 476 981 thousand (as at 31 December 2010: PLN 515 877 thousand), estimated in accordance with the methodology defined in the International Financial Reporting Standards. The decrease in the provision in 2011 was caused by the change in long term forecast yield on bonds.

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 area and type of this tailings pond requires several stages of site restoration and development, because "Żelazny Most" tailings pond will be operational until the last working day of the mines and enrichment plants. 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.

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

26. Provisions for other liabilities and charges (continued)

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, which were estimated assuming the application of existing mine decommissioning technology, applying current prices. 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 the act – Geological and Mining, 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 and income from these investments increases the Fund's balance.

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

		At	
Division	**Facility**	**31 December 2011**	**31 December 2010**
Tailings Plant	"Żelazny Most" tailings pond	90 068	92 328
Tailings Plant	Other waste storage areas	45 729	44 460
Rudna Mine	Central part of Rudna Mine (shafts: RI, RII, RV)	40 327	41 325
Ore Enrichment Plant	Rudna OEP	38 985	39 789
Ore Enrichment Plant	Polkowice OEP	38 848	38 517
Polkowice-Sieroszowice Mine	Western part of Polkowice Mine (shafts: P-I, P-II)	31 036	31 764
Ore Enrichment Plant	Lubin OEP	29 835	30 979
Lubin Mine	Central part of Lubin Mine (shafts: LI, LII)	26 910	26 937
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	23 972	25 642
Lubin Mine	Western part of Lubin Mine (shafts: LIV,LV)	23 917	24 038

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. Impairment losses on other property, plant and equipment 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 by asset class during the financial period from 1 January to 31 December 2011

	Note	**Impairment loss recognised**	**Impairment loss reversed**	**Impairment loss used**	**Impairment reclassified to assets held for sale**
Buildings	6	487	855	510	223 185
Technical equipment and machinery	6	2 817	174	3 221	190 534
Other fixed assets	6	304	-	-	113
Fixed assets under construction	6	5 082	3 221	14 333	25 196
Software	7	-	-	27	2 398
Other intangible assets	7	1 795	-	-	156
Intangible assets not yet available to use	7	280	-	-	-
Total		**10 765**	**4 250**	**18 091**	**441 582**

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

27. Impairment losses (continued)

Impairment losses by segment during the financial period from 1 January to 31 December 2011

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used	Impairment reclassified to assets held for sale
Production and resource base development		2 102	599	2 324	-
Equity-portfolio investments		8 396	3 651	15 767	441 582
Commerce and hedging		-	-	-	-
Corporate social responsibility – CSR		267	-	-	-
Total consolidated value	**6, 7**	**10 765**	**4 250**	**18 091**	**441 582**

Impairment losses by asset class during the financial period from 1 January to 31 December 2010 - restated

	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	-
Total		**21 718**	**1 406**	**25 801**

Impairment losses by segment during the financial period from 1 January to 31 December 2010 - restated

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Production and resource base development		7 515	538	4 813
Equity-portfolio investments		13 500	868	2 237
Commerce and hedging		-	-	-
Corporate social responsibility – CSR		703	-	18 751
Total consolidated value	**6, 7**	**21 718**	**1 406**	**25 801**

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

28. Sales

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

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Copper, precious metals, smelter by-products	19 611 913	15 739 320
Salt	80 378	72 080
Energy	88 389	90 744
Services	474 109	316 222
Mining machinery, transport vehicles for mining and other	17 446	22 975
Merchandise	984 670	296 886
Scrap and materials	66 062	10 360
Other goods	784 263	217 917
Total continued operations	**22 107 230**	**16 766 504**
Discontinued operations	**487 315**	**526 086**
Total	**22 594 545**	**17 292 590**

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

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
domestic	**5 358 480**	**4 444 534**
- copper, precious metals, smelter by-products	3 326 008	3 526 026
- salt	63 267	52 819
- energy	88 389	90 744
- services	449 097	304 953
- mining machinery, transport vehicles for mining and other	11 951	18 456
- merchandise	809 293	247 427
- wastes and materials	65 357	10 344
- other finished goods	545 118	193 765
foreign	**16 748 750**	**12 321 970**
- copper, precious metals, smelter by-products	16 285 905	12 213 294
- salt	17 111	19 261
- services	25 012	11 269
- mining machinery, transport vehicles for mining and other	5 495	4 519
- merchandise	175 377	49 459
- scrap and materials	705	16
- other finished goods	239 145	24 152
Total continued operations	**22 107 230**	**16 766 504**
Discontinued operations	**487 315**	**526 086**
Total	**22 594 545**	**17 292 590**

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010**
Average copper price on LME (USD/t)	8 811	7 539
Average exchange rate (USD/PLN) per NBP	2.96	3.02

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

29. Expenses by nature

	Note	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010 restated
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 7, 9	844 137	756 123
Employee benefits expenses	30	3 701 502	3 296 048
Materials and energy		6 758 630	5 033 022
External services		1 357 416	1 164 258
Taxes and charges		376 657	343 750
Advertising costs and representation expenses		63 881	38 519
Property and personal insurance		31 750	22 528
Research and development costs not capitalised in intangible assets		6 058	5 493
Other costs, of which:		82 502	59 018
Impairment losses on property, plant and equipment, intangible assets	6, 7	3 074	8 661
Impairment losses on goodwill	7	-	743
Write-down of inventories	14	11 245	5 495
Allowance for impairment of receivables	35.3.6	13 876	4 726
Reversal of impairment of property, plant and equipment, intangible assets	6, 7	(1 029)	(896)
Reversal of write-down of inventories	14	(2 587)	(3 852)
Reversal of allowance for impairment of receivables	35.3.6	(2 886)	(1 826)
Losses from the disposal of financial instruments	34.3	5 897	2 337
Other operating costs		54 912	43 630
Total expenses by nature		**13 232 533**	**10 718 759**
Cost of merchandise and materials sold (+), of which:		583 494	221 944
Allowance for impairment of receivables	35.3.6	2 603	1 871
(Reversal)/write-down of inventories		(822)	1 393
Reversal of allowance for impairment of receivables	35.3.6	(962)	(545)
Change in inventories of finished goods and work in progress (+/-)		(367 173)	(156 447)
Cost of manufacturing products for internal use (-)		(744 114)	(663 617)
Total cost of sales, selling costs and administrative expenses		**12 704 740**	**10 120 639**
Total cost of sales, selling costs and administrative expenses of discontinued operations		**435 558**	**481 727**
Total		**13 140 298**	**10 602 366**

30. Employee benefits expenses

	Note	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010 restated
Remuneration		2 688 454	2 441 461
Costs of social security		896 973	818 265
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:		116 075	36 322
Present value of obligation	25	113 779	34 636
Past service costs	25	2 296	1 686
Total continued operations	**29**	**3 701 502**	**3 296 048**
Discontinued operations		**82 040**	**87 024**
Total		**3 783 542**	**3 383 072**

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

31. Other operating income

	Note	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010 restated
Income and gains from financial instruments classified under other operating activities, resulting from:	34.3	2 137 123	544 421
Measurement and realisation of derivatives		1 038 215	476 668
Interest		192 412	60 961
Foreign exchange gains		888 985	-
Gains on sale		16 877	4 925
Gains on measurement of non-current liabilities		-	161
Reversal of allowance for impairment of loans and receivables		634	1 706
Increase in fair value of investment property	8	41	4 358
Profit on sale of associate	9	2 312 579	-
Gains on a bargain purchase of subsidiaries		2 751	18 408
Gains/(losses) from the disposal of intangible assets		(14)	1 385
Interest on non-financial receivables		5 461	7 174
Dividends received		27 471	70
Reversal of impairment losses on fixed assets under construction	6	3 101	23
Reversal of allowance for impairment of other non-financial receivables		2 702	3 425
Government grants and other donations received		4 820	2 960
Release of unused provisions due to:		20 740	19 634
Decommissioning of mines		5 179	3 973
Disputed issues, pending court proceedings		2 055	6 216
Other		13 506	9 445
Surpluses identified in current assets		2 131	11 879
Penalties and compensation received		23 406	18 435
Foreign exchange gains - non-financial		10 958	4 386
Other operating income/gains		10 548	12 367
Total continued operations		**4 563 818**	**648 925**
Discontinued operations		**27 588**	**20 220**
Total		**4 591 406**	**669 145**

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

32. Other operating costs

	Note	For the period	
		from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Costs and losses on financial instruments classified under other operating activities, resulting from:	34.3	727 995	1 678 921
Measurement and realisation of derivatives		715 417	1 638 691
Interest		545	134
Foreign exchange losses		-	38 771
Losses on measurement of non-current liabilities		1 716	-
Allowances for impairment of loans and receivables		5 470	1 325
Allowances for impairment of financial assets available-for-sale		4 845	-
Allowances for impairment of financial assets held-to-maturity		2	-
Losses on the sale of investment property		1 968	9
Decrease in fair value of investment property	8	919	-
Allowances for impairment of other non-financial receivables		817	7 192
Losses on the sale of property, plant and equipment, and intangible assets		7 545	21 360
Impairment losses on fixed assets under construction and intangible assets not yet available for use	6, 7	5 019	8 003
Interest on overdue non-financial liabilities		497	157
Donations granted		16 028	13 016
Provisions for:		14 561	17 157
Decommissioning of mines		2 525	3 197
Disputed issues, pending court proceedings		5 317	2 405
Other		6 719	11 555
Penalties and compensation		4 298	2 526
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events		1 888	3 667
Contributions to a voluntary organisation		10 808	8 202
Other operating costs/losses		20 316	28 271
Total continued operations		**812 659**	**1 788 481**
Discontinued operations		**11 666**	**9 891**
Total		**824 325**	**1 798 372**

33. Finance costs

	Note	For the period	
		from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Interest due to:	34.3	10 971	10 785
Bank and other loans		8 521	8 578
Finance leases		2 450	2 207
Foreign exchange (gains)/losses on borrowings	34.3	4 755	(728)
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	26	32 052	32 174
Measurement of provisions for decommissioning of mines		31 490	31 843
Measurement of other provisions		562	331
Losses due to measurement of non-current liabilities	34.3	3 375	1 755
Other finance costs		552	94
Total continued operations		**51 705**	**44 080**
Discontinued operations		**1 433**	**4 250**
Total		**53 138**	**48 330**

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

34. Financial instruments

34.1 Carrying amount

At 31 December 2011

Categories of financial instruments

Classes of financial instruments	**Note**	Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss*	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total**
Debt securities	10	8 263								**8 263**
Listed shares	10	987 847	-	-	-	-	-	-	-	**987 847**
Unlisted shares	10	11 388	-	-	-	-	-	-	-	**11 388**
Participation units of investment funds	10	2 126	-	-	-	-	-	-	-	**2 126**
Trade receivables (net)	13	-	-	-	1 327 554	-	-	-	-	**1 327 554**
Cash and cash equivalents and deposits	11,13,15	-	113 812	-	13 200 107	-	-		-	**13 313 919**
Other financial assets (net)	10,11,13	4	44	-	91 982	-	-	-	-	**92 030**
Derivatives - Currency	12	-	-	389	-	(63 871)	-	-	59 138	**(4 344)**
Derivatives - Commodity contracts - metals	12	-	-	12 148	-	(252 977)	-	-	1 134 964	**894 135**
Trade payables	21	-	-	-	-	-	(997 054)	-	-	**(997 054)**
Bank and other loans	22	-	-	-	-	-	(271 948)	-	-	**(271 948)**
Other financial liabilities	21,22	-	-	-	-	-	(134 815)	(26 009)	-	**(160 824)**
		1 009 628	**113 856**	**12 537**	**14 619 643**	**(316 848)**	**(1 403 817)**	**(26 009)**	**1 194 102**	**15 203 092**

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

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

34. Financial instruments (continued)

34.1 Carrying amount (continued)

At 31 December 2010 - 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: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
Listed shares	10	748 772	-	-	-	-	-	-	-	**748 772**
Unlisted shares	10	11 387	-	-	-	-	-	-	-	**11 387**
Participation units of investment funds	10, 15	407 214	-	-	68 289	-	-	-	-	**475 503**
Trade receivables (net)	13	-	-	-	1 969 463	-	-	-	-	**1 969 463**
Cash and cash equivalents and deposits	11,13,15	-	88 244	-	3 371 135	-	-	-	-	**3 459 379**
Other financial assets (net)	10,11,13	7	42	-	49 906	-	-	-	-	**49 955**
Derivatives - Currency	12	-	-	85 281	-	(108 979)	-	-	284 462	**260 764**
Derivatives - Commodity contracts - metals	12	-	-	2 722	-	(184 404)	-	-	(571 357)	**(753 039)**
Trade payables	21	-	-	-	-	-	(902 032)	-	-	**(902 032)**
Bank and other loans	22	-	-	-	-	-	(228 033)	-	-	**(228 033)**
Other financial liabilities	21,22	-	-	-	-	-	(151 080)	(41 781)	-	**(192 861)**
		1 167 380	**88 286**	**88 003**	**5 458 793**	**(293 383)**	**(1 281 145)**	**(41 781)**	**(286 895)**	**4 899 258**

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

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

34. Financial instruments (continued)

34.2 Fair value

		At 31 December 2011		At 31 December 2010 restated	
Classes of financial instruments		**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
	Note	**34.1**		**34.1**	
Debt securities	10	8 263	8 263	-	-
Listed shares	10	987 847	987 847	748 772	748 772
Unlisted shares*	10	11 388	-	11 387	-
Participation units of investment funds	10, 15	2 126	2 126	475 503	475 503
Trade receivables (net)	13	1 327 554	1 327 554	1 969 463	1 969 463
Cash and cash equivalents and deposits	11, 13,15	13 313 919	13 314 318	3 459 379	3 459 379
Other financial assets (net)	10, 11, 13	92 030	92 030	49 955	49 955
Derivatives - Currency, of which:	12	(4 344)	(4 344)	260 764	260 764
Assets		400 012	400 012	390 610	390 610
Liabilities		(404 356)	(404 356)	(129 846)	(129 846)
Derivatives - Commodity contracts - metals, of which:	12	894 135	894 135	(753 039)	(753 039)
Assets		1 359 430	1 359 430	310 813	310 813
Liabilities		(465 295)	(465 295)	(1 063 852)	(1 063 852)
Trade payables	21	(997 054)	(997 054)	(902 032)	(902 032)
Bank and other loans	22	(271 949)	(271 949)	(228 033)	(228 033)
Other financial liabilities	21, 22	(160 824)	(160 824)	(192 861)	(192 861)

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. They are disclosed in the annual consolidated statement of financial position at cost less impairment loss.

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

34. Financial instruments (continued)

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 2011 to 31 December 2011	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Other financial liabilities		Hedging instruments	Financial instruments of continued operations	Discontinued operations	Total
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39				
Interest income/(costs) recognised in:	**31, 32, 33**	-	**85**	**185**	**192 142**	**(9 066)**	**(2 450)**	-	**180 896**	**3 119**	**184 015**
Other operating income	31	-	85	185	192 142	-	-	-	192 412	4 320	196 732
Other operating costs	32	-	-	-	-	(545)	-	-	(545)	(67)	(612)
Finance costs	33	-	-	-	-	(8 521)	(2 450)	-	(10 971)	(1 134)	(12 105)
Foreign exchange gains/(losses) recognised in:	**31, 32, 33**	-	**-**	**-**	**985 701**	**(100 321)**	**(1 150)**	-	**884 230**	**(132)**	**884 098**
Other operating income	31	-	-	-	988 791	(99 806)	-	-	888 985	-	888 985
Other operating costs	32	-	-	-	-	-	-	-	-	(132)	(132)
Finance costs	33	-	-	-	(3 090)	(515)	(1 150)	-	(4 755)	-	(4 755)
Losses on measurement of non-current liabilities recognised in:	**32, 33**	-	-	-	-	**(5 091)**	-	-	**(5 091)**	**-**	**(5 091)**
Other operating costs	32	-	-	-	-	(1 716)	-	-	(1 716)	-	(1 716)
Finance costs	33	-	-	-	-	(3 375)	-	-	(3 375)	-	(3 375)
Impairment allowances recognised in:	**29, 32**	-	**(4 845)**	**(2)**	**(21 949)**	-	-	-	**(26 796)**	**(13 372)**	**(40 168)**
Expenses by nature	29	-	-	-	(16 479)	-	-	-	(16 479)	(12 220)	(28 699)
Other operating costs	32	-	(4 845)	(2)	(5 470)	-		-	(10 317)	(1 152)	(11 469)
Reversal of impairment allowances recognised in:	**29, 31**	-	-	-	**4 482**	-	-	-	**4 482**	**8 088**	**12 570**
Expenses by nature	29	-	-	-	3 848	-	-	-	3 848	7 569	11 417
Other operating income	31	-	-	-	634	-	-	-	634	519	1 153
Adjustment to sales due to hedging transactions	**35**	-	-	-	-	-	-	241 565	**241 565**	-	**241 565**
Gains/(losses) from disposal of financial instruments recognised in:	**29, 31**	-	**16 877**	**-**	**(5 897)**	-	-	-	**10 980**	**-**	**10 980**
Expenses by nature	29	-	-	-	(5 897)	-	-	-	(5 897)	-	(5 897)
Other operating income	31	-	16 877	-	-	-	-	-	16 877	-	16 877
Gains on measurement and realisation of derivatives	**31**	**1 038 215**	-	-	-	-	-	-	**1 038 215**		**1 038 215**
Losses on measurement and realisation of derivatives	**32**	**(715 417)**	-	-	-	-	-	-	**(715 417)**		**(715 417)**
Total net gain/(loss) from continued operations		**322 798**	**12 117**	**183**	**1 154 479**	**(114 478)**	**(3 600)**	**241 565**	**1 613 064**	**(2 297)**	**1 610 767**

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

34. Financial instruments (continued)
34.3 Items of income, costs, profit and losses recognised in profit or loss by category of financial instruments (continued)

For the period from 1 January 2010 to 31 December 2010 restated	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Other financial liabilities		Hedging instruments	**Financial instruments of continued operations**	**Discontinued operations**	**Total**
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39				
Interest income/(costs) recognised in:	**31,32,33**	-	**307**	**110**	**60 544**	**(8 712)**	**(2 207)**	-	**50 042**	**182**	**50 224**
Other operating income	31	-	307	110	60 544	-	-	-	60 961	4 141	65 102
Other operating costs	32	-	-	-	-	(134)	-	-	(134)	(11)	(145)
Finance costs	33	-	-	-	-	(8 578)	(2 207)	-	(10 785)	(3 948)	(14 733)
Foreign exchange gains/(losses) recognised in:	**32, 33**	**-**	**(691)**	**2**	**38 884**	**(76 697)**	**459**	**-**	**(38 043)**	**85**	**(37 958)**
Other operating costs	32	-	(691)	2	38 884	(76 966)	-	-	(38 771)	85	(38 686)
Finance costs	33	-	-	-	-	269	459	-	728	-	728
Gains/(Losses) on measurement of non-current liabilities recognised in:	**31, 33**	**-**	**-**	**-**	**-**	**(1 594)**	**-**	**-**	**(1 594)**	**-**	**(1 594)**
Other operating income	31	-	-	-	-	161	-	-	161	-	161
Finance costs	33	-	-	-	-	(1 755)		-	(1 755)	-	(1 755)
Impairment allowances recognised in:	**29, 32**	**-**	**-**	**-**	**(7 922)**	**-**	**-**	**-**	**(7 922)**	**(13 811)**	**(21 733)**
Expenses by nature	29	-	-	-	(6 597)	-	-	-	(6 597)	(12 988)	(19 585)
Other operating costs	32	-	-	-	(1 325)	-	-	-	(1 325)	(823)	(2 148)
Reversal of impairment allowances recognised in:	**29, 31**	**-**	**-**	**-**	**4 077**	**-**	**-**	**-**	**4 077**	**6 363**	**10 440**
Expenses by nature	29	-	-	-	2 371	-	-	-	2 371	5 561	7 932
Other operating income	31	-	-	-	1 706	-	-	-	1 706	802	2 508
Adjustment to sales due to hedging transactions	**35**	-	-	-	-	-	-	**142 187**	**142 187**	-	**142 187**
Profit/(losses) from disposal of financial instruments recognised in:	**29, 31,32**	**-**	**4 925**	**-**	**(2 337)**	**-**	**-**	**-**	**2 588**	**(1 236)**	**1 352**
Expenses by nature	29	-	-	-	(2 337)	-	-	-	(2 337)	-	(2 337)
Other operating income	31	-	4 925	-	-	-	-	-	4 925	-	4 925
Other operating costs	32	-	-	-		-	-	-	-	(1 236)	(1 236)
Gains on measurement and realisation of derivatives	**31**	**476 668**	-	-	-	-	-	-	**476 668**		**476 668**
Losses on measurement and realisation of derivatives	**32**	**(1 638 691)**	-	-	-	-	-	-	**(1 638 691)**		**(1 638 691)**
Total net gain/(loss) from continued operations		**(1 162 023)**	**4 541**	**112**	**93 246**	**(87 003)**	**(1 748)**	**142 187**	**(1 010 688)**	**(8 417)**	**(1 019 105)**

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

34. Financial instruments (continued)

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

34.4.1 Fair value hierarchy

Classes of financial instruments	Note	At 31 December 2011 Level 1	Level 2	Level 3	At 31 December 2010 - restated Level 1	Level 2	Level 3
Debt securities	34.2	-	8 263	-	-	-	-
Listed shares	34.2	987 847	-	-	748 772	-	-
Participation units of investment funds	34.2	2 126	-	-	475 503	-	-
Other financial receivables		-	29 834	-	-	-	-
Derivatives - currency, of which:	34.2	-	(4 344)	-	-	260 764	-
Assets	-	-	400 012	-	-	390 610	-
Liabilities	-	-	(404 356)	-	-	(129 846)	-
Derivatives financial instruments – metals, of which:	34.2	-	894 135	-	-	(753 039)	-
Assets	-	-	1 359 430	-	-	310 813	-
Liabilities	-	-	(465 295)	-	-	(1 063 852)	-
Other financial receivables		-	(17 073)	-	-	(49 690)	-

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 2011, no financial instruments were measured at fair value which were classified to level III.

Level 2

<u>Other financial receivables</u>
Receivables due to unsettled derivatives at the end of the reporting period. Their date of settlement falls after the last day of the reporting period. These instruments were measured to fair value, based on the reference price for the settlement of these transactions.

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

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

<u>Derivatives – metals</u>
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

<u>Listed shares</u>
The shares listed on the Warsaw Stock Exchange were measured based on the closing price from 31 December 2011. The shares listed on the TSX Venture Exchange were measured applying a share price and the average National Bank of Poland fixing for the Canadian dollar at the valuation date.

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

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

34. Financial instruments (continued)

34.4 Financial instruments recognised at fair value in the statement of financial position (continued)

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

Shares in investment funds	**At**	
	31 December 2011	**31 December 2010 restated**
Beginning of the period	-	**7 930**
Gains recognised in other comprehensive income	-	-
Losses recognised in other comprehensive income	-	1 838
Settlement	-	6 092
Total	**-**	**-**

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

The Group companies are exposed to risk in each area of its 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 types of financial risk:

- Market risk:
  - Risk of changes in commodity prices,
  - Risk of changes in foreign exchange rates (Currency Risk),
  - Price risk related to investments in debt securities and participation units in investment funds,
  - Price risk related to investments in shares of listed companies,
  - Risk of changes in interest rates (Interest Rate Risk),
- Liquidity risk,
- 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 declares an active approach to managing its market risk exposure. The objectives of market risk management are:

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

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

35. Financial risk management (continued)
35.1 Market risk (continued)
35.1.1. Principles of market risk management (continued)

The Parent Entity applies an integrated approach to market risk management at which it is exposed. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. For example, hedging transactions on the commodity market are related to contracts entered into on the currency market, as hedging prices of metals directly impact the probability of achieving planned revenues from sales, which in turn represent a hedged item for strategies on the currency market. As a result, the 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, hedging is possible against unexpected plunges in both copper and silver prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notionals at a single price level.

The 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.

35.1.1.1 Techniques for market risk management

The primary technique for market risk management, used in the Parent Entity, is 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.

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 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.

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).

35.1.1.2 Hedge effectiveness requirement

Hedging transactions can be entered into by the 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 the transaction the Parent Entity is required to confirm and document the existence of strong negative correlation between changes in value of the reference instrument and changes in value of actually-hedged exposure. Hedge effectiveness is subject to constant evaluation and monitoring.

35.1.1.3 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.

35. Financial risk management (continued)
35.1 Market risk (continued)
35.1.1. Principles of market risk management (continued)
35.1.1.3 Measurement of market risk (continued)

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

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

35.1.1.4 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 achieve the defined profile of exposure to market risk, it is possible to define/implement a „comprehensive" hedging strategy, i.e. one which incorporates both the metals and the currency markets.

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

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.

35.1.2 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 Parent Entity's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result the 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 the 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.

Therefore, the analysis of the Parent Entity's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources, from the volume of sales.

35. Financial risk management (continued)
35.1 Market risk (continued)
35.1.2 Commodity risk (continued)

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 1 January 2011 to 31 December 2011		from 1 January 2010 to 31 December 2010 restated	
	Sales	Purchases	Sales	Purchases
Copper [‘000 tonnes]	573	155	559	143
Silver [tonnes]	1 180	52	1 247	8

Sensitivity of the Group’s financial instruments to commodity risk at the end of the reporting period is presented in Note 35.1.7 Sensitivity analysis of commodity and currency risk.

35.1.3. Currency risk

The Parent Entity is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts of metals delivery 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. This leads 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 Parent Entity is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN, GBP/PLN.

Moreover, the Group is exposed to the risk of changes in foreign exchange rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the USD.
Sensitivity of the Group’s financial instruments to currency risk at the end of the reporting period is presented in Note 35.1.7 Sensitivity analysis of commodity and currency risk.

35.1.4. Commodity and currency risk management 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 2011 copper price hedging strategies represented approx. 35% (in 2010 33%) of the sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 9% (in 2010 18%). In the case of the currency market, hedged revenues from sales represented approx. 19% (in 2010 16%) of total revenues from sales realised by the Parent Entity.

In 2011 the Parent Entity implemented copper price hedging strategies with a total volume of 151 thousand tonnes and a time horizon falling from September 2011 to December 2013. The Parent Entity made use of options (Asian options), including: option strategies (collars and producer’s puts). In addition, the Parent Entity performed a restructure, implemented in the first and third quarters of 2010, of seagull options for 2012 with a total volume of 97.5 thousand tonnes through the buyback of sold puts. Restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of copper in 2012.

In 2011 the Parent Entity implemented silver price hedging strategies with a total volume of 14.4 million troz and a time horizon falling in 2012 and 2013. The Parent Entity made use of options (Asian options) including puts, and option strategies: seagulls and collars. Additionally, the Parent Entity performed a restructure, implemented in the analysed period, of a collar strategy for 2012, through the buyback of sold calls for 3.6 million troz, and simultaneously sold puts of the same nominal amount and with an execution price below the price of the put options held (from the collar structure). A put spread structure was thereby gained. Restructure guarantees greater flexibility in the selection of derivatives implemented for 2012 and enables full participation in any eventual increases in the price of silver in this period for the hedged nominal amount of 3.6 million troz. In addition – in case of a deep fall in prices in this period – it restricts benefits from the put options held to the level of executed put options sold.

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

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.4. Commodity and currency risk management in the Parent Entity (continued)

In the case of the forward currency market, in 2011 the Parent Entity implemented transactions hedging revenues from sales with a total nominal amount of USD 1 920 million and a time horizon falling in years 2012-2014. The Parent Entity made use of options (European options), and option strategies (collars and seagulls).

During this period no adjustment hedge transactions were implemented on the copper, silver or currency market.

The Parent Entity remains hedged for a portion of copper sales planned in the period from January to December 2012 (205.5 thousand tonnes), in 2013 (61.5 thousand tonnes), and also for a portion of silver sales planned in the period from January to December 2012 (10.8 million troz) and in 2013 (3.6 million troz). With respect to revenues from sales (currency market) the Parent Entity holds a hedging position in 2012 (USD 960 million), in 2013 (USD 960 million) and 2014 (USD 360 million).

Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 31 December 2011. The hedged nominal/volume in the months included in the presented periods is equally balanced.

HEDGING POSITION (condensed information) – COPPER MARKET

Period	Instrument		Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
I half of 2012	Collar[1]	Sold call option	19 500	9 300	(447)	6 453 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 000	(478)	6 322 participation restricted to 9 000
		Purchased put option		6 800		
	Collar[1]	Sold call option	19 500	9 500	(440)	6 760 participation restricted to 9 500
		Purchased put option		7 200		
		Producer's puts[2]	19 500	8 000	9.90%[3]	minimal effective hedging price 7 279
		Producer's puts[2]	24 750	8 300	8.66%[3]	minimal effective hedging price 7 639
		Total	**102 750**			
II half of 2012	Collar[1]	Sold call option	19 500	9 300	(454)	6 446 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 000	(459)	6 341 participation restricted to 9 000
		Purchased put option		6 800		
	Collar[1]	Sold call option	19 500	9 500	(453)	6 747 participation restricted to 9 500
		Purchased put option		7 200		
		Producer's puts[2]	19 500	8 500	8.74%[3]	minimal effective hedging price 7 817
		Producer's puts[2]	24 750	8 300	8.66%[3]	minimal effective hedging price 7 639
		Total	**102 750**			
		TOTAL 2012	**205 500**			
I half of 2013	Seagull[2]	Sold call option	19 500	9 500	(383)	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
	Collar	Sold call option	10 500	11 500	(333)	7 867 participation restricted to 11 500
		Purchased put option		8 200		
		Total	**40 500**			
II half of 2013	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
	Collar	Sold call option	10 500	11 500	(333)	7 867 participation restricted to 11 500
		Purchased put option		8 200		
		Total	**21 000**			
		TOTAL 2013	**61 500**			

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

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

[3] Payable at the moment of settlement.

