

**POLISH FINANCIAL SUPERVISION AUTHORITY**

**Annual report R 2009**

(In accordance with § 82, sec. 1 point 3 of the Decree of the Minister of Finance dated 19 February 2009  
– Journal of Laws No. 33, point 259)

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

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

publication date: 31 March 2010

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

**Ernst & Young Audit Sp. z o.o.**

(entity entitled to audit financial statements)

SELECTED FINANCIAL ITEMS	in '000 PLN		in '000 EUR	
	year 2009 period from 1 January 2009 to 31 December 2009	year 2008 period from 1 January 2008 to 31 December 2008	year 2009 period from 1 January 2009 to 31 December 2009	year 2008 period from 1 January 2008 to 31 December 2008
I. Sales	11 060 540	11 302 913	2 548 159	3 200 055
II. Operating profit	3 098 092	3 596 364	713 747	1 018 194
III. Profit before income tax	3 066 569	3 553 629	706 485	1 006 095
IV. Profit for the period	2 540 185	2 920 378	585 215	826 811
V. Other comprehensive income	(391 520)	504 965	(90 199)	142 965
VI. Total comprehensive income	2 148 665	3 425 343	495 016	969 776
VII. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII. Earnings per ordinary share (in PLN/EUR)	12.70	14.60	2.93	4.13
IX. Net cash generated from operating activities	2 487 385	2 749 171	573 051	778 339
X. Net cash used in investing activities	(946 703)	(1 721 778)	(218 104)	(487 466)
XI. Net cash used in financing activities	(2 343 562)	(1 809 021)	(539 917)	(512 166)
XII. Total net cash flow	(802 880)	(781 628)	(184 970)	(221 293)
	<b>At 31 December 2009</b>	<b>At 31 December 2008</b>	<b>At 31 December 2009</b>	<b>At 31 December 2008</b>
XIII. Non-current assets	9 508 897	8 703 565	2 314 614	2 085 985
XIV. Current assets	4 443 909	5 173 979	1 081 717	1 240 049
XV. Non-current assets held for sale	224	23 020	55	5 517
XVI. Total assets	13 953 030	13 900 564	3 396 386	3 331 551
XVII. Non-current liabilities	1 704 420	1 640 668	414 883	393 219
XVIII. Current liabilities	1 844 653	1 668 604	449 017	399 915
XIX. Equity	10 403 957	10 591 292	2 532 486	2 538 417

**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.**

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## **ANNUAL REPORT R 2009 COMPRISES:**

- 1. AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS**
  - 2. DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS**
  - 3. DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS**
  - 4. PRESIDENT'S LETTER**
  - 5. FINANCIAL STATEMENTS**
  - 6. REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES**
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**Lubin, March 2010**

**KGHM POLSKA MIEDŹ S.A.**

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

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Lubin, March 2010

The Polish original should be referred to in matters of interpretation.  
Translation of auditors' report originally issued in Polish.

## INDEPENDENT AUDITORS' OPINION

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

1. We have audited the attached financial statements for the year ended 31 December 2009 of KGHM Polska Miedź S.A. ('the Company') located in Lubin at M. Skłodowskiej-Curie 48, containing:
  - statement of financial position as at 31 December 2009 with total assets amounting to 13,953,030 thousand zlotys,
  - the statement of comprehensive income for the financial year from 1 January 2009 to 31 December 2009 with a total comprehensive income amounting to 2,148,665 thousand zlotys,
  - the statement of changes in equity for the financial year from 1 January 2009 to 31 December 2009 with a net decrease in equity amounting to 187,335 thousand zlotys,
  - the statement of cash flows for the financial year from 1 January 2009 to 31 December 2009 with a net cash outflow amounting to 802,880 thousand zlotys and
  - accounting policies and other explanatory information('the attached financial statements').
2. The truth and fairness<sup>1</sup> of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
  - chapter 7 of the Accounting Act, dated 29 September 1994 (uniform text - 2009 Journal of Laws No. 152, item 1223 with further amendments - 'the Accounting Act'),
  - general practice of audit of financial statements applied in Poland (based on the previously binding auditing standards issued by the National Council of Statutory Auditors and after considering the provisions of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649),

<sup>1</sup> Translation of the following expression in Polish: '*rzetelność i jasność*'

<sup>2</sup> Translation of the following expression in Polish: '*rzetelnie i jasno*'

The Polish original should be referred to in matters of interpretation.  
Translation of auditors' report originally issued in Polish.

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

4. In our opinion, the attached financial statements, in all material respects:
  - present truly and fairly all information material for the assessment of the results of the Company's operations for the financial year from 1 January 2009 to 31 December 2009, as well as its financial position<sup>3</sup> as at 31 December 2009;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
  - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Company's Articles of Association.
5. We have read the 'Directors' Report for the financial year from 1 January 2009 to 31 December 2009 and the rules of preparation of annual financial statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 - "Decree on current and periodic information").

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

Key Certified Auditor

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Marek Musiał  
certified auditor  
No. 90036

Warsaw, 26 March 2010

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<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

**KGHM Polska Miedź S.A.**

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

## **I. GENERAL NOTES**

### **1. Background**

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

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

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

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

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

The Company is the parent company of the KGHM Polska Miedź S.A. capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 7 and 35 of the accounting policies and other explanatory information to the audited financial statements for the year ended 31 December 2009.

The principal activities of the Company are as follows:

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

As at 31 December 2009, the Company's issued share capital amounted to 2,000,000 thousand zlotys. Equity as at that date amounted to 10,403,957 thousand zlotys.



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

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

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

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

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

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

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

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

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

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



## **2. Financial Statements**

On 14 June 2006 the General Shareholders' Meeting decided on preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

### **2.1 Auditors' opinion and audit of financial statements**

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

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

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

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

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

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

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

1. We have audited the attached financial statements for the year ended 31 December 2009 of KGHM Polska Miedź S.A. ('the Company') located in Lubin at M. Skłodowskiej-Curie 48, containing:
  - statement of financial position as at 31 December 2009 with total assets amounting to 13,953,030 thousand zlotys,
  - the statement of comprehensive income for the financial year from 1 January 2009 to 31 December 2009 with a total comprehensive income amounting to 2,148,665 thousand zlotys,
  - the statement of changes in equity for the financial year from 1 January 2009 to 31 December 2009 with a net decrease in equity amounting to 187,335 thousand zlotys,
  - the statement of cash flow for the financial year from 1 January 2009 to 31 December 2009 with a net cash outflow amounting to 802,880 thousand zlotys and

- accounting policies and other explanatory information ('the attached financial statements').
2. The truth and fairness<sup>1</sup> of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and results of the operations of the Company and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
- chapter 7 of the Accounting Act, dated 29 September 1994 (uniform text - 2009 Journal of Laws No. 152, item 1223 with further amendments - 'the Accounting Act'),
  - general practice of audit of financial statements applied in Poland (based on the previously binding auditing standards issued by the National Council of Statutory Auditors and after considering the provisions of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649),
- in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Company's operations for the financial year from 1 January 2009 to 31 December 2009, as well as its financial position<sup>3</sup> as at 31 December 2009;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
  - are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Company's Articles of Association.
5. We have read the 'Directors' Report for the financial year from 1 January 2009 to 31 December 2009 and the rules of preparation of annual financial statements' ('the

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<sup>1</sup> Translation of the following expression in Polish: 'rzetelność i jasność'

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<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

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

We conducted the audit of the Company's financial statements during the period from 9 September 2009 to 26 March 2010. We were present at the Company's head office and at the Company's branches in different periods from 9 September 2009 to 26 March 2010.

## 2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness<sup>4</sup> of the financial statements and its preparation in accordance with the required applicable accounting policies and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations.

The Management Board also provided a letter of representations dated 26 March 2010, confirming that:

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

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

## 2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2008 were audited by Marek Musiał, certified auditor no. 90036, acting on behalf of Ernst & Young Audit Sp. z o.o. located in Warsaw, at Rondo ONZ 1 registered in the auditors' register under the number 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2008. The Company's financial statements for the year ended 31 December 2008 were approved by the General Shareholders' Meeting on 16 June 2009, and the shareholders resolved to appropriate the 2008 profit as follows:

Dividends for the shareholders	2,336,000
Reserve capital	584,378
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	2,920,378
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<sup>4</sup> Translation of the following expression in Polish: "rzetelność i jasność"

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

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

The closing balances as at 31 December 2008 were correctly brought forward in the accounts as the opening balances at 1 January 2009.

### 3. Analytical Review

#### 3.1 Basic data and financial ratios

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

	2009	2008	2007
<b>Total assets</b>	13,953,030	13,900,564	12,423,630
<b>Shareholders' equity</b>	10,403,957	10,591,292	8,965,949
<b>Profit</b>	2,540,185	2,920,378	3,798,826
 <b>Return on assets (%)</b>	 18.2	 21.0	 30.6
$\frac{\text{Profit} \times 100}{\text{Total assets}}$			
 <b>Return on equity (%)</b>	 24.0	 32.6	 46.8
$\frac{\text{Profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			
 <b>Profit margin (%)</b>	 23.0	 25.8	 31.2
$\frac{\text{Profit} \times 100}{\text{Sales of finished goods, goods for resale and raw materials}}$			

KGHM Polska Miedź S.A.  
Long-form auditors' report supplementing the independent auditors' opinion  
for the year ended 31 December 2009  
(in thousand zlotys)

	2009	2008	2007
<b>Liquidity I</b>	2.6	3.3	2.7
Current assets			
Short-term creditors			
<b>Liquidity III</b>	0.6	1.2	1.4
Cash and cash equivalents			
Short-term creditors			
<b>Debtors days</b>	33 days	16 days	16 days
Trade debtors x 365			
Sales of finished goods, goods for resale and raw materials			
<b>Creditors days</b>	22 days	36 days	32 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Inventory days</b>	97 days	74 days	89 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
<b>Stability of financing (%)</b>	87.6	88.8	84.9
(Equity + long-term provisions and liabilities) x 100			
Total liabilities, provisions and equity			
<b>Debt ratio (%)</b>	25.4	23.8	27.8
(Total liabilities and provisions) x 100			
Total assets			
<b>Rate of inflation:</b>			
Yearly average	3.50%	4.2%	2.5%
December to December	3.50%	3.3%	4.0%

### 3.2 Comments

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

- Return on assets decreased to the level of 18.2% in 2009 from 21.0% in 2008 and from 30.6% in 2007;
- Return on equity decreased to the level of 24.0% in 2009 from 32.6% in 2008 and from 46.8% in 2007;
- Profit margin decreased from 25.8% at the end of 2008 to 23.0% at the end of 2009, at the end of 2007 it amounted to 31.2%;
- Liquidity I ratio amounted to 2.6 at the end of 2009 and was lower by 0.7 than the ratio at the end of 2008 and lower by 0.1 than the ratio at the end of 2007. Liquidity III ratio decreased from the level of 1.4 in 2007 and from the level of 1.2 in 2008 to the level of 0.6 in 2009;
- Debtors days ratio increased to the level of 33 days in 2009 in comparison to 16 days in years 2008 and 2007;
- Creditors days ratio decreased from 36 days in 2008 to 22 days in 2009. In 2007, creditors days ratio amounted to 32 days;
- Inventory days ratio increased from 74 days in 2008 to 97 days in 2009, in 2007 it amounted to 89 days;
- Stability of financing decreased to 87.6% at the end of 2009 in comparison to 88.8% at the end of 2008, and increased in comparison to 84.9% at the end of 2007;
- Debt ratio increased from 23.8% at the end of 2008 to 25.4% at the end of 2009.

### 3.3 Going concern

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

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

## **II. DETAILED REPORT**

### **1. Accounting System**

The Company's accounts are kept using the SAP – R3 computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (uniform text, 2009 Journal of Laws No. 152 item 1223 with further amendments – “Accounting Act”), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

### **2. Assets, Liabilities and Equity, Profit and Loss Account**

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2009.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2009.

### **3. Accounting policies and other explanatory information to the Financial Statements**

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

### **4. Directors' Report**

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



## **5. Conformity with Law and Regulations**

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

## **6. Work of Experts**

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

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

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

Key Certified Auditor

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Marek Musiał  
certified auditor  
No. 90036

Warsaw, 26 March 2010

**KGHM POLSKA MIEDŹ S.A.**

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

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Lubin, March 2010

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

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

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

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

**KGHM POLSKA MIEDŹ S.A.**

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

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Lubin, March 2010

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

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

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

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

**KGHM** POLSKA MIEDŹ S.A.

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**PRESIDENT'S LETTER**

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Lubin, March 2010

**Dear Shareholders,**

The year 2009 was a difficult period for the global economy. The changes in macroeconomic conditions significantly affected our sector as well. Despite this, the annual report which I have the pleasure of presenting to you shows a stable Company situation.

For us, this year was highly satisfying. The first forecast for profit in 2009, at the peak of the crisis, assumed that KGHM Polska Miedź S.A. would achieve a profit of PLN 488 million. We improved this forecast several times. Finally, the year ended with a profit at the level of PLN 2.5 billion. Revenues from sales amounted to PLN 11.1 billion.

It should be remembered that the results of KGHM, one of the largest exporters in this part of Europe, to a significant degree are exposed to market risk. The prices of copper and silver and the USD exchange rate significantly affect the Company's profit. In July 2008 the USD cost slightly above two zloties, while in February 2009 its rate had increased to nearly four zloties. Copper was characterised by similar volatility, beginning 2009 at 3 000 USD/tonne, and ending the year at 7 400 USD/tonne. It should be pointed out that, thanks to the weakening of the PLN versus 2008, KGHM improved its result, despite the fact that the average annual price of copper in 2009 was lower than the year before.

We are happy to report a decrease in the costs of producing copper from our internal concentrate: an average annual level of below PLN 10 thousand/tonne, and in the fourth quarter even below PLN 9 thousand/tonne. As part of the „Effectiveness” project which has been in effect since February 2009, whose goal is to further reduce the unit cost of copper production, over 70 programs are planned for realisation in all of the operational areas of KGHM Polska Miedź S.A. The potential for reducing costs was estimated at an annual average of over PLN 600 million, following the implementation of all programs.

It is worth noting that, following the first phase of the project, in which employees of KGHM selected as Change Leaders were trained by specialists from the firm McKinsey & Company, at present only employees of KGHM Polska Miedź S.A. are engaged.

During the past year we opened a Central Procurement Office, which has brought in total PLN 300 million in savings. Although the crisis undoubtedly led to a sharp reduction in the prices of services, the amount saved is mostly thanks to healthy competitive principles which have begun to be enforced in procurement policy.

We have decided to finally end the investment in the Republic of Congo. In the same year we founded company KGHM HMS Bergbau AG, whose task is searching for deposits of copper and other metals in Europe. We founded KGHM Towarzystwo Funduszy Inwestycyjnych, which goal is to create and conduct closed-end sector funds. We also took care of the social sphere, investing in medical equipment in the company Miedziowe



Centrum Zdrowia and, as promised, have continued construction of the Zagłębie Lubin stadium.

Dear shareholders,

This was a good year for KGHM Polska Miedź S.A. Proof of this is the award by the newspaper Gazeta Giełdy Parkiet „Bull and Bear” for „best investment in a company from the WIG20” in 2009. KGHM Polska Miedź S.A. was also honoured by the newspaper Puls Biznesu as Listed Company of the Year. I would like to take this opportunity to thank our investors and shareholders for their trust. It is your behaviour towards our Company that has such a substantial effect on the position of our company.

In 2009 we were also recognised as an „ideal employer”. This is an excellent moment to thank our employees. KGHM Polska Miedź S.A. would not exist without your efforts and commitment.

Financiers recognised us as a socially responsible company of the Warsaw Stock Exchange, of which I am very proud. KGHM Polska Miedź S.A. was included in a group of 16 listed companies meeting the criteria of the RESPECT Index which debuted on the Warsaw Stock Exchange. This is not only a form of promotion of our Company, but above all a confirmation of the high standards of responsible management in KGHM Polska Miedź S.A.

In the past year we found ourselves amongst the Leaders of Philanthropy. At this point I can assure you that KGHM Polska Miedź S.A. will continue to pursue a responsible pro-community policy.

On behalf of the Management Board of KGHM Polska Miedź SA I hereby declare our full readiness to further develop the Company and increase its value. KGHM Polska Miedź S.A. is a stable, transparent company with a solid position in the global market and good potential for the future.

Herbert Wirth

President of the  
Management Board

Lubin, 26 March 2010

**KGHM POLSKA MIEDŹ S.A.**

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**FINANCIAL STATEMENTS  
FOR 2009**

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**Lubin, March 2010**

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KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2009 to 31 December 2009  
(amounts in tables in thousand PLN, unless otherwise stated)

**Statement of financial position**

		<b>At</b>	
	<b>Note</b>	<b>31 December 2009</b>	<b>31 December 2008</b>
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	5 937 513	5 515 028
Intangible assets	6	76 147	80 904
Shares in subsidiaries	7	1 915 224	1 795 013
Investments in associates	7	1 159 947	1 163 640
Deferred tax assets	20	167 062	-
Available-for-sale financial assets	8	17 700	21 034
Held-to-maturity investments	9	67 097	59 545
Derivative financial instruments	10	58 034	6 501
Trade and other receivables	11	110 173	61 900
		<b>9 508 897</b>	<b>8 703 565</b>
<b>Current assets</b>			
Inventories	12	1 890 286	1 446 802
Trade and other receivables	11	1 314 598	1 222 501
Held-to-maturity investments	9	580	-
Derivative financial instruments	10	263 247	711 096
Cash and cash equivalents	13	975 198	1 793 580
		<b>4 443 909</b>	<b>5 173 979</b>
<b>Non-current assets held for sale</b>	14	<b>224</b>	<b>23 020</b>
<b>TOTAL ASSETS</b>		<b>13 953 030</b>	<b>13 900 564</b>
<b>Equity and liabilities</b>			
<b>EQUITY</b>			
Share capital	15	2 000 000	2 000 000
Accumulated other comprehensive income	16	127 228	518 748
Retained earnings	17	8 276 729	8 072 544
<b>TOTAL EQUITY</b>		<b>10 403 957</b>	<b>10 591 292</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	18	17 472	24 962
Borrowings and finance lease liabilities	19	11 576	17 173
Derivative financial instruments	10	61 354	-
Deferred tax liabilities	20	-	31 516
Liabilities due to employee benefits	21	1 098 399	975 697
Provisions for other liabilities and charges	22	515 619	591 320
		<b>1 704 420</b>	<b>1 640 668</b>
<b>Current liabilities</b>			
Trade and other payables	18	1 376 049	1 476 088
Borrowings and finance lease liabilities	19	6 109	7 120
Current corporate tax liabilities		78 183	64 866
Derivative financial instruments	10	273 503	3 771
Liabilities due to employee benefits	21	93 122	73 289
Provisions for other liabilities and charges	22	17 687	43 470
		<b>1 844 653</b>	<b>1 668 604</b>
<b>TOTAL LIABILITIES</b>		<b>3 549 073</b>	<b>3 309 272</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13 953 030</b>	<b>13 900 564</b>

Accounting policies and other explanatory information presented on pages 7 to 99 represent an integral part of these financial statements

## Statement of comprehensive income

		For the period	
INCOME STATEMENT	Note	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>CONTINUED ACTIVITIES:</b>			
Sales	23	11 060 540	11 302 913
Cost of sales	24	(7 127 255)	(7 215 430)
<b>Gross profit</b>		<b>3 933 285</b>	<b>4 087 483</b>
Selling costs	24	(107 303)	(79 791)
Administrative expenses	24	(629 077)	(615 316)
Other operating income	26	870 598	1 224 792
Other operating costs	27	(969 411)	(1 020 804)
<b>Operating profit</b>		<b>3 098 092</b>	<b>3 596 364</b>
Finance costs - net	28	(31 523)	(42 735)
<b>Profit before income tax</b>		<b>3 066 569</b>	<b>3 553 629</b>
Income tax expense	31	(526 384)	(633 251)
<b><u>Profit for the period</u></b>		<b><u>2 540 185</u></b>	<b><u>2 920 378</u></b>
<b>OTHER COMPREHENSIVE INCOME DUE TO:</b>			
Available-for-sale financial assets		(10 834)	8 099
Cash flow hedging instruments		(472 524)	617 862
Income tax related to items presented in other comprehensive income		91 838	(120 996)
<b><u>Other comprehensive net income for the financial period</u></b>		<b><u>(391 520)</u></b>	<b><u>504 965</u></b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b><u>2 148 665</u></b>	<b><u>3 425 343</u></b>
<b>Earnings per share for the annual period</b>			
(in PLN per share)	32		
- basic		12.70	14.60
- diluted		12.70	14.60

Accounting policies and other explanatory information presented on pages 7 to 99 represent an integral part of these financial statements

## Statement of changes in equity

	Note	Share capital	Retained earnings	Accumulated other comprehensive income due to:		Total equity
				Available-for-sale financial assets	Cash flow hedging instruments	
<b>At 1 January 2009</b>		<b>2 000 000</b>	<b>8 072 544</b>	<b>10 265</b>	<b>508 483</b>	<b>10 591 292</b>
Dividends for 2008	33	-	(2 336 000)	-	-	(2 336 000)
Total comprehensive income	16, 17	-	2 540 185	(8 776)	(382 744)	2 148 665
<b>At 31 December 2009</b>		<b>2 000 000</b>	<b>8 276 729</b>	<b>1 489</b>	<b>125 739</b>	<b>10 403 957</b>
<b>At 1 January 2008</b>		<b>2 000 000</b>	<b>6 952 166</b>	<b>3 705</b>	<b>10 078</b>	<b>8 965 949</b>
Dividends for 2007		-	(1 800 000)	-	-	(1 800 000)
Total comprehensive income	16, 17	-	2 920 378	6 560	498 405	3 425 343
<b>At 31 December 2008</b>		<b>2 000 000</b>	<b>8 072 544</b>	<b>10 265</b>	<b>508 483</b>	<b>10 591 292</b>

Accounting policies and other explanatory information presented on pages 7 to 99 represent an integral part of these financial statements

**Statement of cash flows**

		<b>For the period</b>	
	<b>Note</b>	<b>from 1 January 2009 to 31 December 2009</b>	<b>from 1 January 2008 to 31 December 2008</b>
<b>Cash flow from operating activities</b>			
Profit for the period		2 540 185	2 920 378
Adjustments to profit for the period	34	567 006	668 899
Income tax paid		(619 806)	(840 106)
<b>Net cash generated from operating activities</b>		<b>2 487 385</b>	<b>2 749 171</b>
<b>Cash flow from investing activities</b>			
Purchase of shares in subsidiaries		(177 106)	(128 134)
Purchase of shares in associates		-	(737 686)
Proceeds from sale of shares in associates		-	8 542
Purchase of property, plant and equipment and intangible assets		(1 161 762)	(1 080 603)
Proceeds from sale of property, plant and equipment and intangible assets	34	14 195	7 447
Purchase of available-for-sale financial assets		-	(202 123)
Proceeds from sale of available-for-sale financial assets		20 000	204 540
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(8 132)	(25 481)
Proceeds from sale of held-to-maturity investments financed from the resources of Mine Closure Fund		-	9 829
Establishment of deposits		(400 500)	-
Termination of deposits		400 500	-
Loans granted		(69 432)	(7 866)
Repayments of loans granted		1 044	53
Interest received		6 319	326
Dividends received		454 628	236 939
Advances granted for the purchase of property, plant and equipment and intangible assets		(14 229)	-
Other investment expenses		(12 228)	(7 561)
<b>Net cash used in investing activities</b>		<b>(946 703)</b>	<b>(1 721 778)</b>
<b>Cash flow from financing activities</b>			
Repayments of loans		(4 000)	(6 000)
Payments of liabilities due to finance leases		(3 310)	(2 568)
Interest paid		(252)	(453)
Dividends paid		(2 336 000)	(1 800 000)
<b>Net cash used in financing activities</b>		<b>(2 343 562)</b>	<b>(1 809 021)</b>
<b>Total net cash flow</b>		<b>(802 880)</b>	<b>(781 628)</b>
Exchange (losses)/gains on cash and cash equivalents		(15 502)	40 213
<b>Movements in cash and cash equivalents</b>		<b>(818 382)</b>	<b>(741 415)</b>
<b>Cash and cash equivalents at beginning of the period</b>	13	<b>1 793 580</b>	<b>2 534 995</b>
<b>Cash and cash equivalents at end of the period</b>	13	<b>975 198</b>	<b>1 793 580</b>
including restricted cash and cash equivalents		6 722	2 587

Accounting policies and other explanatory information presented on pages 7 to 99 represent an integral part of these financial statements



**Accounting policies and other explanatory information to the financial statements  
of KGHM Polska Miedź S.A. (the "Company") prepared for 2009**

**1. General information**

**Company name, registered office, business activities**

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

The shares of KGHM Polska Miedź S.A. are listed on the Stock Exchange in Warsaw. As of 22 December 2009, due to the termination of the deposit agreement with Deutsche Bank Trust Company Americas, the GDRs (global depository receipts) listed on the London Stock Exchange (LSE) were removed from the list of securities admitted to trading in the LSE.

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

The principal activities of the Company comprise:

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

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

**Period of operation**

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

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

**Composition of the Management Board**

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

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

## **1. General information (continuation)**

On 15 June 2009, Mr. Mirosław Krutin submitted to the Chairman of the Supervisory Board a statement in which he announced that he will not be a candidate for the position of VIIth term President of the Management Board.

On 15 June 2009 the Supervisory Board resolved that the next-term (VIIth term) Management Board of KGHM Polska Miedź S.A. shall be comprised of two Members, and has appointed the following individuals:  
Herbert Wirth – granting him the responsibilities of the President of the Management Board  
Maciej Tybura – granting him the function of Vice President.

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

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

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

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

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

### **Authorisation of the financial statements**

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

### **Going concern assumption**

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

In order to fully understand the financial position and the results of the activities of KGHM Polska Miedź S.A. as the parent entity of the Group, these financial statements should be read jointly with the annual consolidated financial statements for the period ended 31 December 2009. These financial statements will be available on the website of the Company [www.kghm.pl](http://www.kghm.pl) on dates consistent with the current report concerning dates of publication of the annual report and the consolidated annual report for 2009.

## **2. Main accounting policies**

### **2.1 Basis of preparing financial statements**

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, using the same principles for the current and comparable periods.

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

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

### **Standards and interpretations in force applied by the Company as at 1 January 2009**

IFRS 8 Operating segments

IAS 1 Presentation of Financial Statements

IAS 23 Borrowings costs

Amended IFRS 2 Vesting conditions and Cancellations

## 2. Main accounting policies (continuation)

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

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

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

IFRIC 13 Customer Loyalty Programmes.

Improvements to International Financial Reporting Standards 2008

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRS 4 Insurance Contracts and IFRS 7 Financial Instruments: Disclosures

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

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

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

The updated IAS 1 Presentation of Financial Statements

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

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

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

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

#### IFRS 8 Operating segments

This Standard replaced IAS 14 *Segment reporting*, and introduced a management approach to segment reporting based on internal reports that are reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. Details on the application of IFRS 8 are presented in note 4 of this report.

#### The updated IAS 23 Borrowing Costs

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

#### IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 introduce the requirement to apply and present a three-level hierarchy for making fair value measurements, as well as requirements to provide additional disclosure in terms of the relative reliability of fair value measurements and of any transfers between these levels. In addition, the amendments expand the existing requirements in terms of disclosure respecting liquidity risk.

Application of these amendments expands the scope of disclosures respecting financial instruments, in particular in terms of the classification of individual financial instrument classes to the level of fair value, depending on the type of measurement. Details on the implementation of these amendments to IFRS 7 are presented in note 29 of this report.

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

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

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

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

##### IFRIC 17 Distributions of Non-cash Assets to Owners

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

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

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

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

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

#### IFRIC 18 Transfers of Assets from Customers

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

#### Improvements to International Financial Reporting Standards 2009

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

#### Amended IFRS 2 Group cash-settled share-based payment transactions

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

#### IFRS 3 Business Combinations

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

#### IAS 27 Consolidated and Separate Financial Statements

The amended IAS 27 was published by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IAS 27. Implementation of this standard relates to the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. IAS 27 requires the recognition of changes in the share held in a subsidiary as an equity transaction. For this reason such a change does not affect goodwill, and there is no recognition of gains or losses. The standard also changes the manner of recognising losses incurred by a subsidiary, exceeding the value of the investment, as well as changes in the manner of recognising loss of control over the subsidiary.

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

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

The Standard becomes effective for annual periods beginning on or after 1 July 2009. As these changes are to be applied prospectively, they will affect future acquisitions and transactions with minority interest in the consolidated financial statements. They will not affect the separate financial statements of the Company.

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

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

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

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

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

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

#### Amended IAS 24 Related Party Disclosures

On 4 November 2009 the International Accounting Standards Board published an updated version of IAS 24 Related Party Disclosures. This amendment introduces a modified definition of related parties and introduces a partial exemption from the requirement to disclose information related to transactions between parties related to government bodies. The Company expects that, following the adoption of the amendment to this standard, while the scope of disclosures of transactions between companies related to the State Treasury will decrease, it will still be necessary to monitor these transactions. The amendment to this standard becomes effective for annual periods beginning on or after 1 January 2011.

#### IFRS 9 Financial instruments

On 12 November 2009 the International Accounting Standards Board published IFRS 9 „Financial instruments.” This standard is the result of the initial stage of work by the Board aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories for their classification: (1) measurement at fair value, and (2) measurement at amortised cost. This classification, made at the time the financial asset is initially recognised, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets at the moment of initial recognition, in subsequent financial periods and with respect to the reclassification of these assets and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will affect the financial statements of the Company, in particular with respect to presentation. Due to the extended adoption period, it is not possible at the present time to assess the potential changes in value which could affect the statement of financial position, the statement of comprehensive income and the statement of changes in equity. It is however expected that they will not have a significant impact on the financial statements of the Company.

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

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

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

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

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

On 26 November 2009 the International Accounting Standards Board published minor amendments to IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. These amendments represent a correction of this interpretation, and affect those limited cases in which an entity is subject to minimum funding requirements and makes prepayments towards these requirements. The amendments explain that such prepayments decrease the value of future contributions made to satisfy the said minimum funding requirements. The amendments become effective for annual periods beginning on or after 1 January 2011, and will not affect the financial statements of the Company.

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

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

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

## **2.2 Accounting policies**

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

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

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



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

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

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

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

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

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

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

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

As at the end of the reporting period, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **2.2.2 Intangible assets**

Intangible assets include:

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

On initial recognition, intangible assets are measured at cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.23.

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost. 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 accumulated amortisation and impairment losses.

Intangible assets are amortised using the straight-line method over their anticipated useful lives, which for individual groups of intangible assets are as follows:

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

KGHM Polska Miedź S.A. does not report other intangible assets with indefinite useful lives, however it has reported intangible assets not yet available for use (under construction). The Company does not amortise such items of intangible assets, however they are tested for impairment annually. Any potential impairment loss is recognised in profit or loss.

The amortisation method and the amortisation rate of intangible assets are subject to review at least at the end of each financial year.

#### **Development costs**

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

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

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

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

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

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

The cost of internally-generated development work 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, until the moment when the given intangible asset is successfully completed and the decision has been taken to implement it, are recognised as an intangible asset not available for use and are not amortised. 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.

#### **2.2.3 Equity investments**

##### **Subsidiaries**

In the financial statements, investments in subsidiaries which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*, where impairment losses are measured by comparing their carrying amount with the higher of the following amounts:

- fair value, and
- value in use.

Combinations of business entities under common control are accounted for by applying the pooling of interests method.

##### **Associates**

Associated entities are those entities over which the Company has significant influence but not control, and in which it participates in setting both the financial and operational policy of a given entity, which is commonly associated with the ownership of from 20% to 50% of the total number of votes in the entity's governing bodies or the possibility of affecting its operations in another manner.

In the financial statements of the Company, shares in associates which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*, where impairment is measured by a comparison of the carrying amount with the higher of two amounts:

- fair value and
- value in use.

#### **2.2.4. Financial Instruments**

##### **2.2.4.1 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,

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

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

#### **2.2.4 Financial Instruments (continuation)**

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

- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

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

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 Company has adopted the following principles for the classification of financial instruments 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 Company upon initial recognition as at fair value through profit or loss. A financial asset or financial liability may be designated by the Company when initially recognised at fair value through profit or loss only if:

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

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

Assets in this category are classified as current if they are available for sale and 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. They arise when the Company transfers monetary resources, delivers goods or services directly to the client, and does not intend to classify these receivables to financial assets measured at fair value through profit or loss.

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

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company 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.

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

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

#### **2.2.4 Financial Instruments (continuation)**

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

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

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

Available-for-sale financial assets are included in non-current assets unless the Company 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)**

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

##### **2.2.4.2. Initial measurement and derecognition of financial instruments**

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

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company 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 Company loses control over a given asset.

##### **2.2.4.3. Measurement of financial instruments at the end of the reporting period**

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

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

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

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

The disposal of investments of the same type but with a different cost basis is accounted for using the FIFO method, i.e. the assets disposed of are valued successively at the prices of those assets which were acquired earlier.

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

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

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.3. Measurement of financial instruments at the end of the reporting period, (continuation)**

###### **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 entity 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 entity retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the entity continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received.

In subsequent periods, the entity recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;

- financial guarantee agreements, measured at the higher of:
  - the amount determined in accordance with note 2.2.14 Provisions, or
  - the amount initially recognised less cumulative amortisation recognised according to International Accounting Standard No 18 Revenue.

##### **2.2.4.4. Fair value**

Fair value is considered to be the purchase price of a financial instrument or, in case of 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 financial instruments), the Company establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques/models which are commonly used by market participants, adjusted to the characteristics and parameters of the fair valued financial instrument and the situation of the issuer.

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the end of the reporting period. Where possible, transactions are fair valued based on market prices. In 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. In the case of volatility and forward prices, quotations given by Banks/Brokers are used. Currency interest rates and currency volatility ratios are 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 Garman-Kohlhagen model is used for European options pricing on currency markets.

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

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

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

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.4. Fair value (continuation)**

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

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

##### **2.2.4.5. Impairment of financial assets**

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

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses on equity instruments recognised in profit or loss are not reversed through profit or loss. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

Loans and receivables, as well as held-to-maturity investments which are measured at amortised cost, are individually tested for impairment at the end of each reporting period. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio). However, due to the nature of the sales of KGHM Polska Miedź S.A. and a restrictive policy towards credit risk, the Company analyses receivables primarily on an individual basis (regardless of their significance) in terms of the existence and recognition of impairment allowances.

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

##### **2.2.4.6. Embedded derivatives**

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

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

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

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

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

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.6 Embedded derivatives (continuation)**

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

Re-assessment of contracts for possible bifurcation of derivative 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 Company accounts for the embedded derivative instrument separately from the host sale/purchase contract. From the moment of bifurcation, the embedded derivative instrument is measured at fair value at the end of each reporting period. From the date of bifurcation, the embedded derivative instrument is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative instrument is accounted for as an adjustment respectively of revenues from sales or costs of sales.

##### **2.2.4.7 Hedge accounting**

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

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

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

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

- hedges the exposure to volatility of cash flows 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 reported profit or loss.

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

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

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

The Company 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 Company 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.