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

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.4 Commodity and currency risk management in the Parent Entity (continued)

HEDGING POSITION (condensed information)– SILVER MARKET

Period	Instrument		Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
I half of 2012		Purchased put option	1.80	30.00	(2.89)	27.11
	Put spread[4]	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option[5]		19.80		
	Collar	Sold call option	1.80	62.00	(1.63)	35.37 participation restricted to 62.00
		Purchased put option		37.00		
		Total	**5.40**			
II half of 2012		Purchased put option	1.80	30.00	(2.89)	27.11
	Put spread[4]	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option[5]		19.80		
	Collar	Sold call option	1.80	62.00	(1.63)	35.37 participation restricted to 62.00
		Purchased put option		37.00		
		Total	**5.40**			
		TOTAL 2012	**10.80**			
I half of 2013	Seagull[5]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	**1.80**			
II half of 2013	Seagull[5]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	**1.80**			
		TOTAL 2013	**3.60**			

HEDGING POSITION (condensed information) – CURRENCY MARKET

Period	Instrument		Notional [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
I half of 2012	Seagull[5]	Sold call option	90	4.4000	(0.0990)	3.2010 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Collar	Sold call option	90	4.5000	(0.1527)	3.2473 participation restricted to 4.50
		Purchased put option		3.4000		
		Purchased put option	360	2.6000	(0.0947)	2.5053
		Total	**540**			
II half of 2012	Seagull[5]	Sold call option	90	4.4000	(0.0767)	3.2233 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Collar	Sold call option	90	4.5000	(0.1473)	3.2527 participation restricted to 4.50
		Purchased put option		3.4000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	**420**			
		TOTAL 2012	**960**			

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

[5] Due to current hedge accounting laws, transactions embedded within a seagull – a purchased put option or a sold call option – are shown in the table -„Hedging instruments", while sold put options are shown in the table „Trade instruments"; sold put options included in the put spread structure, also are shown in the table "Trade instruments".

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

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.4 Commodity and currency risk management in the Parent Entity (continued)

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

I half of 2013	Seagull[6]	Sold call option	240	4.0000	(0.0332)	3.1168 restricted to 2.60 participation restricted to 4.00
		Purchased put option		3.1500		
		Sold put option		2.6000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	**480**			
II half of 2013	Seagull[6]	Sold call option	240	4.0000	(0.0230)	3.1270 restricted to 2.60 participation restricted to 4.00
		Purchased put option		3.1500		
		Sold put option		2.6000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	**480**			
		TOTAL 2013	**960**			
I half of 2014	Seagull[6]	Sold call option	180	4.5000	(0.0506)	3.4494 restricted to 2.70 participation restricted to 4.50
		Purchased put option		3.5000		
		Sold put option		2.7000		
		Total	**180**			
II half of 2014	Seagull[6]	Sold call option	180	4.5000	(0.0345)	3.4655 restricted to 2.70 participation restricted to 4.50
		Purchased put option		3.5000		
		Sold put option		2.7000		
		Total	**180**			
		TOTAL 2014	**360**			

35.1.5. Impact of derivatives on the Group's statement of financial position

As at 31 December 2011, the fair value of open positions in derivatives amounted to PLN 889 791 thousand, PLN 1 759 442 thousand relate to financial assets and PLN 869 651 thousand relate to financial liabilities.

Derivatives whose date of settlement was 4 January 2012 were measured at fair value and accounted for in trade and other receivables as receivables due to unsettled derivatives or trade and other payables as payables due to unsettled derivatives in the amounts:

- PLN 29 834 thousand accounted for in other finance receivables (Note 13)
- PLN 17 073 thousand accounted for in other finance liabilities (Note 21).

Other information concerning derivatives is presented in Note 12 Derivatives and in Note 34 Financial instruments.

35.1.6. Impact of derivatives on the Group's profit or loss and other comprehensive income

In 2011, the result on derivatives amounted to PLN 564 363 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 241 565 thousand. The gains on the measurement of derivatives amounted to PLN 253 862 thousand, while the gains on the realisation of derivatives amounted to PLN 68 936 thousand. Adjustment to other operating income 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 hedge accounting principles, the change in the time value of options is recognised in accumulated other comprehensive income.

[6] Due to current hedge accounting laws, transactions embedded within a seagull – a purchased put option and a sold call option – are shown in the table „Hedging instruments", while sold put options are shown in the table „Trade instruments".

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

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.6. Impact of derivatives on the Group's profit or loss and other comprehensive income (continued)

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

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Impact on sales	**241 565**	**142 187**
Impact on other operating activities	**322 798**	**(1 162 023)**
Gains/(losses) from realisation of derivatives	68 936	(128 669)
Gains/(losses) from measurement of derivatives	253 862	(1 033 354)
Total impact of derivatives on profit or loss:	**564 363**	**(1 019 836)**

The Parent Entity accounts for cash flow hedging instruments according to the principles presented in note 2.2.5.7 of Accounting policies – Hedge accounting. 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 2011 the Parent Entity recognised in gains due to the ineffective portion of cash flow hedges – the amount of PLN 259 897 thousand (in 2010: loss PLN 1 328 573 thousand), of which PLN 221 660 thousand is a gain on the measurement of hedging instruments (in 2010: loss PLN 1 170 400 thousand) and PLN 38 237 thousand is a gain on the realisation of the ineffective portion of hedging instruments (in 2010: loss PLN 158 173 thousand).

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

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

AMOUNTS RECOGNISED IN OTHER COMPREHENSIVE INCOME	At	
	31 December 2011	31 December 2010
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	708 991	(98 940)
Accumulated other comprehensive income – currency risk hedging transactions – derivatives	-	209 772
Total accumulated other comprehensive income **- financial instruments hedging future cash flows (excluding the deferred tax effects)**	**708 991**	**110 832**

Gains/(losses) on derivatives hedging future cash flows recognised in other comprehensive income	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010
Accumulated gain or loss achieved on financial instruments hedging future cash flows at the beginning of the reporting period	**110 832**	**155 233**
Amount recognised in the reporting period due to hedging transactions	839 724	97 786
Amount reclassified from accumulated other comprehensive income to revenues from sales	(241 565)	(142 187)
Accumulated other comprehensive income due to instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	**708 991**	**110 832**

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

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.7. Sensitivity analysis of commodity and currency risk

The Group identifies the following major types of market risk to which it is exposed.
Currently the Group is mainly exposed to the risk of changes in copper and silver prices and changes in the USD/PLN, EUR/PLN and GPB/PLN currency exchange rates.

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

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

Scope of historical data (daily data):

- for copper: 01 January 1978 to 30 December 2011 – settlement prices
- for silver: 01 January 1978 to 30 December 2011 – fixing prices
- for USD/PLN, EUR/PLN and GPB/PLN exchange rates: 01 January 2000 to 30 December 2011 – fixing NBP.

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

Potential price and exchange rate change at the end of the reporting period:

31 December 2011	Copper	Silver	USD/PLN	EUR/PLN	GBP/PLN
SPOT / FIX	7 590	28.18	3.4174	4.4168	5.2691
DOWN 95%	5 196	17.06	2.8094	3.8497	4.5139
	-32%	-39%	-18%	-13%	-14%
UP 95%	10 254	41.89	4.1824	5.1795	6.2085
	35%	49%	22%	17%	18%

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%

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.

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.7. Sensitivity analysis of commodity and currency risk (continued)

Currency structure of financial instruments exposed to market risk at 31 December 2011

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure			
	[‘000 PLN]	[‘000 USD]	[‘000 EUR]	[‘000 GBP]
Trade receivables (net)	949 304	154 103	94 806	1 002
Cash and cash equivalents and deposits	8 030 244	1 796 439	391 301	30 896
Other financial assets (net)	85 040	9 423	9 355	2 186
Derivatives – Currency contracts	(4 344)	lack of data	lack of data	-
Derivatives – Commodity contracts - Metals	894 135	261 642	-	-
Trade payables	(62 444)	(4 033)	(10 900)	(98)
Borrowings	(72 149)	-	(16 335)	-
Other financial liabilities	(27 440)	(6 845)	(916)	-

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

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK 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 contracts	260 764	lack of data	lack of data	-
Derivatives – Commodity contracts - Metals	(753 039)	(254 053)	-	-
Trade payables	(109 082)	(26 427)	(7 747)	(15)
Borrowings	(5 456)	-	(1 378)	-
Other financial liabilities	(62 876)	(16 775)	(3 322)	-

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.7. Sensitivity analysis of commodity and currency risk (continued)

SENSITIVITY ANALYSIS AS AT 31 December 2011

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2011 CARRYING AMOUNT	CURRENCY RISK											
			USD/PLN				EUR/PLN				GBP/PLN			
			4.18		2.81		5.18		3.85		6.21		4.51	
			+ 22%		- 18%		+ 17%		- 13%		+18%		-14%	
	[‘000 PLN]	[‘000 PLN]	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity
Trade receivables (net)	949 304	1 327 554	95 490		(75 893)		58 570		(43 549)		762		(613)	
Cash and cash equivalents and deposits	8 030 244	13 313 919	1 113 164		(884 710)		241 741		(179 745)		23 509		(18 899)	
Other financial assets (net)	85 040	92 030	5 839		(4 641)		5 779		(4 297)		1 663		(1 337)	
Derivatives – Currency contracts	(4 344)	(4 344)	(548 359)	(334 240)	116 768	561 586	(6 171)		4 585					
Derivatives – Commodity contracts - Metals	894 135	894 135	39 064	161 092	(31 047)	(128 031)								
Trade payables	(62 444)	(997 054)	(2 499)		1 986		(6 734)		2 864		(75)		60	
Borrowings	(72 149)	(271 949)					(10 092)		7 504					
Other financial liabilities	(27 440)	(160 824)	(4 242)		3 371		(1 001)		744					
IMPACT ON PROFIT OR (LOSS)			698 457		(874 166)		282 092		(211 894)		25 859		(20 789)	
IMPACT ON OTHER COMPREHENSIVE INCOME				(173 148)		433 555								

FINANCIAL ASSETS AND LIABILITIES	COMMODITY RISK							
	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
	10 254		5 196		41.89		17.06	
	+ 35%		- 32%		+ 49%		- 39%	
	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity
Trade receivables (net)								
Cash and cash equivalents and deposits								
Other financial assets (net)								
Derivatives – Currency contracts								
Derivatives – Commodity contracts - Metals	(624 797)	(758 310)	(216 349)	1 884 125	70 169	(412 651)	(151 731)	544 558
Trade payables								
Borrowings								
Other financial liabilities								
IMPACT ON PROFIT OR (LOSS)	(624 797)		(216 349)		70 169		(151 731)	
IMPACT ON OTHER COMPREHENSIVE INCOME		(758 310)		1 884 125		(412 651)		544 558

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.7. Sensitivity analysis of commodity and currency risk (continued)

SENSITIVITY ANALYSIS AS AT 31 December 2010 - restated

		31.12.2010	CURRENCY RISK												COMMODITY RISK							
FINANCIAL ASSETS AND LIABILITIES	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	Profit or (loss)	Equity
Trade receivables (net)	1 444 927	1 969 463	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)	(902 032)	(14 237)		11 446		(3 781)		2 967		(10)		8									
Borrowings	(5 456)	(228 033)					(672)		528													
Other financial liabilities	(62 876)	(192 861)	(9 037)		7 265		(1 621)		1 272													
IMPACT ON PROFIT OR (LOSS)			(92 991)		(180 343)		53 385		(42 084)		29 826		(24 029)		182 070		612 600		(1 278)		14 128	
IMPACT ON OTHER COMPREHENSIVE INCOME				(120 359)		542 520										(1 827 586)		750 806				1 744

35. Financial risk management (continued)

35.1 Market risk (continued)

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

At 31 December 2011, the Group held 10 513.5888 participation units of open-end, liquidity investment funds in the amount of PLN 2 126 thousand and 7 774 Treasury bonds in the amount PLN 8 263 thousand with a fixed interest rate classified as available-for-sale financial assets. 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 deposits.

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

At 31 December 2011, the carrying amount of shares held by the Group which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 987 847 thousand. 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, caused by the current macroeconomic situation.

Sensitivity analysis of listed companies shares to price changes

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

	At 31 December 2011 CARRYING AMOUNT (in PLN '000)	Percentage change of share price		At 31 December 2010 CARRYING AMOUNT [PLN '000]	Percentage change of share price	
		+50%	-14%		+22%	-36%
Listed shares	987 847			748 772		
IMPACT ON OTHER COMPREHENSIVE INCOME		493 924	(138 299)		164 730	(263 476)

35.1.10 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 2011 the Group had liabilities due to bank and other loans in the amount of PLN 271 210 thousand (as at 31 December 2010: PLN 226 603 thousand) based on variable interest rates, and liabilities due to loans in the amount of PLN 738 thousand (as at 31 December 2010: PLN 1 430 thousand) based on fixed interest rates. At 31 December 2011 the Group had bank deposits in the amount of PLN 13 123 074 thousand (as at 31 December 2010: PLN 3 259 112 thousand) based on variable and fixed interest rates.

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 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:

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

35. Financial risk management (continued)

35.1 Market risk (continued)

35.1.10 Interest rate risk (continued)

Ratio (%)	31 December 2011	31 December 2010
WIBOR 1W	4.6100	3.4800
WIBOR 1M	4.7700	3.6600
WIBOR 3M	4.9900	3.9500
EURIBOR 1M	1.0240	0.7820
EURIBOR 3M	1.3560	1.0060

At the end of the reporting and comparable period the Group had no instruments hedging against interest rate risk.

35.2 Credit risk

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

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

Areas in which credit risk exposure has different characteristics from those mentioned above:

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

35.2.1 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 the highest[7], medium-high[8] and medium[9] credit ratings, appropriate level of equity and strong, stable market position. As at 31 December 2011, the maximum exposure of a single bank in respect of cash and cash equivalents deposited by the Group amounted to 25% (as at 31 December 2010: 27%).

35.2.2 Credit risk related to derivative transactions

All entities with which derivative transactions are entered into in 2011 by the Group operate in the financial sector. These are financial institutions (mainly banks), with the highest (21%), medium-high (73.7%) or medium (5.3%) credit ratings. Based on fair value at 31 December 2011, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Group amounted to 23.6%.

All entities with which derivative transactions were entered into in 2010 by the Group operated also in the financial sector. These are financial institutions (mainly banks), with the highest (40.7%), medium-high (48.2%) or medium (11.1%) credit ratings. Based on fair value at 31 December 2010, the maximum share of a single entity with respect to derivative transactions entered into by the Group amounted to 30%.

[7] 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.
[8] 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.
[9] 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.

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

35. Financial risk management (continued)

35.2 Credit risk (continued)

35.2.2 Credit risk related to derivative transactions (continued)

The fair value of derivative transactions entered into by the Group[10]

	At	
	31 December 2011	**31 December 2010**
Balance on the measurement of derivatives	**902 552**	**(541 965)**
financial assets	1 789 276	701 423
financial liabilities	(886 724)	(1 243 388)

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

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

35.2.3 Credit risk related to trade and other financial receivables

The Group's companies have been cooperating for many years with a number of geographically diversified clients. The vast majority of sales go to EU countries.

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

	At					
	31 December 2011			**31 December 2010 restated**		
	Poland	**EU (excl. Poland)**	**Other Countries**	**Poland**	**EU (excl. Poland)**	**Other Countries**
Net receivables from sales of copper and silver	23.15%	49.82%	27.03%	34.26%	33.95%	31.79%

The Parent Entity makes the significant part of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers[11] on an on-going basis, in particular those to whom buyer's credit has been granted.

[10] The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled:
- on 4 January 2012, which were presented in the Group's statement of financial position under other unsettled derivative instruments receivables/payables (Note 13, 21) – balance as at 31 December 2011.
- on 5 January 2011, which were presented in the Group's statement of financial position at 31 December 2010 under other financial liabilities – balance as at 31 December 2010.
[11] Due to the lack of data necessary to measure credit risk, risk arising from derivatives transactions entered into by customers was not taken into consideration.

35. Financial risk management (continued)

35.2 Credit risk (continued)

35.2.3 Credit risk related to trade and other financial receivables (continued)

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[12], frozen funds on bank accounts, registered pledges[13], bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain[14].

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 2011 the Parent Entity had secured 82.4% of its trade receivables.

The total value of the Group net trade receivables as at 31 December 2011, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 327 554 thousand (at 31 December 2010: PLN 1 969 463 thousand).

The concentration of credit risk in the Group 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 2011 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 42% of the trade receivables balance (at 31 December 2010: 57%). Despite the concentration of this type of risk, the Group 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.

The following Group companies have significant trade receivables: CENTROZŁOM WROCŁAW S.A. PLN 85 952 thousand, KGHM Metraco S.A. PLN 78 585 thousand, NITROERG S.A. PLN 31 948 thousand, WPEC w Legnicy S.A. PLN 26 012 thousand, KGHM Ecoren S.A. PLN 21 041 thousand, BIPROMET S.A. PLN 19 658 thousand.

These Group companies operate in various economic sectors, such as transport, construction, trade, industrial production and power industry, 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.

35.2.4 Credit risk related to loans granted

At 31 December 2011 the carrying amount of loans granted was PLN 184 thousand. The balance is composed of loans granted in the gross amount of PLN 1 687 thousand and an allowance for impairment of carrying amount of PLN 1 595 thousand from previous years.

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

At 31 December 2011, the credit risk to investments in participation units of investment funds with a value of PLN 2 126 thousand and debt securities in the amount PLN 8 263 thousand is immaterial. Fund management institutions hold a medium-high rating, while debt securities are represented by the secure Treasury bonds with a fixed interest rate (Note 35.1.8).

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[12] In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.
[13] 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.
[14] 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 the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

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

35. Financial risk management (continued)

35.2 Credit risk (continued)

35.2.6 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 2011

	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	**107 014**	85 045	11 894	3 434	1 722	4 919
Other financial receivables	**604**	306	32	6	248	12

At 31 December 2010 - 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	**99 246**	69 178	13 567	4 973	9 333	2 195
Other financial receivables	**525**	245	271	3	2	4

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.

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 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Impairment allowance at the beginning of the period	**13**	**86 317**	**83 422**
Increase due to obtaining control of a subsidiary		1 814	5 078
Changes recognised in profit or loss		12 631	4 226
Decrease due to loss of control of a subsidiary		(20 633)	-
Other decreases		(20 024)	(13 836)
Discontinued operations		-	7 427
Impairment allowance at the end of the period	**13**	**60 105**	**86 317**

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

	Note	For the period from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Impairment allowance at the beginning of the period	**13**	**12 666**	**14 029**
Increase due to obtaining control of a subsidiary		1 209	1 327
Changes recognised in profit or loss		4 836	(381)
Decrease due to loss of control of a subsidiary		(2 338)	-
Other decreases		(3 975)	(2 330)
Discontinued operations		-	21
Impairment allowance at the end of the period	**13**	**12 398**	**12 666**

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

35. Financial risk management (continued)

35.2 Credit risk (continued)

35.2.6. Other information related to credit risk (continued)

c) debt securities (category: available-for-sale financial assets)

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Impairment allowance at the beginning of the period	512	**-**
Increase due to obtaining control of a subsidiary	-	512
Impairment allowance recognised in profit or loss	4 845	-
Impairment allowance at the end of the period	**5 357**	**512**

35.3 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 policy „Financial Liquidity Management Policy" approved by the Management Board. 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.

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

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

Contractual maturities for financial liabilities as at 31 December 2011

	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
Financial liabilities	**Up to 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	981 870	7 161	8 005	5	13	**997 054**	**997 054**
Borrowings	72 145	24 069	55 036	43 983	85 896	**281 129**	**271 949**
Derivatives – Currency contracts	984	-	-	-	-	**984**	**404 356**
Derivatives – Commodity contracts - Metals	10 384	46 366	5 126	-	-	**61 876**	**465 295**
Other financial liabilities	43 250	13 657	99 545	19 473	3 170	**179 095**	**160 824**
Total financial liabilities by maturity	**1 108 633**	**91 253**	**167 712**	**63 461**	**89 079**	**1 520 138**	

Contractual maturities for financial liabilities as at 31 December 2010 - restated

	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
Financial liabilities	**Up to 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	888 926	1 244	11 636	498	-	**902 284**	**902 032**
Borrowings	41 274	55 787	94 207	24 517	36 773	**252 558**	**228 033**
Derivatives - Currency	19 268	50 211	-	-	-	**69 479**	**129 846**
Derivatives – Commodity 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**	**192 861**
Total financial liabilities by maturity	**1 029 166**	**165 418**	**164 262**	**124 925**	**40 043**	**1 523 814**	

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

35. Financial risk management (continued)

35.3 Liquidity risk and capital management (continued)

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

As at 31 December 2011 the Group had overdraft facilities in the amount of PLN 150 235 thousand (as at 31 December 2010: PLN 161 447 thousand), of which PLN 98 818 thousand was used (as at 31 December 2010, PLN 50 721 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 less unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation and amortisation).

In order to maintain financial liquidity and the creditworthiness to obtain 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-described ratios as at 31 December 2011 and 31 December 2010 are presented below:

	31 December 2011	**31 December 2010 restated**
Equity	23 382 357	14 922 123
Less: intangible assets	613 994	473 215
Net assets	22 768 363	14 448 908
Total assets	30 553 874	21 240 729
Equity ratio	**0.75**	**0.68**
Operating profit	13 153 649	5 506 309
Plus: depreciation/amortisation	844 137	756 123
EBITDA	13 997 786	6 262 432
Borrowings and finance lease liabilities	297 957	269 814
Unallocated cash and cash equivalents	13 120 563	3 081 860
Ratio of Debt/EBITDA	**0.00**	**0.00**

Due to the low level of debt of the Group as at 31 December 2011, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.00.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.75 at 31 December 2011.

In 2011 and in 2010 there were no external equity requirements imposed on the Parent Entity.

36. Share of profits/losses of associates accounted for using the equity method

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Share of profits of associates	187 777	280 542
Share of losses of associates	(48)	-
Total	**187 729**	**280 542**

37. Income tax

Income tax	Note	For the period from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Current income tax		2 242 876	1 270 765
Deferred income tax	24	50 474	(167 170)
Adjustments to income tax from prior periods		(8 049)	(6 533)
Total continued operations		**2 285 301**	**1 097 062**
Discontinued operations		(6 615)	34 277
Total		**2 278 686**	**1 131 339**

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 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Profit before tax	**13 287 638**	**5 742 771**
Tax calculated using the average weighted rates applicable to incomes in individual countries is 19.00% (2010: 18.67%)	**2 524 651**	**1 072 175**
Non-taxable income	(64 216)	(43 347)
Expenses not deductible for tax purposes	56 286	108 502
Tax-deductible expenses due to reversal of an impairment loss in connection with the sale of a subsidiary	(220 516)	-
Utilisation of previously-unrecognised tax losses	(4 741)	(999)
Tax losses on which deferred tax assets were not recognised	1 692	1 132
Deductible temporary differences on which deferred tax assets were not recognised	194	1 534
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	(8 049)	(6 533)
Income tax expense the average income tax rate applied was 18.39% (2010: 18.82%)	**2 285 301**	**1 097 062**

38. Earnings per share

	For the period from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Profit from continued operations attributable to shareholders of the Parent Entity	11 003 825	4 639 792
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	55.02	23.20
Profit from discontinued operations attributable to shareholders of the Parent Entity	59 631	84 715
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	0.30	0.42

There are no dilutive potential ordinary shares.

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

39. Dividend paid

In accordance with Resolution No. 6/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 15 June 2011 regarding the appropriation of Parent Entity profit for financial year 2010, the amount of PLN 2 980 000 thousand, representing PLN 14.90 per share, was allocated as a shareholders dividend from profit for financial year 2010.
The right to dividend date was set at 11 July 2011, and dividend payment date - at 12 August 2011.
All shares of the Parent Entity are ordinary shares.

40. Explanations to the consolidated statement of cash flows

Adjustments to profit for the period from continued and discontinued operations

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Income tax recognised in profit or loss	2 291 916	1 062 785
Depreciation/amortisation	910 800	843 938
Impairment losses on goodwill	-	743
Losses on sales of property, plant and equipment and intangible assets	9 094	19 975
Gains on sales of available-for-sale financial assets	(16 877)	(4 925)
Profit on the sale of subsidiaries and an associate	(2 310 544)	-
(Gains)/losses on the sale of and change in fair value of investment property	2 846	(4 349)
Impairment losses on property, plant and equipment, intangible assets and loans	11 377	19 582
Share of profits of associates accounted for using the equity method	(187 729)	(280 542)
Interest and share in profits (dividends)	(22 663)	13 084
Foreign exchange gains	(866 386)	(2 203)
Change in provisions	117 290	36 131
Change in derivatives	(542 342)	576 401
Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives	(241 565)	(142 187)
Other adjustments	(48 526)	14 716
Changes in working capital:	243 797	(554 578)
Inventories	(435 932)	(148 689)
Trade and other receivables	570 942	(783 831)
Trade and other payables	108 787	377 942
Total	**(649 512)**	**1 598 571**

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

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	23 358	31 607
Losses on sales of property, plant and equipment and intangible assets	(9 094)	(19 975)
Negative/(Positive) change in receivables due to sales	4 612	(3 506)
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	-	(909)
Proceeds from sales of property, plant and equipment and intangible assets	**18 876**	**7 217**

Expenditures for acquisition of exploration and evaluation assets recognised in operating activities

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Acquisition of exploration and evaluation assets recognised in profit or loss	(24 221)	(4 025)
(Negative)/Positive change in liabilities recognised in operating activities due to exploration and evaluation assets recognised in profit or loss	4 359	(189)
Expenditures for acquisition of exploration and evaluation assets recognised in operating activities	**(19 862)**	**(4 214)**

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

40. Explanations to the statement of cash flows (continued)

Expenditures for exploration and evaluation assets recognised in investing activities

	Note	For the period from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Purchase	7	(71 286)	(46 607)
Adjustment of purchase	7	76	-
Internally-produced assets	7	(44)	-
Positive change in liabilities due to acquisition of exploration and evaluation assets		4 359	1 737
Expenditures for acquisition of exploration and evaluation assets recognised in investing activities		**(66 895)**	**(44 870)**

41. Related party transactions

Sales to related entities	For the period from 1 January 2011 to 31 December 2011 Sales of products	Sales of merchandise and materials	Other transactions
- to associates	5 490	54	15
- to other related entities	188	516	14
Total sales to related entities	**5 678**	**570**	**29**
including from discontinued operations	*1 913*	-	-

During the period from 1 January 2011 to 31 December 2011, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

Sales to related entities	For the period from 1 January 2010 to 31 December 2010 - restated Sales of products	Sales of merchandise and materials	Other transactions
- to associates	3 337	35	20
- to other related entities	228	140	1 449
Total sales to related entities	**3 565**	**175**	**1 469**
including from discontinued operations	*2 800*	-	-

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

Purchases from related entities	For the period from 1 January 2011 to 31 December 2011 Purchase of services	Purchase of merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
- from associates	7 651	93	30	-
- from other related entities	14 898	2 626	5 176	5 554
Total purchases from related entities	**22 549**	**2 719**	**5 206**	**5 554**
including from discontinued operations	*5 410*	*35*	*2 191*	-

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

41. Related party transactions (continued)

Purchases from related entities	For the period from 1 January 2010 to 31 December 2010 - restated			
	Purchase of services	**Purchase of merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other purchase transactions**
- from associates	7 257	90	42	-
- from other related entities	11 681	2 477	5 370	1 835
Total purchases from related entities	**18 938**	**2 567**	**5 412**	**1 835**
including from discontinued operations	*5 165*	*33*	*729*	-

Trade receivables from related entities	At	
	31 December 2011	**31 December 2010 - restated**
- from associates,	673	734
- from other related entities	1 888	2 251
Total receivables from related entities	**2 561**	**2 985**

Trade payables towards related entities	At	
	31 December 2011	**31 December 2010 - restated**
- towards associates	-	880
- towards other related entities	4 096	9 082
Total liabilities towards related entities	**4 096**	**9 962**

During the reporting period, three individual transactions were identified between Group and the government and entities controlled or jointly controlled by the government, or over which the government has significant influence, which would be considered as significant in terms of unusual scope and amount:

1. On 2 February 2011, KGHM Polska Miedź S.A. signed an agreement with the Minister of the State Treasury for the acquisition of 5 260 820 shares of the company NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand. The controlling interest purchased represents 85% of the share capital of NITROERG S.A. in Bieruń.
2. KGHM Polska Miedź S.A. participated in the selling process by the Ministry of the State Treasury of the shares of TAURON Polska Energia S.A., submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, on 23 March 2011 KGHM Polska Miedź S.A. purchased 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. Following this transaction, KGHM Polska Miedź S.A. owns a total of 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital.
3. On 12 September 2011, KGHM I FIZAN, a subsidiary of KGHM Polska Miedź S.A., acquired from the State Treasury 13 459 shares of the company Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o. with its registered head office in Świeradów Zdrój for the price of PLN 1 560.30 per share, i.e. the total price of PLN 21 000 thousand. Following realisation of this transaction, KGHM I FIZAN holds 87.74% of the share capital of Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o.

During the period from 1 January and 31 December 2010, four individual transactions were identified between Group and the government and entities controlled or jointly controlled by the government, or over which the government has significant influence, which would be considered as significant in terms of unusual scope and amount:

1. On 20 October 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – purchased from the State Treasury 3 450 500 shares of Zespół Uzdrowisk Kłodzkich Spółka Akcyjna in Polanica Zdrój with a nominal value of PLN 10.00 per share, at 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%.
2. 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 realisation of the agreement signed on 14 July 2010 with the Minister of the State Treasury for the purchase of 85% of the shares of CENTROZŁOM WROCŁAW S.A. for the price of PLN 176 435 thousand, paid in cash. The multiple-share certificate was received on 30 November 2010.

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

41. Related party transactions (continued)

3. 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 Uzdrowisko 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%.
4. On 22 December 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – acquired from the State Treasury 114 290 shares of „Uzdrowisko 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 %.