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

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

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.7 Hedge accounting (continuation)**

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

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

The Company ceases to account for derivative instruments as hedging instruments when they expire, are sold, terminated or settled, or when the Company revokes its designation of a given instrument as a hedging instrument. The Company 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 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.

#### **2.2.5 Inventories**

Inventories consist of the following items:

- materials,
- semi-products and work in progress,
- finished goods, and
- goods for resale.

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

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

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

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

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

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

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

#### **2.2.6 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 an entity 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.

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

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

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

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

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

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

**Recognised as receivables are:**

- **trade receivables** – these are receivables which arise from the principal operating activities of the Company,
- **other receivables**, including:
  - loans granted,
  - other financial receivables, i.e. receivables meeting the definition of financial assets,
  - other non-financial receivables, including among others advances for deliveries and fixed assets, assets under construction, intangible assets and 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.

#### **2.2.7 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.

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

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

Before the initial classification of assets (or disposal groups) as held for sale, the carrying amount of the asset is measured in accordance with applicable standards. At the moment of reclassification these assets are measured at the lower of their carrying amount and their fair value less costs to sell.

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

Intangible assets not yet available for use, are not amortised, but are tested annually for impairment.

A depreciable asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. Amongst the fundamental and most important external indications of possible impairment are the continuation over the long term of a situation in which the carrying amount of Company net assets exceeds their market value, as well as unfavourable technical, market and economic changes to the environment in which the Company operates, including on the destination markets for the Company's products. Another possible indication of impairment may be 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 Company assets.

Internal factors taken into account in determining whether Company assets have been impaired primarily include the substantial decrease in actual net cash flow in relation to the net cash flow from operating activities assumed in the Budget, and, with respect to individual assets, any physical damage, loss of utility and the generation of lower economic benefits from expenditures incurred on their acquisition or construction, if a given asset independently generates cash flow.

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

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

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

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

For the purpose of impairment assessment, assets are grouped at the lowest level at which they generate cash inflows that are largely independent of those from other assets (cash-generating units).

Cash-generating units are determined separately each time an impairment test is to be performed.

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

Impairment losses are recognised in profit or loss.

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

#### **2.2.10 Equity**

Equity in the financial statements of the Company consists of:

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

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

#### **2.2.11 Liabilities**

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

Liabilities comprise:

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

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

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

#### **2.2.12 Accrued expenses**

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

Accruals include:

- 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. Main accounting policies (continuation)**

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

#### **2.2.13 Deferred income**

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

#### **2.2.14 Provisions**

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

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

- future costs of mine decommissioning, after the conclusion of mining activities,
- costs of decommissioning of technological facilities (in the copper smelters) and other facilities 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 external firms or within the Company. Provisions are reviewed at the end of the reporting period.

The amount of provisions set at 1 January 2004, i.e. at the transition date for application of IFRS for the purposes of preparing the consolidated financial statements, recognised in the cost of property, plant and equipment, was calculated based on the optional exemption set out in IFRS 1 *First-time Adoption of IFRS*. Beginning from 1 January 2004, all changes arising from changes in the amount of provisions are recognised in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

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

#### **2.2.15 Employee benefits**

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

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

Actuarial gains and losses increase or decrease costs recognised in profit or loss in the period in which they arose.

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

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

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

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

#### **2.2.16 Income taxes (including deferred tax)**

Income taxes in the income statement comprise: current tax and deferred tax.

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

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

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

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

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

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

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

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 appropriate other comprehensive income item, or
- arises from a business combination – in which case the deferred tax affects goodwill or the excess of interest in the fair value of net assets over the cost of acquisition.

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

#### **2.2.17 Contingent and other liabilities not recognised in the statement of financial position**

Contingent liability is:

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

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

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

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

#### **2.2.17 Contingent and other liabilities not recognised in the statement of financial position (continuation)**

Other liabilities not recognised in the statement of financial position include, among others:

- liabilities towards the State Treasury from payment due to perpetual usufruct of land,
- liabilities towards local government entities from payment due to perpetual usufruct of land acquired for a fee on a secondary market, expressed in the total amount of future minimum payments arising from contracts,
- liabilities towards other entities due to payments arising from non-cancellable operating lease contracts, expressed in the total amount of future minimum payments arising from the contract.

#### **2.2.18 Statement of comprehensive income**

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

#### **2.2.19 Income statement**

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

#### **2.2.20 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 derivative instruments, which are separated from the host sales contract in accordance with point 2.2.4.6.

Sales revenues are adjusted for the gain or loss from the settlement of derivative instruments hedging future cash flows, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

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

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

- income and gains from investments,
- gains from the measurement and realisation of trading derivative instruments and the ineffective portion of gains from the realisation and re-measurement to fair value of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- reversal of impairment losses on held-to-maturity investments, available-for-sale financial assets, and loans and shares in subsidiaries and associates,
- 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 Company, including:

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

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

Revenues from the sale of products, goods for resale and materials are recognised when:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods for resale, finished goods and materials,
- the Company has ceased to have a continued involvement in the management of goods for resale, finished goods and materials sold to the extent usually associated with 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 Company, and

## 2. Main accounting policies (continuation)

### 2.2 Accounting policies (continuation)

#### 2.2.20 Revenues (continuation)

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from the sale of services are recognised when:

- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Company,
- 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.

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

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

#### 2.2.21 Costs

The Company 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 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 balance sheet date is adjusted at each balance sheet date by any change in the fair value of embedded derivative instruments, which are separated from the host purchase contract in accordance with point 2.2.4.6.

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

The total cost of products, goods for resale and materials sold comprises:

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

In addition, costs for the given reporting period which affect the financial result of the period include:

**other operating costs**, indirectly connected with operating activities, including in particular:

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

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

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

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

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

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

##### **Functional and presentation currency**

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

##### **Transactions and balances**

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

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

At the end of each reporting period:

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

Foreign exchange gains or losses arising on the settlement of a foreign currency transaction, or on the measurement and translation of foreign currency monetary assets and liabilities (other than derivatives) denominated in a foreign currency, are recognised in profit or loss. Foreign exchange gains or losses arising on the measurement of foreign currency derivatives, are recognised in profit or loss as a re-measurement to fair value provided they do not represent the change in the fair value of the effective cash flow hedge or a hedge in a net investment in a foreign operation. In such a case they are recognised in 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 are recognised as a cost in profit or loss in the period in which they were incurred.

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

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.



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

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

#### **2.2.23 Borrowing costs (continuation)**

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

#### **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.

#### **2.2.25 Government grants**

Non-monetary grants are accounted for at 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.

#### **2.2.26 Segment reporting**

Segment reporting involves the grouping of segments by the component parts of an entity:

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

The activities of KGHM Polska Miedź S.A. represent both a single operating segment and the reporting segment „The production of copper, precious metals and other smelter products”. The Management Board of the Company is the main body responsible for making decisions as to the allocation of resources and for assessing segment results (the chief operating decision maker, or CDM). Management information provided to the CDM is prepared at the Company level. The mining and production activities of KGHM Polska Miedź S.A. are organised as a combined line of production whose final stage is the sale of the final product to the external customer through the Head Office.

#### **2.2.27 Capital management**

The management of capital in KGHM Polska Miedź S.A. is aimed at maintaining the capacity to continue operations, including the realisation of planned investments, in a manner allowing the Company to generate returns for its shareholders and bring benefits to other stakeholders.

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

1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets,

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

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

#### **2.2.27 Capital management (continuation)**

2. The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation, and
3. The average weighted cost of capital ratio, calculated as the average weighted cost of equity and borrowed capital. The planned level of this ratio is used to evaluate the planned effectiveness of investment projects.

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

Earnings per share for each period are calculated by dividing the profit for the given period 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 Payments to capital**

Payments to reserve capital by the Company are accounted for as either a non-current or current financial receivables. Non-returnable payments, including those used to cover losses in the financial statements, are accounted for as an increase in the value of investments.

The entity which receives a non-returnable payment accounts for it in retained earnings as a payment to capital.

#### **2.2.31 Acquisition of shares in the increased share capital.**

Acquired shares are accounted for at the date of signing of the agreement (for stock companies) or notarial act (for limited liability companies). If the deed of a limited liability company formation allow for an increase in its share capital to a specified amount without any change to the deed of company formation, then the acquisition of shares is accounted for at the date of passage of the relevant resolution by the General Shareholders' Meeting.

### **3. Important estimates and assumptions**

#### **3.1 Classification and measurement of financial instruments**

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

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

#### **3.2 Measurement of shares**

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

#### **3.3 Estimation of provisions**

1. At 31 December 2009 the Company recognised in its accounts a provision for future employee benefits due to post-mortem benefits in the amount of PLN 25 508 thousand. The effects of estimation of the provision were recognised in the financial result as they are immaterial.  
Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments are estimated using actuarial methods. A change in the financial factors being the basis for estimation, i.e.
  - an increase in the discount rate by 1% and an increase by 1 % in the coal price and wages increase rate would cause an increase in the provision by PLN 8 871 thousand,
  - a decrease in the discount rate by 1% and an increase by 1 % in the coal price and wages increase rate would cause an increase in the provision by PLN 330 188 thousand,
  - an increase in the discount rate by 1% and a decrease by 1 % in the coal price and wages increase rate would cause a decrease in the provision by PLN 224 678 thousand,
  - a decrease in the discount rate by 1% and a decrease by 1 % in the coal price and wages increase rate would cause a decrease in the provision by PLN 8 754 thousand.
2. Provision for decommissioning costs of mines and other facilities.

These 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),
- b) the real discount rate calculated based on the profitability of treasury bonds with the maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation.

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

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

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits (Note 21).

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

#### **3.4 Deferred tax assets/liabilities**

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

The probability of realising deferred tax assets is considered certain.

#### **3.5 Presentation**

The Company recognises income and costs related to financial investments under other operating activities in profit or loss on the grounds that these activities (in particular investments in the telecom sector) are connected with the operating activities of KGHM Polska Miedź S.A. Detailed principles of recognition of income and costs have been described in Note 2 point 2.2.20 and 2.2.21.

### **4. Business segments**

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

As part of the process of implementation of this standard, the Company performed an analysis of the organisational structure, the system of internal reporting and the management model. Based on this analysis it was determined that the Company represents a single operating and reporting segment, which may be defined as „Production of copper, precious metals and other smelter products”.

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the material used in the next stage. Copper ore extracted in the mines is transported to processing plants where it is enriched. As a result of this process, copper concentrate is produced, and then it is smelted and fire refined into copper anodes, which are then subjected to electrolytic refining to produce copper cathodes. In the copper processing process these cathodes are used to produce wire rod and round billets. The anode slime which is generated during the process of electrorefining is treated as a raw material for the production of precious metals.

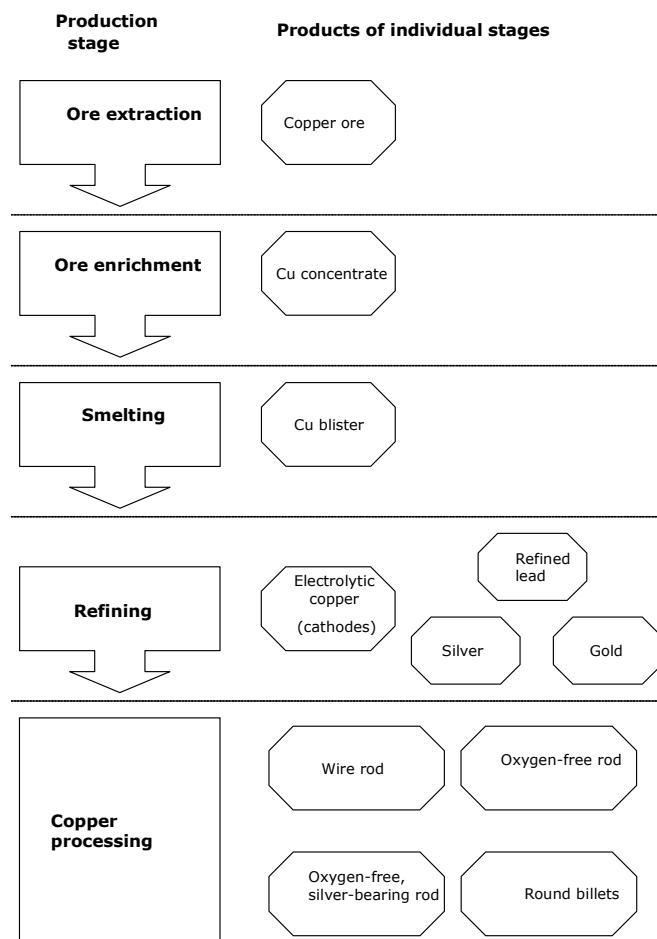
Settlements between further stages of the production process are based on valuation at the production cost, and as a result the internal organisational units (mines, processing plants, smelters) in the production cycle do not show a profit from sales. The financial data which are prepared for management accounting purposes are based on the same accounting principles which are used to prepare the financial statements. The body responsible for periodically reviewing these internal reports in order to make primary operational decisions is the Management Board of the Company, as the body responsible for allocating resources and for the financial results. The internal reports of the Company on its results are prepared on a monthly basis, and do not contain financial data on the separate stages of the production process.

The organisational structure of KGHM Polska Miedź S.A. includes ten divisions and a Head Office. The Head Office carries out marketing and sales of the Company's basic products - copper cathodes, round billets, wire rod and silver – as well as the management of financial assets.

#### 4. Business segments (continuation)

##### Production and sale of basic products

In 2009 the Company produced approx. 502 thousand tonnes of electrolytic copper and 1 203 tonnes of silver.



##### Segment assets and liabilities

	At	
	31 December 2009	31 December 2008
<b>Assets</b>	<b>13 953 030</b>	<b>13 900 564</b>
<b>Liabilities</b>	<b>3 549 073</b>	<b>3 309 272</b>
Debt ratio (%)	25.4	23.8

The main item in the segment's assets is property, plant and equipment, which at 31 December 2009 had a net carrying amount of PLN 5 937 513 thousand (at 31 December 2008 PLN 5 515 028 thousand), amounting to 42.5 % of total assets. Depreciation of property, plant and equipment at 31 December 2009 amounted to PLN 7 104 333 thousand, with impairment of PLN 7 602 thousand (at 31 December 2008 respectively PLN 6 859 667 thousand and PLN 6 408 thousand). The property, plant and equipment and intangible assets of the segment are all located in Poland.

Another significant item in the segment's assets is also investments in subsidiaries and associates measured at cost less any impairment. At 31 December 2009 the value of shares in subsidiaries amounted to PLN 1 915 224 thousand (at 31 December 2008 PLN 1 795 013 thousand), while the value of investments in associates at 31 December 2009 amounted to PLN 1 159 947 thousand (at 31 December 2008 PLN 1 163 640 thousand).

#### 4. Business segments (continuation)

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

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Development</b>	<b>513 195</b>	<b>492 015</b>
in mining	429 759	422 123
in metallurgy	78 180	62 331
in other divisions	5 256	7 561
<b>Replacement</b>	<b>556 617</b>	<b>647 860</b>
in mining	403 748	457 707
of which mining machinery	194 485	222 204
in metallurgy	140 818	180 804
in other divisions	12 051	9 349
<b>Total</b>	<b>1 069 812</b>	<b>1 139 875</b>

For purposes of making decisions on the allocation of resources, internal reports on expenditures on tangible investments are presented with a breakdown by expenditures on development and replacements. In accordance with the accounting standards in force in the Company, the amount of investment comprises expenditure on the replacement of significant parts of fixed assets and on significant maintenance.

##### Financial results of the segment

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Sales</b>	<b>11 060 540</b>	<b>11 302 913</b>
Interest income	82 487	123 388
Interest cost	(4 400)	(1 983)
Amortisation/depreciation	(547 653)	(481 376)
Revaluation of provisions for employee benefits	(142 535)	(129 692)
Gains on measurement and realisation of derivative instruments	261 582	672 624
Losses on measurement and realisation of derivative instruments	(800 219)	(884 625)
Income tax	(526 384)	(633 251)
<b>Profit for the period</b>	<b>2 540 185</b>	<b>2 920 378</b>
ROA - return on assets (%)	18.2	21.0
ROE - return on equity (%)	24.4	27.6
<b>EBITDA (EBIT + amortisation/depreciation)</b>	<b>3 645 745</b>	<b>4 077 740</b>

#### 4. Business segments (continuation)

##### Geographical areas

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

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Poland	2 572 962	3 430 643
Germany	1 984 427	1 213 257
France	752 601	1 332 686
Great Britain	1 227 829	829 268
The Czech Republic	512 859	739 645
Austria	161 622	201 567
Hungary	239 023	162 082
China	1 674 218	1 167 953
Other countries	1 934 999	2 225 812
<b>Total</b>	<b>11 060 540</b>	<b>11 302 913</b>

##### Main clients

Main clients of the Company with whom the value of turnover exceeded 10% of the entity's revenues

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Client 1	1 144 349	1 699 268
Client 2	1 162 788	-

#### 5. Property, plant and equipment

	At	
	31 December 2009	31 December 2008
Land	15 990	14 307
Buildings and constructions	2 504 055	2 359 313
Technical equipment and machinery	2 472 024	2 109 019
Motor vehicles	48 693	34 848
Other fixed assets	15 623	16 236
Assets under construction	881 128	981 305
<b>Total</b>	<b>5 937 513</b>	<b>5 515 028</b>

KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2009 to 31 December 2009  
(amounts in tables in thousand PLN, unless otherwise stated)

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

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

	Note	Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
<b>At 1 January 2009</b>								
Gross carrying amount		14 307	5 902 922	5 291 619	125 274	62 730	984 251	<b>12 381 103</b>
Accumulated depreciation		-	(3 543 609)	(3 179 465)	(90 099)	(46 494)	-	<b>(6 859 667)</b>
Impairment losses		-	-	(3 135)	(327)	-	(2 946)	<b>(6 408)</b>
Net carrying amount		<b>14 307</b>	<b>2 359 313</b>	<b>2 109 019</b>	<b>34 848</b>	<b>16 236</b>	<b>981 305</b>	<b>5 515 028</b>
<b>Changes in 2009</b>								
Settlement of assets under construction		1 689	352 530	780 080	21 067	3 975	(1 159 341)	-
Direct purchases		-	-	-	-	-	1 041 441	<b>1 041 441</b>
Internally developed		-	-	-	-	-	14 977	<b>14 977</b>
Disposal		(6)	-	(3 506)	(419)	(5)	-	<b>(3 936)</b>
Scrapping/decommissioning or write-off		-	(41 557)	(263 998)	(2 213)	(2 675)	(224)	<b>(310 667)</b>
Reclassification from non-current assets classified as held for sale to property, plant and equipment		-	-	-	671	-	-	<b>671</b>
Other changes		-	86	53	-	(29)	2 970	<b>3 080</b>
Change in amount of provision for costs of decommissioning	22	-	(77 221)	-	-	-	-	<b>(77 221)</b>
Transfer between groups		-	79	(2 256)	2 177	-	-	-
Depreciation	24	-	(123 151)	(402 858)	(7 574)	(4 574)	-	<b>(538 157)</b>
Decrease in accumulated depreciation due to scrapping, sale and other		-	35 170	255 490	654	2 695	-	<b>294 009</b>
Increase in accumulated depreciation due to reclassification from non-current assets classified as held for sale to property, plant and equipment		-	-	-	(518)	-	-	<b>(518)</b>
Impairment losses	24	-	(1 194)	-	-	-	-	<b>(1 194)</b>
<b>At 31 December 2009</b>								
Gross carrying amount		15 990	6 136 839	5 801 992	146 557	63 996	884 074	<b>13 049 448</b>
Accumulated depreciation		-	(3 631 590)	(3 326 833)	(97 537)	(48 373)	-	<b>(7 104 333)</b>
Impairment losses		-	(1 194)	(3 135)	(327)	-	(2 946)	<b>(7 602)</b>
Net carrying amount		<b>15 990</b>	<b>2 504 055</b>	<b>2 472 024</b>	<b>48 693</b>	<b>15 623</b>	<b>881 128</b>	<b>5 937 513</b>

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

	Note	Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
<b>At 1 January 2008</b>								
Gross carrying amount		14 307	5 774 261	4 961 289	126 364	60 625	610 672	<b>11 547 518</b>
Accumulated depreciation		-	(3 525 472)	(3 048 265)	(92 932)	(45 084)	-	<b>(6 711 753)</b>
Impairment losses		-	-	(3 135)	-	-	-	<b>(3 135)</b>
Net carrying amount		<b>14 307</b>	<b>2 248 789</b>	<b>1 909 889</b>	<b>33 432</b>	<b>15 541</b>	<b>610 672</b>	<b>4 832 630</b>
<b>Changes in 2008</b>								
Settlement of assets under construction		-	197 933	542 623	11 578	4 887	(757 021)	-
Direct purchases		-	-	-	-	-	1 116 498	<b>1 116 498</b>
Internally developed		-	-	-	-	-	13 452	<b>13 452</b>
Disposal		-	(2 537)	(4 466)	(844)	(66)	-	<b>(7 913)</b>
Scrapping/decommissioning or write-off		-	(115 440)	(198 117)	(4 462)	(2 014)	(68)	<b>(320 101)</b>
Reclassification to non-current assets classified as held for sale or inclusion in a disposal group		-	-	-	(7 825)	-	-	<b>(7 825)</b>
Other changes		-	116	1 029	463	(702)	718	<b>1 624</b>
Change in amount of provisions for costs of decommissioning	22	-	37 850	-	-	-	-	<b>37 850</b>
Transfer between groups		-	10 739	(10 739)	-	-	-	-
Depreciation	24	-	(121 991)	(335 867)	(7 149)	(4 149)	-	<b>(469 156)</b>
Decrease in accumulated depreciation due to scrapping, sale and other		-	103 854	204 667	9 982	2 739	-	<b>321 242</b>
Impairment losses	24/27	-	-	-	(327)	-	(2 946)	<b>(3 273)</b>
<b>At 31 December 2008</b>								
Gross carrying amount		14 307	5 902 922	5 291 619	125 274	62 730	984 251	<b>12 381 103</b>
Accumulated depreciation		-	(3 543 609)	(3 179 465)	(90 099)	(46 494)	-	<b>(6 859 667)</b>
Impairment losses		-	-	(3 135)	(327)	-	(2 946)	<b>(6 408)</b>
Net carrying amount		<b>14 307</b>	<b>2 359 313</b>	<b>2 109 019</b>	<b>34 848</b>	<b>16 236</b>	<b>981 305</b>	<b>5 515 028</b>



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

Depreciation of property, plant and equipment used in production or in providing services was recognised in profit or loss as a cost of sales in the amount of PLN 524 291 thousand (for year 2008, PLN 454 273 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 13 852 thousand (for year 2008, PLN 14 870 thousand) and in selling costs in the amount of PLN 14 thousand (for year 2008, PLN 13 thousand).

At 31 December 2009 KGHM Polska Miedź S.A. held property, plant and equipment (motor vehicles) based on a finance lease agreement in the gross amount of PLN 464 thousand and depreciation of PLN 131 thousand (at 31 December 2008 the gross amount of PLN 464 thousand and depreciation of PLN 39 thousand).

The net carrying amount of property, plant and equipment at 31 December 2009 used for mining purposes was PLN 3 102 316 thousand, and was composed of industrial buildings, mining constructions (mine excavations, pipelines), cables and telecom lines, ventilators, pumps, mining machinery, power equipment, mine belt conveyors, air conditioning equipment and railway tracks.

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

	At							
	31 December 2009				31 December 2008			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
<b>Land</b>	3 936	-	-	3 936	2 358	-	-	2 358
<b>Buildings and constructions</b>	71 267	1 773	38 273	32 994	74 772	1 786	41 981	32 791
<b>Technical equipment and machinery</b>	5 386	175	4 665	721	4 860	213	3 966	894
<b>Other property, plant and equipment</b>	852	9	827	25	852	26	817	35
<b>Total</b>	<b>81 441</b>	<b>1 957</b>	<b>43 765</b>	<b>37 676</b>	<b>82 842</b>	<b>2 025</b>	<b>46 764</b>	<b>36 078</b>

### Amount of compensation from parties external to the Company, recognised in profit or loss, with respect to property, plant and equipment for which an impairment loss was recognised

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Amount of compensation recognised in profit or loss</b>	4 763	1 754

### Information about value of collateral established on property, plant and equipment for payables payment KGHM Polska Miedź S.A. is presented in note 19.1 Loans

#### Perpetual usufruct of land

At 31 December 2009 the Divisions of the Company used land based on perpetual usufruct rights comprising a total area of 5 700 hectares (at 31 December 2008: 5 708 hectares).

	At	
	31 December 2009 (in hectares)	31 December 2008 (in hectares)
Lubin Mine	45	53
Polkowice-Sieroszowice Mine	119	119
Rudna Mine	92	92
Ore Enrichment Plants	61	61
Głogów Smelter	2 046	2 046
Legnica Smelter	206	206
Cedynia Wire Rod Plant	48	48
Tailings Plant	3 072	3 072
Mine-smelter Emergency Rescue Unit	2	2
Data Center	3	3
Head Office	6	6

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

The Company received these rights free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the core business of the Company, which also includes protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company. Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights at 31 December 2009.

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

<b>Total value of future minimum fees due to perpetual usufruct of land</b>	<b>At</b>	
	<b>31 December 2009</b>	<b>31 December 2008</b>
Under one year	6 047	6 173
From one to five years	26 401	24 472
Over five years	349 598	351 518
<b>Total:</b>	<b>382 046</b>	<b>382 163</b>

	<b>For the period</b>	
	<b>from 1 January 2009 to 31 December 2009</b>	<b>from 1 January 2008 to 31 December 2008</b>
<b>Fees due to perpetual usufruct of land recognised in profit or loss</b>	<b>6 044</b>	<b>5 960</b>

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

Construction of the SW-4 shaft	301 116
Construction of the Głogów Głęboki – Przemysłowy shaft	145 461
Mining region infrastructural development in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine	83 244
Primary equipment in mines	36 387
Development of hydrotransport installation, including direct pumping of tailings from the OEPs to the Żelazny Most tailings pond	35 798
Power and communications facilities - Divisions	34 576
<b>Total</b>	<b>636 582</b>

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

Construction of the SW-4 shaft	196 452
Construction of the Głogów Głęboki – Przemysłowy shaft	194 386
Mining region infrastructural development in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine	95 401
Development of hydrotransport installation, including direct pumping of tailings from the OEPs to the Żelazny Most tailings pond	47 338
Investments in power and communications facilities	47 149
Pyrometallurgy modernisation in Głogów Smelter	46 493
<b>Total</b>	<b>627 219</b>

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

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

	At	
	31 December 2009	31 December 2008
For the purchase of property, plant and equipment	211 596	378 516
For the purchase of intangible assets	11 470	13 534
<b>Total capital commitments:</b>	<b>223 066</b>	<b>392 050</b>

## 6. Intangible assets

	At	
	31 December 2009	31 December 2008
Development costs	1 046	1 344
Software	1 842	2 250
Acquired concessions, patents, licenses	24 876	27 890
Other intangible assets	33 672	34 128
Intangible assets not yet available for use	14 711	15 292
<b>Total</b>	<b>76 147</b>	<b>80 904</b>

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

Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use	Total
<b>At 1 January 2009</b>						
Gross carrying amount	8 551	18 734	63 510	37 509	16 085	<b>144 389</b>
Accumulated amortisation	(7 207)	(16 484)	(35 620)	(3 381)	-	<b>(62 692)</b>
Impairment losses	-	-	-	-	(793)	<b>(793)</b>
Net carrying amount	<b>1 344</b>	<b>2 250</b>	<b>27 890</b>	<b>34 128</b>	<b>15 292</b>	<b>80 904</b>
<b>Changes in 2009</b>						
Transfer from intangible assets not yet available for use	239	324	4 441	316	(5 320)	-
Direct purchases	-	-	-	-	10 241	<b>10 241</b>
Other changes	-	-	79	-	(5 502)	<b>(5 423)</b>
Liquidation or write-off	(136)	(236)	(425)	-	-	<b>(797)</b>
Amortisation	(537)	(732)	(7 455)	(772)	-	<b>(9 496)</b>
Decrease in accumulated amortisation due to liquidation, sale and other	136	236	346	-	-	<b>718</b>
<b>At 31 December 2009</b>						
Gross carrying amount	8 654	18 822	67 605	37 825	15 504	<b>148 410</b>
Accumulated amortisation	(7 608)	(16 980)	(42 729)	(4 153)	-	<b>(71 470)</b>
Impairment losses	-	-	-	-	(793)	<b>(793)</b>
Net carrying amount	<b>1 046</b>	<b>1 842</b>	<b>24 876</b>	<b>33 672</b>	<b>14 711</b>	<b>76 147</b>

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

Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use	Total
<b>At 1 January 2008</b>						
Gross carrying amount	8 763	20 672	44 708	37 088	22 393	<b>133 624</b>
Accumulated amortisation	(7 275)	(18 367)	(29 693)	(2 627)	-	<b>(57 962)</b>
Impairment losses	(67)	-	-	-	(765)	<b>(832)</b>
Net carrying amount	<b>1 421</b>	<b>2 305</b>	<b>15 015</b>	<b>34 461</b>	<b>21 628</b>	<b>74 830</b>
<b>Changes in 2008</b>						
Transfer from intangible assets not yet available for use	358	939	10 698	-	(11 995)	-
Direct purchases	-	-	12 148	-	8 879	<b>21 027</b>
Liquidation or write-off	(570)	(2 877)	(4 044)	-	(76)	<b>(7 567)</b>
Other changes	-	-	-	421	(3 116)	<b>(2 695)</b>
Amortisation	(501)	(994)	(9 971)	(754)	-	<b>(12 220)</b>
Impairment losses	67	-	-	-	(28)	<b>39</b>
Decrease in accumulated amortisation due to liquidation, sale and other	569	2 877	4 044	-	-	<b>7 490</b>
<b>At 31 December 2008</b>						
Gross carrying amount	8 551	18 734	63 510	37 509	16 085	<b>144 389</b>
Accumulated amortisation	(7 207)	(16 484)	(35 620)	(3 381)	-	<b>(62 692)</b>
Impairment losses	-	-	-	-	(793)	<b>(793)</b>
Net carrying amount	<b>1 344</b>	<b>2 250</b>	<b>27 890</b>	<b>34 128</b>	<b>15 292</b>	<b>80 904</b>

## 6. Intangible assets (continuation)

At 31 December 2009, the major item of intangible assets is the documentation of geological information on the "Głogów Głęboki" deposit, included under Other Intangible Assets, with a carrying amount of PLN 28 735 thousand and the remaining amortisation period of 45 years (at 31 December 2008: PLN 29 382 thousand) and the established mining rights for extracting copper ore from the "Głogów Głęboki Przemysłowy" deposit with a carrying amount of PLN 3 907 thousand and the remaining amortisation period of 46 years (at 31 December 2008: PLN 3 994 thousand). The amortisation of intangible assets utilised in the production or in the providing of services was recognised under cost of sales in profit or loss in the amount of PLN 8 573 thousand (for the period from 1 January to 31 December 2008: PLN 11 319 thousand). The amortisation of other intangible assets was recognised in administrative expenses in the amount of PLN 923 thousand (for the period from 1 January to 31 December 2008: PLN 901 thousand).

## 7. Investments in subsidiaries and associates

	Shares in subsidiaries	Investments in associates
<b>At 1 January 2009</b>		
Amount at cost	3 065 832	1 163 640
Impairment losses	(1 270 819)	-
<b>Net carrying amount at 1 January 2009</b>	<b>1 795 013</b>	<b>1 163 640</b>
Changes in 2009		
- Acquisition of shares	2 800	-
- Taking up shares	167 370	-
- Impairment losses	(49 959)	-
- Adjustment of cost due to refund of a tax on civil-law transactions	-	(3 693)
<b>At 31 December 2009</b>		
Amount at cost	3 236 002	1 159 947
Impairment losses	(1 320 778)	-
<b>Net carrying amount at 31 December 2009</b>	<b>1 915 224</b>	<b>1 159 947</b>
<b>At 1 January 2008</b>		
Amount at cost	2 999 152	438 559
Impairment losses	(1 195 762)	-
<b>Net carrying amount at 1 January 2008</b>	<b>1 803 390</b>	<b>438 559</b>
Changes in 2008		
- Acquisition of shares	-	726 390
- Taking up shares	66 680	-
- Disposal of shares	-	(1 309)
- Impairment losses	(75 057)	-
<b>At 31 December 2008</b>		
Amount at cost	3 065 832	1 163 640
Impairment losses	(1 270 819)	-
<b>Net carrying amount at 31 December 2008</b>	<b>1 795 013</b>	<b>1 163 640</b>

Based on IAS 36, at 31 December 2009 the Company performed an impairment test on the shares of subsidiaries, as a result of which the shares of Zagłębie Lubin S.A. were identified as impaired in the amount of PLN 49 959 thousand, increasing other operating costs. This decrease in the value of the shares held by KGHM Polska Miedź S.A. was caused by the impairment of a significant asset of Zagłębie Lubin S.A. – a football stadium with a pre-impairment loss carrying amount of PLN 109 248 thousand.

During the reporting period, Zagłębie Lubin S.A. assessed whether there is any indication that the stadium may be impaired. Due to the lack of a basis for performing a reliable assessment of the recoverable amount from a sale of the stadium in an arm's-length transaction, in order to establish the amount of the impairment loss the company assumed a value in use for the facility at its recoverable amount. Based on the discounted cash flow which is expected due to further use of the stadium, using a discount rate of 11.74%, the value in use for the stadium was assessed at PLN 59 289 thousand. The difference between the carrying amount and the value in use was accounted for in the financial result for 2009.

## 7. Investments in subsidiaries and associates (continuation)

### Investments in subsidiaries (direct share) as at 31 December 2009

Entity	Head office	Subject of activities	% of share capital held	% of voting rights held	Indirect share	Carrying amount of shares
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100	-	8 506
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100	-	6 903
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	-	36 286
KGHM Ecoren S.A.	Lubin	production of other products from non-metallic mineral resources	100	100	-	272 055
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	-	402 305
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	-	5 125
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100	-	925
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	-	150 569
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100	-	824 926
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	-	13 476
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	-	50 041
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	2.06	2.06	63.61	1 500
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	-	84 122
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	-	32 133
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45	-	23 552
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	-	2 800
						<b>1 915 224</b>

## 7. Investments in subsidiaries and associates (continuation)

### Investments in subsidiaries (direct share) as at 31 December 2008

Entity	Head office	Subject of activities	% of share capital held	% of voting rights held	Indirect share	Carrying amount of shares
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100	-	8 506
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100	-	6 903
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	-	34 786
KGHM Ecoren S.A.	Lubin	production of other products from non-metallic mineral resources	100	100	-	272 055
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	-	248 793
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	-	2 918
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100	-	925
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	-	140 418
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100	-	824 926
KGHM Congo S.P.R.L.	Lubumbashi	ore extraction services	99.98	99.98	-	-
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	-	13 476
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	-	100 000
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	2.06	2.06	63.61	1 500
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	-	84 122
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	-	32 133
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45	-	23 552
						<b>1 795 013</b>

## 7. Investments in subsidiaries and associates (continuation)

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

\* data restated for comparability

## 8. Available-for-sale financial assets

	Note	At	
		31 December 2009	31 December 2008
Shares in unlisted companies	29	9 770	9 770
Share in the AIG investment fund	29	7 930	11 264
<b>Non-current available-for-sale financial assets</b>	<b>29</b>	<b>17 700</b>	<b>21 034</b>

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

## 9. Held-to-maturity investments

	Note	At	
		31 December 2009	31 December 2008
Monetary resources of the Mine Closure Fund		67 097	59 545
<b>Total non-current held-to-maturity investments</b>	<b>29</b>	<b>67 097</b>	<b>59 545</b>
Monetary resources of the Mine Closure Fund		580	-
<b>Total current held-to-maturity investments</b>	<b>29</b>	<b>580</b>	-
<b>Total held-to-maturity investments</b>	<b>29</b>	<b>67 677</b>	<b>59 545</b>

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

Management of the MCF assets primarily involves their investment in short-term bank deposits or debt securities with a maturity of up to 1 year from the date of acquisition, and interests from these investments increase the value of the Fund. MCF assets at the end of the reporting period were invested in short-term bank deposit of PLN 67 677 thousand.