The remaining transactions, which were collectively significant, between the Group and the government and entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions involved the purchase by companies of the Group of materials and services to meet the needs of their current operating activities (fuel, energy, transport services). Turnover from these transactions in the current reporting period amounted to PLN 1 150 999 thousand, (for the period from 1 January 2010 to 31 December 2010 – PLN 776 859 thousand), and the unsettled balance of liabilities from these transactions at 31 December 2011 amounted to PLN 80 841 thousand (at 31 December 2010: PLN 109 107 thousand).

Remuneration of the Management Board of the Parent Entity paid in 2011

	Period when function served in 2011	Salaries	Earnings from subsidiaries and associates	Benefits, other earnings	Total earnings in 2011
Members of the Management Board serving function as at 31 December 2011					
Herbert Wirth	01.01-31.12.2011	1 406	306	158	1 870
Maciej Tybura	01.01-31.12.2011	1 227	119	187	1 533
Wojciech Kędzia	01.01-31.12.2011	985	102	71	1 158
Other Members of the Management Board *					
Ryszard Janeczek	-	96	-	-	96
Total		**3 714**	**527**	**416**	**4 657**

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

Remuneration of the Supervisory Board of the Parent Entity paid in 2011

	Period when function served in 2011	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Other benefits	Total earnings in 2011
Marcin Dyl	01.01-31.12.2011	96	-	17	113
Arkadiusz Kawecki	01.01-31.12.2011	88	-	22	110
Jacek Kuciński	01.01-31.12.2011	110	-	24	134
Marek Panfil	01.01-31.12.2011	88	-	20	108
Marzenna Weresa	01.01-31.12.2011	88	-	9	97
Jan Rymarczyk	01.01-31.12.2011	88	-	21	109
Franciszek Adamczyk	15.06-31.12.2011	47	-	10	57
Lech Jaroń	20.10-31.12.2011	17	51	3	71
Maciej Łaganowski	20.10-31.12.2011	17	28	-	45
Paweł Markowski	20.10-31.12.2011	18	70	-	88
Józef Czyczerski	01.01-15.06.2011	41	72	-	113
Leszek Hajdacki	01.01-15.06.2011	41	90	4	135
Ryszard Kurek	01.01-15.06.2011	41	125	5	171
Total		**780**	**436**	**135**	**1 351**

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

41. Related party transactions (continued)

Remuneration of the Management Board of the Parent Entity paid 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
Members of the Management Board serving function as at 31 December 2010						
Herbert Wirth	01.01-31.12.2010	591	321	313	96	1 321
Maciej Tybura	01.01-31.12.2010	494	256	116	143	1 009
Wojciech Kędzia	19.11-31.12.2010	88	44	10	1	143
Other Members of the Management Board *						
Ryszard Janeczek	01.01-15.10.2010	343	140	50	59	592
Mirosław Krutin	-	-	91	-	-	91
Total		**1 516**	**852**	**489**	**299**	**3 156**

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

Remuneration of the Supervisory Board of the Parent Entity paid in 2010

	Period when function served in 2010	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Other benefits	Total earnings in 2010
Marcin Dyl	01.01-31.12.2010	90	-	17	107
Arkadiusz Kawecki	01.01-31.12.2010	84	-	23	107
Jacek Kuciński	01.01-31.12.2010	101	-	29	130
Marek Panfil	01.01-31.12.2010	84	-	20	104
Marek Trawiński	01.01-17.02.2010	15	-	3	18
Marzenna Weresa	01.01-31.12.2010	84	-	14	98
Jan Rymarczyk	17.05-31.12.2010	51	-	10	61
Józef Czyczerski	01.01-31.12.2010	84	104	1	189
Leszek Hajdacki	01.01-31.12.2010	84	173	6	263
Ryszard Kurek	01.01-31.12.2010	84	173	8	265
Total		**761**	**450**	**131**	**1 342**

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

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010
PricewaterhouseCoopers Sp. z o.o.	**2 446**	**1 738**
From contract for the review and audit of financial statements of which:	1 786	1 481
- audit of annual financial statements	1 384	1 079
- review of financial statements	402	402
From realisation of other contracts	660	257
Other companies of the PricewaterhouseCoopers Group in Poland	**139**	**598**
From other contracts	139	598

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

43. Liabilities due to operating leases not recognised in the consolidated statement of financial position

Total value of future minimum fees due to perpetual usufruct of land was presented in note 7.

	At	
	31 December 2011	**31 December 2010 restated**
Up to one year	9 333	19 184
From one to five years	12 448	34 643
Over five years	1 551	1 830
Total value of future minimum lease payments	**23 332**	**55 657**

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010 restated**
Lease payments recognised in profit or loss	9 624	30 187

44. Contingent assets and liabilities

The value of contingent assets was determined based on estimates.

	At	
	31 December 2011	**31 December 2010 restated**
Contingent assets	**425 750**	**291 180**
Disputed State Budget issues	28 739	38 764
Guarantees received	185 814	178 881
Promissory note receivables	88 909	40 206
Inventions, implementation of projects	36 595	33 329
Real estate tax on mining facilities	85 489	-
Other	204	-
Contingent liabilities	**209 731**	**236 630**
Guarantees	49 184	32 897
Promissory note liabilities	23 807	80 930
Disputed issues, pending court proceedings	14 079	16 226
Preventive measures in respect of mine-related damages	8 000	2 475
Liabilities due to implementation of projects, inventions	113 967	104 098
Other	694	4

45. Employment structure

	For the period	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010**
White-collar employees	9 149	10 051
Blue-collar employees	22 034	20 877
Total:	**31 183**	**30 928**

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

46. Social Fund assets and liabilities

The net balance of the Social Fund at 31 December 2011 amounted to PLN 1 972 thousand – liability towards Social Fund, and at 31 December 2010 amounted to PLN 2 164 thousand - liability towards Social Fund. The Group has netted the assets of the Fund with the liabilities towards the Fund.

Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
Social Fund assets and liabilities	**31 December 2011**	**31 December 2010 restated**
Housing loans granted to employees	123 381	116 250
Other receivables	545	354
Cash and cash equivalents	23 486	22 308
Liabilities towards Social Fund	(149 384)	(141 076)
Net balance	**(1 972)**	**(2 164)**

The balance is settled in the following periods after refunding.

Transfers made to the Social Fund during the financial period	131 190	121 757

47. Government grants

The balance of government grants recognised in deferred income at 31 December 2011 is PLN 13 303 thousand (at 31 December 2010: PLN 3 750 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 loan redemption.

48. Discontinued operations

Main assets and liabilities groups reclassified to a disposal group

	At 15 December 2011
ASSETS	
Non-current assets	
Property, plant and equipment and intangible assets	717 084
Deferred tax assets	139 245
Other non-current assets	45 499
	901 828
Current assets	
Trade and other receivables	94 500
Cash and cash equivalents	90 313
Other non-current assets	4 940
	189 753
Total assets included in a disposal group	**1 091 581**
LIABILITIES	
Non-current liabilities	5 706
Current liabilities	70 659
Total liabilities included in a disposal group	**76 365**
Net assets	**1 015 216**

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

48. Discontinued operations (continued)

Profit for the period from discontinued operations	**Note**	**At from 1 January 2011 to 31 December 2011**	**from 1 January 2010 to 31 December 2010**
Sales	28, 31	514 903	546 306
Cost of sales	29, 32	(447 224)	(491 618)
Operating profit		**67 679**	**54 688**
Finance costs	33	(1 433)	(4 250)
Profit before income tax from discontinued operations		**66 246**	**50 438**
Income tax expense	37	(6 615)	34 277
Profit from discontinued operations		**59 631**	**84 715**

Cash flow from discontinued operations	**For the period**	
	from 1 January 2011 to 31 December 2011	**from 1 January 2010 to 31 December 2010**
Net cash generated from operating activities	39 093	139 835
Net cash used in investing activities	(73 363)	(79 418)
Net cash used in financing activities	(53 556)	(57 766)
Cash flow from discontinued operations	**(87 826)**	**2 651**

The total value of transaction costs incurred in relation to this sale was immaterial.

49. Subsequent events

Establishment of 0929260 B.C. UNLIMITED LIABILITY COMPANY
On 3 January 2012, Fermat 2 S.à r.l. (a 100% indirect subsidiary of KGHM Polska Miedź S.A.) established a company under the name 0929260 B.C. UNLIMITED LIABILITY COMPANY with its registered head office in Canada. The share capital amounts to CAD 100.

The company was established as a part of the activities related to creating a holding structure to acquire the shares of Quadra FNX Mining Ltd.

Changes in the Supervisory Board
The Extraordinary General Meeting of KGHM Polska Miedź S.A., on 19 January 2012, dismissed from the Supervisory Board of KGHM Polska Miedź S.A. the following persons:

1. Franciszek Adamczyk,
2. Marcin Dyl,
3. Arkadiusz Kawecki,
4. Jan Rymarczyk,
5. Marzenna Weresa.

The Extraordinary General Meeting appointed to the Supervisory Board of the Parent Entity the following persons:

1. Krzysztof Kaczmarczyk,
2. Mariusz Kolwas,
3. Aleksandra Magaczewska,
4. Robert Oliwa,
5. Jacek Poświata.

Establishment of Fermat 3 S.á r.l.
On 15 February 2012, Fermat 1 S.à r.l. (a 100% subsidiary of KGHM Polska Miedź S.A.) established a company under the name Fermat 3 S.à r.l. with its registered head office in Luxembourg, in which, it acquired 20 000 shares with a nominal value of 1 USD/share for USD 20 000 paid for in cash, representing 100% of the share capital of Fermat 3 S.à r.l.

The company was established as a part of the activities related to creating a holding structure to purchase the shares of Quadra FNX Mining Ltd.

49. Subsequent events (continued)

Purchase of Quadra FNX Mining Ltd. shares

On 5 March 2012, the KGHM Polska Miedź S.A. Group, purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 100% of shares of Quadra FNX („Shares"), for the price of CAD 15.00 per share (representing the equivalent of PLN 47.31 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012), and the total price of CAD 2.9 billion (representing the equivalent of PLN 9.1 billion at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The shares were paid for in cash.

The shares were purchased in execution of the agreement dated 6 December 2011 signed by the Parent Entity of the KGHM Polska Miedź S.A. Group and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX ("Agreement"). The shares purchased represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company. 5 March 2012 was assumed as the date of obtaining control.

The operations of KGHM INTERNATIONAL LTD. (until 12 March 2012 Quadra FNX) are focused on mine production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, and McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada.

Activities include also pre-operational mining projects at various stages of development, including Sierra Gorda in Chile (the company's major development project, involving one of the largest new copper and molybdenum deposits in the world), and pursuing of exploration projects. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the Quadra FNX shares were listed on the Toronto Stock Exchange.

As a result of the purchase of Quadra FNX, the KGHM Polska Miedź S.A. Group advanced to fourth place globally in terms of documented copper resources and eighth place in terms of copper production.

The signing of the Agreement is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production. The acquisition described above will increase annual mined copper production in the KGHM Polska Miedź S.A. Group by over 100 thousand tonnes beginning from 2012, and in 2018 by over 180 thousand tonnes, meaning a 25% increase versus the pre-acquisition level of KGHM Polska Miedź S.A. Group production. In addition, following the start-up of production in Sierra Gorda in Chile in 2014 and Victoria in Canada, the transaction will lead to a substantial decrease in average unit copper production costs in the entities directly and indirectly managed by KGHM Polska Miedź S.A.

As at 31 December 2011, the carrying amount of the net assets of Quadra FNX, set based on the financial statements prepared under IFRS, amounted to USD 2.3 billion (representing the equivalent of PLN 7.2 billion at the average USD/PLN exchange rate of the National Bank of Poland of 5 March 2012). At the current stage the KGHM Polska Miedź S.A. Group is not in possession of accounting data at the date control was obtained. Work has begun aimed at performing a final measurement of the identified assets and liabilities to fair value. Measurement of the net assets acquired depends significantly on macroeconomic assumptions such as interest rates, price projections for copper and other elements, and of chemicals on international markets. The fair value of identified net assets is also substantially impacted by the expected mineral accumulation of the deposits of the business purchased. Preliminary estimation of the identified assets and liabilities based on data and assumptions as at 31 December 2011 amounts to USD 2.9 billion (representing the equivalent of PLN 9.1 billion at the average USD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The process of measurement at the date control was obtained will be carried out and concluded no later than within 12 months from the date of acquisition.

The remaining disclosures required by IFRS 3 were not presented due to the short period between the acquisition and the preparation of the financial statements, and the difficulties, in determining such disclosures arising from this fact.

Forecast of results for 2012

On 27 March 2012, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2012. The bases for development of the Budget were the results for 2011 and the assumptions of individual operating plans. Detailed information regarding the forecast is presented in the Report on the Activities of the Group, point 7 "Current and projected Group financial position".

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
27 March 2012	Herbert Wirth	President of the Management Board	
27 March 2012	Maciej Tybura	I Vice President of the Management Board	
27 March 2012	Wojciech Kędzia	Vice President of the Management Board	

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

KGHM POLSKA MIEDŹ S.A.

GROUP

REPORT ON THE ACTIVITIES OF THE GROUP IN 2011

Lubin, March 2012

Contents of the Report on the activities of the Group in 2011

1. Introduction

The Parent Entity of the Group is KGHM Polska Miedź S.A, which has been conducting its business, as a joint stock company, since 12 September 1991. 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 the manner set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

The Parent Entity is an issuer of securities which have been admitted to trading on the Warsaw Stock Exchange. It is a company with great traditions, rich experience and substantial achievements.

KGHM Polska Miedź S.A. is a one of the world leaders in the production of electrolytic copper and metallic silver. The Parent Entity has a fully-integrated production structure, in which the end-product of one stage is a half-finished product used in the next stage. Copper ore is extracted from three mines, which is then processed into concentrate in our ore enrichment plants followed by the production of electrolytic copper, silver and copper products in two copper smelters and a wire rod plant. Apart from copper and silver, the Parent Entity's products also include gold, lead, sulphuric acid and rock salt. KGHM Polska Miedź S.A. is one of the largest Polish exporters.

The remaining companies of the Group are diversified in terms of types 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 transportation, commerce, medicine and capital investment. Many of these companies, mainly those involved in production, provide services to the Parent Entity.

KGHM Polska Miedź S.A., with its subsidiaries, is the largest employer in Lower Silesia. The Parent Entity alone employs 18.6 thousand people, with over 31 thousand people in the entire Group.

The KGHM Polska Miedź S.A. Group has developed over the last 20 years. During the initial phase, most entities arose as a result of the separation of specific operational areas of KGHM Polska Miedź S.A. In this manner, in 1993 the Group's first companies arose. In subsequent years there were changes to the composition of the Group and the number of entities it contained. At the end of 2011 the KGHM Polska Miedź S.A. Group numbered 50 entities.

Despite the large number of Group entities, its results are decisively impacted by the Parent Entity. The assets of KGHM Polska Miedź S.A. dominate the structure of the Group, while its financial results determine the financial results of the entire Group.

The Strategy of the Parent Entity with respect to development of the Group is aimed primarily at expanding the resource base. Its goal is to increase production and to diversify and decrease production costs. By expanding internationally, KGHM Polska Miedź S.A. intends to gain the status of a global mining company.

Another element of the realised strategy is the diversification of sources of income through the realisation of investments in the energy sector. The generation of electricity was determined to be a stable source of income, which is not correlated to prices on the metals markets. Its goal is to also partially neutralise the impact of increases in the price of energy - a major component of the costs of copper production - on the results of the Parent Entity.

In 2011, KGHM Polska Miedź S.A. took decisive steps to realise its strategy. The Parent Entity exited from the telecommunications sector by selling its shares in Polkomtel S.A. and DIALOG S.A. The proceeds from the sale of these shares were used to partially finance resource projects.

In December 2011, KGHM Polska Miedź S.A. and the company Quadra FNX – a mid-sized company with a diversified portfolio of mining assets, listed on the Toronto Stock Exchange - signed a binding conditional agreement, as a result of which KGHM Polska Miedź S.A. on 5 March 2012 purchased from the existing shareholders, under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX, 100% of the shares of Quadra FNX with its registered head office in Vancouver, B.C.

In 2011, work was completed on the Bankable Feasibility Study (BFS) for the project to extract copper and gold from the Afton-Ajax deposit in Canada, which KGHM Polska Miedź S.A. acquired in 2010. The Study confirmed the chief geologic and mining parameters of the Afton-Ajax project. KGHM Polska Miedź S.A. holds the option to acquire further 29% of shares of KGHM AJAX MINING INC, increasing its share from 51% to 80%.

In addition, in 2011 KGHM Polska Miedź S.A. continued work on the development of its own resource base in south-western Poland and in the region of Lusatia (Germany, Saxony).

Following we present a list of the major events which occurred in the Group in 2011.

1. Introduction (continued)

***Table 1**. Major events in the Group in 2011**

MAJOR EVENTS IN 2011		PAGE
IN THE MACROECONOMIC ENVIRONMENT		
14.02.2011	The highest official copper price in history – 10 148 USD/t – was recorded on the London Metal Exchange	143
28.04.2011	The highest official silver price in history – 48.7 USD/troz – was recorded on the London Bullion Market Association	143
14.12.2011 30.12.2011 11.01.2012 13.01.2012	Publication by the Minister of Finance of subsequent versions of the draft Act on the minerals extraction tax	170
14.02.2012	Approval of the draft Act on the minerals extraction tax by the parliamentary Committee of Public Finance	
02.03.2012	Passage by the Parliament of the Republic of Poland of the Act on the minerals extraction tax	
14.03.2012	Approval by the Senate of the Republic of Poland of the Act on the minerals extraction tax	
IN THE GROUP		
23.03.2011	Purchase by KGHM Polska Miedź S.A. of 71 million shares of TAURON Polska Energia S.A. from the State Treasury through an accelerated bookbuilding process (an ownership share of 10.39% was achieved)	133
15.06.2011 20.10.2011 19.01.2012	General Meeting of KGHM Polska Miedź S.A. – changes in the composition of the Supervisory Board	138
09.11.2011	Sale of the shares of Polkomtel S.A. (24.39% - all shares held)	131
06.12.2011	Contingent binding agreement to acquire the shares of Quadra FNX Mining Ltd.	135
05.03.2012	Purchase by the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver (an indirect subsidiary of KGHM Polska Miedź S.A.) of 100% of the shares of Quadra FNX Mining Ltd.	
16.12.2011	Sale of the DIALOG S.A. Group	131
21.12.2011	Conclusion of work on the Bankable Feasibility Study for the Afton-Ajax copper and gold project – possibility of the exercise by KGHM Polska Miedź S.A. of the option to acquire a further 29% of the shares of AJAX MINING INC.	135
12.08.2011	Dividend payment date of KGHM Polska Miedź S.A. for 2010 (14.90 PLN/share)	142
31.01.2011	Forecast of financial results of KGHM Polska Miedź S.A. for 2011 disclosed *(sales: PLN 16 067 million, profit for the period: PLN 8 345 million)*	169
05.09.2011	Adjusted forecast of financial results of KGHM Polska Miedź S.A. for 2011 disclosed *(sales PLN 18 934 million, profit for the period: PLN 9 643 million)*	
21.12.2011	Adjusted forecast of financial results of KGHM Polska Miedź S.A. for 2011 disclosed *(sales PLN 20 084 million, profit for the period: PLN 11 192 million)*	
27.03.2012	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. for 2012	170
18.01.2011	Contract for the sale of copper wire rod and oxygen-free rod with Tele-Fonika Kable Sp. z o.o. S.K.A.	153
04.02.2011	Contract for the sale of copper cathodes in 2011 with MKM Mansfelder Kupfer und Messing GmbH	
15.06.2011	Contract for the sale of copper wire rod with nkt cables GmbH Cologne and its subsidiaries	
20.12.2011	Contract for the sale of copper cathodes in 2012-2016 entered into with China Minmetals Corporation	

* *Reflecting events after the end of the reporting year – to the date of preparation of that report*

2. Organisation of the KGHM Polska Miedź S.A. Group

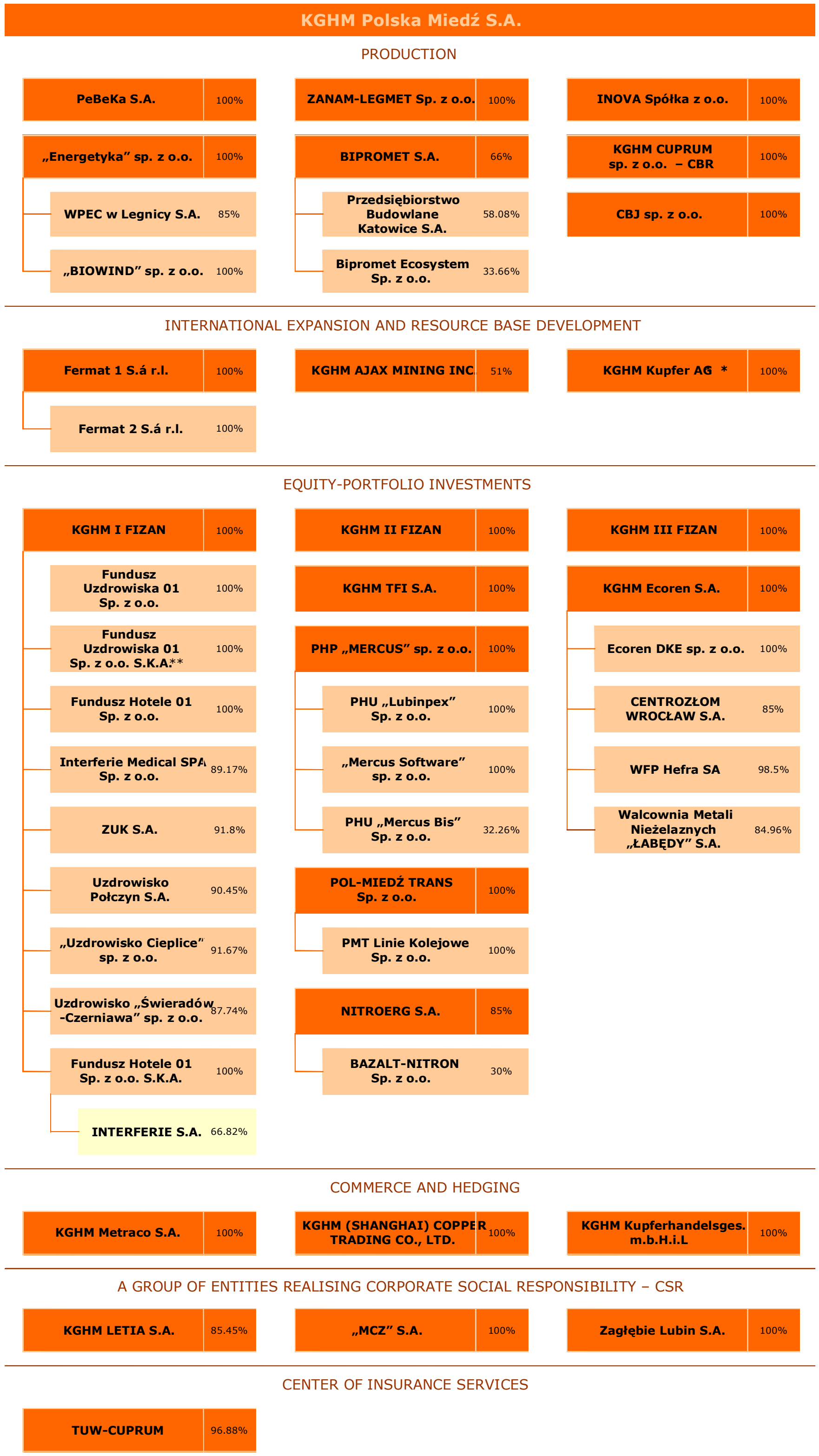
2.1. Composition of the Group

The diagram below shows the composition of the Group at 31 December 2011. The percentage ownership shown represents the total share of the Group in the share capital of the given company. In each of the Group's companies, the share capital owned is equal to the share of the total number of votes.

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.1. Composition of the Group (continued)

Diagram 1. *Group structure as at 31 December 2011*



* *company name changed - formerly KGHM HMS Bergbau AG,*
** *company name changed due to change of general partner - formerly Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.*

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.1. Composition of the Group (continued)

As at 31 December 2011 the Group was composed of KGHM Polska Miedź S.A. - the Parent Entity, and forty-seven subsidiaries, including three closed-end non-public investment funds. Nine of these subsidiaries formed their own groups: KGHM Ecoren S.A., PHP „MERCUS" sp. z o.o., POL MIEDŹ TRANS Sp. z o.o., „Energetyka" sp. z o.o., BIPROMET S.A., NITROERG S.A., KGHM I FIZAN, Fundusz Hotele 01 Sp. z o.o. S.K.A., and Fermat 1 S.à r.l. At the end of the reporting period the Group owned a share of two associates.

The inclusion of business supervision units in the organisational structure of the KGHM Polska Miedź S.A. Group is due to the introduction in February 2011 by the Management Board of the Parent Entity of a new model for management of the Group. Information on the new model is included in point 2.2. of this report.

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of the Group, consolidated forty-five subsidiaries and accounted for one associate, BAZALT-NITRON Sp. z o.o., using the equity method

All of the Group's entities were consolidated at the level of KGHM Polska Miedź S.A., regardless of whether they are consolidated at lower levels of the Group.

Two subsidiaries – TUW-CUPRUM and „Mercus Software" sp. z o.o. – were not consolidated, and the shares of one associate – PHU „Mercus Bis" Sp. z o.o. – were not accounted for using the equity method, as the assets, revenues and profits of these entities do not materially impact the consolidated statement of financial position and the consolidated statement of comprehensive income.

2.2. Management principles of the Group

In February 2011, the Management Board of KGHM Polska Miedź S.A. decided to introduce a new management model for the KGHM Polska Miedź S.A. Group. It was implemented during the year. At the end of 2011, the scope of presentation of the operating segments of the Group in the consolidated financial statements was adapted to the new model (note no. 5 of the consolidated financial statements of the KGHM Polska Miedź S.A. Group as at 31 December 2011).

Introduction of the new model was aimed at adapting supervision over the activities of the Group's companies to the strategy and investment policy of KGHM Polska Miedź S.A., which involves increasing the activities of the Group with regard to acquisitions and realising activities aimed at increasing value.

The management model adopted involves the expansion of supervision over Group companies, beyond that exercised up to now by appropriate units of the Head Office, to include business supervision. This is carried out by separate business units through the managers of these units designated by the Management Board of KGHM Polska Miedź S.A. This model enables business supervision of individual areas of the Group's activities, and also leads to improved management effectiveness of the Group.

Table 2. *Business supervision units*

BUSINESS SUPERVISION UNITS
Production
includes Group companies supporting the core business (CB) and planned acquisitions (resource assets in production). This unit will also include companies/resource projects once they have begun production
International expansion and resource base development
includes exploration companies and pre-production companies/projects
Equity-portfolio investments
includes companies of a financial investment nature and investment funds managed by KGHM TFI S.A.
Diversified investments in the Energy sector
includes strategic energy investments and other energy investments not related directly to the CB; in 2011 this unit included only one company - TAURON Polska Energia S.A. *(share capital held: 10.39% - pursuant to a current report dated 23 March 2011)**
Commerce and hedging
includes domestic and foreign trade companies
CSR
includes a group of entities realising corporate social responsibility policy
Insurance services center
comprises an entity providing mutual insurance services - TUW-CUPRUM *(an unconsolidated subsidiary)*

* - *although the company is not part of the KGHM Polska Miedź S.A. Group, it was recognised under the Group Management Model due to the joint project with KGHM Polska Miedź S.A. in the energy sector, „Elektrownia Blachownia Nowa sp. z o.o."*

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.3. Changes in Group structure, other equity investments

Changes in Group structure in 2011 are presented in table below.

Table 3. *Changes in the Group in 2011*

Event	Description
Sale of Polkomtel S.A. shares	In November 2011, KGHM Polska Miedź S.A. sold shares of Polkomtel S.A., representing 24.39% of the share capital of this company (all shares owned), to Spartan Capital Holding Sp. z o.o. The shares were sold based on an agreement to sell 100% of the shares of Polkomtel S.A., entered into by KGHM Polska Miedź S.A., PKN Orlen S.A., PGE Polska Grupa Energetyczna S.A., Vodafone Americas Inc, Vodafone International Holdings B.V. and Węglokoks S.A. with the purchaser. The sale price amounted to PLN 3 672 147 thousand. The carrying amount of the shares in the consolidated financial statements of the Group at the date of sale amounted to PLN 1 359 568 thousand. Profit on the sale amounted to PLN 2 312 579 thousand (recognised in other operating income).
Sale of DIALOG S.A. and its subsidiaries *- discontinued operations*	In December 2011, KGHM Polska Miedź S.A. sold 100% of the shares of DIALOG S.A. to Netia S.A. The sale price amounted to PLN 968 927 thousand. To settle the sales of the DIALOG S.A. Group, cost was set at PLN 970 962 thousand. The result on sale – a loss of PLN 2 035 thousand – was recognised in the consolidated financial statements of the Group under the item profit from discontinued activities.
Purchase of NITROERG S.A. shares	In February 2011, KGHM Polska Miedź S.A. purchased from the State Treasury shares of NITROERG S.A., representing 85% of the share capital of the company. The purchase price amounted to PLN 120 052 thousand. The company is one of the largest producers of explosives. The control held by KGHM Polska Miedź S.A. over NITROERG S.A. enables the strengthening of competitiveness in supplying the production needs of the core business.
Purchase of KGHM HMS Bergbau AG shares (currently **KGHM Kupfer AG** change of name court registered in May 2011)	In April 2011, KGHM Polska Miedź S.A. purchased from HMS Bergbau AG shares of KGHM HMS Bergbau AG, representing 25.1% of the share capital of the company. The purchase price amounted to EUR 128 thousand, i.e. PLN 509 thousand. The share of KGHM Polska Miedź S.A. in the share capital of KGHM HMS Bergbau AG due to the aforementioned transaction increased from 74.9% to 100%. Following acquisition of these shares, KGHM Polska Miedź S.A. increased the share capital of KGHM HMS Bergbau AG by EUR 750 thousand (described in Table 4). KGHM Polska Miedź S.A. decided to purchase the shares of KGHM HMS Bergbau AG from the German shareholder, in order to independently continue the exploration project „Weisswaser" (exploration for and investigation of deposits of copper and other metals in the region).
Purchase of shares of Uzdrowisko „Świeradów-Czerniawa" sp. z o.o.	In September 2011, KGHM I FIZAN, a subsidiary of KGHM Polska Miedź S.A., purchased from the State Treasury shares of „Świeradów-Czerniawa" sp. z o.o., representing 87.74% of the share capital of the company. The purchase price amounted to PLN 21 000 thousand. The purchase of shares of Uzdrowisko „Świeradów-Czerniawa" sp. z o.o. is a subsequent step in the realisation of the investment policy of the fund, comprising among others the development of a Polish Spa Group, which will enable enrichment of the offering of spa and tourism services and utilisation of the effects of synergy.
Foundation of companies: **Fermat 1 S.à r.l.** **Fermat 2 S.à r.l.**	In December 2011, KGHM Polska Miedź S.A. founded a company under the name Fermat 1 S.à r.l. with its registered head office in Luxembourg, with share capital of EUR 12.5 thousand. KGHM Polska Miedź S.A. acquired 100% of the share capital of the company Fermat 1 S.à r.l. and paid in cash in the amount of EUR 12.5 thousand (as at 31 December 2011 the carrying amount was PLN 55 thousand). In December 2011, the company Fermat 1 S.à r.l. founded a company under the name Fermat 2 S.à r.l. with its registered head office in Luxembourg, with share capital of EUR 12.5 thousand. Fermat 1 S.à r.l. acquired 100% of the share capital of the company Fermat 2 S.à r.l. and paid in cash in the amount of EUR 12.5 thousand (as at 31 December 2011 the carrying amount was PLN 55 thousand). The foundation of Fermat 1 S.à r.l. and Fermat 2 S.à r.l. is related to the creation of an optimal transaction structure for purchasing the shares of Quadra FNX Mining Ltd.