Utilisation of the MCF assets will be carried out in accordance with the approved schedule for closing the mines. A portion of this assets in the amount of PLN 580 thousand, which the Company plans to make use of within 12 months from the end of the reporting period, is presented in current held-to-maturity investments. The remainder of the assets, which are planned to be utilised in future years, is presented in non-current held-to-maturity investments in the amount of PLN 67 097 thousand, due to the restriction placed on their use to settle liabilities for at least twelve months from the end of the reporting period, despite the fact that the resources of this Fund are invested in current financial instruments (IAS 1 par 57 d.).

Information on the fair value of held-to-maturity investments was presented in Note 29.2.



## 10. Derivative financial instruments

		At	
	Note	31 December 2009	31 December 2008
<b><u>Non-current assets, of which:</u></b>			
hedging instruments		57 636	6 501
trade instruments		398	-
<b>Non-current assets due to derivative financial instruments, total:</b>		<b>58 034</b>	<b>6 501</b>
<b><u>Current assets, of which:</u></b>			
hedging instruments		244 869	711 096
trade instruments		18 378	-
<b>Current assets due to derivative financial instruments, total:</b>		<b>263 247</b>	<b>711 096</b>
<b>Total assets arising from derivative financial instruments</b>	<b>29</b>	<b>321 281</b>	<b>717 597</b>
<b><u>Non-current liabilities, of which:</u></b>			
hedging instruments		54 867	-
trade instruments		6 487	-
<b>Non-current liabilities due to derivative financial instruments, total:</b>		<b>61 354</b>	<b>-</b>
<b><u>Current liabilities, of which:</u></b>			
hedging instruments		76 772	-
trade instruments		196 731	3 771
<b>Current liabilities due to derivative financial instruments, total:</b>		<b>273 503</b>	<b>3 771</b>
<b>Total liabilities arising from derivative financial instruments</b>	<b>29</b>	<b>334 857</b>	<b>3 771</b>

**10. Derivative financial instruments (continuation)**

TRADE INSTRUMENTS			31 December 2009				31 December 2008			
			Financial assets		Financial liabilities		Financial assets		Financial liabilities	
Type of derivative instrument	Volume/ Notional	Avg. weighted price/ex. rate <sup>1</sup>								
	Cu ['000 t]	Cu [USD/t]								
	Currency ['000 USD]	Currency [USD/PLN]	Current	Non- current	Current	Non- current	Current	Non- current	Current	Non- current
<b>Derivatives – Commodity contracts - Metals - Copper</b>										
Swaps/Forwards										
Swaps/Forwards - purchase									(3 771)	
Options										
Sold call options	1.74	1			(30 514)	(6 089)				
Purchased put options	58.50	3 797.44	860	398						
Sold put options	58.50	3 797.44			(860)	(398)				
<b>TOTAL</b>			<b>860</b>	<b>398</b>	<b>(31 374)</b>	<b>(6 487)</b>			<b>(3 771)</b>	
<b>Derivatives – Currency contracts</b>										
Options USD										
Purchased call options	360 000	4.3685	493							
Sold call options	370 044*	4.2502			(28 592)					
Purchased put options	360 000*	3.2333	17 025							
Sold put options	360 000	3.2333			(136 765)					
<b>TOTAL</b>			<b>17 518</b>		<b>(165 357)</b>					
<b>TOTAL TRADE INSTRUMENTS</b>			<b>18 378</b>	<b>398</b>	<b>(196 731)</b>	<b>(6 487)</b>			<b>(3 771)</b>	

## 10. Derivative financial instruments (continuation)

HEDGING INSTRUMENTS		Volume/ Notional	Avg. weighted price/ ex. rate <sup>1</sup>	Maturity date		Period of profit/loss impact		31 December 2009				31 December 2008			
								Financial assets		Financial liabilities		Financial assets		Financial liabilities	
Type of derivative instrument	Cu ['000 t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]		From	Till	From	Till	Current	Non- current	Current	Non- current	Current	Non- current	Current	Non- current
<b>Derivatives – Commodity contracts - Metals - Copper</b>															
Options															
Purchased put options	78	5 725		Jan 10	Dec 10	Feb 10	Jan 11	39 315	5 424			37 604			
Collars	78	5 875-8 000		Jan 10	June 11	Feb 10	July 11	18 797	48 847	(76 441)	(54 867)	554 031			
<b>TOTAL</b>								<b>58 112</b>	<b>54 271</b>	<b>(76 441)</b>	<b>(54 867)</b>	<b>591 635</b>			
<b>Derivatives – Commodity contracts - Metals - Silver</b>															
Options															
Purchased put options	7 200	16		Jan 10	Dec 10	Feb 10	Jan 11	23 465	3 365			57 135	6 501		
<b>TOTAL</b>								<b>23 465</b>	<b>3 365</b>			<b>57 135</b>	<b>6 501</b>		
<b>Derivatives – Currency contracts - PLN/USD</b>															
Options															
Purchased put options	600 000	2.65		Jan 10	Dec 10	Jan 10	Dec 10	43 552				62 326			
Collars	360 000*	3.2333-4.3685		Jan 10	Dec 10	Jan 10	Dec 10	119 740		(331)					
<b>TOTAL</b>								<b>163 292</b>		<b>(331)</b>		<b>62 326</b>			
<b>TOTAL HEDGING INSTRUMENTS</b>								<b>244 869</b>	<b>57 636</b>	<b>(76 772)</b>	<b>(54 867)</b>	<b>711 096</b>	<b>6 501</b>		

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

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

## 11. Trade and other receivables

		At	
	Note	31 December 2009	31 December 2008
<b>Non-current trade and other receivables</b>			
Payment to capital		44 512	53 512
Other financial receivables		1 246	1 349
Loans granted		64 402	7 000
Impairment allowances		-	-
<b>Total loans and financial receivables, net</b>	<b>29</b>	<b>110 160</b>	<b>61 861</b>
Other non-financial receivables		11	14
Prepayments		2	25
Impairment allowances		-	-
<b>Total non-financial receivables, net</b>		<b>13</b>	<b>39</b>
<b>Non-current trade and other receivables, net</b>		<b>110 173</b>	<b>61 900</b>
<b>Current trade and other receivables</b>			
Trade receivables		1 024 785	520 436
Receivables due to unsettled derivative instruments		-	287 146
Loans granted		13 642	2 323
Payment to capital		12 104	1 500
Other financial receivables		16 819	78 548
Impairment allowances	30.3.6	(25 582)	(24 408)
<b>Total loans and financial receivables, net</b>	<b>29</b>	<b>1 041 768</b>	<b>865 545</b>
Other non-financial receivables, including:		284 121	378 049
Taxes, social security and other charge		268 714	374 435
Prepayments		2 295	2 766
Impairment allowances		(13 586)	(23 859)
<b>Total current non-financial receivables, net</b>		<b>272 830</b>	<b>356 956</b>
<b>Total current trade and other receivables, net</b>		<b>1 314 598</b>	<b>1 222 501</b>
<b>Total non-current and current trade and other receivables, net</b>		<b>1 424 771</b>	<b>1 284 401</b>

At 31 December 2009 there were no receivables due to unsettled derivative instruments (at 31 December 2008 receivables due to unsettled derivative instruments related to the instruments whose date of settlement was 5 January 2009 for the balance at 31 December 2008).

## Impairment allowances on non-financial receivables

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Impairment allowances at the beginning of the period</b>		<b>23 859</b>	<b>53 554</b>
Impairment allowances recognised in profit or loss	27	389	170
Impairment allowances reversed through profit or loss	26	(1 559)	(5 250)
Impairment allowances on costs of legal proceedings		3	6
Impairment allowances utilised during the period		(9 015)	(24 617)
Reversal of impairment allowances on costs of legal proceedings		(91)	(4)
<b>Impairment allowances at the end of the period</b>		<b>13 586</b>	<b>23 859</b>

## 12. Inventories

	At	
	31 December 2009	31 December 2008
Materials	222 307	143 597
Semi-finished products and work in progress	1 422 229	1 061 660
Finished products	243 200	238 755
Goods for resale	2 550	2 790
<b>Total carrying amount of inventories</b>	<b>1 890 286</b>	<b>1 446 802</b>

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Write-down of inventories in the financial period</b>			
Write-down of inventories recognised in cost of sales	24	1 537	62 172
Reversal of write-down recognised in cost of sales	24	(1 362)	(1 077)

At 31 December 2009 the Company did not identify basic products inventories whose net realisable value would be lower than their costs. The write-down recognised in the amount of PLN 1 537 thousand refers to remaining inventories.

## 13. Cash and cash equivalents

	Note	At	
		31 December 2009	31 December 2008
Cash in hand		63	77
Cash at bank		8 622	110 827
Other financial assets with a maturity of up to 3 months from the date of acquisition		966 513	1 682 676
<b>Total cash and cash equivalents</b>	<b>29</b>	<b>975 198</b>	<b>1 793 580</b>

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 965 222 thousand (as at 31 December 2008: PLN 1 678 914 thousand), and deposit interest in the amount of PLN 1 291 thousand (as at 31 December 2008: PLN 3 762 thousand).

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

#### 14. Non-current assets held for sale

At 31 December 2009 the value of non-current assets held for sale in the amount of PLN 224 thousand comprised: a helicopter and an automobile (at 31 December 2008 the item non-current assets held for sale in the amount of PLN 23 020 thousand comprised: shares in Polskie Towarzystwo Reasekuracyjne S.A., automobiles and a civil aircraft).

#### 15. Share capital

	Registered share capital	Share capital revaluation due to hyperinflation	Total
At 31 December 2009	2 000 000	-	<b>2 000 000</b>
At 31 December 2008	2 000 000	-	<b>2 000 000</b>
At 1 January 2008	2 000 000	-	<b>2 000 000</b>

At 31 December 2009, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share gives the right to one vote at the General Meeting. The Company does not have treasury shares. Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A. In the years ended 31 December 2009 and 31 December 2008 there were no changes in the registered share capital or in the number of shares.

At 31 December 2009, the shareholder structure was as follows:

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

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

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

At the date of preparation of this statement, the shareholder structure 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%

## 16. Accumulated other comprehensive income

	Note	Accumulated other comprehensive income due to:		Total accumulated other comprehensive income
		Available-for-sale financial assets	Cash flow hedging financial instruments	
<b>At 1 January 2009</b>		<b>10 265</b>	<b>508 483</b>	<b>518 748</b>
Fair value losses on available-for-sale financial assets		(3 334)	-	(3 334)
Impact of effective cash flow hedging transactions entered into	30	-	(39 337)	(39 337)
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(7 500)	-	(7 500)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	30	-	(433 187)	(433 187)
Deferred income tax	20	2 058	89 780	91 838
<b>Other comprehensive income</b>		<b>(8 776)</b>	<b>(382 744)</b>	<b>(391 520)</b>
<b>At 31 December 2009</b>		<b>1 489</b>	<b>125 739</b>	<b>127 228</b>
<b>At 1 January 2008</b>		<b>3 705</b>	<b>10 078</b>	<b>13 783</b>
Fair value gains on available-for-sale financial assets		9 992	-	9 992
Impact of effective cash flow hedging transactions entered into	30	-	1 197 853	1 197 853
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(1 893)	-	(1 893)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	30	-	(579 991)	(579 991)
Deferred income tax	20	(1 539)	(119 457)	(120 996)
<b>Other comprehensive income</b>		<b>6 560</b>	<b>498 405</b>	<b>504 965</b>
<b>At 31 December 2008</b>		<b>10 265</b>	<b>508 483</b>	<b>518 748</b>

### Accumulated other comprehensive income components

	31 December 2009		At 31 December 2008	
	Gross value	Net value	Gross value	Net value
<b>Accumulated other comprehensive income due to available-for-sale financial assets</b>	<b>1 838</b>	<b>1 489</b>	<b>12 672</b>	<b>10 265</b>
Fair value gains	1 838	1 489	12 672	10 265
<b>Accumulated other comprehensive income due to cash flow hedging instruments</b>	<b>155 233</b>	<b>125 739</b>	<b>627 757</b>	<b>508 483</b>
Gains on measurement	155 233	125 739	627 757	508 483
<b>Total accumulated other comprehensive income</b>	<b>157 071</b>	<b>127 228</b>	<b>640 429</b>	<b>518 748</b>

Accumulated other comprehensive income is not subject to distribution.

## 17. Retained earnings

	<b>Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396</b>	<b>Reserve capital created from profit in accordance with the Statutes</b>	<b>Profit/(loss) from prior years</b>	<b>Retained earnings, total</b>
<b>At 1 January 2009</b>	<b>660 000</b>	<b>4 492 166</b>	<b>2 920 378</b>	<b>8 072 544</b>
Profit for the period	-	-	2 540 185	2 540 185
<b>Total recognised income/(expenses)</b>	-	<b>584 378</b>	<b>(2 920 378)</b>	<b>(2 336 000)</b>
Transfer to reserve capital	-	584 378	(584 378)	-
Dividend approved and paid	-	-	(2 336 000)	(2 336 000)
<b>At 31 December 2009</b>	<b>660 000</b>	<b>5 076 544</b>	<b>2 540 185</b>	<b>8 276 729</b>
<b>At 1 January 2008</b>	<b>660 000</b>	<b>6 759 664</b>	<b>(467 498)</b>	<b>6 952 166</b>
Profit for the period	-	-	2 920 378	2 920 378
<b>Total recognised income/(expenses)</b>	-	<b>(2 267 498)</b>	<b>467 498</b>	<b>(1 800 000)</b>
Transfer to reserve capital	-	1 998 825	(1 998 825)	-
Coverage of losses by reserve capital	-	(4 266 323)	4 266 323	-
Dividend approved and paid	-	-	(1 800 000)	(1 800 000)
<b>At 31 December 2008</b>	<b>660 000</b>	<b>4 492 166</b>	<b>2 920 378</b>	<b>8 072 544</b>

Based on the Commercial Partnerships and Companies Code, the Company is required to create reserve capital against any potential (future) or existing losses, to which no less than 8 percent 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 2009 this statutory reserve capital in the Company amounts to PLN 660 000 thousand, and is recognised in equity under retained earnings.



## 18. Trade and other payables

		At	
	Note	31 December 2009	31 December 2008
<b>Non-current trade and other payables</b>			
Trade payables		2 035	-
Payables due to purchase, construction of property, plant and equipment and intangible assets		1 866	10 912
Other financial liabilities		12 382	12 676
<b>Total non-current financial liabilities (scope of IFRS7)</b>	<b>29</b>	<b>16 283</b>	<b>23 588</b>
Deferred income		1 189	1 374
<b>Total non-current non-financial liabilities</b>		<b>1 189</b>	<b>1 374</b>
<b>Total non-current trade and other payables</b>		<b>17 472</b>	<b>24 962</b>
<b>Current trade and other payables</b>			
Trade payables		425 755	377 989
Payables due to purchase, construction of property, plant and equipment and intangible assets		179 315	316 967
Payables due to unsettled derivative financial instruments	30.1.8	30 611	35 395
Other financial liabilities		14 730	17 888
<b>Total current financial liabilities (scope of IFRS7)</b>	<b>29</b>	<b>650 411</b>	<b>748 239</b>
Other financial liabilities ( IAS 19 – Employee benefits)		125 219	132 393
<b>Total current financial liabilities</b>		<b>775 630</b>	<b>880 632</b>
Liabilities due to taxes and social security		176 052	183 613
Other non-financial liabilities		34 542	43 762
Special funds		85 216	73 926
Deferred income		840	1 077
Accruals		303 769	293 078
<b>Total current non-financial liabilities</b>		<b>600 419</b>	<b>595 456</b>
<b>Total current trade and other payables</b>		<b>1 376 049</b>	<b>1 476 088</b>
<b>Total non-current and current trade and other payables</b>		<b>1 393 521</b>	<b>1 501 050</b>

The amount of payables due to unsettled derivative instruments represent the derivative instruments whose date of settlement falls on 5 January 2010 for the balance at 31 December 2009 and 5 January 2009 for the balance at 31 December 2008. These instruments were measured to fair value at the average settlement price for the month of December 2009 and of December 2008. For details see note 30.1.8.

At 31 December 2009 the most significant item in accruals in the amount of PLN 242 978 thousand (at 31 December PLN 213 611 thousand) is a provision for future payment due to the annual bonus, which is paid after approval of the financial statements in accordance with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.