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.3. Changes in Group structure, other equity investments (continued)

Event	Description
Increased share ownership of subsidiaries through guaranteed increases of share capital	KGHM I FIZAN (a subsidiary of KGHM Polska Miedź S.A.), in performance of the obligation to guarantee the increase of share capital of companies arising from sales agreements entered into in 2010 with the State Treasury, executed the following share capital increases: - Uzdrowisko Połczyn S.A. - in February 2011, the company's share capital was increased by PLN 1 000 thousand, increasing the share of the Group in the company's share capital from 89.91% to 90.45%; the proceeds from the guaranteed increase will be used to acquire, or increase the value of, the property, plant and equipment of the company, - „Uzdrowisko Cieplice" sp. z o.o. – in March 2011, the company's share capital was increased by PLN 1 500 thousand, increasing the share of the Group from 89.71% to 91.67%; the proceeds from the guaranteed increase will be used to acquire, replace, renovate, expand and modernise property, plant and equipment and to acquire or extend water use licenses. In addition, in January 2011 an increase in share capital was registered for the company ZUK S.A. in the amount of PLN 8 000 thousand, covered by cash by KGHM I FIZAN on 30 November 2010. The share of the Group in the share capital of the company after the increase rose by 1.71% and amounts to 91.8%. All of the proceeds from the guaranteed increase will be used to purchase property, plant and equipment and intangible assets related to the production and sale of mineral water and spa-related activities.
Combination of the subsidiaries Walcownia Metali Nieżelaznych spółka z o.o. and WM „ŁABĘDY" S.A.	In January 2011 the companies Walcownia Metali Nieżelaznych spółka z o.o. and WM „ŁABĘDY" S.A., subsidiaries of KGHM Ecoren S.A., were combined through the founding of a new entity called Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. The share capital of the newly-founded company amounts to PLN 49 145 thousand and was set based on the sum of the share capital of the combined entities amounting to PLN 97 898 thousand, less the share of the company WM „Łabędy" S.A. in the share capital of Walcownia Metali Nieżelaznych spółka z o.o. prior to the combination, in the amount of PLN 45 985 thousand, and the coverage of losses from prior years in the amount of PLN 2 768 thousand. The share of the Group in the share capital of the newly-founded company amounts to 84.96%.
Conclusion of liquidation - de-registration of companies	Due to the conclusion of liquidation procedures, the following companies were de-registered: – in August 2011 - FADROMA S.R. SP. Z O.O. in liquidation, – in October 2011 - „Serwis-Erg" Sp. z o.o. in liquidation, – in December 2011 - KGHM Polish Copper Ltd. in liquidation.
Opening of proceedings to liquidate KGHM Kupferhandelsges. m.b.H.	In May 2011, the Extraordinary General Meeting of KGHM Kupferhandelsges. m.b.H. with its registered head office in Vienna resolved to dissolve and liquidate the company as at 1 June 2011. The request to liquidate the company was filed at the Commercial Court in Vienna. The decision to liquidate KGHM Kupferhandelsges.m.b.H. is connected with the takeover by KGHM Polska Miedź S.A. of the commercial activities of this company.

Increases of share capital

Apart from the company share capital increases which caused an increase in share of capital owned (included Table 3 above), the following capital increases were also carried out:

Table 4. *Increases of share capital in 2011*

Company	Amount of increase	Description
CBJ sp. z o.o.	PLN 6 695 thousand	February 2011 – increase of share capital registered. KGHM Polska Miedź S.A. acquired all of the newly-issued shares in the increased share capital of the company, covered by cash at their nominal amount. The share capital of the company following the increase amounts to PLN 11 818 thousand. The proceeds were used for realisation of the investment „Automatisation of the process of preparing and measuring samples from the copper ore enrichment line".

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.3. Changes in Group structure, other equity investments (continued)

Company	Amount of increase	Description
KGHM HMS Bergbau AG *currently* **KGHM Kupfer AG**	EUR 750 thousand (represents PLN 2 953 thousand)	April 2011 - KGHM Polska Miedź S.A. acquired all of the newly-issued shares in the increased share capital of the company, with a nominal amount of EUR 1 and an issue amount of EUR 17.71 each. The company paid for them in cash in the amount of PLN 52 364 thousand. The surplus of the issue price over the nominal value from the increase in share capital amounts to PLN 49 348 thousand. The share capital of the company following the increase amounts to EUR 800 thousand (representing PLN 3 179 thousand). The proceeds were used to finance exploration work in the Weisswasser region in Germany.
„MCZ" S.A.	PLN 4 480 thousand	October 2011 – share capital increase registered. KGHM Polska Miedź S.A. acquired all of the newly-issued shares in the increased share capital of the company, covered by cash at their nominal amount. The share capital of the company following the increase amounts to PLN 58 198 thousand. The proceeds were used to purchase medical equipment.
KGHM Metraco S.A.	PLN 10 000 thousand	October 2011 - share capital increase registered. KGHM Polska Miedź S.A. acquired all of the newly-issued shares in the increased share capital of the company, covered by cash at their nominal amount.
	PLN 5 000 thousand	December 2011 - KGHM Polska Miedź S.A. acquired all of the newly-issued shares in the increased share capital of the company, covered by cash at their nominal amount. The increase was court registered in January 2012. The share capital of the company after the aforementioned increase amounts to PLN 17 545 thousand. The proceeds were used to finance the investment „Construction and operation of a Sulphuric Acid Turnover Base".
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. **Fundusz Uzdrowiska 01 Sp. z o.o.**	PLN 50 thousand PLN 50 thousand	May 2011 – KGHM I FIZAN increased share capital in two of its special purpose companies to provide them with funds necessary to cover their operating costs.

Other equity investments

In 2011, KGHM Polska Miedź S.A. purchased 71 292 212 shares of TAURON Polska Energia S.A. for the total price of PLN 438 448 thousand, mainly from the State Treasury in an accelerated bookbuilding transaction. Following realisation of this transaction, KGHM Polska Miedź S.A. held in total 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital of the company (pursuant to a current report dated 23 March 2011). The carrying amount of the shares of TAURON Polska Energia S.A. amounts to PLN 974 292 thousand.

All of the equity investments were financed from internal funds.

3. Strategy of KGHM Polska Miedź S.A.

3.1. Strategic assumptions for the years 2009-2018

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.

In respect of the disposal of the telecommunication assets in 2011 (DIALOG S.A., Polkomtel S.A.), the Supervisory Board of the Parent Entity, on 10 October 2011, approved the updated Strategy of KGHM Polska Miedź S.A., removing the strategic goal „Continued engagement in the telecommunications sector".

3. Strategy of KGHM Polska Miedź S.A. (continued)

3.1. Strategic assumptions for the years 2009-2018 (continued)

The Strategy for the years 2009-2018 is based on five pillars:

I PILLAR

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.

II PILLAR

Developing the resource base
aimed at increasing the production of mined copper up 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.

III PILLAR

Diversifying sources of revenues and gaining independence from energy prices
which assumes that by 2018 approx. 30% of the revenues will be generated from other than core business activities, through entrance into the power sector.

IV PILLAR

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.

V PILLAR

Developing organisational know-how and capabilities
through:
- management through goals,
- transparent information and data,
- development of KGHM Polska Miedź S.A. employees, and
- building a holding structure.

3.2. Realisation of Strategy in the years 2009-2011

In 2011, KGHM Polska Miedź S.A. consistently implemented the approved Strategy by investing in a continuously updated portfolio of strategic projects to achieve the intended goals of each pillar's strategic initiatives.

Pillar I – Improving productivity

Of fundamental importance to building KGHM Polska Miedź S.A. value in the long term was the continuation of activities in the copper and silver sector as the basic source of its revenues. As a result, work on strategic tasks was continued, of which, apart from investment projects described in the section „Capital expenditure" of this report (point 6.7), of particular importance are the following:

- The „Effectiveness" program, of which, since 2009, 38 programs have been implemented: 22 with respect to cost reduction programs and 16 process transformation programs (based on Lean Management) aimed at improving production efficiency,

  With respect to cost reduction programs, 260 workshops were held (involving 2 500 employees), thanks to which it was possible to select for implementation over 300 savings-related initiatives and many process-related initiatives improving labour organisation. Measurable effects from the implementation of individual initiatives are continuously recognised in the operating plans of the Parent Entity. With respect to process transformation programs, a variety of initiatives were initiated aimed at improving productivity (such as better use of work time in mining, optimisation of the production process in smelting). The following areas are being analysed in terms of initiating further efficiency improvement programs.
- The project to centralise procurement in the KGHM Polska Miedź S.A. Group – the Central Procurement Office opened in 2009 continued to follow a common procurement policy for the KGHM Division and the Group companies, thanks to which the Parent Entity gained substantial added value and savings in the area of procurement, mainly investments.

3. Strategy of KGHM Polska Miedź S.A. (continued)

3.2. Realisation of Strategy in the years 2009-2011 (continued)

Pillar II – Developing the resource base

Taking advantage of its solid market position, production skills and capacity to finance capital-intensive investments, KGHM Polska Miedź S.A. intensively realised its Strategy with respect to development of its resource base.

In execution of its strategic efforts to increase production to 700 thousand tonnes of mined copper and to achieve diversification in terms of production costs, KGHM Polska Miedź S.A.:

- acquired in 2010 the Afton-Ajax copper/gold project located in British Columbia, Canada,
- began the process of the friendly acquisition of the mining company Quadra FNX Mining Ltd listed on the Toronto Stock Exchange in Canada, which was successfully concluded in 2012.

Global resource projects

KGHM AJAX MINING INC.

On 4 May 2010 KGHM Polska Miedź S.A. signed an investment agreement with Abacus Mining & Exploration Corp. regarding a joint venture to advance the Afton-Ajax copper-gold mining project located in British Columbia in Canada. Moreover, in May 2010, KGHM Polska Miedź S.A. purchased 8.75% of the shares of Abacus Mining & Exploration Corp. (at the end of 2011 the share held decreased to 7.6%, due to new shares issued for another shareholder).

On 12 October 2010 the Parent Entity signed an agreement with Abacus Mining & Exploration Corp. regarding entrance to the company - KGHM AJAX MINING INC. - to advance the mining project. In accordance with the aforementioned agreement, KGHM Polska Miedź S.A. has acquired 51% of shares in the company KGHM AJAX MINING INC. through a cash contribution in the amount of USD 37 million (at 31 December 2011 the carrying amount of these shares was PLN 109 763 thousand). Abacus Mining & Exploration Corp. has brought to KGHM AJAX MINING INC. all the rights it owns to the Afton-Ajax deposit. The cash was used to carry out a Bankable Feasibility Study and for further exploration. Based on this agreement, KGHM Polska Miedź S.A. gained the right to acquire further 29% of shares of KGHM AJAX MINING INC. Under this agreement, the Parent Entity may exercise this right following publication of the Bankable Feasibility Study. Should this right be exercised, KGHM Polska Miedź S.A. will be obligated to organise financing for the project expenditures in the amount of USD 795 million (the equivalent of PLN 2 687 million, at the average USD/PLN rate of the National Bank of Poland of 21 December 2011).

In December 2011, the Bankable Feasibility Study (BFS) for the Afton-Ajax project was completed. The document describes the specific technical and economic conditions related to the construction and operation of the future copper and gold mine located in the vicinity of the town of Kamloops in Canada.
The Study confirmed the chief geologic and mining parameters of the Afton-Ajax project, which until now had been estimated in a preliminary report from 2009. Measured & Indicated mineral resources increased to 512 million tonnes of ore containing 0.31% copper and 0.19 g/t of gold, versus the previous 442 million tonnes of ore containing 0.30% copper and 0.19 g/t of gold. Proven & Probable mineral reserves were calculated at 1.34 million tonnes of copper and 2.75 million ounces of gold. Average annual production of copper and gold in concentrate amounts respectively to 50 000 tonnes of copper and 100 000 ounces of gold. Mine life was calculated at 23 years. The cost of producing one tonne of mined copper (C1 – cash costs reflecting the value of associated metals) was calculated within the range of USD 1 740– USD 2 800. Mine construction will last two years. Considering the progress to date and the time needed to obtain further permits and administrative approval, the start-up date for the mine has been set at 2015.
Having received the BFS, KGHM Polska Miedź S.A. is considering whether to exercise its option to increase its share in KGHM AJAX MINING INC. from 51% to 80% (the deadline for making this decision, under the agreement, is 4 April 2012).

Acquisition of Quadra FNX Mining Ltd

KGHM Polska Miedź S.A. and Quadra FNX Mining Ltd. (hereafter Quadra FNX) signed on 6 December 2011 a binding conditional agreement, under which KGHM Polska Miedź S.A. or an affiliate thereof will purchase from existing shareholders, under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX, 100% of the shares of the mining company Quadra FNX with its registered head office in Vancouver.

In the aforementioned agreement, the purchase price of the shares was set at CAD 2.87 billion (the equivalent of PLN 9.44 billion, based on the average rate of the National Bank of Poland for CAD/PLN of 6 December 2011) i.e. CAD 15.00 per share (the equivalent of PLN 49.31), representing a premium of 41% above the 20 trading day volume-weighted average price (VWAP).

Closure of the transaction was made contingent on the fulfilment of conditions precedent, consisting of gaining shareholder approval as expressed by a majority 2/3 of the votes at the General Meeting of Quadra FNX, court approval for the transaction and regulatory approvals by appropriate monopoly-control bodies, and by the Canadian Minister of Industry.

Both Canada's Competition Bureau and the United States Federal Trade Commission were not opposed to the acquisition of shares of Quadra FNX by KGHM Polska Miedź S.A. or an affiliate thereof.

3. Strategy of KGHM Polska Miedź S.A. (continued)

3.2. Realisation of Strategy in the years 2009-2011 (continued)

In February 2012, the shareholders of Quadra FNX at the General Meeting of the company, by the required majority of votes, approved the transaction. The Supreme Court of British Columbia approved the transaction, and the Canadian Minister of Industry also gave his approval.

To realise this transaction, a structure has been created within which, in December 2011, the companies Fermat 1 S.à r.l. and Fermat 2 S.à r.l. with their registered head offices in Luxembourg were founded, while at the start of 2012 the company Fermat 3 S.à r.l. in Luxembourg was founded as well as a company under the name 0929260 B.C. UNLIMITED LIABILITY COMPANY in Vancouver, Canada ("0929260 B.C. U.L.C."). All of these entities are wholly-owned subsidiaries of KGHM Polska Miedź S.A.

On 5 March 2012, in execution of the aforementioned agreement dated 6 December 2011, the company 0929260 B.C. U.L.C. purchased from the former shareholders of Quadra FNX 193 334 154 shares of this company („Shares"). The per-share price amounted to CAD 15.00 (representing the equivalent of PLN 47.31 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012).

The total price amounted to CAD 2 900 012 310 (representing the equivalent of PLN 9 147 218 828 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012).

The shares purchased by 0929260 B.C. U.L.C. represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company. The shares do not have a nominal value. The aforementioned number of Shares includes 1 832 543 shares of Quadra FNX which arose after the date of signing of the Agreement as a result of a conversion of instruments (options and warrants) issued by Quadra FNX, which are convertible to shares.
The decision was simultaneously taken to delist the Shares from trade on a regulated Canadian market and to change the company's name to KGHM International Ltd.
Purchase of the Shares was paid for in cash obtained by 0929260 B.C. U.L.C. based on financing agreements entered into within the KGHM Polska Miedź S.A. Group (as described in point 9 of this report, „Subsequent events"). This investment was financed by the internal funds of KGHM Polska Miedź S.A. Purchase of the Shares is of a long-term, equity investment nature.
The purchase of 100% of the shares of Quadra FNX, provides for an increase in annual production by the KGHM Polska Miedź S.A. Group of over 100 thousand tonnes of copper beginning from 2012. In 2018 this will increase to over 180 thousand tonnes, meaning a 25% increase versus the production of the KGHM Polska Miedź S.A. Group prior to this acquisition. In addition, following the start-up of projects in Sierra Gorda in Chile (2014) and Victoria in Canada, this will lead to a substantial decrease in unit copper production costs in the KGHM Polska Miedź S.A. Group.
Quadra FNX is a mid-tier mining company. The operations of the company are focused on mined metals production (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada. Quadra FNX also has pre-operational mining projects at various stages of development: Sierra Gorda in Chile (the company's major development project, involving one of the largest copper and molybdenum deposits in the world), Victoria in Canada and Malmbjerg in Greenland. The company in addition is pursuing the Kirkwood, Falconbridge and Foy exploration projects in the region of Sudbury in Canada, and also owns a minority stake in Capstone Mining.

Regional projects

To secure the production of electrolytic copper from its own concentrate at a stable level over the long term, in 2011 KGHM Polska Miedź S.A. continued work on developing its resource base in south-western Poland and in the region of Lusatia (Germany, Saxony):

- work was continued on the project commenced in 2006 of accessing the region „Głogów Głęboki Przemysłowy" (Deep Głogów),
- a program of geological work was carried out in the licensed mine region „Gaworzyce-Radwanice",
- a project was commenced to explore the mine region „Synklina Grodziecka", located in the vicinity of the so-called Old Copper Belt near the city of Bolesławiec,
- assumptions were prepared for the geological project of exploration of the copper ore deposit „Nowiny" located near the German border in the south-eastern part of the Żar pericline,
- work was continued on the copper ore exploration project „Weisswasser" in Germany,
- geological documentation work was carried out in the licensed region of the nickel ore deposit „Szklary", north of Ząbkowice Śląskie,
- technological and organisational requirements for realisation of a project to increase salt production from 425 thousand tonnes to 1 million tonnes/year.

<u>Scrap processing unit at the Legnica smelter</u>
As part of the process of preparing decisions on the potential realisation of the project, conceptual work was carried out which will be continued in 2012 to develop decisions regarding the future of the project.

Pillar III – Diversifying sources of revenues and gaining independence from energy prices

In 2011, KGHM Polska Miedź S.A. continued to realise its investments in the energy sector. From the point of view of the Parent Entity, power generation is one of the most attractive sectors, as it is not correlated with conditions on the metals markets and represents a stable source of revenues. The most important projects in this regard are the following:

<u>„Construction of gas-steam blocks at the Głogów and Polkowice power plants"</u> with installed capacity of 90 MWe and planned power generation of 560 GWh, all of which will be used to meet the power needs of KGHM Polska Miedź S.A.

3. Strategy of KGHM Polska Miedź S.A. (continued)

3.2. Realisation of Strategy in the years 2009-2011 (continued)

Realisation of this project to generate power from internal sources will satisfy over 30% of the power needs of KGHM Polska Miedź S.A. starting from 2013.

„Construction of a power generation source with a sector partner based on the utilisation of natural gas as the raw material for its generation, on the grounds of the existing Blachownia Power Plant" - cooperation was continued with the sector partner Tauron Wytwarzanie S.A., including:

- selection of the natural gas scenario for the investment,
- the Principles of Cooperation between KGHM Polska Miedź S.A., TAURON Polska Energia S.A., and PKE S.A. (currently TAURON Wytwarzanie S.A.) were updated, with respect to expansion of the agreement from 2009 concerning the natural gas scenario and timeline,
- the Partnership Agreement was updated and the project's business assumptions were developed,
- the European Commission was approached as the appropriate monopoly control body regarding concentration based on establishment of the joint venture Elektrownia Blachownia Nowa sp. z o.o.,
- the process was begun of gaining corporate permits to establish the special purpose company.

„Production of synthetic gas through the underground gasification of brown coal in the Legnica Głogów Copper Belt (LGOM)"

During the first stage of the project, a study was performed to develop a preliminary concept for utilisation of the brown coal deposit in terms of constructing a pilot installation for the underground gasification of the deposit. A project was developed for the geological exploration and investigation of the brown coal deposit in the region of Głogów.

A request was filed for a license to explore and investigate selected sections of the brown coal deposit in the LGOM region. In 2012 geological and investigative work is planned on the deposit.

Pillar IV – Regional support

A significant element of the Parent Entity's business operations and increasing its value is corporate social responsibility. In 2011 work was performed on the preparation of a Strategy of **Corporate Social Responsibility** (CSR) for KGHM Polska Miedź S.A., which will enable the creation of a comprehensive approach to the question of corporate social responsibility in the Parent Entity and will allow integration of actions undertaken in this regard. Thanks to combining CSR strategy with the business pillars of the Strategy, it will be possible to properly manage relations with stakeholders of KGHM Polska Miedź S.A.

Due to the specific nature of the mining and smelting industry, KGHM Polska Miedź S.A. has a particular responsibility for its operations. Some important examples of CSR initiatives dedicated to the region and meeting its needs are:

- the commencement in 2011 of a Program to Promote Health and Counteract Environmental Threats,
- a project to utilise and revitalise the terrain of the former „Obora" sand pit,
- social and charitable programs for the region,
- tasks undertaken related to the KGHM LETIA S.A. Technology Park aimed at creating an attractive region to conduct business and to invest in activities based on new technology.

In 2011, KGHM Polska Miedź S.A. was honoured with the prestigious Fray International Sustainability Award for significant contribution to the initiation, implementation and development of balanced and environmentally-friendly solutions in mining and processing.

Pillar V – Developing organisational know-how and capabilities

In human resource management solutions in KGHM Polska Miedź S.A., work continued on implementation of a **Social Potential Management System,** realising projects aimed at:

- development of the education and improvement system,
- career planning and skills management and the management of knowledge,
- optimising the process of recruitment and adaptation,
- the employee evaluation system, internal communication system and shaping the organisational culture,
- ensuring appropriate employee motivation.

Among activities related to improving and developing organisational and management potential in the Parent Entity, the following should be noted:

- completion of the **accounting and financial services reorganisation project**, based on the creation of a modern, centralised accounting and finance organisation to ensure the high quality and functionability of the financial and accounting services,
- the introduction of a **new management model for the KGHM Polska Miedź S.A. Group** based on a separate business supervisory unit to facilitate the management and supervision of Group companies,
- the commencement of a project to develop and implement methodological standards for the **management of projects, programs and portfolios** in KGHM Polska Miedź S.A.,
- equity investments in health and curative spas, renewable energy and new technology realised by the closed-end non-public investment funds managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A.

To meet the changes occurring in the external environment of KGHM Polska Miedź S.A., at the end of 2011 work began aimed at actions to continue the effective implementation of the Strategy as well as to prepare assumptions for updating the Strategy with respect to the assumptions made in the Pillars.

4. Parent Entity

4.1 Composition of Parent Entity bodies

Management Board of the Parent Entity

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board.

In 2011 the composition of the 7th-term Management Board of KGHM Polska Miedź S.A. was as follows:

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

Following is the segregation of duties amongst individual Members of the Management Board:

President of the Management Board – organises and directs the work of the Management Board, engages in actions on behalf of the Head Office, as an employer, in matters dealing with labour law in respect of the employees of the Head Office, and on behalf of the Divisions, as an employer, in matters dealing with labour law in respect of the directors of the Divisions of KGHM Polska Miedź S.A.

The President of the Management Board is the head of the company under art. 2 point 14 of the Act dated 5 August 2010 on the protection of classified information. He is responsible for matters dealing with the protection of classified information, IT, physical and technical protection and security, and the protection of personal data and tasks involving defence and crisis management.

In addition the President of the Management Board directs Company affairs in the following areas:

- employee affairs, including the following policies: social, remuneration, CSR, human resources, training and personnel,
- Company image, public relations and investor relations,
- ownership policy in respect of the companies of the KGHM Polska Miedź S.A. Group,
- auditing and internal control,
- organisational, legal and administrative services,
- property management,
- research and development,
- tangible and equity investments,
- energy management and development, energy security,
- economic strategy and new economic initiatives,
- industrial and intellectual property rights,
- environmental policy,
- IT – supervision of the Data Center Division.

The I Vice President of the Management Board (Finance) serves in the place of the President of the Management Board in his absence and directs Company affairs in the following areas:

- economic and financial policy, controlling and budgeting,
- accounting and reporting, taxation and bookkeeping policy,
- risk management,
- Company commercial policy,
- procurement policy for the Group.

The Vice President of the Management Board (Production) directs Company affairs in the following areas:

- supervising the activities of the Company's Division, with the exception of the Data Center Division,
- mining, smelting and geology-related activities,
- planning, monitoring and optimisation of production,
- efficiency improvement programs,
- safety and working conditions.

Supervisory Board

Under the Statutes of KGHM Polska Miedź S.A., the Members of the Supervisory Board are appointed and dismissed by the General Meeting. Changes in the composition of the Supervisory Board are shown in the following table:

Table 5. *Changes in the Supervisory Board of the Parent Entity**

Date	Event
1 January 2011	In 2011 the 7th-term Supervisory Board of KGHM Polska Miedź S.A. commenced work in the following form: – Jacek Kuciński — Chairman – Marcin Dyl — Deputy Chairman – Marek Panfil — Secretary – Arkadiusz Kawecki – Jan Rymarczyk – Marzenna Weresa as well as the following employee-elected members: – Józef Czyczerski – Leszek Hajdacki – Ryszard Kurek

4. Parent Entity (continued)

4.1. Composition of Parent Entity bodies (continued)

Date	Event
15 June 2011	The Ordinary General Meeting resolved to: – dismiss all of the Members of the 7th-term Supervisory Board, – set the number of members of the Supervisory Board at 10 persons, – appoint 7 Members of the Supervisory Board to the 8th term: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Jan Rymarczyk, Marzenna Weresa. As a result of a decision of the Ordinary General Meeting, the 3 employee-elected members of the Parent Entity were not appointed to the 8th-term Supervisory Board
22 June 2011	The Supervisory Board selected a Chairman - Jacek Kuciński, Deputy Chairman - Marcin Dyl and Secretary - Marek Panfil
20 October 2011	The Extraordinary General Meeting appointed 3 KGHM Polska Miedź S.A. employee-elected members elected in a repeat election to the 8th-term Supervisory Board - Lech Jaroń, Maciej Łaganowski and Paweł Markowski
19 January 2012	The Extraordinary General Meeting made the following changes to the composition of the Supervisory Board: – 5 members were dismissed: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa, – appointed: Krzysztof Kaczmarczyk, Mariusz Kolwas, Aleksandra Magaczewska, Robert Oliwa and Jacek Poświata
at the date of preparation of this report	Composition of the 8th-term Supervisory Board after the above changes: – Jacek Kuciński - Chairman, – Marek Panfil - Deputy Chairman, – Mariusz Kolwas - Secretary, – Krzysztof Kaczmarczyk, – Aleksandra Magaczewska, – Robert Oliwa, – Jacek Poświata as well as the following employee-elected members: – Lech Jaroń, – Maciej Łaganowski, – Paweł Markowski.

** reflecting decisions made to the date of preparation of this report*

4.2 Remuneration of members of management and supervisory bodies of the Parent Entity

Remuneration of the Management Board

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, 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.
Presented below is information on the total amount of remuneration, bonuses or benefits paid, due or potentially due to management 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 6. *Remuneration of the Parent Entity Management Board for 2011 (‘000 PLN)*

Members of the Management Board	Period when function served in 2011	Salaries	Earnings from subsidiaries and associates	Benefits, other earnings	Total earnings in 2011
Members of the Management Board as at 31 December 2011					
Herbert Wirth	01.01.2011 - 31.12.2011	1 406	306	158	**1 870**
Maciej Tybura	01.01.2011 - 31.12.2011	1 227	119	187	**1 533**
Wojciech Kędzia	01.01.2011 - 31.12.2011	985	102	71	**1 158**
*Other members of the Management Board **					
Ryszard Janeczek**		96	-	-	**96**
Total		**3 714**	**527**	**416**	**4 657**

** - the item „Salaries” includes salaries during the termination period*
*** - was not a member of the Management Board in 2011 (variable remuneration for 2010)*

4. Parent Entity (continued)

4.2. Remuneration of members of management and supervisory bodies of the Parent Entity (continued)

Table 7. *Remuneration of the Parent Entity Management Board for 2010 ('000 PLN)*

Members of the Management Board	Period when function served in 2010	Salaries	Annual and sector bonuses	Earnings from subsidiaries and associates	Benefits, other earnings	Total earnings in 2010
Members of the Management Board as at 31 December 2010						
Herbert Wirth	01.01.2010 - 31.12.2010	591	321	313	96	**1 321**
Maciej Tybura	01.01.2010 - 31.12.2010	494	256	116	143	**1 009**
Wojciech Kędzia	19.11.2010 - 31.12.2010	88	44	10	1	**143**
*Other Members of the Management Board**						
Ryszard Janeczek	01.01.2010 - 15.10.2010	343	140	50	59	**592**
Mirosław Krutin**	-		91	-	-	**91**
Total		**1 516**	**852**	**489**	**299**	**3 156**

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

*** - was not a member of the Management Board in 2010 (variable remuneration for 2009)*

Potentially-due remuneration with respect to variable salary for 2011, the payment of which is decided by the Supervisory Board, is presented in the following table:

Table 8. *Potentially-due remuneration for Members of the Management Board for 2011 ('000 PLN)*

Name	Position	Potentially-due remuneration
Herbert Wirth	President	242
Maciej Tybura	I Vice President	213
Wojciech Kędzia	Vice President	194

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 10 basic monthly salaries. Employment contracts describe those cases in which a Member of the Management Board shall not receive the above-mentioned compensation.

The employment contracts with the Members of the Management Board of KGHM Polska Miedź S.A. do not provide for compensation with respect to forbidding any activities which would be competitive towards KGHM. One of the points of the chapter „Forbidding of employment and forbidding of competition" of the employment contract states: „The parties shall regulate in a separate contract the principles of forbidding competition following termination of employment and of the amount of compensation due in this regard." At the date of preparation of this Report such a contract had not been signed.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the company of costs required for the proper fulfilment of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the budget),
- the use of business cars and rental of a flat for Management Board members (the costs associated with the use of a business car and flat are defined in a separate contract),
- medical benefits (in each calendar year of the life of the contract the company purchases a medical packet for Management Board members worth up to PLN 10 thousand),
- life insurance premiums (once every year the company covers or reimburses the amount of the premiums to an amount up to one monthly basic salary, with the principles and manner of settlement being agreed by the parties in a separate contract).

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 of KGHM Polska Miedź S.A. regarding: changes in the principles of remuneration of the Supervisory Board members adopted on 29 May 2003.

The company 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.

4. Parent Entity (continued)

4.2. Remuneration of members of management and supervisory bodies of the Parent Entity (continued)

Table 9. *Remuneration of the Supervisory Board of the Parent Entity for 2011 ('000 PLN)*

Members of the Supervisory Board	Period when function served in 2011	Remuneration when function served in the Supervisory Board	Earnings from other contracts	Other benefits	Total earnings in 2011
Marcin Dyl	01.01-31.12.2011	96	-	17	113
Arkadiusz Kawecki	01.01-31.12.2011	88	-	22	110
Jacek Kuciński	01.01-31.12.2011	110	-	24	134
Marek Panfil	01.01-31.12.2011	88	-	20	108
Marzenna Weresa	01.01-31.12.2011	88	-	9	97
Jan Rymarczyk	01.01-31.12.2011	88	-	21	109
Franciszek Adamczyk	15.06-31.12.2011	47	-	10	57
Lech Jaroń	20.10-31.12.2011	17	51	3	71
Maciej Łaganowski	20.10-31.12.2011	17	28	-	45
Paweł Markowski	20.10-31.12.2011	18	70	-	88
Józef Czyczerski	01.01-15.06.2011	41	72	-	113
Leszek Hajdacki	01.01-15.06.2011	41	90	4	135
Ryszard Kurek	01.01-15.06.2011	41	125	5	171
Total		**780**	**436**	**135**	**1 351**

Table 10. *Remuneration of the Supervisory Board of the Parent Entity for 2010 ('000 PLN)*

Members of the Supervisory Board	Period when function served in 2010	Remuneration when function served in the Supervisory Board	Earnings from other contracts	Other benefits	Total earnings in 2010
Marcin Dyl	01.01 -31.12.2010	90	-	17	107
Arkadiusz Kawecki	01.01-31.12.2010	84	-	23	107
Jacek Kuciński	01.01-31.12.2010	101	-	29	130
Marek Panfil	01.01-31.12.2010	84	-	20	104
Marek Trawiński	01.01-17.02.2010	15	-	3	18
Marzenna Weresa	01.01-31.12.2010	84	-	14	98
Jan Rymarczyk	17.05-31.12.2010	51	-	10	61
Józef Czyczerski	01.01-31.12.2010	84	104	1	189
Leszek Hajdacki	01.01-31.12.2010	84	173	6	263
Ryszard Kurek	01.01-31.12.2010	84	173	8	265
Total		**761**	**450**	**131**	**1 342**

4.3 Share capital and ownership structure of the Parent Entity

At 31 December 2011, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 and was divided into 200 000 000 shares, series A, having a face value of PLN 10 each. All shares are bearer shares. KGHM Polska Miedź S.A. has not issued preference shares. Each share grants the right to one vote at the General Meeting.

In 2011 there was no change either in registered share capital or in the number of issued shares.

As far as the Management Board of the Parent Entity is aware, there was also no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The only shareholder who in 2011 held 5% or more of the Parent Entity's share capital was the Polish State Treasury, which held 63 589 900 shares of KGHM Polska Miedź S.A., granting the same number of votes and representing 31.79% of the share capital of the Company and in the total number of votes. During 2011 this situation did not change.

The Management Board of KGHM Polska Miedź S.A. is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on information held by the Parent Entity, 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, either as at 31 December 2010 or at 31 December 2011.

In 2011, KGHM Polska Miedź S.A. did not have an employee share incentive program.

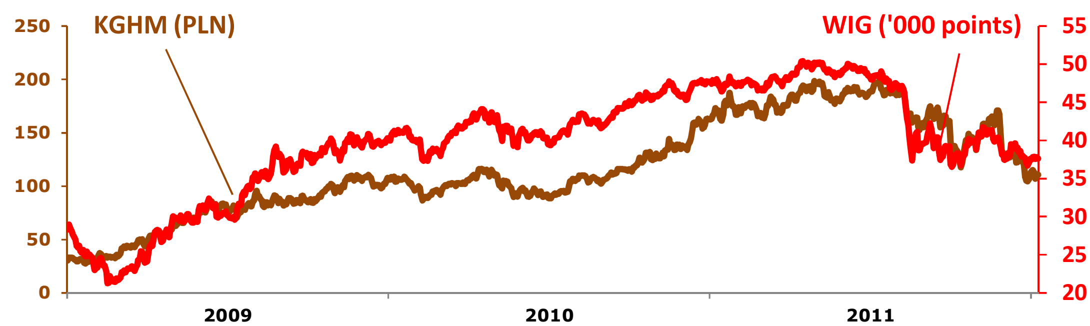
4. Parent Entity (continued)

4.4 The Parent Entity on the stock exchange

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Parent Entity are traded on the primary market in a continuous trading system, and are a component of the WIG, WIG20, WIG Surowce indices, as well as the RESPECT Index - an index of socially responsible companies and the WIGdiv index - comprising companies with the highest dividend payout ratios, and which regularly pay dividends to their shareholders.

The share price of KGHM Polska Miedź S.A. in 2011 broke its own historic records numerous times. At the close of session on 20 April 2011 the company's share price was PLN 198.40, and was the highest closing price in 2011, as well as in the company's market history. The share price of KGHM Polska Miedź S.A. returned to the PLN 198 level at the start of July 2011. Thereafter the company's quotations entered a bearish period. Overall, in 2011 the share price fell by 36.1%, from PLN 173.00 at the closing session of 2010 to PLN 110.60 on the last trading day of 2011. During this period, the Warsaw Stock Exchange WIG index fell by 20.8%, and the WIG20 by 21.9%.

Chart 1. *Share price of KGHM Polska Miedź S.A. versus the WIG index*



In 2011 the shares of KGHM Polska Miedź S.A. were amongst the most liquid on the Warsaw Stock Exchange. The Company's share of turnover in value terms in 2011 amounted to 17.2%. The average per-session trading volume of the KGHM Polska Miedź S.A.'s shares on the Warsaw Stock Exchange in 2011 amounted to 1 070 047.

Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2009-2011 are presented in the following table:

Table 11. *Key share data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange*

	Unit	2009	2010	2011
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	106.00	173.00	110.60
Market value of the company at year's end	million PLN	21 200	34 600	22 120
Highest closing price in the year	PLN	110.70	173.00	198.40
Lowest closing price in the year	PLN	27.50	86.50	104.60
Average trading volume per session	'000	1 222	966	1 070
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	11.68	3.00	14.90

4.5. Capital market ratios

The activities of KGHM Polska Miedź S.A. are described by the following ratios:

Table 12. *Capital market ratios*

		2009	2010	2011
EPS (PLN)	Profit for the period / number of shares	12.70	22.84	56.7
P/CE	Price per share / financial surplus per share *	6.9	25.9	1.9
P/E	Price per share / earnings per share	8.3	7.6	2.0
MC/S	Market capitalisation**/ revenues from sales	1.9	2.2	1.1
P/BV	Price per share / book value per share ***	2.0	2.4	1.0

* *Financial surplus = profit for the period + depreciation/amortisation*
** *Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 106.00 in 2009; PLN 173.00 in 2010; PLN 110.60 in 2011)*
*** *Carrying amount of the equity at the end of the reporting period*

4. Parent Entity (continued)

4.5. Capital market ratios (continued)

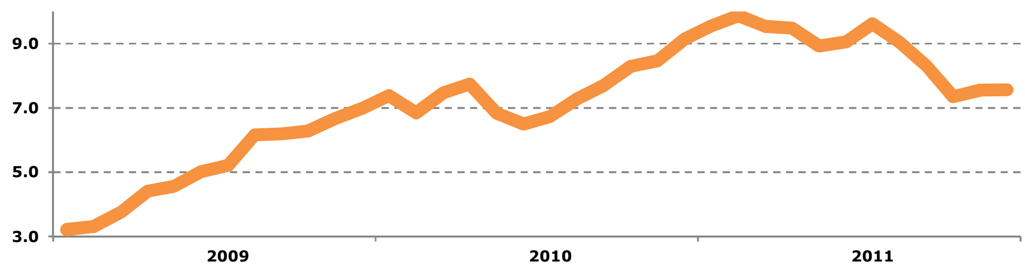
The capital market ratios were substantially impacted in 2011 by the high profit earned by the Parent Entity and by the fall in the share price of the company from PLN 173.00 at the end of 2010 to PLN 110.60 at the end of 2011.

5. Macroeconomic sales conditions

In 2011 the highest prices in history were recorded, for both industrial as well as precious metals. The maximum official copper price on the London Metal Exchange was recorded on 14 February 2011 and amounted to 10 148 USD/t. The highest official silver price in history on the London Bullion Market Association was recorded on 28 April 2011, when the price of this metal reached 48.7 USD/troz.

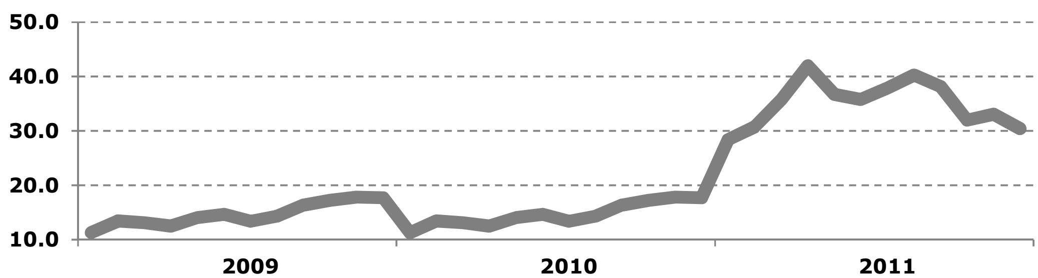
The average annual electrolytic copper price in 2011 on the London Metal Exchange (LME) amounted to 8 811 USD/t and was 16.9% higher than in 2010, when it reached 7 539 USD/t.

Chart 2. *Copper prices on the LME ('000 USD/t)*



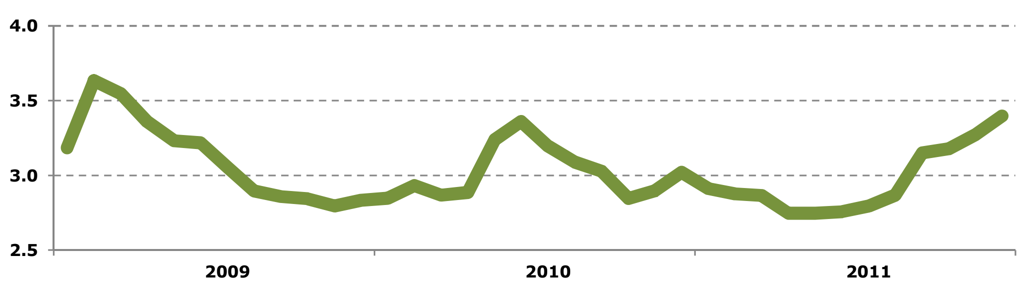
The average annual **silver price** on the London Bullion Market Association (LBMA) in 2011 amounted to 35.12 USD/troz (1 129 USD/kg), which means an increase by 73.9% versus the average price in 2010: 20.19 USD/troz (649 USD/kg).

Chart 3. *Silver prices on the LBMA (USD/troz)*



From the start of the year until April 2011, the Polish zloty systematically strengthened versus the USD and EUR. However, at the start of May the situation on the financial market changed. The Polish currency began to lose its value versus the currencies of developed countries, with the pace of weakening increasing towards the end of the year. The average USD/PLN rate (NBP) in 2011 amounted to 2.96 USD/PLN and was lower versus the prior year by 2.0% (3.02 USD/PLN).

Chart 4. *USD/PLN exchange rate per the NBP*



5. Macroeconomic sales conditions (continuation)

The following table shows the macroeconomic factors of greatest importance for the operations of KGHM Polska Miedź S.A.:

Table 13. *Macroeconomic factors of importance for the operations of KGHM Polska Miedź S.A.*

	Unit	2009	2010	2011	Change 2010=100
Average copper prices on the LME	USD/t	5 164	7 539	8 811	116.9
Average silver prices on the LBMA	USD/troz	14.67	20.19	35.12	173.9
Average NBP USD/PLN exchange rate	USD/PLN	3.12	3.02	2.96	98.0

Position of KGHM Polska Miedź S.A. on the copper and silver markets

The position of KGHM Polska Miedź S.A. on the copper market with respect to the ranking of copper production in concentrate and the ranking of refined copper production was as follows:

– according to preliminary estimated data from CRU International, in 2011 global copper mine production amounted to 16 001 thousand tonnes. In this period, KGHM Polska Miedź S.A. produced 426.7 thousand tonnes of copper in concentrate, representing 2.7% of global mined copper production.

– global production of refined copper, according to preliminary estimates of the CRU, amounted to 18 805 thousand tonnes. Refined copper production in KGHM Polska Miedź S.A. amounted to 571.0 thousand tonnes, representing 3.0% of global production.

In 2011 global silver mine production amounted to 776 million ounces (estimated data from CRU International). During this period KGHM Polska Miedź S.A. produced 37.5 million ounces of silver in concentrate, representing 4.8% of global production of this metal.

6. Activities of the KGHM Polska Miedź S.A. Group

6.1. 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.

- ✓ Companies grouped under the production unit mainly operate on behalf of the core business of KGHM Polska Miedź S.A. They manufacture products and provide services whose main purpose is to ensure the continuous flow of production.

- ✓ Also related to the activities of the Parent Entity are companies assigned to the commerce and hedging unit. They serve as commercial intermediaries, ensure the supply of raw and other materials to guarantee the uninterrupted work of KGHM Polska Miedź S.A.'s divisions and sell the by-products of the core business' production to external markets.

- ✓ Companies assigned to the international expansion and resource base development unit are significant from the point of view of realisation of the strategy assuming an increase in copper production.

- ✓ Clos-end Investment Funds, forming among others the equity-portfolio investments unit, were founded in order to diversify investment risk. These are of a sector nature, in particular on protecting health, renewable energy sources, new technology and property.

- ✓ Also in the Group are companies which realise corporate social responsibility policy. Their purpose is to create new jobs and to ensure a positive public image of KGHM Polska Miedź S.A.

The following table lists the activities of important Group companies and their significance in the Group.

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.1. Scope of activities of Group companies (continued)

Table 14. *Scope of activities of Group companies*

	TYPE OF ACTIVITY
Production	
KGHM Polska Miedź S.A.	mining of copper ore, excavation of salt, production of copper and precious metals
PeBeKa S.A.	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction ⇨ *This company is the main performer of mining work for KGHM Polska Miedź S.A.*
ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services, steel constructions ⇨ *This company is a significant supplier and service provider for KGHM Polska Miedź S.A., and also provides production maintenance services in selected areas*
INOVA Spółka z o.o.	design and production – innovative solutions in electronics, automated and communication systems; certification and attestation of machinery and equipment ⇨ *This company is a supplier and service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.*
CBJ sp. z o.o.	research and chemical-physical analysis; measurement of imissions and emissions; industrial research ⇨ *This company mainly provides industrial research services for the Parent Entity*
KGHM CUPRUM sp. z o.o. - CBR	R&D activities ⇨ *This company performs a substantial part of the design-related work for KGHM Polska Miedź S.A.*
„Energetyka” sp. z o.o.	generation, transmission and distribution of electrical and heating energy, water-sewage management ⇨ *This company secures part of the energy supply for the Parent Entity*
WPEC w Legnicy S.A.	production of heat from its own sources, transmission and distribution of heat, servicing
BIPROMET S.A.	design services, consulting, technical conceptual work; general realisation of investments; ⇨ *This company provides technical documentation for the pyrometallurgy program of KGHM Polska Miedź S.A.*
International expansion and resource base development	
KGHM AJAX MINING INC.	exploration for and analysis of mineral resource deposits ⇨ *This company is advancing the Afton-Ajax copper and gold project in British Columbia, Canada*
KGHM Kupfer AG *(formerly KGHM HMS Bergbau AG)*	exploration for and mining of deposits of copper and other metals ⇨ *This company is advancing a resource project – exploring copper ore in the Weisswasser region in Germany*
Equity-portfolio investments	
KGHM Ecoren S.A.	production of ammonium perrhenate, metallic rhenium and road-building material; the processing and recovery of metals, processing of electrical/electronic waste ⇨ *This company manages and processes the industrial waste of KGHM Polska Miedź S.A.*
CENTROZŁOM WROCŁAW S.A.	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.1. Scope of activities of Group companies (continued)

	TYPE OF ACTIVITY
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.	production of pressed goods from copper and its alloys; rolling services
POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport, passenger and cargo road transport; trade in fuels ⇨ *This company is a leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.*
PHP „MERCUS" sp. z o.o.	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables ⇨ *This company serves to coordinate supplies for the core business of KGHM Polska Miedź S.A. in materials and spare parts*
NITROERG S.A.	production of explosives and Nitrocet 50, production of detonation agents ⇨ *This company supplies most of the explosives needed by KGHM Polska Miedź S.A.*
KGHM TFI S.A.	creation and management of investment funds ⇨ *This company manages the closed-end investment funds in which KGHM Polska Miedź S.A. participates*
KGHM I FIZAN KGHM II FIZAN KGHM III FIZAN	capital investing ⇨ *The purpose of these funds is to diversify the investment risk of KGHM Polska Miedź S.A.*
ZUK S.A. Uzdrowisko Połczyn S.A. „Uzdrowisko Cieplice" sp. z o.o. Uzdrowisko „Świeradów-Czerniawa" sp. z o.o. INTERFERIE S.A. Interferie Medical SPA Sp. z o.o.	spa, sanatorium and tourist-recreational services ⇨ *These companies are participating in the project to develop a Polish Spa Group – realised by KGHM I FIZAN*
Commerce and hedging	
KGHM Metraco S.A.	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt ⇨ *This company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells to external markets the by-products of the Parent Entity's core business production, including sulphuric acid,*
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	sales and intermediary for the following: copper/silicon goods, mine products (copper/silicon) and other, and related services ⇨ *This company is a commercial intermediary for KGHM Polska Miedź S.A. on the Chinese market*
Entities realising corporate social responsibility policy	
KGHM LETIA S.A.	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and rental
„MCZ" S.A.	hospital services; physician practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	management of a football club, organisation of professional sporting events

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.1. Scope of activities of Group companies (continued)

Process of obtaining licenses by KGHM Polska Miedź S.A. for mining regions currently being worked

Due to the fact that in December 2013 the 20-year licenses for five of the mining regions currently being worked by KGHM Polska Miedź S.A. expire, the company has applied for licenses to be issued for these regions for the maximum period provided for by law, which is 50 years.

To ensure the licensing process goes smoothly, KGHM Polska Miedź S.A. maintains permanent contact with the appropriate bodies:

- the local governments of mining municipalities,
- decision-granting institutions (supervisory bodies in terms of geology, mining and the environment),
- consultative institutions (from the academic and scientific communities),

as well as engaging the support of two leading domestic law firms, specialising in problems related to general geological and mining law.

In the Parent Entity's opinion, the following ensure the licenses will be granted on time:

- making an early start on new license issuance procedures,
- being ahead of schedule on preparing required licensing documentation,
- having appropriate infrastructure and a leading position in the region, as well as the domestic and European markets.

Continuity in terms of the licenses held and applied for means that other entities have no „open window" to exploit in the licensing process.

6.2. Employment in the Group

The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

Table 15. *Average employment by period (positions)*

Description	2009	2010	2011	Change 2010=100
White collar employees	8 957	10 051	9 149	91.0
Blue collar employees	19 927	20 877	22 034	105.5
Total	**28 884**	**30 928**	**31 183**	**100.8**

The highest employment is in the Parent Entity. In 2011 the average level of employment was 18 578 positions. Among the remaining Group companies the highest average number of employees in 2011 was recorded in the following entities (in positions):

- ZANAM – LEGMET Sp. z o.o. 1 722,
- PeBeKa S.A. 1 596,
- POL – MIEDŹ TRANS Sp. z o.o. 1 093,
- NITROERG S.A. 991.

Despite the changes in the composition of the Group, average employment in 2011 changed only slightly in comparison to 2010 (an increase of 253 positions, i.e. 0.8%).

Relations with the trade unions in the Group

KGHM Polska Miedź S.A.

In 2011, a variety of meetings were held with the trade unions, among others with respect to the demands put forth by the unions:

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

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.2 Employment in the Group (continued)

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

Ad.1.

The Management Board of KGHM Polska Miedź S.A. does not accept a remuneration policy aimed at salary increases unassociated with increases in productivity, the impact of the effects of work at various job positions on the results of the company, and working conditions. In the opinion of the Management Board of KGHM Polska Miedź S.A., any increase in funds for remuneration should in the first instance be allocated to jobs which are directly related to production and should stimulate an increase in productivity. The actions begun in 2011 will be continued. Taking into consideration the possibility of creating additional funds through increased production, KGHM Polska Miedź S.A. will increase the initially-planned amount of funds for remuneration, to be allocated to motivational salary solutions, i.e. an increase in salary categories of individual employees and to the payment of bonuses and premiums from the motivational fund.

Ad.2. and 4.

The Management Board of KGHM Polska Miedź S.A. consented to the inclusion in the Collective Labour Agreement of clauses related to the functioning in the company of employee retirement plans and medical packages, based on principles of voluntary participation of employees taking advantage of these benefits.

Ad.3.

The Management Board sees the possibility of increasing contributions to the Employee Retirement Plan by 1 percentage point, to 6 percent, under condition that rights to the entitlements due following retirement or disability will only cover existing employees and retirees, and will not be extended to future employees.

Ad.5

The Management Board proposed the buyout of the coal equivalent for the pre-tax amount of PLN 17 thousand per employee and retiree, and consented to put this proposal to a referendum. The buyout of the coal equivalent would have been contingent on the removal from the Collective Labour Agreement of provisions related to entitlement to the coal equivalent following retirement. In the referendum held on 8-9 November 2011, the majority of employees voted against the resolution. As a result, KGHM Polska Miedź S.A. withdrew the proposed buyout of the coal equivalent.

Assumptions for 2012
In 2012 there are no substantial changes foreseen in the level of employment, while with respect to remuneration policy over the next several years it is assumed that the annual increase in average remuneration excluding payment of the annual bonus for earned profit will amount to 1 percentage point above inflation. The final amount and rate of change in total average remuneration will depend on realisation of the aforementioned assumptions and the amount of profit earned. In 2012, a new system of remuneration will be proposed to the trade unions.

„MCZ" S.A.

On 5 October 2011, the trade unions in „MCZ" S.A. jointly entered into a collective dispute with the company with respect to realisation of wage demands. As a result of discussions held, the parties signed on 30 December 2011 a protocol of understanding, according to which there will be an increase in basic wages effective from 1 January 2012. It was agreed that the funds allocated to this increase, in individual professional groups, will represent 5% of the basic wage allocated, in individual organisational units, to these professional groups. The Management Board also committed itself to pay a one-off bonus payment in an equal amount for every employee. The signing of this protocol of understanding concluded the collective dispute begun in October 2011.

„MCZ" S.A. remains in four collective disputes announced in 2007 mainly involving the question of wage raises in the company.

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 salary category, the payment of a one-off bonus and an increase in contributions to the Social Fund. Since 12 August 2010 this dispute has been suspended for an indefinite time.

NITROERG S.A.

Since June 2010 the company NITROERG S.A. has been in a collective dispute with the trade unions, which are demanding remuneration rises, the signing of an Employee Guarantees Package, and improved fire safety.

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.3. 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 in 2011 is around 87%. The value and volume of the sales of the basic products of KGHM Polska Miedź S.A. are presented in the following table.

Table 16. *Value of sales of the basic products of KGHM Polska Miedź S.A. ('000 PLN)*

	2009	2010	2011	Change 2010=100
Copper and copper products	8 815 919	12 837 041	15 179 193	118.2
Silver	1 731 718	2 467 928	4 066 646	164.8
Gold	84 721	101 504	111 866	110.2

Table 17. *Volume of sales of the basic products of KGHM Polska Miedź S.A.*

	Unit	2009	2010	2011	Change 2010=100
Copper and copper products	`000 PLN	509.9	545.3	566.9	104.0
Silver	t	1 198	1 247	1 179	94.5
Gold	kg	818	840	660	78.6

In 2011, versus the prior year, KGHM Polska Miedź S.A. increased the volume of copper sales by 21.6 thousand tonnes (4.0%). The structure of sales changed, i.e. the volume of cathode sales increased by 11.2% (31.0 thousand tonnes) alongside slightly lower sales of copper wire rod by 5.7% (13.5 thousand tonnes).
The volume of sales of precious metals was lower versus the prior year - silver sales amounted to 1 179 tonnes and were lower by 5.5% (68 t), while gold sales decreased by 21.4% (180 kg) and amounted to 660 kg.

Revenues from the sale of copper and copper products were higher by 18.2%. Revenues from silver sales versus their level in 2010 were higher by 64.8%, while revenues from gold sales were higher by 10.2%.

Revenues from the sale of Parent Entity products in 2011 reflect the result from the settlement of commodity hedging instruments in the amount of PLN 241 565 thousand (in the prior year PLN 142 187 thousand).

The share of sales realised by the remaining companies in the total sales of the Group in 2011 amounted to around 13%. The largest sales in 2011 were realised by CENTROZŁOM WROCŁAW S.A. (3.7%) and KGHM Metraco S.A. (2.9%).

Most of the companies of the Group provide services and supply products, merchandise and materials to the Parent Entity.

The following table presents the total sales of the basic products, merchandise and services of the remaining companies of the Group, and the share of sales realised on behalf of entities outside the Group (the list shows products, merchandise and services whose sale in 2011 amounted to approx. PLN 50 000 thousand or more).