## 19. Borrowings and finance lease liabilities

	Note	At	
		31 December 2009	31 December 2008
<b>Non-current loans and finance lease liabilities</b>			
Loans	29	-	3 000
Finance lease liabilities	29	11 576	14 173
<b>Total non-current loans and finance lease liabilities</b>		<b>11 576</b>	<b>17 173</b>
<b>Current loans and finance lease liabilities</b>			
Loans	29	3 005	4 012
Finance lease liabilities	29	3 104	3 108
<b>Total current loans and finance lease liabilities</b>		<b>6 109</b>	<b>7 120</b>
<b>Total loans and finance lease liabilities</b>	<b>29</b>	<b>17 685</b>	<b>24 293</b>

### 19.1 Loans

#### Loans as at 31 December 2009

Loan currency	Interest	The value of the loan	Of which payable in 2010 (current)
PLN	Fixed	3 005	3 005

#### Loans as at 31 December 2008

Loan currency	Interest	The value of the loan	Of which payable in 2009 (current)	2010 (non-current)
PLN	Fixed	7 012	4 012	3 000

As at 31 December 2009 the Company had liabilities due to loans from the Regional Fund for Environmental Protection and Water Management in the amount of PLN 3 005 thousand payable by 16 September 2010. Interest rate on the above loans is 4%.  
The repayment of the loan is guaranteed with a blank promissory note and Borrower's statement on submission to the enforcement regime under loan agreement.

## 19. Borrowings and finance lease liabilities (continuation)

### 19.2 Finance lease liabilities

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

#### Finance lease liabilities as at 31 December 2009

	2010 (current)	2011	2012	2013-2014	Total
<b>Nominal value of minimum lease payments</b>	<b>3 144</b>	<b>3 144</b>	<b>3 144</b>	<b>6 139</b>	<b>15 571</b>
Future finance costs due to finance leases	40	87	166	598	891
<b>Present value of minimum lease payments</b>	<b>3 104</b>	<b>3 057</b>	<b>2 978</b>	<b>5 541</b>	<b>14 680</b>

#### Finance lease liabilities as at 31 December 2008

	2009 (current)	2010	2011	2012- 2013	2014	Total
<b>Nominal value of minimum lease payments</b>	<b>3 187</b>	<b>3 192</b>	<b>3 192</b>	<b>6 338</b>	<b>3 087</b>	<b>18 996</b>
Future finance costs due to finance leases	79	147	232	743	514	1 715
<b>Present value of minimum lease payments</b>	<b>3 108</b>	<b>3 045</b>	<b>2 960</b>	<b>5 595</b>	<b>2 573</b>	<b>17 281</b>

## 20. Deferred tax - changes

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Deferred tax assets at the beginning of the reporting period		499 221	509 183
Deferred tax liabilities at the beginning of the reporting period		530 737	348 402
<b>Net deferred tax (liabilities)/assets at the beginning of the reporting period, of which:</b>		<b>(31 516)</b>	<b>160 781</b>
<b>Changes during the year</b>			
Charged to profit or loss	31	(246 483)	(288 733)
Credited to profit or loss	31	353 223	217 432
Decrease in equity (Accumulated other comprehensive income)	16	(155 864)	(191 475)
Increase in equity (Accumulated other comprehensive income)	16	247 702	70 479
<b>Net deferred tax assets/(liabilities) at the end of the reporting period, of which:</b>		<b>167 062</b>	<b>(31 516)</b>
Deferred tax assets at the end of the reporting period		601 467	499 221
Deferred tax liabilities at the end of the reporting period		434 405	530 737

## 20. Deferred tax – changes (continuation)

### Deferred tax assets prior to offsetting

	At 1 January 2009 based on the rate of 19%	Credited/(Charged) to profit or loss 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	At 31 December 2009 based on the rate of 19%
Interest	3	(2)	-	1
Allowances for impairment of receivables	8 543	(208)	-	8 335
Short-term accruals for wages	49 010	2 028	-	51 038
Employee benefits (holidays)	3 509	(445)	-	3 064
Provision for decommissioning of mines and other facilities	117 302	(17 849)	-	99 453
Measurement of forward transactions	38 150	136 180	-	174 330
Re-measurement of hedging instruments	1 540	(1 540)	-	-
Depreciation differences	12 607	6 723	-	19 330
Liabilities due to future employee benefits	199 306	27 081	-	226 387
Unpaid wages with surcharges	48 230	(37 244)	-	10 986
Other	21 021	(12 478)	-	8 543
<b>Total</b>	<b>499 221</b>	<b>102 246</b>	-	<b>601 467</b>

	At 1 January 2008 based on the rate of 19%	Credited/(Charged) to profit or loss 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	At 31 December 2008 based on the rate of 19%
Exchange rate differences	3 701	(3 701)	-	-
Interest	6	(3)	-	3
Allowances for impairment of receivables	14 344	(5 801)	-	8 543
Short-term accruals for wages	53 684	(4 674)	-	49 010
Employee benefits (holidays)	3 014	495	-	3 509
Provision for decommissioning of mines and other facilities	104 564	12 738	-	117 302
Measurement of forward transactions	61 383	(23 233)	-	38 150
Re-measurement of hedging instruments	9 881	(8 158)	(183)	1 540
Depreciation differences	10 862	1 745	-	12 607
Liabilities due to future employee benefits	174 665	24 641	-	199 306
Unpaid wages with surcharges	51 815	(3 585)	-	48 230
Other	21 264	(243)	-	21 021
<b>Total</b>	<b>509 183</b>	<b>(9 779)</b>	<b>(183)</b>	<b>499 221</b>

## 20. Deferred tax – changes (continuation)

### Deferred tax liabilities prior to offsetting

	At 1 January 2009 based on the rate of 19%	(Credited)/Charged to profit or loss due to a change in the balance of temporary differences	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	At 31 December 2009 based on the rate of 19%
Interest	1 207	(778)	-	429
Measurement of forward transactions	59 498	(22 360)	-	37 138
Re-measurement of hedging instruments	119 274	-	(89 780)	29 494
Depreciation differences	348 021	17 956	-	365 977
Measurement of available-for- sale financial assets	2 408	-	(2 058)	350
Other	329	688	-	1 017
<b>Total</b>	<b>530 737</b>	<b>(4 494)</b>	<b>(91 838)</b>	<b>434 405</b>

	At 1 January 2008 based on the rate of 19%	(Credited)/Charged to profit or loss due to a change in the balance of temporary differences	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	At 31 December 2008 based on the rate of 19%
Exchange rate differences	1 645	(1 645)	-	-
Interest	3 004	(1 797)	-	1 207
Measurement of forward transactions	9 556	49 942	-	59 498
Re-measurement of hedging instruments	-	-	119 274	119 274
Depreciation differences	321 334	26 687	-	348 021
Measurement of available-for- sale financial assets	869	-	1 539	2 408
Other	11 994	(11 665)	-	329
<b>Total</b>	<b>348 402</b>	<b>61 522</b>	<b>120 813</b>	<b>530 737</b>

## 21. Employee benefits

### Changes in future employee benefits

	<b>TOTAL liabilities</b>	Jubilee awards	Retirement and disability benefits	Coal equivalent	Post-mortem benefit
<b>Present value of obligations - at 1 January 2009</b>	<b>1 058 261</b>	<b>242 300</b>	<b>180 891</b>	<b>635 070</b>	<b>-</b>
Interest costs	<b>57 605</b>	12 793	9 716	34 400	696
Current service cost	<b>33 135</b>	13 967	9 629	9 166	373
Benefits paid	<b>(80 985)</b>	(33 359)	(17 665)	(28 844)	(1 117)
Actuarial losses/(gains)	<b>131 094</b>	(3 021)	5 865	103 512	24 738
<b>Present value of obligations - at 31 December 2009</b>	<b>1 199 110</b>	<b>232 680</b>	<b>188 436</b>	<b>753 304</b>	<b>24 690</b>
Past service cost unrecognised at the balance sheet date	<b>(7 589)</b>	-	(7 589)	-	-
<b>Carrying amount of liabilities - at 31 December 2009</b>	<b>1 191 521</b>	<b>232 680</b>	<b>180 847</b>	<b>753 304</b>	<b>24 690</b>
of which:					
Carrying amount of non-current liabilities	<b>1 098 399</b>	198 555	158 855	718 675	22 314
Carrying amount of current liabilities	<b>93 122</b>	34 125	21 992	34 629	2 376
<b>Present value of obligations - at 1 January 2008</b>	<b>930 256</b>	<b>243 208</b>	<b>179 971</b>	<b>507 077</b>	<b>-</b>
Interest costs	<b>51 104</b>	13 284	10 066	27 754	-
Current service cost	<b>34 660</b>	14 106	9 950	10 604	-
Benefits paid	<b>(71 486)</b>	(31 564)	(13 824)	(26 098)	-
Actuarial losses/(gains)	<b>113 727</b>	3 266	(5 272)	115 733	-
<b>Present value of obligations - at 31 December 2008</b>	<b>1 058 261</b>	<b>242 300</b>	<b>180 891</b>	<b>635 070</b>	<b>-</b>
Past service cost unrecognised at the balance sheet date	<b>(9 275)</b>	-	(9 275)	-	-
<b>Carrying amount of liabilities - at 31 December 2008</b>	<b>1 048 986</b>	<b>242 300</b>	<b>171 616</b>	<b>635 070</b>	<b>-</b>
of which:					
Carrying amount of non-current liabilities	<b>975 697</b>	214 775	155 704	605 218	-
Carrying amount of current liabilities	<b>73 289</b>	27 525	15 912	29 852	-

### Present value of future employee benefits

<b>At</b>	<b>Present value</b>
31 December 2009	1 199 110
31 December 2008	1 058 261
31 December 2007	930 256
31 December 2006	879 756
31 December 2005	831 352

## 21. Employee benefits (continuation)

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

Total costs recognised in profit or loss	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Interest costs	57 605	51 104
Current service cost	33 135	34 660
Actuarial losses	131 094	113 727
Past service cost	1 686	1 687
	<b>223 520</b>	<b>201 178</b>

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

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

Main actuarial assumptions:	2010	2011	2012	2013	2014 and beyond
- discount rate	5.60%	5.60%	5.60%	5.60%	5.60%
- rate of increase in coal prices	6%/15% *	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest wage	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in wages	7.00%	4.00%	4.00%	4.00%	4.00%

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



## 22. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
<b>Provisions at 1 January 2009</b>		<b>634 790</b>	<b>602 925</b>	<b>5 721</b>	<b>4 832</b>	<b>21 312</b>
Provisions recognised		5 658	3 919	-	1 507	232
Changes in provisions arising from updating of estimates		(108 874)	(109 084)	(48)	-	258
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect)	28	29 764	29 171	134	-	459
Utilisation of provisions		(6 228)	(2 790)	-	(1 812)	(1 626)
Release of provisions		(9 373)	(807)	(500)	(3 020)	(5 046)
Transfer to Mine Closure Fund		(17 508)	(17 508)	-	-	-
Other		5 077	5 077	-	-	-
<b>Provisions at 31 December 2009</b>		<b>533 306</b>	<b>510 903</b>	<b>5 307</b>	<b>1 507</b>	<b>15 589</b>
of which:						
<b>Non-current provisions</b>		<b>515 619</b>	<b>501 850</b>	<b>-</b>		<b>13 769</b>
<b>Current provisions</b>		<b>17 687</b>	<b>9 053</b>	<b>5 307</b>	<b>1 507</b>	<b>1 820</b>

	Note	TOTAL	Decommissioning costs of mines and other technological facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
<b>Provisions at 1 January 2008</b>		<b>631 865</b>	<b>550 311</b>	<b>4 810</b>	<b>15 219</b>	<b>61 525</b>
Provisions recognised		5 235	124	754	2 713	1 644
Changes in provisions arising from updating of estimates		42 767	39 469	(22)	-	3 320
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect)	28	38 091	37 289	217	-	585
Utilisation of provisions		(44 021)	(9 687)	-	(1 163)	(33 171)
Release of provisions		(12 205)	(230)	(38)	(11 937)	-
Transfer to Mine Closure Fund		(14 351)	(14 351)	-	-	-
Other		(12 591)	-	-	-	(12 591)
<b>Provisions at 31 December 2008</b>		<b>634 790</b>	<b>602 925</b>	<b>5 721</b>	<b>4 832</b>	<b>21 312</b>
of which:						
<b>Non-current provisions</b>		<b>591 320</b>	<b>574 224</b>	<b>2 467</b>		<b>14 629</b>
<b>Current provisions</b>		<b>43 470</b>	<b>28 701</b>	<b>3 254</b>	<b>4 832</b>	<b>6 683</b>

## 22. Provisions for other liabilities and charges (continuation)

As at 31 December 2009 the most significant item of provisions for other liabilities is the **provision for the costs of future decommissioning (liquidation) of mines and other technological facilities** with the carrying value of PLN 510 903 thousand (as at 31 December 2008: PLN 602 925 thousand), created in accordance with the methodology defined in the International Financial Reporting Standards. The decrease in the provision in 2009 was mainly caused by the change in forecast discount rates, and in particular long-term inflation. The change in the value of the provision was also affected to a significant degree by the updated (end-2009) estimate of the costs of liquidation of technological facilities, reflecting changes in the schedule of mining of the deposit and the actual costs incurred by the Company with respect to liquidation of the closed Polkowice Wschodnie region.

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

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

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

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

## 22. Provisions for other liabilities and charges (continuation)

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

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

It is expected that decommissioning costs will be incurred by the year 2047. The provision was estimated based on the currently-used technology for decommissioning of mining facilities and using the current prices and the discount rate as in the model for provisions for future employee benefits (Note 21).

### Provisions by the facilities of the highest importance in the programme of decommissioning of mines and other technological facilities at 31 December 2009

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

### Provisions by the facilities of the highest importance in the programme of decommissioning of mines and other technological facilities at 31 December 2008

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

## 23. Sales

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

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Copper, precious metals, smelter by-products	10 856 180	11 138 367
Salt	43 297	19 983
Services	54 745	50 885
Other goods	11 114	10 962
Goods for resale	56 641	43 232
Wastes and production materials	38 333	39 071
Other materials	230	413
<b>Total</b>	<b>11 060 540</b>	<b>11 302 913</b>

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

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>domestic</b>	<b>2 572 962</b>	<b>3 430 643</b>
Copper, precious metals, smelter by-products	2 376 790	3 268 572
Salt	43 297	19 983
Services	54 691	48 410
Other goods	11 114	10 962
Goods for resale	48 507	43 232
Wastes and production materials	38 333	39 071
Other materials	230	413
<b>export</b>	<b>8 487 578</b>	<b>7 872 270</b>
Copper, precious metals, smelter by-products	8 479 390	7 869 795
Services	54	2 475
Goods for resale	8 134	-
<b>Total</b>	<b>11 060 540</b>	<b>11 302 913</b>

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

## 24. Costs by type

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Depreciation of property, plant and equipment and amortisation of intangible assets	5, 6	547 653	481 376
Employee benefit costs	25	2 589 063	2 455 203
Materials and energy consumption		3 748 025	3 446 981
External services		1 028 170	1 034 444
Taxes and charges		285 178	278 017
Advertising costs and representation expenses		16 139	20 481
Property and personal insurance		13 437	8 871
Research and development costs not capitalised in intangible assets		3 724	4 883
<b>Other costs, of which:</b>		<b>5 898</b>	<b>72 371</b>
Write-down of inventories	12	1 537	62 172
Allowance for impairment of receivables	29.3	909	35
Impairment loss on property, plant and equipment, intangible assets	5, 6	1 194	327
Reversal of write-down of inventories	12	(1 362)	(1 077)
Reversal of allowance for impairment of receivables	29.3	(149)	(3)
Reversal of impairment loss on property, plant and equipment, intangible assets		-	(67)
Losses from the disposal of financial instruments	29.3	998	1 608
Other operating costs		2 771	9 376
<b>Total costs by type</b>		<b>8 237 287</b>	<b>7 802 627</b>
Cost of goods for resale and materials sold (+)		88 132	80 266
Change in inventories of finished goods and work in progress (+/-)		(364 789)	114 896
Cost of manufacturing products for internal use (-)		(96 995)	(87 252)
<b>Total cost of sales, selling and administrative costs</b>		<b>7 863 635</b>	<b>7 910 537</b>

## 25. Employee benefit costs

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Remuneration	1 800 376	1 738 947
Costs of social security and other benefits	646 152	586 564
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits	142 535	129 692
<b>Employee benefit costs</b>	<b>2 589 063</b>	<b>2 455 203</b>

## 26. Other operating income

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Income and gains from financial instruments classified under other operating activities, resulting from:	29.3	349 831	937 416
Measurement and realisation of derivative instruments		261 582	672 624
Interest		79 787	112 839
Foreign exchange gains		-	137 153
Gains from disposal		7 500	14 795
Reversal of allowance for impairment of loans		954	-
Reversal of allowance for impairment of other receivables		8	5
Gains from the disposal of shares in associates		-	7 233
Non-financial interest		2 700	10 549
Reversal of allowance for impairment of non-financial receivables		1 559	5 250
Foreign exchange losses - non-financial		-	(14 990)
Dividends received		454 848	237 174
Release of unused provisions due to:		43 987	17 513
Decommissioning of mines		32 969	4 311
Disputed issues and court proceedings		3 020	11 937
Liabilities towards municipal authorities (gminas) due to signed donation agreements		2 404	1 205
Royalties		4 810	-
Other		784	60
Penalties and compensation received		8 103	6 126
Excess payments of property tax		495	179
Government grants and other donations received		237	1 309
Surpluses identified in tangible current assets and cash and cash equivalents		9	7 160
Other operating income/gains		8 829	9 873
<b>Total other operating income</b>		<b>870 598</b>	<b>1 224 792</b>

## 27. Other operating costs

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Costs and losses on financial instruments classified under other operating activities, resulting from:	29.3	864 662	887 399
Measurement and realisation of derivative instruments		800 219	884 625
Interest		170	199
Foreign exchange losses		61 664	-
Losses on measurement of non-current liabilities		249	2 555
Allowance for impairment of loans		2 232	-
Allowances for impairment of other receivables		128	20
Impairment losses on shares in a subsidiary		49 959	75 057
Allowances for impairment of other non-financial receivables		389	170
Impairment losses on assets under construction		-	2 947
Losses on the sale of property, plant and equipment and intangible assets		17 844	9 431
Impairment losses on intangible assets not yet available for use		-	29
Donations granted		6 088	10 636
Interest on overdue non-financial liabilities		4 230	1 784
Provisions for:		8 618	15 459
Decommissioning of mines		4 217	5 824
Disputed issues, pending court proceedings		1 507	2 713
Property tax and interest on property tax		-	1 335
Other		2 894	5 587
Penalties and compensation paid		373	1 442
Effects of tax audit decisions		73	639
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events		1 452	1 102
Other operating costs/losses		15 723	14 709
<b>Total other operating costs</b>		<b>969 411</b>	<b>1 020 804</b>

## 28. Net finance costs

	<b>Note</b>	<b>For the period</b>	
		<b>from 1 January 2009 to 31 December 2009</b>	<b>from 1 January 2008 to 31 December 2008</b>
Interest expense:	29.3	1 254	2 337
On loans		336	656
Due to finance leases		918	1 681
Net foreign exchange (gains)/losses on borrowings	29.3	(178)	1 810
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect), due to:		29 764	38 091
Measurement of provisions for decommissioning of mines	22	29 171	37 289
Measurement of other provisions	22	593	802
Losses due to measurement of non-current liabilities	29.3	381	497
Other finance costs		302	-
<b>Total net finance costs</b>		<b>31 523</b>	<b>42 735</b>

## 29. Financial instruments

### 29.1 Carrying amount

#### At 31 December 2009 Categories of financial instruments

Classes of financial instruments	Note	Other financial liabilities								Total
		Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	
Shares	8	9 770	-	-	-	-	-	-	-	<b>9 770</b>
Shares in investment funds	8	7 930	-	-	-	-	-	-	-	<b>7 930</b>
Trade receivables (net)	11	-	-	-	1 003 016	-	-	-	-	<b>1 003 016</b>
Cash and cash equivalents and deposits	9,13	-	67 677	-	975 198	-	-	-	-	<b>1 042 875</b>
Other financial assets (net)	11	-	-	-	148 912	-	-	-	-	<b>148 912</b>
Derivatives - Currency	10	-	-	17 518	-	(165 357)	-	-	162 961	<b>15 122</b>
Derivatives - Commodity contracts - Metals	10	-	-	1 258	-	(37 861)	-	-	7 905	<b>(28 698)</b>
Trade payables	18	-	-	-	-	-	(608 971)	-	-	<b>(608 971)</b>
Bank and other loans	19	-	-	-	-	-	(3 005)	-	-	<b>(3 005)</b>
Other financial liabilities	18,19	-	-	-	-	-	(57 723)	(14 680)	-	<b>(72 403)</b>
		<b>17 700</b>	<b>67 677</b>	<b>18 776</b>	<b>2 127 126</b>	<b>(203 218)</b>	<b>(669 699)</b>	<b>(14 680)</b>	<b>170 866</b>	<b>1 514 548</b>



## 29. Financial instruments (continuation)

### 29.1 Carrying amount (continuation)

At 31 December 2008

#### Categories of financial instruments

Note		Categories of financial instruments								
Classes of financial instruments		Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities		Hedging instruments	Total
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Shares	8	9 770	-	-	-	-	-	-	-	9 770
Shares in investment funds	8	11 264	-	-	-	-	-	-	-	11 264
Trade receivables (net)	11	-	-	-	498 545	-	-	-	-	498 545
Cash and cash equivalents and deposits	9, 13	-	59 545	-	1 793 580	-	-	-	-	1 853 125
Other financial assets (net)	11	-	-	-	428 861	-	-	-	-	428 861
Derivatives - Currency	10	-	-	-	-	-	-	-	62 326	62 326
Derivatives - Commodity contracts - Metals	10	-	-	-	-	(3 771)	-	-	655 271	651 500
Trade payables	18	-	-	-	-	-	(705 868)	-	-	(705 868)
Bank and other loans	19	-	-	-	-	-	(7 012)	-	-	(7 012)
Other financial liabilities	18, 19	-	-	-	-	-	(65 959)	(17 281)	-	(83 240)
		21 034	59 545	-	2 720 986	(3 771)	(778 839)	(17 281)	717 597	2 719 271

## 29. Financial instruments (continuation)

### 29.2 Fair value

Classes of financial instruments	Note	At			
		31 December 2009		31 December 2008	
		Carrying amount	Fair Value	Carrying amount	Fair Value
		29.1		29.1	
Shares*	8	9 770	-	9 770	-
Shares in investment funds	8	7 930	7 930	11 264	11 264
Trade receivables (net)	11	1 003 016	1 003 016	498 545	498 545
Cash and cash equivalents and deposits	9,13	1 042 875	1 042 878	1 853 125	1 853 370
Other financial assets (net)	11	148 912	148 912	428 861	428 861
Derivatives – Currency, of which:	10	15 122	15 122	62 326	62 326
Assets		180 810	180 810	62 326	62 326
Liabilities		(165 688)	(165 688)	-	-
Derivatives - Commodity contracts	10	(28 698)	(28 698)	651 500	651 500
- Metals, of which:					
Assets		140 471	140 471	655 271	655 271
Liabilities		(169 169)	(169 169)	(3 771)	(3 771)
Trade payables	18	(608 971)	(608 971)	(705 868)	(705 868)
Bank and other loans	19	(3 005)	(3 005)	(7 012)	(7 012)
Other financial liabilities	18, 19	(72 403)	(72 403)	(83 240)	(83 240)

The methods and assumptions used by the Company for measuring the fair value of specific financial instruments are presented in notes 2.2.4.4 Fair value, 3. Important estimates and assumptions.

\*The Company 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. In the statement of financial position of the Company this group of assets is disclosed at cost less impairment.

KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2009 to 31 December 2009  
(amounts in tables in thousand PLN, unless otherwise stated)

**29. Financial instruments (continuation)**

**29.3 Items of income, costs, gains and losses recognised in profit or loss for the period by category of financial instruments**

For the period from 1 January 2009 to 31 December 2009	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity investments	Loans and receivables	Other financial liabilities		Hedging instruments	Total financial instruments
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Interest income/(expense)	26, 27, 28	-	-	-	79 787	(506)	(918)	-	78 363
Exchange gains/(losses)	27, 28	-	-	-	4 549	(66 213)	178	-	(61 486)
Losses on measurement of non- current financial liabilities	27, 28	-	-	-	(630)	-	-	-	(630)
Impairment allowances	24,27	-	-	-	(3 269)	-	-	-	(3 269)
Reversal of impairment allowances	24,26	-	-	-	1 111	-	-	-	1 111
Adjustment to sales due to hedging transactions	30	-	-	-	-	-	-	433 187	433 187
Profit/(losses) from disposal of financial instruments	24,26	-	7 500	-	(998)	-	-	-	6 502
Gains on measurement and realisation of derivative instruments	26	261 582	-	-	-	-	-	-	261 582
Losses on measurement and realisation of derivative instruments	27	(800 219)	-	-	-	-	-	-	(800 219)
<b>Total net gain/(loss)</b>		<b>(538 637)</b>	<b>7 500</b>	<b>-</b>	<b>80 550</b>	<b>(66 719)</b>	<b>(740)</b>	<b>433 187</b>	<b>(84 859)</b>
For the period from 1 January 2008 to 31 December 2008	Note	Financial assets 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	Total financial instruments
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Interest income/(expense)	26, 27, 28	-	-	-	112 839	(855)	(1 681)	-	110 303
Exchange gains/(losses)	26, 28	-	-	-	160 071	(22 888)	(1 840)	-	135 343
Losses on measurement of non- current financial liabilities	27, 28	-	-	-	-	(3 052)	-	-	(3 052)
Impairment allowances	24,27	-	-	-	(55)	-	-	-	(55)
Reversal of impairment allowances	24,26	-	-	-	8	-	-	-	8
Adjustment to sales due to hedging transactions	30	-	-	-	-	-	-	579 991	579 991
Profit from disposal of financial instruments	24,26	-	2 683	-	10 504	-	-	-	13 187
Gains on measurement and realisation of derivative instruments	26	672 624	-	-	-	-	-	-	672 624
Losses on measurement and realisation of derivative instruments	27	(884 625)	-	-	-	-	-	-	(884 625)
<b>Total net gain/(loss)</b>		<b>(212 001)</b>	<b>2 683</b>	<b>-</b>	<b>283 367</b>	<b>(26 795)</b>	<b>(3 521)</b>	<b>579 991</b>	<b>623 724</b>

## **29. Financial instruments (continuation)**

### **29.4 Transfers not qualified for de-recognition**

KGHM Polska Miedź S.A. does not own financial assets whose transfer does not qualify for derecognition from the statement of financial position.

### **29.5 Assets acquired as a security**

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

### **29.6 Situations concerning financial instruments which did not occur in the Company**

In the current financial year ended 31 December 2009 and in the prior financial year ended 31 December 2008, the following business events and situations, which are required to be disclosed, did not occur:

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

## 29. Financial instruments (continuation)

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

#### 29.7.1 Fair value hierarchy

	Note	At 31 December 2009	
Classes of financial instruments	29.2	level 2	level 3
Shares and participation units in investment funds		-	7 930
Derivative financial instruments - currency, of which:		15 122	-
Assets		180 810	-
Liabilities		(165 688)	-
Derivative financial instruments – metals, of which:		(28 698)	-
Assets		140 471	-
Liabilities		(169 169)	-
Other financial liabilities		(30 611)	-

	Note	At 31 December 2008	
Classes of financial instruments	29.2	level 2	level 3
Shares and participation units in investment funds		-	11 264
Other financial assets		287 146	-
Derivative financial instruments - currency, of which:		62 326	-
Assets		62 326	-
Liabilities		-	-
Derivative financial instruments – metals, of which:		651 500	-
Assets		655 271	-
Liabilities		(3 771)	-
Other financial liabilities		(35 395)	-

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

##### Level 3

##### Shares and participation units in investment funds.

The measurement of such shares is based on the financial statements of the given fund. The fair value of the fund is calculated as the multiple of the value of the fund and the share of the Company at the level of 5.8803%. Input data for assessing fair value does not come from an active market.

##### Level 2

##### Other financial assets.

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

##### Derivative financial instruments - currency.

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

## 29. Financial instruments (continuation)

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

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

##### Derivative financial instruments – metals.

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

##### Other financial liabilities.

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

#### **Level 1**

In 2009 and in the comparable period, no financial instruments were measured at fair value which were classified to level I.

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

<b>Shares and participation units in Investment Funds</b>	<b>Note</b>	<b>At 31 December 2009</b>	<b>At 31 December 2008</b>
<b>Beginning of the period</b>		<b>11 264</b>	<b>10 665</b>
Gains recognised in other comprehensive income		2 205	3 716
Losses recognised in other comprehensive income		5 539	3 117
<b>Total</b>	<b>29.7.1</b>	<b>7 930</b>	<b>11 264</b>

There was no transfer by the Company 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.

### 30. Financial risk management

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

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

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

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

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

#### 30.1 Market risk

##### 30.1.1. Principles of market risk management

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

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

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

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. For example, hedging transactions on the commodity market are related to contracts entered into on the currency market, as hedging prices of metals directly 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 Company has significantly greater flexibility in building hedging strategies.

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

##### 30.1.2. Techniques for market risk management

The primary technique for market risk management is the use of hedging strategies involving derivative instruments. Apart from this, natural hedging is also used.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: current and forecasted market conditions, the internal situation of the Company, the suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivative instruments are primarily used. The Company transacts only those derivative instruments for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and 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 Company relies on information obtained from particular market leading banks, brokers and information services.

### **30. Financial risk management (continuation)**

#### **30.1 Market risk (continuation)**

##### **30.1.2. Techniques for market risk management (continuation)**

It is permitted to use the following types of instruments:

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

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

##### **30.1.3. Hedge effectiveness requirement**

Hedging transactions can be entered into only if there is an appropriate derivative instrument for the base instrument traded in a liquid market with a quoted reference price. Prior to the transaction the Company 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.

##### **30.1.4. Measurement of market risk**

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

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

Since 2007 "Earnings at Risk" has been used 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 none risk measure possesses the ability to completely reflect the reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

##### **30.1.5. Restrictions on entering into hedging transactions**

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

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

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

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

The maximum time horizon within which the Company makes decisions concerning 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 above 2 years) may be subject to significant uncertainty, and therefore are treated as estimates.



### 30. Financial risk management (continuation)

#### 30.1 Market risk (continuation)

##### 30.1.6. Market risk exposure

###### 30.1.6.1. Commodity risk

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

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

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

Exposure of the Company to commodity risk in the financial period is presented below:

	For the period			
	from 1 January 2009 to 31 December 2009		from 1 January 2008 to 31 December 2008	
	Sales	Purchases	Sales	Purchases
Copper ['000 tonnes]	510	113	537	107
Silver [tonnes]	1 198	72	1 175	17

Sensitivity of the Company's financial instruments to commodity risk at the end of the reporting period is presented in note 30.1.10 Sensitivity analysis of exposure to market risk.

###### 30.1.6.2. Currency risk

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

Moreover, the Company is exposed to the risk of changes in currency 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 Company's financial instruments to the currency at the end of the reporting period is presented in note 30.1.10 Sensitivity analysis of exposure to market risk.

###### 30.1.6.3. Interest rate risk

The Company is exposed to interest rate risk resulting from fixed interest rate loans and borrowings, investments in bonds or bank deposits.

As at 31 December 2009 liabilities of the Company due to loans received based on fixed interest rates amounted to PLN 3 005 thousand.

As at 31 December 2009, the balance of the loans granted to the companies within the Group amounted to PLN 76 814 thousand. Interest on the loan is based on the variable interest rate WIBOR 1M and WIBOR 3M. This exposes the Company to the risk of changes in cash flows resulting from changes in the reference interest rate.

At the end of the reporting period the Company had no instruments hedging against interest rate risk.

##### 30.1.7. Hedging exposure to market risk

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

### 30. Financial risk management (continuation)

#### 30.1 Market risk (continuation)

##### 30.1.7. Hedging exposure to market risk (continuation)

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

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

The Company remains hedged for a portion of copper sales planned in the first half of 2010 (78 thousand tonnes), in the second half of 2010 (58.5 thousand tonnes) and in the first half of 2011 (19.5 thousand tonnes) for a portion of silver sales planned in 2010 (7.2 million troz). With respect to revenues from sales (currency market) the Company holds a hedging position in 2010 ( USD 600 million).

Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 31 December 2009. The hedged nominal/volume in the months included in the presented periods is equally balanced.

#### HEDGING POSITION – COPPER MARKET

Period	Instrument	Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
I half of 2010	Purchased put option	39 000	4 700	(695)	4 005
	Corridor				
	Sold call option	19 500	8 000	(327)	5 473
	Purchased put option		5 800		participation restricted to 8 000
	Purchased put option	19 500	7 000	(692)	6 308
	<b>Total</b>	<b>78 000</b>			
II half of 2010	Corridor				
	Sold call option	39 000	8 000	(400)	5 100
	Purchased put option		5 500		participation restricted to 8 000
	Producer puts <sup>1</sup>	19 500	6 500	8,94% <sup>2</sup>	-
	<b>Total</b>	<b>58 500</b>			
	<b>TOTAL 2010</b>	<b>136 500</b>			
I half of 2011	Corridor				
	Sold call option	19 500	8 800	(470)	6 230
	Purchased put option		6 700		participation restricted to 8 800
	<b>Total</b>	<b>19 500</b>			
	<b>TOTAL 2011</b>	<b>19 500</b>			

#### HEDGING POSITION – SILVER MARKET

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

<sup>1</sup> Due to current hedge accounting laws, transactions embedded within a producer put – a purchased put option – are shown in the table containing a detailed list of derivative instrument positions – „Hedging instruments”, while sold call options are shown in the table „Trade instruments”.

<sup>2</sup> Payable at the moment of settlement.

### 30. Financial risk management (continuation)

#### 30.1 Market risk (continuation)

##### 30.1.7. Hedging exposure to market risk (continuation)

#### HEDGING POSITION – CURRENCY MARKET

Period	Instrument	Nominal [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
I half of 2010	Producer puts <sup>3</sup>	60	3.0000	8.37% <sup>4</sup>	-
	Purchased put option	60	2.6000	(0.0692)	2.5308
	Purchased put option	180	2.5500	(0.0681)	2.4819
	<b>Total</b>	<b>300</b>			
II half of 2010	Producer puts <sup>3</sup>	60	3.0000	8.37%	-
	Purchased put option	60	2.6000	(0.0692)	2.5308
	Purchased put option	180	2.5500	(0.0681)	2.4819
	<b>Total</b>	<b>300</b>			
<b>TOTAL 2010</b>		<b>600</b>			

##### 30.1.8. Impact of derivatives on the Company's statement of financial position

As at 31 December 2009, the fair value of open positions in derivative instruments amounted to PLN (13 576) thousand, PLN 321 281 thousand relate to financial assets and PLN 334 857 thousand relate to financial liabilities.

Derivative instruments whose date of settlement was 5 January 2010 were measured at fair value in the amount of PLN (30 611) thousand, and accounted for in trade and other payables as payables due to unsettled derivative instruments (Note 18).

Other information concerning derivatives is presented in Note 10 Derivative instruments and in Note 29 Financial instrument.

##### 30.1.9. Impact of derivatives on the Company's profit or loss and equity

In 2009, the result on derivative instruments amounted to PLN (105 450) 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 of PLN 433 187 thousand. The loss on the measurement of derivative instruments amounted to PLN (345 854) thousand, while the loss on the realisation of derivative instruments amounted to PLN (192 783) thousand. Adjustment to other operating costs arising from the measurement of derivative instruments results mainly from changes of the time value of options, which will be settled in the future periods. In accordance with the hedge accounting principles applied by the Company, the change in the time value of options is not recognised in the equity.