Table 18. *Sales of basic products, merchandise and services of the remaining significant Group companies ('000 PLN)***

Company / product, merchandise, service	2009		2010		2011		Change
	sales	%*	sales	%*	sales	%*	2010=100
KGHM Metraco S.A.							
trade in copper scrap	1 201 883	*1.5*	2 279 641	*1.6*	2 441 948	*1.7*	107.1
trade in other merchandise and materials	395 997	*78.1*	473 903	*79.4*	718 417	*84.5*	151.6
PHP „MERCUS" sp. z o.o.							
trade in merchandise and materials	585 242	*12.9*	564 773	*16.6*	686 226	*12.1*	121.5
CENTROZŁOM WROCŁAW S.A.							
scrap trade	-	-	280 063	*100.0*	360 015	*98.9*	128.5
trade in smelter products	-	-	296 587	*100.0*	431 911	*98.9*	145.6
PeBeKa S.A.							
mine work (excavation of drifts, building of shafts)	271 239	*4.0*	341 226	*0.49*	358 003	*2.1*	104.9
specialty mine construction	49 888	*5.2*	143 386	*5.0*	95 180	*21.2*	66.4

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.3 Basic products, merchandise and services (continued)

Company / product, merchandise, service	2009		2010		2011		Change
	sales	%*	sales	%*	sales	%*	2010=100
POL-MIEDŹ TRANS Sp. z o.o.							
sales of fuels	216 545	*33.2*	228 409	*27.9*	282 941	*28.4*	123.9
railway cargo transport	135 395	*10.9*	142 594	*24.6*	167 726	*22.7*	117.6
roadway transport of cargo and passengers	65 732	*17.6*	69 113	*20.7*	72 478	*27.2*	104.9
WPEC w Legnicy S.A.							
generation of heat	127 138	*100.0*	148 792	*99.7*	138 359	*97.2*	93.0
„Energetyka" sp. z o.o.							
generation of heat	97 744	*36.2*	124 165	*10.3*	129 104	*9.14*	104.0
generation of electricity	53 332	*2.8*	59 321	*2.3*	60 817	*2.3*	102.5
water-sewage management	55 349	*8.5*	59 549	*6.7*	61 829	*7.9*	103.8
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.* **							
production of products from copper and its alloys	69 708	*97.0*	93 012	*97.9*	103 277	*98.4*	111.0
coal trade	35 036	*100.0*	56 327	*93.8*	51 897	*100.0*	92.1
„MCZ" S.A.							
medical services	87 611	*83.7*	94 960	*80.9*	101 909	*80.6*	107.3
ZANAM-LEGMET Sp. z o.o.							
production of self-propelled mining machinery	65 441	*8.3*	81 052	*8.8*	141 415	*19.0*	174.5
maintenance services	1 773	-	36 011	-	113 241	*1.3*	314.5
production of steel constructions and machinery construction	55 025	*19.2*	56 314	*27.9*	49 980	*7.5*	88.8
NITROERG S.A.							
Production of Nitrocet (an additive to diesel oil)	-	-	-	-	91 168	*100.0*	-
production of explosives agents	-	-	-	-	86 345	*78.2*	-
production of blasting materials	-	-	-	-	54 166	*69.6*	-
BIPROMET S.A.							
construction-assembly services	-	-	4 956	*94.0*	66 321	*91.7*	x13.4
KGHM Ecoren S.A.							
production of ammonium perrhenate, and metallic rhenium	53 356	*100.0*	51 440	*100.0*	46 272	*100.0*	89.8
ZUK S.A., Uzdrowisko Połczyn S.A., „Uzdrowisko Cieplice" sp. z o.o., Uzdrowisko „Świeradów-Czerniawa" sp. z o.o. ******							
spa recuperation services	-	-	88 069	*100.0*	109 670	*100.0*	124.5
production of spa water	-	-	48 103	*100.0*	46 898	*95.3*	97.5

** - share of sales realised on behalf of entities outside the KGHM Polska Miedź S.A. Group,*
*** - the sales presented are for the whole year, regardless of the moment control was obtained over a company*
**** - company founded in January 2011 from combination of Walcownia Metali Nieżelaznych spółka z o.o. and WM „ŁABĘDY" S.A. Sales for 2009 and 2010 from the production of products from copper and its alloys are in respect of Walcownia Metali Nieżelaznych spółka z o.o., and due to trade in coal, WM „ŁABĘDY" S.A.*
**** *- sales of Uzdrowisko „Świeradów-Czerniawa" sp. z o.o. were recognised from 2011 (joined Group)*

Table 19. *Sales volume of basic products, merchandise and services of the remaining Group companies*

Company / product, merchandise, service	Unit	2009	2010	2011	Change 2010=100
KGHM Metraco S.A.					
trade in copper scrap	t	79 119	111 877	102 549	91.7
CENTROZŁOM WROCŁAW S.A.					
scrap trade	t	-	317 665	331 158	104.2
trade in smelter products	t	-	145 589	189 200	130.0

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.3 Basic products, merchandise and services (continued)

Company / product, merchandise, service	Unit	2009	2010	2011	Change 2010=100
PeBeKa S.A.					
horizontal mine work – excavation of drifts	meters	24 313	27 847	28 445	102.1
vertical mine work - building of shafts	meters	420	246	66	26.8
POL-MIEDŹ TRANS Sp. z o.o.					
sales of fuels	kg	62 397 712	59 021 192	60 308 023	102.2
railway cargo transport	ntkm	719 126 133	808 825 720	909 582 713	112.5
roadway passenger transport	km	16 813 215	17 090 479	13 937 192	81.6
roadway own cargo transport	tkm	55 203 732	64 490 512	65 641 922	101.8
roadway external cargo transport	t	1 172 717	960 076	259 799	27.1
WPEC w Legnicy S.A.					
generation of heat	GJ	2 628 918	2 877 384	2 509 876	87.2
„Energetyka" sp. z o.o.					
generation of heat	GJ	3 148 618	3 736 890	3 667 947	98.2
generation of electricity	MWh	264 850	262 596	270 271	102.9
water-sewage management	m^3	21 029 408	21 040 133	21 409 095	101.8
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.* **					
production of products from copper and its alloys	t	4 042	3 935	3 850	97.8
coal trade	t	142 242	233 522	207 549	88.9
ZANAM-LEGMET Sp. z o.o.					
production of self-propelled mining machinery	units	75	83	133	160.2
production of steel constructions and machinery construction**	units	32	18	-	-
NITROERG S.A.					
production of Nitrocet (an additive to diesel oil)	t	-	-	15 120	-
production of explosives agents	t	-	-	17 125	-
production of blasting materials	'000 units			9 936	
KGHM Ecoren S.A.					
production of ammonium perrhenate, and metallic rhenium	kg	3 589	6 818	3 933	57.7
ZUK S.A.					
production of spa water	l	-	61 799 916	61 545 879	99.6

** - not presented in the table are sales volumes for some companies as well as products, due to the application of varied quantitative measurements.*
*** - amount only in respect of produced machines*

**** - company founded in January 2011 from combination of Walcownia Metali Nieżelaznych spółka z o.o. and WM „ŁABĘDY" S.A. Sales for 2009 and 2010 from the production of products from copper and its alloys are in respect of Walcownia Metali Nieżelaznych spółka z o.o., and from coal trade are in respect of WM" ŁABĘDY" S.A.*

The value of sales of most of the products, merchandise and services of companies of the Group increased in 2011 compared to 2010. The highest rate of increase was recorded for the construction-assembly services provided by BIPROMET S.A. (an increase of x13.4), due to entering into significant agreements.

There was also a significant increase in the sales of production maintenance services (an increase of 214.5%), provided by ZANAM LEGMET Sp. z o.o. In 2011 the company significantly increased the scope of these services provided to the Parent Entity (services provided to the Ore Enrichment Plants and to the Głogów Copper Smelter).

The greater rate of change in the value of sales versus their volume with respect to trading in copper scrap by the company KGHM Metraco S.A. was due to the increase in prices. A similar situation involves sales of fuel by the company POL-MIEDŹ TRANS Sp. z o.o. and trading in scrap and sales of smelter products by CENTROZŁOM WROCŁAW S.A.

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.4. Sales markets

Geographical structure of sales markets

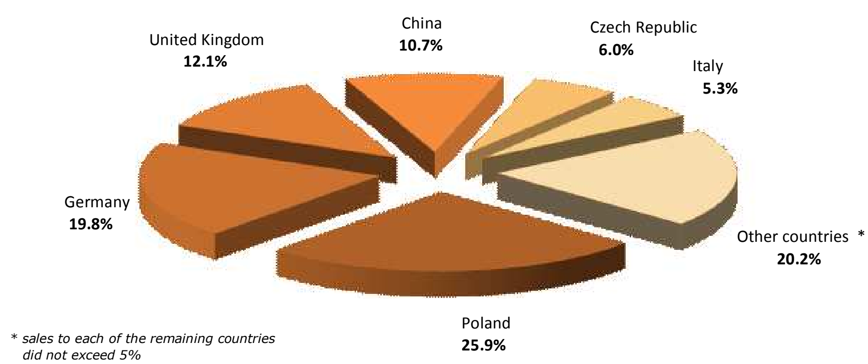
The largest part, i.e. 25.9% of the revenues from sales earned by the Group in 2011, was from the domestic market. The largest foreign recipients of the products, merchandise and services offered by Group companies were Germany (19.8%), the United Kingdom (12.1%) and China (10.7%). The largest increase in sales was on the British market (74.3%).

Revenues from sales of the Group to external customers by geographic region are presented in the following table.

Table 20. *Group sales by market ('000 PLN)*

	2009	2010	2011	Change 2010=100
Poland	3 374 310	4 970 621	5 845 795	117.6
Germany	2 053 935	3 739 356	4 478 882	119.8
United Kingdom	1 298 036	1 568 507	2 733 718	174.3
China	1 674 758	1 893 285	2 425 123	128.1
Czech Republic	563 983	1 156 340	1 346 565	116.5
Italy	339 112	790 772	1 191 236	150.6
Other countries	2 815 776	3 173 709	4 573 225	144.1
Total	**12 119 910**	**17 292 590**	**22 594 544**	**130.7**

Chart 5. *Structure of revenues by sales market in 2011*



Export sales and sales to the EU countries

Around 95.5% of revenues from Group sales for export and to European Union countries in 2011 were realised by the Parent Entity.

The sales volume of copper and copper products for export and to European Union countries accounted for 78.6% 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, Italy and the Czech Republic.

Silver export sales and sales to European Union countries accounted for 97.3% of the total volume of silver sales. The largest foreign recipients of silver were the United Kingdom, the USA and Belgium.

Amongst the remaining Group entities, the highest export sales and sales to European Union countries in 2011 were realised by:

- KGHM Metraco S.A. - company share in Group sales – 1.6% (PLN 268 328 thousand); the company mainly sold lead to the Czech Republic, Germany and the United Kingdom and sulphuric acid to Switzerland.
- CENTROZŁOM WROCŁAW S.A. - company share in Group sales – 1.4% (PLN 232 708 thousand); the company sold steel-based smelter products to the Czech Republic and Slovakia, and steel scrap to Germany,
- NITROERG S.A. - company share in Group sales – about 1.0% (PLN 160 463 thousand); the company sold the greatest amount of explosives to Sweden, and Nitrocet (an additive to diesel oil) mainly to Sweden, Belgium and the U.K.

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.4. Sales markets (continued)

Domestic sales

Sales of the Parent Entity on the domestic market in 2011 accounted for around 61% of sales of the entire Group. The sales volume of copper and copper products on the domestic market accounted for 21.4% of total copper sales. Silver sales on the domestic market accounted for 2.7% of the total volume of silver sold.

Revenues of other companies which are significant in the revenues of the Group on the domestic market:

- CENTROZŁOM WROCŁAW S.A. (about 11% share) – trade in scrap and smelter products,
- KGHM Metraco S.A. (about 7% share) – trade in merchandise and materials.

6.5. Suppliers to and customers of Group companies

In 2011 revenues from no single contracting party exceeded 10% of the Group’s revenues.

There was no instance in 2011 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. In 2011 there was no single customer whose share in the revenues from sales of the Parent Entity exceeded 10%.

The only supplier whose share of supply exceeds 10% of the sales revenues of KGHM Polska Miedź S.A. is the subsidiary KGHM Metraco S.A., whose sales to the Parent Entity represent 27% of the value of purchases. The high share of supply from KGHM Metraco S.A. is due to the role it serves in the Group. Its main purpose is to provide comprehensive services to KGHM Polska Miedź S.A. with respect to specific raw materials and products to ensure continuity of production by KGHM Polska Miedź S.A., based on its own logistical-spedition activities.

The Parent Entity is a customer as well as supplier of most of the companies of the Group. KGHM Polska Miedź is a supplier to entities such as Walcownia Metali Nieżelaznych „ŁABĘDY” S.A., KGHM Metraco S.A., KGHM Ecoren S.A.; and a customer for companies such as 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., NITROERG S.A., BIPROMET S.A.

6.6. Contracts of significance for the Group

In 2011 the Parent Entity entered into the following significant trade contracts.

Table 21. *Contracts of significance for the company entered into in 2011*

Date	Value	Description of contract
	TRADE CONTRACTS	
18.01.2011	from USD 622 901 thousand to USD 753 428 thousand (from PLN 1 796 943 thousand to PLN 2 173 490 thousand)*	Contract for the sale of copper wire rod and oxygen-free copper rod in 2011 entered into with Tele-Fonika Kable Sp. z o.o. S.K.A.
4.02.2011	USD 692 093 thousand (PLN 1 967 205 thousand)*	Contract for the sale of copper cathodes in 2011 entered into with MKM Mansfelder Kupfer und Messing GmbH
15.06.2011	from PLN 4 033 517 thousand to PLN 4 400 200 thousand *	Contract for the sale of copper wire rod in the years 2012-2013 entered into with nkt cables GmbH (Cologne) and its subsidiaries (i.e. nkt cables Warszowice Sp. z o.o., nkt cables Kladno s.r.o., nkt cables Velke Mezerici k.s., nkt cables Vrchlabi k.s, nkt cables a/s (Asnaes)
20.12.2011	from USD 1 827 713 thousand to USD 3 655 426 thousand (from PLN 6 300 126 thousand to PLN 12 600 252 thousand)*	Contract for the sale of copper cathodes in the years 2012-2016 entered into with China Minmetals Corporation

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.6 Contracts of significance for the Group (continued)

Date	Value	Description of contract
	EQUITY INVESTMENT/DIVESTMENT AGREEMENTS	
30.06.2011	PLN 3 672 147 thousand (respecting the 24.39% share owned by KGHM Polska Miedź S.A. in Polkomtel S.A.)	Preliminary agreement to sell 100% of the shares of Polkomtel S.A. signed by KGHM Polska Miedź S.A., Polski Koncern Naftowy ORLEN S.A., PGE Polska Grupa Energetyczna S.A., Vodafone Americas Inc, Vodafone International Holdings B.V. and Węglokoks S.A. (as sellers) and Spartan Capital Holdings Sp. z o.o. (purchaser)
29.09.2011	PLN 968 927 thousand **	Contingent binding agreement for the sale of 100% of the shares of DIALOG S.A. entered into with Netia S.A. (Purchaser)
9.11.2011	PLN 3 672 147 thousand (respecting the 24.39% share owned by KGHM Polska Miedź S.A. in Polkomtel S.A.)	Final agreement for the sale of 100% of the shares of Polkomtel S.A. realising the agreement dated 30 June 2011
6.12.2011	CAD 2 872 524 thousand (9 442 944 thousand)*	Binding conditional agreement to purchase 191 501 611 shares of Quadra FNX Mining Ltd. entered into with Quadra FNX Mining Ltd.
16.12.2011	PLN 968 927 thousand	Dispositive agreement for the sale of 100% of the shares of DIALOG S.A. with the brokerage Dom Inwestycyjny BRE Banku S.A. (acting in its own name, though on behalf of Netia S.A.).

** amount estimated using the exchange rate from the date of signing of the agreement or the day after*
*** final value of sale reflecting adjustment by the amount set forth in the agreement*

Information on significant transactions entered into between related entities, under other than arm's length conditions

In 2011 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.

Information on contracts and remuneration for the auditing or review of the financial statements

The entity entitled to audit the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14.

On 25 May 2010 KGHM Polska Miedź S.A. signed a contract with PricewaterhouseCoopers Sp. z o.o. which comprises the review of the interim 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 several subsidiaries of KGHM Polska Miedź S.A. i.e.: KGHM Ecoren S.A., „Energetyka" sp. z o.o., ZANAM-LEGMET Sp. z o.o., WPEC w Legnicy S.A., CENTROZŁOM WROCŁAW S.A., KGHM Metraco S.A., PeBeKa S.A., NITROERG S.A.

Remuneration for the review and audit of financial statements and remuneration for other reasons, of the entity entitled to provide the auditing services described above for the years 2010 and 2011 is shown in the following table.

Table 22. *Remuneration of the entity entitled to audit the financial statements of KGHM Polska Miedź S.A. and selected subsidiaries ('000 PLN)*

	2010	2011
PricewaterhouseCoopers Sp. z o.o.	**1 738**	**2 446**
From contract for the review and audit of financial statements, of which:	1 481	1 786
- audit of annual financial statements	1 079	1 384
- review of interim financial statements	402	402
From realisation of other contracts	257	660
Other companies of the PWC Group in Poland	**598**	**139**

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.7. Capital expenditure

In 2011 the highest capital expenditures in the Group were incurred by the Parent Entity. The amount and structure of capital expenditures by KGHM Polska Miedź S.A. is presented in the following table.

Table 23. *Capital expenditures by KGHM Polska Miedź S.A. ('000 PLN)*

	2009	2010	2011	Change 2010=100
Mining	833 507	985 097	1 056 553	107.3
Smelting	218 998	230 798	218 404	94.6
Other activities	17 307	47 097	238 941	x5.1
Capitalised uncompleted development work	394	644	4 611	x7.2
Total	**1 070 206**	**1 263 636**	**1 518 509**	**120.2**

In 2011, capital expenditures amounted to PLN 1 518 509 thousand and were higher than in the prior year by 20.2%. The realised amount of investments is lower than assumed (according to the forecast dated 21 December 2011 – PLN 1 645 000 thousand) although, due to favourable prices, their physical scope is near the planned one.

In terms of the capital expenditures in 2011 presented above, development-related investments amounted to PLN 853 097 thousand (an increase of 15% versus the prior year).

Following are the major investment projects realised by the Parent Entity in 2011:

Table 24. *Major projects and facilities realised by KGHM Polska Miedź S.A. in 2011*

Mining
Construction of the SW-4 shaft – work continued on sinking the shaft – since work started the depth of the shaft has reached 872.9 meters, while 212.5 meters of drifts have been excavated
Głogów Głęboki–Przemysłowy - work continued on realisation of drifts with infrastructure - in 2011, 2 375 meters of drifts were excavated and preparatory work to sink the GG-1 shaft was performed (work was completed on the drilling of 18 freeze holes)
With respect to modernisation and replacement of the machinery park in the mines, 226 mining machines were purchased
In the mining divisions, work was carried out on investments related to development of the infrastructure of the mining sections, ventilation and cooling equipment and investments in the conveyor belts and pipelines
With respect to the replacement of floatation machinery, 25 floatation machines were installed and work was completed on the machinery installation project for the years 2012- 2013
As part of the exploration project „Investigation and documentation of the Synklina Grodziecka region of the „Niecka grodziecka" deposit, 7 drillholes were made with work begun on an 8th hole. The results obtained from chemical analysis of ore series core samples from the first three drillholes showed that they meet the criteria applied to the deposits mined by KGHM Polska Miedź S.A. The remaining core samples are undergoing testing
Facilities were realised related to improving and maintaining the safe operation of the Żelazny Most tailings treatment pond and to elimination of its environmental impact
Realisation was continued on the project „Development of the Żelazny Most mining tailings treatment pond to ensure the ability to store floatation tailings after 2016"
As part of the project Licensing 2013, geological information was purchased for 7 of the basic mining areas of KGHM Polska Miedź S.A.
Realisation began on the project „Achieving rock salt production of 1 million tonnes/year"; geological information was purchased on the deposit, tenders were held and equipment delivery began
As part of the project „Development and implementation in the mines of KGHM Polska Miedź S.A. of technology for the mechanical extraction of ore" (automated extraction machinery), the testing site for the ACT complex was prepared
Realisation was continued on the project „Ore Extraction Information Management System" – IT applications were realised, whose task is to support the ore extraction management process in terms of the project's main goal, which is the creation of conditions for the organisation and realisation of production control (analysis of various extraction scenarios)
As part of the project „System for the operation and servicing of underground machinery (CMMS)" a system for the operation and servicing of machinery was implemented at the Lubin mine, with preparation of the system for implementation in 2012 at the other mining divisions

6. Activities of the KGHM Polska Miedź S.A. Group (continued)
6.7. Capital expenditure (continued)

Smelting
As part of the Pyrometallurgy Modernisation Program – during the reporting period preparatory work was performed so as to realise the investment without operational interference with working equipment
The 4th Doerschel furnace was brought into operation
Investments were realised involving among others renovation of the sulphuric acid plant, the concentrate warehouse, modernisation of a smelting furnace and the scrap warehouse, replacement of electrofilters and construction of the electrolite tubs
Other
As part of the project „Construction of Gas-Steam Blocks in the Powerplants in Głogów and Polkowice", foundation construction continued with delivery and assembly of recovery boilers and gas turbo units was realised

Investment expenditures incurred by the remaining companies of the Group on the largest investment projects are presented in the following table.

Table 25. *Capital expenditures incurred by the remaining companies of the Group on the largest investment projects in 2011 ('000 PLN)*

Company	Amount	Project
Interferie Medical SPA Sp. z o.o.	65 123	Construction of a hotel "Medical SPA" in Świnoujście
KGHM Kupfer AG	31 099	Exploratory work in the Weisswasser concession
KGHM AJAX MINING INC.	26 593	Advancement of a copper and gold ore mining project in Canada
KGHM LETIA S.A.	21 633	Modernisation and development of the Letia Business Center (office building)
KGHM Metraco S.A.	22 542	Construction of a sulphuric acid turnover base

6.8. Environmental protection

Parent Entity

Activities of KGHM Polska Miedź S.A. on behalf of environmental protection

Balanced growth, and in particular respect for the environment, is an important element of the Strategy of KGHM Polska Miedź S.A. 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 2011 the Parent Entity spent PLN 213 675 thousand on the realisation of projects related to environmental protection. The increase in investments versus the year 2010 by PLN 134 706 thousand is due to the project „Construction of Gas-Steam Blocks in the Powerplants in Głogów and Polkowice". Expenditures on this investment amounted to PLN 170 287 thousand.

Environmental fees
Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2011 amounted to PLN 25 479 thousand. The amount of fees paid was lower by PLN 1 228 thousand than fees paid in 2010, despite the annual increase in fees due to the rate of inflation.
In 2011 the largest fees paid by the Parent Entity were for waste discharge: PLN 16 261 thousand, including PLN 16 257 thousand for the drainoff of excess water from the Żelazny Most waste treatment tailings pond.

Legal aspect and intentions
KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits at the Głogów smelter,
- an installation titled The Biechów industrial waste storage facility at the Głogów smelter,
- an installation titled The Biechów II industrial waste storage facility at the Głogów smelter,
- an installation for the production of refined lead at the Legnica smelter,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the tailings waste facility „Polowice", a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica smelter,
- an installation for the melting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Plant,
- an installation for the storage of tailings from the floatation of copper ore at the Tailings Plant, and
- an installation for the neutralisation of sulphuric acid waste at the Ore Enrichment Plants.

6. Activities of the KGHM Polska Miedź S.A. Group (continued)

6.8. Environmental protection (continued)

On 23 January 2012 the Voivodeship Administrative Court in Warsaw issued a judgment after reviewing an appeal of the farmer's society Stowarzyszenie Samoobrona Ekologiczna Rolników Indywidualnych „PRONATURA" regarding a change of a decision on integrated permits. The court revoked the decision which was appealed against and stated that it cannot be executed until the judgment becomes legally binding. The decision of the VAC is not yet legally binding as at the date of preparation of this report. The change in the decision involved among others the construction and operation of a fourth Doerschel furnace. The Głogów smelter remains in possession of integrated permits which enable operation of the Lead Section and of the three other Doerschel furnaces without exceeding the permitted parameters of this installation. The Głogów smelter operates in accordance with the aforementioned integrated permits. The remaining Divisions of the Parent Entity possess environmental sector administrative decisions.

In 2011 the most important task of a formal-legal nature carried out by KGHM Polska Miedź S.A. was preparation of a report on the environmental impact of a project involving the extraction of ore from the Company's mine regions and the submission of an application for the issuance of a decision regarding the environmental conditions for this project, which is necessary in the process of obtaining a license for the underground extraction of copper ore after 2013.
Work was also completed on a report on the environmental impact of the Żelazny Most waste treatment facility, and a decision was obtained regarding the environmental conditions for this facility. A mining waste management program was developed which was approved by the Marshal of Lower Silesia. An application was also submitted for the granting of permission to operate a mining waste treatment facility, in which was included the approved program together with a decision on environmental conditions. This work was required by the requirements of the Law on mining waste, according to which Żelazny Most is a mining waste treatment facility, and by 1 May 2012 KGHM Polska Miedź S.A. is obliged to conform its operations with this law.
Due to on-going changes in environmental law and the resulting changes in modernisation and in installations, it was necesssary to prepare appropriate documentation for all of the smelters, mines and ore enrichment plants, and to apply either for the issuance of new, or for changes in existing environmental decisions.
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. Amongst the most important investments planned in the near term are the following:

- continuation of a program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones,
- adaptation of administrative decisions to legal changes,
- preparing the company to participate in the European system for trading CO_2,
- obtaining a decision on environmental conditions 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 smelters,
- 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, including integrated 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 2011 by the following companies:

- „Energetyka" sp. z o.o. - PLN 2 939 thousand,
- NITROERG S.A. - PLN 305 thousand,
- POL-MIEDŹ TRANS Sp. z o.o. - PLN 294 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 1 823 thousand) and for the emission of atmospheric pollutants (PLN 1 057 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 as at the end of 2011 amounted to 147.7 hectares.

The fees incurred by NITROERG S.A. mainly involve payments for water intake and gas-dust emissions. In the case of POL-MIEDŹ TRANS Sp. z o.o. they mainly involve emissions of pollutants from combustion vehicles.

The companies of the Group also engage in minor activities aimed at environmental protection, including environmental monitoring, the modernisation of installations, waste segregation and waste recovery.

7. Current and projected financial position

7.1. Assets

At the end of 2011, total assets in the consolidated statement of financial position increased versus the end of the prior year by PLN 9 313 145 thousand (i.e. 43.8%).

Table 26. *Assets ('000 PLN)*

	31.12.2009	31.12.2010 restated	31.12.2011	Structure %	Change 2010=100
Non-current assets	**9 800 634**	**12 480 642**	**12 037 063**	**39.4**	**96.4**
Property plant and equipment	7 747 112	8 670 554	9 045 777	29.6	104.3
Intangible assets	218 124	473 215	613 994	2.0	129.7
Investment property	17 164	59 760	59 930	0.2	100.3
Investments in associates	1 315 663	1 431 099	472	-	0.0
Deferred tax assets	347 395	592 792	272 331	0.9	45.9
Available-for-sale financial assets	19 412	751 718	993 960	3.3	132.2
Held-to-maturity investments	67 144	84 157	111 709	0.4	132.7
Derivatives	58 034	403 839	899 400	2.9	x2.2
Trade and other receivables	10 586	13 508	39 490	0.1	x2.9
Current assets	**5 089 786**	**8 760 087**	**18 516 811**	**60.6**	**211.4**
Inventories	2 072 434	2 222 231	2 658 253	8.7	119.6
Trade and other receivables	1 531 341	2 727 935	1 838 979	6.0	67.4
Current corporate tax receivables	9 329	4 511	7 759	-	172.0
Available-for-sale financial assets	8 976	415 662	15 668	0.1	3.8
Held-to-maturity investments	580	4 129	2 147	-	52.0
Derivatives	263 375	297 584	860 042	2.8	x2.9
Cash and cash equivalents	1 197 077	3 086 957	13 130 401	43.0	x4.3
Non-current assets held for sale	6 674	1 078	3 562	-	x3.3
TOTAL ASSETS	**14 890 420**	**21 240 729**	**30 553 874**	**100.0**	**143.8**

The structure of the assets of the KGHM Polska Miedź S.A. Group is dominated by the assets of the Parent Entity.

The most important changes in asset items in 2011 were in:

- Cash and cash equivalents – an increase by PLN 10 043 444 thousand (i.e. by 325.4%)

  The large increase in cash and cash equivalents was mainly due to the profit from operations earned by the Parent Entity in the amount of PLN 9 363 553 thousand and to the sales of the telecom assets, which increased the result on other operating activities in the consolidated financial statements of the KGHM Polska Miedź S.A. Group by PLN 2 310 544 thousand. Proceeds from operating activities were mainly invested in short-term deposits, due to the planned financing of investment projects (Quadra FNX Mining Ltd. and AJAX MINING INC.).

- Derivatives (non-current and current) – an increase by PLN 1 058 019 thousand (i.e. by 150.8%).

  The change in derivatives (net) was due to a change in the forward prices of metals, the settlement of derivatives in 2011 and the opening of new transactions on the copper, silver and currency markets.

- Property, plant and equipment – an increase by PLN 375 223 thousand (i.e. by 4.3%)

  The main cause of the increase in property, plant and equipment was the realisation of investments by KGHM Polska Miedź S.A. Expenditures incurred by the Parent Entity amounted to PLN 1 513 898 thousand.

- Investments in associates - a decrease by PLN 1 430 627 thousand.

  The decrease was mainly due to the sale by the Parent Entity of all (i.e. 24.39%) of the shares held of Polkomtel S.A., with an investment carrying amount at the sale date of PLN 1 359 568 thousand.

- Trade and other receivables (current) – a decrease by PLN 888 956 thousand (i.e. by 33.6%).

  The main cause of the decrease was the decrease in trade receivables, i.e. by PLN 653 406 thousand. There was also a decrease in the item of deposits from 3 to 12 months (by PLN 315 865 thousand), due to the closure by the Parent Entity of bank deposits with maturities of over 3 to 12 months.

7. Current and projected financial position (continued)

7.1 Assets (continued)

- Available-for-sale financial assets (non-current and current) – a decrease by PLN 157 752 thousand (i.e. by 13.5%), including:

  Non-current - an increase by PLN 242 244 thousand, mainly due to the purchase of further shares of TAURON Polska Energia S.A., alongside a negative measurement impact (a decrease in share value on the WSE). The shares of TAURON Polska Energia S.A. are the main item in non-current available-for-sale financial assets,

  Current – a decrease by PLN 399 994 thousand, mainly due to the sale by KGHM Polska Miedź S.A. in the third quarter of 2011 of all of the participation units of open-end liquid investment funds, whose value at the end of 2010 amounted to PLN 405 193 thousand.

Table 27. *Assets effectiveness ratios**

	2009	2010	2011
Assets turnover ratio	0.8	0.8	0.7
Non-current assets turnover ratio	1.2	1.3	1.8
Current assets turnover ratio	2.3	1.9	1.2
Liquid assets turnover ratio	4.2	2.9	1.5

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

The deterioration in the assets effectiveness ratios was mainly due to the significant increase in cash and cash equivalents. There was an increase in the non-current assets turnover ratio, due to the increase in sales.

7.2. Equity and liabilities

In 2011 the basic source for financing assets was equity, which exceeded non-current assets by 94.3%. The share of equity in total assets increased from 70.3% to 76.5%.

Table 28. *Equity and liabilities ('000 PLN)*

	31.12.2009	31.12.2010 restated	31.12.2011	Structure %	Change 2010=100
EQUITY	**10 575 339**	**14 922 123**	**23 382 357**	**76.5**	**156.7**
Share capital	2 000 000	2 000 000	2 000 000	6.6	100.0
Accumulated other comprehensive income	126 301	209 821	554 924	1.8	264.5
Retained earnings	8 371 956	12 456 413	20 544 526	67.2	164.9
Equity attributable to shareholders of the Parent Entity	**10 498 257**	**14 666 234**	**23 099 450**	**75.6**	**157.5**
Non-controlling interest	**77 082**	**255 889**	**282 907**	**0.9**	**110.6**
Non-current liabilities	**2 012 477**	**2 915 769**	**2 806 375**	**9.2**	**96.2**
Trade and other payables	63 316	119 860	129 749	0.4	108.3
Borrowings and finance lease liabilities	120 854	173 652	194 370	0.6	111.9
Derivatives	61 354	711 580	538 320	1.8	75.7
Deferred tax liabilities	56 182	168 156	120 153	0.4	71.5
Liabilities due to employee benefits	1 183 350	1 221 794	1 338 743	4.4	109.6
Provisions for other liabilities and charges	527 421	520 727	485 040	1.6	93.1
Current liabilities	**2 302 604**	**3 402 837**	**4 365 142**	**14.3**	**128.3**
Trade and other payables	1 575 896	1 994 577	2 182 093	7.2	109.4
Borrowings and finance lease liabilities	219 816	96 162	103 587	0.3	107.7
Current corporate tax liability	79 104	672 152	1 595 528	5.2	237.4
Derivatives	273 717	482 118	331 331	1.1	68.7
Liabilities due to employee benefits	106 704	110 912	126 563	0.4	114.1
Provisions for other liabilities and charges	47 367	46 916	26 040	0.1	55.5
TOTAL LIABILITIES	**4 315 081**	**6 318 606**	**7 171 517**	**23.5**	**113.5**
TOTAL EQUITY AND LIABILITIES	**14 890 420**	**21 240 729**	**30 553 874**	**100.0**	**143.8**

7. Current and projected financial position (continued)

7.2. Equity and liabilities (continued)

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

- Equity – an increase by PLN 8 460 234 thousand (i.e. by 56.7%).

  The increase in equity is mainly the result of an increase in profit earned in 2011 in the amount of PLN 11 064 003 thousand, alongside a dividend payment to the shareholders of the Parent Entity for 2010 in the amount of PLN 2 980 000 thousand.

- Current corporate tax liability – an increase by PLN 923 376 thousand (i.e. by 137.4%).

  The increase in the current corporate tax liability was due to the higher amount of taxable income.

- Liabilities due to derivatives (current and non-current) – a decrease by PLN 324 047 thousand. (i.e. by 27.1%).

  The decrease in net liabilities due to derivatives was due to a change in forward metals prices, the forward USD/PLN exchange rate, the settlement of instruments during the year and the opening of new transactions on the copper, silver and currency markets. In the case of the copper market there was a decrease in liabilities by PLN 632 573 thousand, while for the silver and currency markets there was an increase in liabilities by respectively PLN 34 016 thousand and PLN 274 510 thousand.

An important item in liabilities was employee benefits in the total amount of PLN 1 465 306 thousand (an increase by PLN 132 600 thousand), including: the coal equivalent, PLN 855 274 thousand; jubilee awards, PLN 312 927 thousand; retirement-disability rights, PLN 241 042 thousand.

Table 29. *Assets financing ratios **

	2009	2010	2011
Coverage of assets by equity	0.7	0.7	0.8
Coverage of non-current assets by equity	1.1	1.2	1.9
Coverage of non-current assets by long-term capital	1.3	1.4	2.2
Coverage of current assets by current liabilities	0.5	0.4	0.2

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

The increase in current assets (due to the accumulation of cash and cash equivalents to finance planned investments), decreased the ratio of current assets to current liabilities. The remaining assets financing ratios increased versus the end of 2010.

7.3. Borrowings

Total debt of the Group due to borrowings at the end of 2011 amounted to PLN 271 948 thousand, and was higher versus 2010, i.e. by PLN 43 915 thousand, or 19.3%.

Table 30. *Borrowings in the Group ('000 PLN)*

	31.12.2009	31.12.2010	31.12.2011	Change 2010=100
Non-current borrowings	**90 055**	**144 249**	**178 647**	**123.8**
of which:				
– bank loans	86 340	141 829	176 909	124.7
– other loans	3 715	2 420	1 738	71.8
Current borrowings	**209 230**	**83 784**	**93 301**	**111.4**
of which:				
– bank loans	204 442	81 901	91 269	111.4
– other loans	4 788	1 883	2 032	107.9
Total	**299 285**	**228 033**	**271 948**	**119.3**

7. Current and projected financial position (continued)

7.3. Borrowings (continued)

The majority of bank loans drawn by companies of the Group bear interest based on variable interest rates. In the case of PLN-denominated borrowings, interest is mainly based on the WIBOR 1M reference rate, plus a credit margin, which depends on the creditworthiness of the borrower, which ranges from 1% to 4%, with interest payable monthly. Euro-denominated borrowings are mainly based on the EURIBOR 1M rate, plus a credit margin of up to 2%.

In 2011, the Parent Entity did not make use of external borrowings. As at 31 December 2011, KGHM Polska Miedź S.A. did not hold financing in the form of loans.

Liabilities due to borrowings, including owner loans, of selected companies of the Group at the end of 2011 are shown in the following table. Owner loans are granted amongst Group companies, and were eliminated in the consolidated financial statements. As at the end of 2011, liabilities due to borrowings for each of the remaining companies of the Group which are not presented did not exceed PLN 5 000 thousand.

Table 31. *Borrowings (including owner loans) of selected companies of the Group at 31 December 2011 ('000 PLN)*

	Bank loans	Other loans
„Energetyka" sp. z o.o.	60 314	40 505
Interferie Medical SPA Sp. z o.o.	65 609	-
POL-MIEDŹ TRANS Sp. z o.o.	30 595	250
KGHM Ecoren S.A.	22 696	1 681
KGHM CUPRUM sp. z o.o. - CBR	18 750	-
KGHM LETIA S.A.	17 159	-
PHP „MERCUS" sp. z o.o.	13 939	-
ZUK S.A.	12 049	-
INTERFERIE S.A.	6 427	-
Uzdrowisko „Świeradów-Czerniawa" sp. z o.o.	5 073	309

On 21 December 2009, KGHM Polska Miedź S.A. granted a loan to „Energetyka" sp. z o.o. in the amount of PLN 50 300 thousand. Interest on the loan is based on WIBOR 1M + a margin of 2.77%, with interest payable monthly. Repayment is in forty equal instalments in the amount of PLN 1 258 thousand payable at the end of each quarter, beginning from 31 March 2010. In 2011, „Energetyka" Sp. z o.o. made partial repayment on the loan in the amount of PLN 5 030 thousand. At 31 December 2011, the balance of the loan granted was PLN 40 505 thousand. In January 2012, the agreement was amended – interest was decreased to WIBOR 1M + 1.49%.

The following table presents the most significant loan agreements (i.e. over PLN 5 000 thousand), entered into by companies of the Group in 2011.

Table 32. *Bank loan agreements of selected companies of the Group entered into in 2011*

Company	Amount and bank loan currency	Type of bank/other loan	Interest rate	Maturity	Balance at 31.12.2011
ZANAM-LEGMET Sp. z o.o.	PLN 10 000 thousand	cash management system agreement for accounts group	*from amount drawn:* WIBOR O/N + 1% *from undrawn amount per day:* to 50% of undrawn amount – none; over 50% - 0.4%	25.06.2012	PLN 2 821 thousand
	PLN 20 000 thousand	cash management system agreement for accounts group	WIBOR 1M	indefinite	-

7. Current and projected financial position (continued)

7.3. Borrowings (continued)

Company		Amount and bank loan currency	Type of bank/other loan	Interest rate	maturity	Balance at 31.12.2011
KGHM Metraco S.A.	*	PLN 13 000 thousand	overdraft facility	WIBOR O/N + 0.5%	20.07.2012	-
		PLLN 25 000 thousand	cash management system agreement for accounts group	WIBOR 1M	indefinite	-
KGHM Ecoren S.A.	**	PLN 5 000 thousand	overdraft facility	WIBOR 1M + 0.7%	18.10.2012	-
		PLN 5 000 thousand	as above	WIBOR 1M + 0.7%	17.10.2012	PLN 4 468 thousand
		PLN 12 000 thousand	Investment loan	fixed rate 3.5%	31.03.2016	-
		PLN 23 500 thousand	Bank investment loan	WIBOR 1M + 1.3%	18.10.2016	PLN 4 487 thousand
CENTROZŁOM WROCŁAW S.A.		PLN 15 000 thousand	overdraft facility	WIBOR 1M + 1.1%	31.03.2012	PLN 3 399 thousand
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.		PLN 9 000 thousand	overdraft facility	WIBOR 1M + 1.35%	03.08.2014	PLN 533 thousand
PHP „MERCUS" sp. z o.o."	*	PLN 12 000 thousand	overdraft facility	WIBOR 1M + 0.75%	30.06.2012	PLN 8 466 thousand
	*	PLN 6 000 thousand	as above	WIBOR 1M + 0.75%	31.08.2012	PLN 2 166 thousand
BIPROMET S.A.		PLN 19 000 thousand *or equivalent in EUR, USD*	overdraft facility	WIBOR 1M + 1.5%	30.06.2012	-
Uzdrowisko „Świeradów-Czerniawa" sp. z o.o.		EUR 1 000 thousand	Foreign currency bank loan	EURIBOR 1M + 1.7%	30.11.2020	PLN 2 587 thousand
KGHM LETIA S.A.		PLN 5 700 thousand	Revolving bank loan	WIBOR 3M + 2.6%	29.06.2012	PLN 1 842 thousand
Interferie Medical SPA Sp. z o.o.	**	EUR 15 800 thousand	Bank investment loan	EURIBOR 3M + 4%	31.12.2021	PLN 65 609 thousand

* *- overdraft facilities drawn on in 2011 based on appendices to bank loan agreements from prior years which expired in 2011*
** *- overdraft facilities drawn on in prior years which were amended in 2011 with respect to amounts, maturities and interest*

Guarantees granted

In 2011, the Parent Entity did not grant any financial guarantees, although it held a customs guarantee with maturity to 1 March 2013. The guarantee is a contingent liability which does not materially affect the liquidity risk of KGHM Polska Miedź S.A.
The remaining companies of the Group did not grant any financial guarantees.

7.4. Contingent assets and liabilities

As at 31 December 2011, contingent assets amounted to PLN 425 750 thousand and related mainly to:

- guarantees received - PLN 185 814 thousand (mainly involving securities to cover potential claims due to the non-execution or improper execution of agreements by contractors),
- promissory note receivables – PLN 88 909 thousand,
- overpayment of the tax on underground mines - PLN 85 489 thousand.

Other contingent assets primarily involve disputed State budget issues and projects and inventions.
Contingent liabilities at the end of 2011 amounted to PLN 209 731 thousand, including PLN 113 967 thousand due to projects and inventions.

7. Current and projected financial position (continued)

7.5. Statement of comprehensive income

Table 33. *Consolidated statement of comprehensive income ('000 PLN)*

	2009	2010 restated	2011	Change 2010=100
Continued operations				
Sales	11 601 699	16 766 504	22 107 230	131.9
Cost of sales	(7 605 823)	(9 288 411)	(11 619 941)	125.1
Gross profit	**3 995 876**	**7 478 093**	**10 487 289**	**140.2**
Selling costs	(107 926)	(132 771)	(186 917)	140.8
Administrative expenses	(742 995)	(699 457)	(897 882)	128.4
Other operating income	478 524	648 925	4 563 818	x7,0
Other operating costs	(984 150)	(1 788 481)	(812 659)	45.4
Operating profit	**2 639 329**	**5 506 309**	**13 153 649**	**x2.4**
Finance costs	(37 621)	(44 080)	(51 705)	117.3
Share of profits of associates accounted for using the equity method	239 463	280 542	187 729	66.9
Profit before income tax	**2 841 171**	**5 742 771**	**13 289 673**	**x2.3**
Income tax	(528 377)	(1 097 062)	(2 285 301)	x2.1
Profit for the period from continued operations	**2 312 794**	**4 645 709**	**11 004 372**	**x2.4**
Discontinued operations				
Profit for the period from discontinued operations	**15 767**	**84 715**	**59 631**	**70.4**
Profit for the period	**2 328 561**	**4 730 424**	**11 064 003**	**x2.3**

In 2011, the Group earned its highest profit in history in the amount of PLN 11 064 003 thousand, mainly due to the profit earned by the Parent Entity in the amount of PLN 11 334 520 thousand. The results of the remaining companies the Group are presented below in Table 34.

The financial results in 2011 were impacted by:

- Higher revenues from sales by PLN 5 340 726 thousand (i.e. by 31.9%).

  This was mainly due to the increase in Parent Entity revenues due to the increase in the copper price by 17% and silver by 74%, and by an increase in the volume of copper sales by 21.6 t. The revenues from sales of KGHM Polska Miedź S.A. represented approx. 87.2% of the revenues from sales of the entire Group.

  (The increase in copper and silver prices caused an increase in the Parent Entity result by PLN 3 752 055 thousand).

- An increase in operating costs by PLN 2 584 101 thousand (i.e. by 25.5%).

  The largest increase was in costs of materials and energy (an increase by PLN 1 725 608 thousand). In the Parent Entity there was an increase in the value of purchased copper-bearing materials (PLN 880 640 thousand) due to an increase in purchase prices and volume consumed by 10.7 thousand tonnes of copper.

  There was also an increase in employee benefits (an increase by PLN 405 454 thousand) and external services (an increase by PLN 203 158 thousand). The increase in the cost of external services was due to the increased scope of preparatory mine work in KGHM Polska Miedź S.A.

  The structure of expenses by nature in 2011 is presented below.

- An increase in other operating income by PLN 3 914 893 thousand (i.e. 7-times).

  The increase in other operating income was mainly due to the following: profit from the sale of shares of Polkomtel S.A. in the amount of PLN 2 312 579 thousand; exchange gains – an increase by PLN 889 985 thousand; and the measurement and realisation of derivatives – an increase by PLN 561 547 thousand.

7. Current and projected financial position (continued)

7.5. Statement of comprehensive income (continued)

Chart 6. *Structure of expenses by nature in 2011*

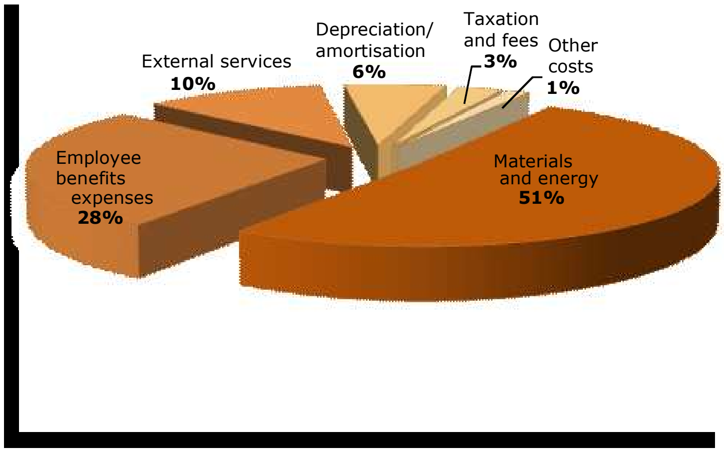


Table 34. *Structure of the profit for the period ('000 PLN)*

Details	Profit/loss for 2011
KGHM Polska Miedź S.A.	**11 334 520**
Subsidiaries	**112 661**
including the most important:	
DIALOG S.A. *(1.01.2011 – 16.12.2011)*	50 102
PeBeKa S.A.	24 751
NITROERG S.A. *(02.02.2011 – 31.12.2011)*	14 263
KGHM Metraco S.A.	9 963
CENTROZŁOM WROCŁAW S.A.	8 423
„PETROTEL" sp. z o.o. *(1.01.2011 – 16.12.2011)*	7 421
„Energetyka" sp. z o.o.	6 195
KGHM Kupfer AG	5 850
POL-MIEDŹ TRANS Sp. z o.o.	5 055
PHP „MERCUS" sp. z o.o.	3 755
BIPROMET S.A.	5 791
ZANAM-LEGMET Sp. z o.o.	3 036
KGHM Ecoren S.A.	2 398
KGHM CUPRUM sp. z o.o. - CBR	2 038
Przedsiębiorstwo Budowlane Katowice S.A.	(2 069)
KGHM LETIA S.A.	(2 144)
KGHM AJAX MINING INC.	(6 168)
Interferie Medical SPA Sp. z o.o.	(7 821)
Fundusz Hotele 01 Sp. z o.o. S.K.A.	(11 278)
KGHM I FIZAN	(14 505)
Total profits of Group entities	**11 447 181**
Consolidation adjustments	(383 750)
Profit of the Group attributable to Shareholders of the Parent Entity	**11 063 456**
Profit attributable to non-controlling interest	547
Total profit for the period	**11 064 003**

7. Current and projected financial position (continued)

7.5. Statement of comprehensive income (continued)

Table 35. *Economic activities ratios**

	2009	2010	2011
Current liquidity	2.2	2.6	4.2
Quick liquidity	1.3	1.9	3.6
ROA - return on assets (%)	15.6	22.3	36.2
ROE - return on equity (%)	22.0	31.7	47.3
Debt ratio (%)	29.0	29.7	23.5
Durability of financing structure (%)	84.5	84.0	85.7

** - Ratios calculated according to methodology in Appendix A.*

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The increase in the liquidity ratios was mainly due to an increase in cash and cash equivalents.

The increase in the financial result brought an improvement in the return on assets (ROA) and the return on equity (ROE) ratios.

The decrease in the debt ratio is due to a lower rate of increase of liabilities (13.5%) than equity (56.7%).

7.6. Risk management

The companies of the Group are exposed to risk in each of their operational areas. A factor which substantially impacts the results of the Group is financial risk, which is divided into the following areas:

1) market risk:
   - the risk of changes in metals prices,
   - the risk of changes in exchange rates,
   - the risk of changes in interest rates,
   - price risk related to investments in debt securities, in participatory units in investment funds and in shares of listed companies,
2) liquidity risk,
3) credit risk.

Market 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.

Amongst the companies of the Group only the Parent Entity applies hedging strategies, utilising derivatives (under hedge accounting). KGHM Polska Miedź S.A. uses derivatives instruments such as swaps, options contracts, forwards and structures combining the above instruments. The market strategies are applied in such a way as to make the best use of existing market conditions. The Parent Entity applies a consistent and step-by-step approach to market risk management.

<u>Risk of changes in metals prices</u>

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. To hedge against decreases in metals prices, KGHM Polska Miedź S.A. uses derivatives.

In 2011, strategies hedging the copper price represented approx. 35% (in 2010 - 33%) of the sales of the Parent Entity of this metal. For silver sale this ratio was approx. 9% (in 2010 - 18%).

In 2011, the Parent Entity implemented strategies hedging the copper price for a total volume of 151 thousand tonnes and a time horizon from September 2011 to December 2013. Options were used (Asian options), including collars and producer's puts. Additionally, in the analysed period KGHM Polska Miedź S.A. performed a restructure, implemented in the first and third quarters of 2010, of its seagull options strategy for 2012 of a total volume of 97.5 thousand tonnes, through the repurchase of sold puts. Restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of copper in 2012.

7. Current and projected financial position (continued)

7.6. Risk management (continued)

In 2011, the Parent Entity implemented strategies hedging the silver price for a total volume of 14.4 million troy ounces and a time horizon falling in the years 2012-2013. Additionally, the Company performed a restructure, implemented in the analysed period, of its collar strategy for 2012, through the repurchase of sold calls for 3.6 million troy ounces and the simultaneous sale of puts at the same nominal volume and an execution price below the price of the puts held (from the collar strategy). Simultaneously a put spread structure was achieved. This restructure guarantees greater flexibility in the selection of instruments implemented in 2012 and allows for full participation in any rises in the silver price during this period for the hedged nominal amount of 3.6 million troy ounces. Simultaneously – should there occur a deep fall in prices during this period – it restricts the benefits of the put options held to the level of executed sold puts.

The Parent Entity remains hedged for a portion of planned copper sales in the period from January to December 2012 (205.5 thousand tonnes) and in 2013 (61.5 thousand tonnes), as well as for a portion of planned silver sales in the period from January to December 2012 (10.8 mln troz) and in 2013 (3.6 mln troz).

<u>Risk of changes in exchange rates</u>

The Group is exposed to the risk of changes in foreign exchange rates. The Parent Entity is exposed to the risk due to the fact that it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD, while the base currency for the Parent Entity is the PLN. To the extent possible, the Parent Entity attempts to limit its exposure to the risk of changes in the USD/PLN exchange rate by applying natural hedging. The remaining exposure is hedged through the use of derivatives.

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.

In the case of the forward currency market, in 2011 the Parent Entity implemented transactions hedging revenues from sales in the total nominal amount of USD 1 920 million and a time horizon falling in the years 2012-2014. The Parent Entity made use of puts (European options) and collar and seagull options. In 2011, approx. 19% of revenues from sales earned by the Parent Entity were hedged (in 2010 16%). For revenues from sales (currency market) the Parent Entity holds a hedged position for 2012 (USD 960 million), 2013 (USD 960 million) and for 2014 (USD 360 million).

<u>Risk of changes in interest rates</u>

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 2011 the Group had liabilities due to bank and other loans in the amount of PLN 271 210 thousand (at 31 December 2010, PLN 226 603 thousand) based on variable interest rates, and liabilities due to loans in the amount of PLN 738 thousand (at 31 December 2010, PLN 1 430 thousand) based on fixed interest rates. At 31 December 2011 the Group had bank deposits in the amount of PLN 13 123 074 thousand (at 31 December 2010, PLN 3 259 112 thousand) based on variable and fixed interest rates.

At the end of the reporting period, the Group, as in the comparable period, had no instruments hedging against interest rate risk.

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

As at 31 December 2011, the Group held 10 513.5888 participation units of open-end, liquidity investment funds in the amount of PLN 2 126 thousand and 7 774 government bonds in the amount of PLN 8 263 thousand with fixed interest rates classified as available-for-sale financial assets. This investment is only 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.

As at 31 December 2011, the carrying amount of shares listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 987 847 thousand. Because of these investments, the Group is exposed to the risk of substantial changes in accumulated other comprehensive income due to changes in the prices of the shares held caused by the current macroeconomic situation.

Liquidity risk and capital management

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

7. Current and projected financial position (continued)

7.6. Risk management (continued)

The Parent Entity manages its financial liquidity in accordance with the policy „Financial Liquidity Management Policy" approved by the Management Board, which describes in a comprehensive manner the process of managing financial liquidity in the Parent Entity, based on best practice for such procedures and instruments.
In 2011, as well as in the comparable period, due to positive cash flow and the significant amount of cash balances, most of the companies of the Group made only slight use of external financing.

As at 31 December 2011, the Group had open overdraft facilities in current accounts up to PLN 150 235 thousand (as at 31 December 2010, PLN 161 447 thousand), of which the drawn amount was PLN 98 818 thousand (at 31 December 2010, PLN 50 721 thousand).

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.

Due to the low level of debt of the Group as at 31 December 2011, the ratio of debt/EBITDA was at a safe level and amounted to 0.00.

The equity ratio was above the assumed minimum level and as at 31 December 2011 amounted to 0.75.

* *equity ratio – ratio of net assets (equity less intangible assets) to total assets,*

** *debt/EBITDA - ratio of liabilities due to bank and other loans and finance leases less unallocated cash and short-term investments with maturity up to 1 year, to EBITDA (operating profit plus depreciation/amortisation).*

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. 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.

For many years the companies of the Group have sold their products to a large number of geographically diversified clients. The vast majority of these sales are with companies in the European Union.

To reduce the risk of customer insolvency, 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, as at 31 December 2011 the Parent Entity had secured 82.4% of its trade receivables.

As at 31 December 2011, the balance of receivables of the Group from 7 of the Parent Entity's largest clients, in terms of the balance of receivables at the end of the reporting period, represented 42% of the balance of trade receivables (as at 31 December 2010 respectively, 57%). 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. The following Group companies have significant trade receivables (excluding mutual receivables within the KGHM Polska Miedź S.A. Group): CENTROZŁOM WROCŁAW S.A. PLN 85 952 thousand, KGHM Metraco S.A. PLN 78 585 thousand, NITROERG S.A PLN 31 948 thousand, WPEC w Legnicy S.A. PLN 26 012 thousand, ZANAM-LEGMET Sp. z o.o. PLN 23 201 thousand, KGHM Ecoren S.A. PLN 21 041 thousand and BIPROMET S.A. PLN 19 658 thousand.

Group companies operate in various economic sectors, such as transport, construction, trade, and industrial production, 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.

It is believed 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.

All of the entities with whom the Group enters into depositary transactions operate in the financial sector. These are exclusively banks registered in Poland or operating in Poland as branches of foreign banks, belonging to European and American financial institutions with the highest, medium-high and medium ratings, and having an appropriate level of equity and strong and stable market positions. As at 31 December 2011, the maximum share of a single entity with respect to the amount of funds deposited by the Group amounted to 25%.

All of the entities with whom the Group entered into derivative transactions in 2011 operated in the financial sector. These were financial institutions (mainly banks), with the highest (21%), medium-high (73.7%) and medium (5.3%) ratings.

7. Current and projected financial position (continued)

7.6. Risk management (continued)

According to fair value as at 31 December 2011, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Group amounted to 23.6%.

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

To restrict cash flow and and simultaneously restrict credit risk, the Parent Entity performs net settlement (based on framework agreements entered into with customers) to the level of positive balance of fair value measurement of hedging transactions with the given counterparty.

Credit risk related to investments in participatory units of investment funds with a value of PLN 2 126 thousand and debt securities with a value of PLN 8 263 thousand as at 31 December 2011 is immaterial. The institutions managing these funds possess a medium-high rating, while the debt securities are safe governmental bonds with fixed interest rates.

7.7. Disputed issues

As at 31 December 2011, the total value of ongoing disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 192 304 thousand, including receivables of PLN 88 431 thousand and liabilities of PLN 103 873 thousand. The total value of the above disputed issues does not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables in 2011:

- proceedings by and against KGHM Polska Miedź S.A. amounted to PLN 32 563 thousand,
- proceedings by and against subsidiaries amounted to PLN 55 868 thousand.

Value of proceedings involving liabilities in 2011:

- proceedings by and against KGHM Polska Miedź S.A. amounted to PLN 89 130 thousand,
- proceedings by and against subsidiaries amounted to PLN 14 744 thousand.

The largest ongoing proceedings involving the receivables and liabilities of KGHM Polska Miedź S.A. and subsidiaries are presented in the following table.

Table 36. *Largest ongoing proceedings by and against KGHM Polska Miedź S.A. and its subsidiaries at the end of 2011*

Proceedings involving liabilities
Royalties for use of invention project no. 1/97/KGHM Value of amount under dispute: PLN 42 413 thousand. The claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received a summons on 14 January 2008. Each of the plaintiffs in this complaint is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006). The parties responded to the opinions representing further evidence admitted by the Court in this matter and are awaiting a date for a further hearing. Proceedings are in progress. In the Parent Entity's opinion the royalties being pursued by the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.
Return of costs of protecting against mining damage 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 the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 409 thousand due to the return of costs of work to protect against mine demages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin. Proceedings are in progress. In the Parent Entity'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. In March 2011, the Deciding Board of the Patent Office annulled the invention patent. In December 2011, the authors submitted a cassation appeal against the decision of the Regional Administrative Court to pass the authors' claim for a hearing by the Patent Office on the annulment of the invention patent. In the Parent Entity'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.

7. Current and projected financial position (continued)

7.7. Disputed issues (continued)

Proceedings involving receivables
Return of undue royalties for use of invention project no. 1/97/KGHM In 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 in the sixth and seventh periods (calendar years 2004-2005). The court has combined both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 413 thousand with the claims of KGHM Polska Miedź S.A. for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 195 thousand, for mutual hearing. Proceedings are in progress. In the Parent Entity's opinion the payment of royalties to the project's authors was unfounded.
Return of excise tax Value of amount under dispute: PLN 17 618 thousand. „Energetyka" sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Voivodeship Administrative Court against a decision of the Director of the Customs Office setting excise taxation from January 2006 to February 2009. The Voivodeship Administrative Court, in a judgment from October 2011, overturned the decision opposed by the subsidiary, and ordered compensation to be paid to the subsidiary in the amount of PLN 107 thousand. „Energetyka" sp. z o. o., in December 2011, filed a cassation appeal against the judgment of the Voivodeship Administrative Court to the Supreme Administrative Court. Proceedings are in progress.
Return of excise tax Amount under dispute: PLN 12 531 thousand. POL-MIEDŹ TRANS Sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Voivodeship Administrative Court against a judgment of the Director of the Customs Office setting excise taxation for individual months from March to December 2003. The Voivodeship Administrative Court, in judgments from April, May and June 2011, dismissed the claims. POL-MIEDŹ TRANS Sp. z o. o. filed cassation appeals against the judgments to the Supreme Administrative Court. Proceedings are in progress.

7.8. Realisation of projected financial results for 2011

Forecasts of the consolidated results of the KGHM Polska Miedź S.A. Group are not prepared. Each company prepares its own projections of its results.
The Parent Entity publishes its projections of results. In a current report dated 31 January 2011, KGHM Polska Miedź S.A. published its Budget assumptions for 2011 as accepted by the Supervisory Board on the same day. The Budget assumed the achievement in 2011 of revenues from sales in the amount of PLN 16 067 million and profit of PLN 8 345 million.
Along with the improvement in macroeconomic conditions during the year, KGHM Polska Miedź S.A. updated its forecast. The final projection of financial results was published in a current report on 21 December 2011.
Basic assumptions, projected results and their realisation are shown in the following table.

Table 37. *Realisation of projected financial results of KGHM Polska Miedź S.A. for 2011*

		Forecast (1.01.2011)	Forecast update (5.09.2011)	Forecast update (22.12.2011)	Execution 2011	Realisation of forecast (%)
Sales	**PLN million**	**16 067**	**18 934**	**20 084**	**20 097**	**100.1**
Profit for the period	**PLN million**	**8 345**	**9 643**	**11 192**	**11 335**	**101.3**
Average annual copper price	USD/t	8 200	9 000	8 827	8 811	99.8
Average annual silver price	USD/troz	25.00	32.00	35.11	35.12	100.0
Exchange rate	USD/PLN	2.80	2.80	2.97	2.96	99.7
Electrolytic copper production	'000 t	543.0	570.3	570.3	571.0	100.2
- of which from purchased copper-bearing materials	'000 t	111.0	128.0	128.0	124.6	97.3
Silver production	t	1 027	1 144	1 144	1 260	110.1
Capital expenditures	PLN million	1 892	1 732	1 645	1 514	92.0
Equity investments*	PLN million	9 046	10 757	642	640	99.7

*- includes purchase of shares and investment certificates, increases of share capital and owner loans and payments to subsidiaries

Due to the continuous updating of the forecast for 2011, the final realisation of financial results was not different from the planned amounts.

7. Current and projected financial position (continued)

7.9. 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. Due to the introduction in 2011 of a new management model for the Group, the managers of the separate business units appointed by the Management Board of KGHM Polska Miedź S.A. participate in the process of setting the strategic goals (long- and medium-term) and budgetary goals of individual companies in areas appropriate for each business unit. 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 by 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 the subsidiaries do not substantially impact the consolidated results of the Group. The budgets of the subsidiaries for 2011 were 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.

On 27 March 2012, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2012. The bases for development of the Budget were the results for 2011 and the assumptions of individual operating plans. The basic assumptions of the Budget for 2012 are presented in the following table:

Table 38. *Assumptions of KGHM Polska Miedź S.A. Budget for 2012*

	Unit	Execution 2011	Budget 2012	Change 2011=100
Sales	**PLN million**	**20 097**	**19 418**	**96.6**
Profit for the period	**PLN million**	**11 335**	**3 804**	**33.6**
Average annual copper price	USD/t	8 811	8 000	90.8
Average annual silver price	USD/troz	35.12	30.00	85.4
Exchange rate	USD/PLN	2.96	3.09	104.4
Unit cost of electrolytic copper production from own concentrate	PLN/t	10 299	15 729	152.7
Electrolytic copper production	'000 t	571.0	562.0	98.4
- of which from purchased copper-bearing materials	'000 t	124.6	147.3	118.2
Silver production	t	1 260	1 098	87.1
Capital expenditure	PLN million	1 514	2 100	138.7
Equity investments *	PLN million	640	10 671	x 16.7

** Purchase of shares and investment certificates, increases of share capital and owner loans and payments to subsidiaries*

The decrease in profit by PLN 7 531 million, i.e. by 66%, is mainly due to: recognition in the result for 2011 of the sales of telecom assets, a change in exchange differences, effects of the introduction of the minerals extraction tax and the deterioration of macroeconomic conditions.

The increase in the cost of electrolytic copper production from own concentrate versus 2011 by 53% is mainly due to the minerals extraction tax. Under comparable conditions, the above cost would be higher by 22%, of which mainly due to lower production from own concentrate. In 2011, the relatively high level of production from own concentrates was due to the use of concentrate inventory accumulated in prior years due to the maintenance cycle. The volume of copper production in concentrate in KGHM Polska Miedź S.A. remains at a stable level.

The substantial increase in equity investments is due to the purchase in the first quarter of 2012 of Quadra FNX Mining Ltd. shares.

The results of the Parent Entity will be substantially impacted by the inclusion in the projection of payment of the minerals extraction tax, beginning from May 2012. Detailed information regarding the on-going legislative process for the introduction of the aforementioned tax is presented below.

Information on the legislative process with respect to the minerals extraction tax

On 14 December 2011, the Finance Minister presented a draft law for the mineral extraction tax (hereafter: Draft Law), which may potentially result in a substantial tax burden for KGHM Polska Miedź S.A. In accordance with laws regulating lobbying during the formation of a law, the Company announced its interest in work on the Draft Law.

On 27 January 2012, the first parliamentary reading was held of the Draft Law, and was subsequently sent for further work by the Committee of Public Finance.

7. Current and projected financial position (continued)

7.9. Projected Group financial situation

On 14 February 2012, the Committee of Public Finance approved the report on the government's Draft Law for the mineral extraction tax, in which the Committee recommended adoption of the Draft Law as amended by the Committee.
On 2 March 2012, Parliament adopted the Law for the mineral extraction tax. On 14 March 2012 the Senate gave its approval without enacting changes. It will then be presented to the President for his approval. The Law will come into force within 14 days of being announced in the Journal of Laws.
The planned mineral extraction tax will be calculated in KGHM Polska Miedź S.A. from the amount of copper and silver contained in produced concentrate.
Given the macroeconomic conditions in 2011, in particular with respect to average copper prices (8 810.90 USD/t), average silver prices (35.12 USD/troz), the average exchange rate (2.9636 USD/PLN) and production of copper (420 665 t) and silver (1 166 598 kg) contained in concentrate, under the government's Draft Law together with the amendments adopted by the Parliamentary Committee of Public Finance on 14 February 2012, the amount of the tax in annual terms would amount to PLN 2 488 227 thousand, reducing the current results of the Parent Entity.
Respectively, given the macroeconomic conditions and production realised in 2010, the mineral extraction tax would have reduced the results of the Company by PLN 1 676 370 thousand.

7.10. Intentions as regards equity investments

The intentions of KGHM Polska Miedź S.A. as regards equity investments are mainly aimed at:

- development of the resource base, focused on increasing mined copper production in the Group,
- realisation of investments in the energy sector,
- financial support of Group companies to realise investment programs,
- diversification of investment risk through participation in the closed-end investment funds managed by KGHM TFI S.A.

Development of the resource base is the chief assumption of the strategy realised by KGHM Polska Miedź S.A. Equity investments in this regard are aimed at financing exploration work, mine investments and acquisitions of mining entities.
Equity investments realised in the energy sector are aimed at diversifying income sources and gradually becoming independent of changes in energy prices. Investment projects realised in this regard reflect among others the acquisition of alternative energy sources.
Plans with respect to equity investments assume the acquisition of investment certificates issued by Closed-End Investment Funds (managed by KGHM TFI S.A. – a wholly-owned subsidiary of KGHM Polska Miedź S.A.). This investment is of a long-term nature, is not related with the core business of the Parent Entity and does not require operational involvement in the activities of Fund companies. The Funds are of a sector nature, and their chief areas of focus are: protection of health, renewable energy sources, new technology and property.
Realising a strategy of responsibility towards local communities, KGHM Polska Miedź S.A. intends to continue investments of social importance.
In addition, activities will be continued aimed at liquidating the company KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi in the Democratic Republic of Congo, and at liquidating KGHM Kupferhandelsges. m.b.H.and.L in Vienna, which was begun in 2011.

Possibility of realising investment intentions in terms of the amount of funds possessed, reflecting potential changes in the structure of financing these activities

The cash possessed by the Parent Entity at the present moment and its creditworthiness guarantee the possibility of realisation of its investment intentions, both in terms of equity investments as well as expenditures on the purchase and construction of property, plant and equipment.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A.

In July 2007, the Supervisory Board of the Warsaw Stock Exchange resolved the principles of corporate governance for joint-stock companies that are issuers of shares, convertible bonds or bonds with priority rights admitted to exchange trading. These corporate governance principles as described in the document "Code of Best Practice for WSE Listed Companies" represent an annex to resolution no. 12/1170/2007 of the Supervisory Board of the WSE 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 had been in force representing an annex to resolution no. 17/1249/2010 of the Supervisory Board of the WSE dated 19 May 2010. Subsequent changes to the document "Code of Best Practice for WSE Listed Companies" were introduced by resolutions of the Supervisory Board of the WSE nos. 15/1282/2011 dated 31 August 2011 and 20/1287/2011 dated 19 October 2011. The amended principles came into force on 1 January 2012. The contents of the document "Code of Best Practice for WSE Listed Companies" are available on the official website of the Warsaw Stock Exchange under the section on corporate governance (www.corp-gov.gpw.pl), as well as on the website of the Parent Entity (www.kghm.pl) under the section on corporate governance.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, has made every effort to apply the corporate governance principles described in the 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.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, KGHM Polska Miedź S.A. has 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 2011 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 KGHM Polska Miedź S.A. website in both Polish and English, accessible under the section Investor Zone/Transmissions. The Parent Entity has undertaken actions aimed at preparing to provide access to General Meeting on-line transmissions.

In accordance with recommendation I.9, KGHM Polska Miedź S.A. offers equal participation to men and women to fulfil management and supervisory functions. At present however, there are no women on the Management Board of the company. The competitions held which led to the selection of the current Members of the Management had no women applicants.

8.1. General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the company and the Bylaws of the General Meeting. The corporate documents of the Parent Entity 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 KGHM Polska Miedź S.A. Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the company,
- changing the subject of the company's activity,
- amending the company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the company,
- dissolving and liquidating the company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the company, or from management or supervisory activities,
- purchase of the company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to execute their rights.

In accordance with the Statutes of KGHM Polska Miedź S.A., the State Treasury may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted.

The introduction of changes to the company Statutes requires a resolution by the General Meeting and an entry in the National Court Register of a constitutive nature. Changes in the company Statutes are made by the General Meeting in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, KGHM Polska Miedź S.A. applies 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 are not applied.

8.2. Shareholders and their rights

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 on both 1 January 2011 and 31 December 2011 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A., which represented 31.79% of the share capital and of the total number of votes at the General Meeting.

The shareholders of KGHM Polska Miedź S.A. 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 KGHM Polska Miedź S.A. or with respect to the execution of voting rights on 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.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)

8.3. Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the Company's functional areas. In accordance with the Statutes, 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 as at 1 January 2011 was as follows:

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

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek.

Due to expiry of the mandate of the 7th-term Supervisory Board, the Ordinary General Meeting on 15 June 2011:

- dismissed all of the Members of the 7th-term Supervisory Board,
- confirmed the validity of the elections carried out in the company on 11-12 May 2011, as a result of which the employees of KGHM Polska Miedź S.A. elected three members to the Supervisory Board,
- set the number of members of the Supervisory Board at 10 persons, and
- appointed the following persons to the Supervisory Board of the company: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Jan Rymarczyk and Marzenna Weresa.

On 20 October 2011, the Extraordinary General Meeting of KGHM Polska Miedź S.A. appointed to the Supervisory Board of KGHM Polska Miedź S.A. Lech Jaroń, Maciej Łaganowski and Paweł Markowski, elected by the employees of the company in elections held on 19-20 September 2011.

The composition of the 8th-term Supervisory Board at 31 December 2011 was as follows:

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

as well as the following employee-elected members:

- Lech Jaroń
- Maciej Łaganowski
- Paweł Markowski.

On 19 January 2012, the General Meeting of KGHM Polska Miedź S.A. dismissed the following persons from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa, and appointed the following persons: Krzysztof Kaczmarczyk, Mariusz Kolwas, Aleksandra Magaczewska, Robert Oliwa and Jacek Poświata.
Consequently, the composition of the Supervisory Board, at the date of preparation of this report, was as follows:

- Jacek Kuciński Chairman
- Marek Panfil Deputy Chairman
- Mariusz Kolwas Secretary
- Krzysztof Kaczmarczyk
- Aleksandra Magaczewska
- Robert Oliwa
- Jacek Poświata

as well as the following employee-elected members

- Lech Jaroń,
- Maciej Łaganowski,
- Paweł Markowski.

Supervisory Board Committees

Under the auspices of the Supervisory Board are three committees: the Audit Committee, the Remuneration Committee and the Strategy 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 Group, training and other benefits provided by the company, as well as audits performed by the Supervisory Board in this regard.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)

8.3. Supervisory Board (continued)

The Strategy Committee, appointed on 28 March 2011, supervises the realisation of KGHM Polska Miedź S.A. strategy, the company's annual and multi-year operating plans, supervising the uniformity of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Parent Entity and any changes thereto, as well as on the company's annual and multi-year operating plans.
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 KGHM Polska Miedź S.A. throughout 2011:
- Marek Panfil - Chairman
- Marcin Dyl
- Marzenna Weresa

Following the changes in the Supervisory Board on 19 January 2012, the composition of the Audit Committee at the date of signing of this report was as follows:
- Marek Panfil - Chairman,
- Lech Jaroń,
- Krzysztof Kaczmarczyk,
- Mariusz Kolwas,
- Robert Oliwa.

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 of the parties,
- to supervise realisation of the system of remuneration of the Management Board, in particular to prepare documents related to variable salary and premiums, in order to submit a 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.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)

8.3. Supervisory Board (continued)

As at 1 January 2011 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Arkadiusz Kawecki - Chairman
- Leszek Hajdacki
- Jacek Kuciński

Following appointment of the Members of the Supervisory Board to the new 8th-term Supervisory Board, the composition of the Committee changed, and at 31 December 2011 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Arkadiusz Kawecki - Chairman
- Franciszek Adamczyk
- Jacek Kuciński

Following the changes in the Supervisory Board on 19 January 2012, the composition of the Remuneration Committee at the date of signing of this report was as follows:

- Jacek Kuciński,
- Maciej Łaganowski,
- Paweł Markowski.

<u>Strategy Committee</u>
In accordance with the Regulations of the Supervisory Board the duties of the Strategy Committee are as follows:

- the performance of tasks on behalf of the Supervisory Board of the company respecting supervision of matters related to Company strategy and the Company's annual and multi-year operating plans,
- monitoring the realisation by the Management Board of the company's strategy, and evaluating to what extent the existing strategy is appropriate in dealing with changes in the actual situation,
- monitoring the realisation by the Management Board of annual and multi-year operating plans, and evaluating whether they require modification,
- evaluating the coherence of the company's annual and multi-year operating plans with the realisation by the Management Board of the company's strategy, and presenting proposed changes to any of these company documents,
- submitting to the Supervisory Board of the company its opinions in respect of the drafts of the company's Strategy presented by the Management Board of the company and any changes thereto, as well as on the company's annual and multi-year operating plans.

The composition of the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A. from the date of its appointment, i.e. 28 March 2011, included the following Members of the Supervisory Board:

- Jacek Kuciński
- Ryszard Kurek
- Jan Rymarczyk

Following appointment of the Members of the Supervisory Board to the new 8th-term Supervisory Board, the composition of the Committee changed, and as at 31 December 2011 the following Members of the Supervisory Board served on the Strategy Committee of the Supervisory Board:

- Franciszek Adamczyk
- Jacek Kuciński
- Jan Rymarczyk

Following the changes in the Supervisory Board on 19 January 2012, the composition of the Strategy Committee as at the date of signing of this report was as follows:

- Krzysztof Kaczmarczyk,
- Jacek Kuciński,
- Aleksandra Magaczewska,
- Jacek Poświata.

After the end of the year the Audit, Remuneration and Strategy Committees submit a report of their activities to the Supervisory Board.

8.4. Management Board

The Management Board conducts the business of the company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the company which have not otherwise been assigned by law or the Statutes to the duties of other company bodies. The Management Board operates based on prevailing law, the Statutes of the company and the Regulations of the Management Board. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec.1 point of 6 the Statutes of the company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds. The Management Board of KGHM Polska Miedź S.A. 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.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)

8.4. Management Board (continued)

The Management Board of KGHM Polska Miedź S.A. 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.

The composition of the Management Board and the segregation of duties amongst its Members from 1 January to 31 December 2011 was as follows:

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

8.5. Description of the basic characteristics of internal control and risk management systems applied in the company with respect to the process of preparing financial statements and consolidated financial statements

KGHM Polska Miedź S.A. has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group the Management Board is responsible. The system of internal control and risk management in this regard is based on the identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimalisation or total elimination.

KGHM Polska Miedź S.A. uses its many years of experience in the identification, documentation, record maintenance and control of economic operations and established audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data.

In order to ensure truth and accuracy in the keeping of the accounting records of KGHM Polska Miedź S.A. and the uniformity of applied accounting principles in preparing the financial statements of Group subsidiaries, 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, continuously updated based on new regulations,

and in addition, for KGHM Polska Miedź S.A.

- Principles for Financial Management and for an Economic System,
- Documentation for an IT system for the processing of accounting data,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets, and
- Sector Chart of Accounts in accordance with IFRS,

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of KGHM Polska Miedź S.A. and the Group, along with the established scope and principles of financial reporting.

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, uniformity of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. KGHM Polska Miedź S.A. continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. The technical servicing of the system is ensured by the highly experienced specialists employed by KGHM Polska Miedź S.A. KGHM Polska Miedź S.A. has full documentation of the IT system, both in the part meant for end-users, as well as in the technical part encompassing configuration, parameterization and calculation algorithms of the system. In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically verified and updated, and confirmed each time by the heads of the units, i.e. the Management Board of KGHM Polska Miedź S.A. and the management boards of subsidiaries.

In order to ensure the proper use and protection of systems and data, as well as secure access to data and hardware, KGHM Polska Miedź S.A. has introduced appropriate organisational and systemic solutions. 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.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)

8.5. Description of the basic characteristics of internal control and risk management systems applied in the company with respect to the process of preparing financial statements and consolidated financial statements (continued)

Control of the accounting principles applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and in the subsidiaries of the Group is based on functionally-developed reporting systems with reporting control mechanisms, which continuously verify the conformity of these principles with the existing Accounting Policy and other documents representing the basis for the preparation of financial statements.

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of KGHM Polska Miedź S.A. 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 KGHM Polska Miedź S.A. 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 fundamental 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 KGHM Polska Miedź S.A., carried out by internal audit. The tasks realised by internal audit are based on the "Integrated Audit Plan of KGHM Polska Miedź S.A. for the years 2011-2015" and the annual „Integrated Audit Plan" for the given calendar year, approved by the Management Board of KGHM Polska Miedź S.A. These documents were developed based on International Professional Standards in Internal Audit Practice published by the Institute of Internal Auditors, and received a positive opinion by the Audit Committee of the Supervisory Board. The goal of internal audit is to provide the Management Board and Supervisory Board of the company with independent and objective information on and evaluations of the risk management and internal control systems, and analyses of business processes in KGHM Polska Miedź S.A.

The internal control system in KGHM Polska Miedź S.A. encompasses all of the processes functioning in KGHM Polska Miedź S.A., including those areas which directly or indirectly affect the correctness of the financial statements. Internal (institutional) control is performed by a separate department in the organisational structure. Apart from institutional control, the obligation fully remains for each employee in KGHM Polska Miedź S.A. to control their own performance, and for every level of management staff to perform their control – within supervisory-related duties.

The effectiveness of the internal control and risk management procedures in the process of preparing financial statements in KGHM Polska Miedź S.A. is the high assessment of the quality of these statements, confirmed the top position in the competition The Best Annual Report, in which KGHM Polska Miedź S.A. has participated for years.

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.

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 statements. 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 for 2011 under IFRS were prepared by the listed companies INTERFERIE S.A. and BIPROMET S.A. It is planned that the remaining companies of the Group will gradually (in selected groups), beginning from 2012, change the principles of preparation of their financial statements through the application of IFRS.

The subsidiaries of the Group maintain their accounts within an integrated IT system. Documentation of the IT accounting system is periodically verified and updated.

8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)

8.5. Description of the basic characteristics of internal control and risk management systems applied in the company with respect to the process of preparing financial statements and consolidated financial statements (continued)

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 entitlement, 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.

9. Significant subsequent events

Establishment of the company 0929260 B.C. Unlimited Liability Company

On 3 January 2012, Fermat 2 S.à r.l. (a wholly-owned indirect subsidiary of KGHM Polska Miedź S.A.) established a company under the name 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver, Canada, with share capital in the amount of CAD 100.

The establishment of this company is related to the creation of an optimal transaction structure for acquiring the shares of Quadra FNX Mining Ltd.

Changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.

On 19 January 2012 the Extraordinary General Meeting of KGHM Polska Miedź S.A. carried out the following changes in the composition of the Supervisory Board:

- 5 existing members were dismissed: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,
- appointed: Krzysztof Kaczmarczyk, Mariusz Kolwas, Aleksandra Magaczewska, Robert Oliwa and Jacek Poświata.

Establishment of the company Fermat 3 S.á r.l.

On 15 February 2012 Fermat 1 S.à r.l. (a wholly-owned subsidiary of KGHM Polska Miedź S.A.) established a company under the name Fermat 3 S.à r.l. with its registered head office in Luxembourg, in which in exchange for a cash contribution in the amount of USD 20 000 it acquired 20 000 shares with a nominal value of 1 USD/share, representing 100% of the share capital of Fermat 3 S.à r.l.

Similarly as in the case of the company 0929260 B.C. UNLIMITED LIABILITY COMPANY, Fermat 3 S.à r.l. was established in relation to the creation of an optimal transaction structure for purchase of the shares of Quadra FNX Mining Ltd.

Signing of significant contracts and agreements, purchase of significant assets in the KGHM Polska Miedź S.A. Group

In relation to the purchase of 100% of the shares of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") by an indirect subsidiary of KGHM Polska Miedź S.A. ("KGHM") – the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver ("0929260 B.C. U.L.C."), on 5 March 2012 the following transactions took place in the KGHM Polska Miedź S.A. Group to optimise the purchase structure:

1/ KGHM acquired 29 368 400 newly-issued shares in the increased share capital of Fermat 1 S.a.r.l. with its registered head office in Luxembourg (a wholly-owned subsidiary of KGHM), with a per-share nominal value of USD 1 in exchange for a contribution in the form of receivables on the loan granted on the same day by KGHM to Fermat 1 S.a.r.l. to be converted into equity. The loan amounted to USD 2 936 840 thousand (representing the equivalent of PLN 9 208 462 thousand). The difference between the nominal value of the shares and the value of the contribution was transferred to the reserve capital of Fermat 1.

Following this increase, the share capital of Fermat 1 amounts to USD 29 385 thousand (representing the equivalent of PLN 92 137 thousand) and is divided into 29 385 057 shares with a per-share nominal value of USD 1. KGHM owns 100% of the share capital of Fermat 1, representing 100% of the votes at the general shareholders' meeting of this company.

9. Significant subsequent events (continued)

2/ Fermat 1 acquired 10 637 400 newly-issued shares in the company Fermat 2 S.à r.l. with its registered head office in Luxembourg (a wholly-owned subsidiary of Fermat 1 S.à r.l.), with a per-share nominal value of USD 1 in exchange for a contribution in the form of receivables on the loan granted on the same day by Fermat 1 to Fermat 2 to be converted into equity. The loan amounted to USD 1 063 740 thousand (representing the equivalent of PLN 3 335 357 thousand). The difference between the nominal value of the shares and the value of the contribution was transferred to the reserve capital of Fermat 2.
Following this increase, the share capital of Fermat 2 amounts to USD 10 654 thousand (representing the equivalent of PLN 33 406 thousand) and is divided into 10 654 057 shares with a per-share nominal value of USD 1. Fermat 1 owns 100% of the share capital of Fermat 2, representing 100% of the votes at the general shareholders' meeting of this company.

3/ An agreement was entered into between Fermat 1 and the company Fermat 3 S.à.r.l. with its registered head office in Luxembourg („Fermat 3"), a wholly-owned subsidiary of Fermat 1, based on which Fermat 1 granted to Fermat 3 an interest-free loan in the amount of USD 1 873 100 thousand (representing the equivalent of PLN 5 873 105 thousand).

4/ A loan agreement was entered into between Fermat 3 and Fermat 2, based on which Fermat 3 granted to Fermat 2 a loan in the amount of USD 1 873 100 thousand (representing the equivalent of PLN 5 873 105 thousand) to be converted into the shares of Fermat 2.
This conversion will occur at a future date to be determined by the parties. The value at which the shares of Fermat 2 will be acquired by Fermat 3 based on conversion will be equal to the nominal value of the loan described in point 3, increased by the fair market value of the proceeds directly or indirectly derived from the loan.

5/ Fermat 1 and Fermat 3 entered into a forward share purchase agreement, concerning purchase by Fermat 1 from Fermat 3 of the shares of Fermat 2, which Fermat 3 will acquire in the future from the conversion of the loan described in point 4 into the capital of Fermat 2. The purchase price amounts to USD 1 873 100 thousand (representing the equivalent of PLN 5 873 105 thousand). The amount due from purchase of the shares of Fermat 2 will be payable on a date subsequent to the acquisition by Fermat 3 of the shares of Fermat 2 based on conversion. The purchase price of the shares of Fermat 2 owed to Fermat 3 from Fermat 1 will be offset with the receivables of Fermat 3 toward Fermat 1 due to the loan described in point 3.

6/ An agreement was entered into between Fermat 2 and the company 0929260 B.C. U.L.C., a wholly-owned subsidiary of Fermat 2, on which Fermat 2 granted to 0929260 B.C. U.L.C. a loan in the amount of USD 1 873 100 thousand (representing the equivalent of PLN 5 873 105 thousand). Interest on the loan will be set at the level of the yield to maturity of the senior notes issued by Quadra FNX on 17 June 2011.The interest will be paid at the end of each calendar year. Repayment of the loan will occur at a future date to be determined by the parties.
In addition, Fermat 2 acquired 1 050 620 650 newly-issued shares in the company 0929260 B.C. U.L.C, a per-share nominal value of CAD, in exchange for a cash contribution in the amount of CAD 1 050 621 thousand (representing the equivalent of PLN 3 313 868 thousand).
Following this increase, the share capital of 0929260 B.C. U.L.C. amounts to CAD 1 050 621 thousand (representing the equivalent of PLN 3 313 868 thousand) and is divided into 1 050 620 750 shares with a per-share nominal value of CAD 1. Fermat 2 owns 100% of the share capital of 0929260 B.C. U.L.C., representing 100% of the votes at the general shareholders' meeting of this company.
The funds obtained by 0929260 B.C. U.L.C from the loan and the increase in share capital were used to finance the purchase of 100% of the shares of Quadra FNX. The assets acquired under these events are of a long-term, equity investment nature.

The data in foreign currencies in the above text were calculated at the average exchange rate of the National Bank of Poland of 5 March 2012.

Purchase of Quadra FNX Mining Ltd.
On 5 March 2012 the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver (0929260 B.C. U.L.C.), an indirect subsidiary of KGHM Polska Miedź S.A., purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 193 334 154 shares of Quadra FNX („Shares"), for the price of CAD 15.00 per share (representing the equivalent of PLN 47.31 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012), and the total price of CAD 2 900 012 thousand (representing the equivalent of PLN 9 147 219 thousand, at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012).
The transaction was closed and shares were purchased in execution of the agreement dated 6 December 2011 entered into between KGHM Polska Miedź S.A. and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX, following fulfilment after the end of the reporting period of the following conditions precedent:

- Lack of opposition of Canada's Competition Bureau to the purchase all of the shares of Quadra FNX by KGHM Polska Miedź S.A. or an affiliate thereof,
- The United States Federal Trade Commission was not opposed to the purchase of shares of Quadra FNX,

9. Significant subsequent events (continued)

- On 20 February 2012 the shareholders of Quadra FNX, by the required majority of votes, approved the purchase of Quadra FNX shares,
- The Supreme Court of British Columbia, Canada issued the final order approving the transaction,
- The Canadian Minister of Industry, in accordance with the Investment Canada Act, granted his approval of the purchase of Quadra FNX shares.

The shares of Quadra FNX purchased by 0929260 B.C. U.L.C. represent 100% of the share capital and 100% of the votes at the General Meeting of this company. The shares do not have a nominal value. The aforementioned number of Shares includes 1 832 543 shares of Quadra FNX which arose after the date of signing of the Agreement as a result of a conversion of instruments (options and warrants) issued by Quadra FNX, which are convertible to shares.

Purchase of the Shares was paid for in cash obtained by 0929260 B.C. U.L.C. based on financing agreements entered into within the KGHM Polska Miedź S.A. Group, arising from the internal funds of the Parent Entity.

The decision was simultaneously taken to delist the Shares from trade on a regulated Canadian market and to change the company's name to KGHM International Ltd.

Purchase of the Shares is of a long-term, equity investment nature.

Loan agreement signed by Sierra Gorda SCM

On 8 March 2012 Sierra Gorda SCM, held by Quadra FNX Mining Ltd („Quadra FNX"), Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, signed a loan agreement with financial institutions for USD 1 billion (representing the equivalent of PLN 3.12 billion at the average National Bank of Poland exchange rate for USD/PLN of 8 March 2012). The loan will be used to finance the Sierra Gorda Project („Sierra Gorda") in Chile.

Sierra Gorda is a joint venture of Quadra FNX and Sumitomo Group companies in which Quadra FNX holds 55%, Sumitomo Metal Mining Co., Ltd., holds 31.5% and Sumitomo Corporation holds 13.5%. Sierra Gorda is the major development project of Quadra FNX, advancing one of the largest new porphyry copper and molybdenum deposits in the world. It is estimated that capital expenditure for the project will amount to approximately USD 3 billion. Start-up of Sierra Gorda is expected in 2014. Planned annual production: approx. 220 thousand tonnes copper, 11 thousand tonnes molybdenum and 2 tonnes silver for over 20 years.

The loan was granted by the following financial institutions: Japan Bank for International Cooperation, and four private banks: Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Sumitomo Trust & Banking Co., Ltd.

The loan was granted for a period of 9.5 years. Interest on the loan is based on standard market terms applied to this type of financing, and was set based on LIBOR + a bank margin. This is a project finance type of loan, without recourse to Quadra FNX. During construction of the project, the loan is secured by a completion guarantee issued by Sumitomo Metal Mining and Sumitomo Corporation. Following commencement of the project, repayment of the loan will be guaranteed by long term copper and molybdenum off-take agreements.

Approval of the Budget of KGHM Polska Miedź S.A. for 2012

On 27 March 2012, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2012. Information regarding the detailed assumptions of the Parent Entity's Budget for 2012 is presented in point 7.9 of the report.

APPENDIX A: Methodology of calculating ratios used in the report

Assets effectiveness ratios

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

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

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

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

Assets financing ratios

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

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

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

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

Economic activity ratios

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

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

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

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

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

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

APPENDIX B: List of tables, diagrams and charts

TABLES

CHARTS

DIAGRAMS

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last name**	**Position/Function**	**Signature**
27 March 2012	Herbert Wirth	President of the Management Board	
27 March 2012	Maciej Tybura	I Vice President of the Management Board	
27 March 2012	Wojciech Kędzia	Vice President of the Management Board	