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

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Impact on sales</b>	<b>433 187</b>	<b>579 991</b>
<b>Impact on other operating activities</b>	<b>(538 637)</b>	<b>(212 001)</b>
Losses from realisation of derivative instruments	(192 783)	(99 575)
Losses from measurement of derivative instruments	(345 854)	(112 426)
<b>Total impact of derivative instruments on profit or loss:</b>	<b>(105 450)</b>	<b>367 990</b>

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

<sup>3</sup> Due to current hedge accounting laws, transactions embedded within a producer put – a bought put option – are shown in the table containing a detailed list of derivative instrument positions – „Hedging instruments”, while sold call options are shown in the table „Trade instruments”.

<sup>4</sup> Payable at the moment of settlement.

### 30. Financial risk management (continuation)

#### 30.1 Market risk (continuation)

##### 30.1.9. Impact of derivatives on the Company's profit or loss and equity (continuation)

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

The effectiveness of hedging instruments used by the Company 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 – the changes in the intrinsic value of options.

The tables below present the balances and movements in accumulated other comprehensive income resulting from the transfer of the effective portion of the gain or loss from changes in the fair value of derivative instruments designated as hedging instruments in cash flow hedges:

#### AMOUNTS RECOGNISED IN EQUITY

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

#### Gains or (losses) on derivative instruments hedging future cash flows recognised directly in other comprehensive income

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

##### 30.1.10. Sensitivity analysis of exposure to market risk

In accordance with "Market risk management policy", the Company identifies the following major market risks to which it is exposed:

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

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

### 30. Financial risk management (continuation)

#### 30.1 Market risk (continuation)

##### 30.1.10. Sensitivity analysis of exposure to market risk (continuation)

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

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

Scope of historical data (daily data):

- for copper: 01 January 1978 to 31 December 2009 – settlement prices
- for silver: 01 January 1978 to 31 December 2009 – fixing prices
- for USD/PLN and EUR/PLN exchange rates: 01 January 2000 to 31 December 2009 – fixing NBP.

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

Potential price changes at the end of the reporting period:

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

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

In analysing the sensitivity of the item "Derivatives – Currency" and "Derivatives – Commodity contracts - Metals" it should be noted that the Company holds a position in derivative instruments hedging future cash flows from the sale of copper and silver. It should also be noted that the Company 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.

### 30. Financial risk management (continuation)

#### 30.1 Market risk (continuation)

##### 30.1.10. Sensitivity analysis of exposure to market risk (continuation)

#### Currency structure of financial instruments exposed to market risk at 31 December 2009

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure		
	['000 PLN]	['000 USD]	['000 EUR]
Shares and participation units in investment funds	7 930	2 782	-
Trade receivables (net)	775 971	114 256	109 612
Cash and cash equivalents and deposits	150 451	37 136	10 857
Other financial assets (net)	8 477	1 242	1 202
Derivatives – Currency contracts	15 122	lack of data	-
Derivatives – Commodity contracts - Metals	(28 698)	(10 069)	-
Trade payables	(36 205)	(7 653)	(3 502)
Other financial liabilities	(45 296)	(10 848)	(3 499)

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

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure		
	['000 PLN]	['000 USD]	['000 EUR]
Shares and participation units in investment funds	11 264	3 803	-
Trade receivables (net)	218 428	62 912	7 693
Cash and cash equivalents and deposits	507 925	153 943	12 457
Other financial assets (net)	353 897	119 011	338
Derivatives – Currency contracts	62 326	lack of data	lack of data
Derivatives – Commodity contracts - Metals	651 500	219 968	-
Trade payables	(90 288)	(14 539)	(11 319)
Other financial liabilities	(42 381)	(2 805)	(8 167)

**30. Financial risk management (continuation)**

**30.1 Market risk (continuation)**

**30.1.10. Sensitivity analysis of exposure to market risk (continuation)**

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2009																		
FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2009  CARRYING AMOUNT	CURRENCY RISK								COMMODITY RISK							
			USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			3.58		2.24		4.85		3.51		10 061		4 765		24.43		10.93	
			+ 26%		- 21%		+ 18%		- 15%		+ 37%		- 35%		+ 44%		- 36%	
			P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
	['000 PLN]	['000 PLN]																
Shares and participation units in investment funds	7 930	7 930	1 640		(1 375)													
Trade receivables (net)	775 971	1 003 016	67 365		(56 482)			65 932			(53 387)							
Cash and cash equivalents and deposits	150 451	1 042 875	21 895		(18 358)			6 531			(5 288)							
Other financial assets (net)	8 477	148 912	732		(614)			723			(586)							
Derivatives – Currency contracts	15 122	15 122	(29 385)	(9 119)	(4 254)	164 897												
Derivatives – Commodity contracts - Metals	(28 698)	(28 698)	(7 959)	2 022	6 673	(1 696)						(54 596)	(348 905)	96 549	366 613	(10 366)	(7 918)	(10 660) 75 732
Trade payables	(36 205)	(608 971)	(4 512)		3 783			(2 107)			1 706							
Other financial liabilities	(45 296)	(72 403)	(6 396)		5 363			(2 105)			1 704							
IMPACT ON PROFIT OR LOSS			43 380		(65 264)			68 974			(55 851)			(54 596)	96 549		(10 366)	(10 660)
IMPACT ON EQUITY					(7 097)		163 201						(348 905)	366 613			(7 918)	75 732

KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2009 to 31 December 2009  
(amounts in tables in thousand PLN, unless otherwise stated)

**30. Financial risk management (continuation)**

**30.1 Market risk (continuation)**

**30.1.10. Sensitivity analysis of exposure to market risk (continuation)**

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2008																	
FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2008	CURRENCY RISK								COMMODITY RISK						
		CARRYING AMOUNT	USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]		
			3.96		2.11		5.09		3.35		5 298		1 685		19.54		6.00
			+34%		- 29%		+22%		- 20%		+83%		- 42%		+81%		-44%
			P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L
['000 PLN]	['000 PLN]																
Shares and participation units in investment funds	11 264	11 264	3 084		(2 637)												
Trade receivables (net)	218 428	498 545	51 020		(43 631)			5 702		(5 139)							
Cash and cash equivalents and deposits	507 925	1 853 125	124 844		(106 763)			9 234		(8 323)							
Other financial assets (net)	353 897	428 861	96 515		(82 537)			251		(226)							
Derivatives – Currency contracts	62 326	62 326	(45 157)	-	20 683	216 981											
Derivatives – Commodity contracts Metals	651 500	651 500	6 297	171 887	(5 385)	(146 993)					56 489	(380 994)	(3 346)	195 213	(17 984)	(27 547)	(23 836) 110 461
Trade payables	(90 288)	(705 868)	(11 791)		10 083			(8 390)		7 562							
Other financial liabilities	(42 381)	(83 240)	(2 274)		1 945			(6 053)		5 456							
IMPACT ON PROFIT OR LOSS			222 538		(208 242)			744		(670)		56 489		(3 346)		(17 984)	(23 836)
IMPACT ON EQUITY					171 887		69 988				(380 994)		195 213		(27 547)		110 461



### 30. Financial risk management (continuation)

#### 30.2. Liquidity risk and capital management

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

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

In 2009, as well as in the comparable period, due to positive cash flow and the significant amount of cash balances, the Company did not make use of external financing in the form of bank and other loans from financial institutions and settled all of its liabilities in a timely manner.

Should the Company find it necessary to take advantage of external financing, the probability would exist of an increased liquidity risk.

#### Contractual maturities for financial liabilities as at 31 December 2009

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	600 410	4 660	3 028	992	-	<b>609 090</b>	<b>608 971</b>
Loans, including bank loans	1 033	2 027	-	-	-	<b>3 060</b>	<b>3 005</b>
Derivatives – Currency contracts	40 346	108 673	-	-	-	<b>149 019</b>	<b>165 688</b>
Derivatives – Commodity contracts - metals	-	31 514	6 360	-	-	<b>37 874</b>	<b>169 169</b>
Other financial liabilities	43 610	4 848	11 166	9 268	6 499	<b>75 391</b>	<b>72 403</b>
<b>Total financial liabilities by maturity</b>	<b>685 399</b>	<b>151 722</b>	<b>20 554</b>	<b>10 260</b>	<b>6 499</b>	<b>874 434</b>	

#### Contractual maturities for financial liabilities as at 31 December 2008

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	691 853	3 106	9 640	1 008	504	<b>706 111</b>	<b>705 868</b>
Loans, including bank loans	57	4 150	3 059	-	-	<b>7 266</b>	<b>7 012</b>
Derivatives – Commodity contracts - metals	-	3 771	-	-	-	<b>3 771</b>	<b>3 771</b>
Other financial liabilities	51 718	4 718	11 032	9 454	10 911	<b>87 833</b>	<b>83 240</b>
<b>Total financial liabilities by maturity</b>	<b>743 628</b>	<b>15 745</b>	<b>23 731</b>	<b>10 462</b>	<b>11 415</b>	<b>804 981</b>	

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

KGHM Polska Miedź S.A. 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.

### 30. Financial risk management (continuation)

#### 30.2. Liquidity risk and capital management (continuation)

In accordance with market practice, the Company monitors its capital, among others based on the *equity ratio* and the *ratio of Debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of *Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities to EBITDA (EBITDA is operating profit plus depreciation and amortisation).

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

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

	At	
	31 December 2009	31 December 2008
Equity	10 403 957	10 591 292
Less: intangible assets	76 147	80 904
Net assets	10 327 810	10 510 388
Total assets	13 953 030	13 900 564
<b>Equity ratio</b>	<b>0.74</b>	<b>0.76</b>
Operating profit	3 098 092	3 596 364
Plus: depreciation/amortisation	547 653	481 376
EBITDA	3 645 745	4 077 740
Borrowings and finance lease liabilities	17 685	24 293
<b>Ratio of Debt/EBITDA</b>	<b>0.005</b>	<b>0.006</b>

Due to the low level of debt of the Company as at 31 December 2009, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.005.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.74 at 31 December 2009.

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

#### 30.3. 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.

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

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

##### 30.3.1. Credit risk related to cash and cash equivalents and bank deposits

All entities with which deposit transactions are entered into by the Company operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with medium-high<sup>5</sup> (71% of deposits) and medium<sup>6</sup> credit ratings (29 % of deposit), an appropriate level of equity and a strong, stable market position.

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

<sup>6</sup> By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.

### **30. Financial risk management (continuation)**

#### **30.3. Credit risk (continuation)**

##### **30.3.1. Credit risk related to cash and cash equivalents and bank deposits (continuation)**

The maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounts to 22% as at 31 December 2009.

##### **30.3.2. Credit risk related to derivative transactions**

All entities with whom derivative transactions are entered into by the Company operate in the financial sector. These are financial institutions (mainly banks), with the highest<sup>7</sup> (39.1%), medium-high<sup>8</sup> (52.2%) or medium<sup>9</sup> (8.7%) credit ratings. Based on fair value at 31 December 2009, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Company amounted to 46.1%.

The fair value of derivative transactions entered into by the Company at 31 December 2009 amounted to<sup>10</sup>:

PLN 44 187 thousand	(negative balance on the measurement of derivative instruments), of which:
PLN 365 468 thousand	financial liabilities (Notes 10, 18),
PLN 321 281 thousand	financial assets (Note 10).

All entities with whom derivative transactions were entered into in 2008 by the Company operated in the financial sector. These are financial institutions (mainly banks), with the highest<sup>7</sup> (27.7%), medium-high<sup>8</sup> (55.6%) or medium<sup>9</sup> (16.7%) credit ratings. The maximum share of a single entity with respect to derivative transactions entered into by the Company amounted to 17.9%.

Fair value of derivative transactions entered into by the Company at 31 December 2008 amounted to<sup>11</sup>:

PLN 965 577 thousand	(positive balance on the measurement of derivative instruments), of which:
PLN 39 166 thousand	financial liabilities (Notes 10, 18),
PLN 1 004 743 thousand	financial assets (Notes 10,11).

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

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

##### **30.3.3. Credit risk related to trade and other financial receivables**

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

<sup>7</sup> By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moodys.

<sup>8</sup> By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moodys.

<sup>9</sup> By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moodys.

<sup>10</sup> The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2010, which were presented in the Company's statement of financial position under other financial receivables.

<sup>11</sup> The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2009, which were presented in the Company's statement of financial position for the period from 1 January 2008 to 31 December 2008 under other financial receivables and other financial liabilities.

### 30. Financial risk management (continuation)

#### 30.3. Credit risk (continuation)

##### 30.3.3. Credit risk related to trade and other receivables (continuation)

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

	At					
	31 December 2009			31 December 2008		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Trade receivables	33.7%	56.6%	9.7%	52.2%	35.5%	12.3%

The Company makes the majority of its sales transactions based on prepayments. The Company monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always secured. The Company has secured the majority of its receivables by promissory notes<sup>12</sup>, frozen funds on bank accounts, registered pledges<sup>13</sup>, bank guarantees, mortgages, letters of credit and documentary collection. In addition, the majority of contracts where customers are provided with buyer's credit contain an ownership rights reservation clause confirmed by a date certain<sup>14</sup>. To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral. Taking into account the collateral held and the credit limits received from the insurance company, at 31 December 2009 the Company had secured 55% of its trade receivables.

The total value of the Company's trade receivables as at 31 December 2009, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 003 016 thousand (at 31 December 2008: PLN 498 545 thousand). The increase in the level of receivables compared to the end of 2008 mainly results from increased sales value in the 4th quarter of 2009 compared to the 4th quarter of 2008.

The concentration of credit risk in the Company results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 31 December 2009 the balance of receivables from 7 of the Company's largest clients, calculated as a percentage of trade receivables at the end of the reporting period, represented 79% of the balance of trade receivables (at 31 December 2008: 78%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

Due to lack of data, the risk related to derivative transactions entered into by customers is not reflected in the measurement of credit risk.

##### 30.3.4. Credit risk related to loans granted

At 31 December 2009 the carrying amount of loans granted by the Company to the subsidiaries Zagłębie Lubin S.A., Energetyka Sp. z o.o. and KGHM CONGO S.P.R.L. amounted to PLN 76 814 thousand (at 31 December 2008, PLN 9 323 thousand).

KGHM Polska Miedź S.A. continuously monitors its debtors in terms of their assets and financial results. Based on this analysis, at 31 March 2009, due to the arising of a high level of credit risk, an impairment loss was recognised with respect to the loan granted to KGHM CONGO S.P.R.L. in the amount of PLN 2 643 thousand. As the result of actions undertaken towards recovering these debtors, an agreement was signed by a contracting party ceding the receivables of KGHM CONGO S.P.R.L. to KGHM Polska Miedź S.A. By the end of December 2009 partial payment was made on the receivables covered by the cession agreement in the amount of PLN 1 413 thousand.

No impairment was identified with respect to the remaining loans granted by the Company.

<sup>12</sup> In order to speed up any potential collection of receivables, each promissory note is accompanied by a notarial enforcement declaration.

<sup>13</sup> At the end of the reporting period date the Company held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.

<sup>14</sup> A trade contract clause officially certified by a notary means that the ownership of goods is transferred to the buyer only upon payment, regardless of their physical delivery.

### 30. Financial risk management (continuation)

#### 30.3. Credit risk (continuation)

##### 30.3.5. Credit risk related to investments in debt securities and participation units in investment funds

The Company is exposed to this type of credit risk due to changes in the fair value of the share in AIG investment fund. At 31 December 2009 the carrying amount of these shares was PLN 7 930 thousand (at 31 December 2008: PLN 11 264 thousand). The valuation of these fund shares is based on the financial statements fund as a multiple of the value of the fund and the share of the Company in the fund at the level of 5.8803%. During 2009 the Company did not invest unallocated financial resources either in debt securities, funds or participation units in investment funds.

##### 30.3.6. Other information related to credit risk

**Aging analysis of financial assets overdue as at the end of the reporting period, for which no impairment loss has been recognised**

At 31 December 2009						
	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	41 538	40 908	627	-	-	3
Other receivables	378	218	108	5	-	47

At 31 December 2008						
	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	24 270	20 887	3 348	31	1	3
Other receivables	525	214	277	33	1	-

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.

Allowances for impairment of financial assets, category: loans and financial receivables, by class are presented in the tables below:

##### Allowances for impairment of loans and financial receivables

###### a) trade receivables (category: loans and receivables)

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Impairment allowance at the beginning of the period</b>	<b>11</b>	<b>21 890</b>	<b>18 062</b>
Impairment allowance recognised in profit or loss	24	909	35
Impairment allowance reversed through profit or loss	24	(149)	(3)
Revaluation of impairment allowance on foreign exchange differences		(800)	3 796
Impairment allowance utilised during the period		(81)	-
<b>Impairment allowance at the end of the period</b>	<b>11</b>	<b>21 769</b>	<b>21 890</b>

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

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Impairment allowance at the beginning of the period</b>	<b>11</b>	<b>2 518</b>	<b>2 777</b>
Impairment allowance recognised in profit or loss	27	2 360	20
Impairment allowance reversed through profit or loss	26	(962)	(5)
Revaluation of impairment allowance on foreign exchange differences		(49)	5
Impairment allowance utilised during the period		(52)	(246)
Reversal of impairment allowance on costs of legal proceedings		(2)	(33)
<b>Impairment allowance at the end of the period</b>	<b>11</b>	<b>3 813</b>	<b>2 518</b>

### 30. Financial risk management (continuation)

#### 30.3. Credit risk (continuation)

##### 30.3.6 Other information related to credit risk (continuation)

##### c) shares (category: available-for-sale financial assets)

	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Impairment allowance at the beginning of the period</b>		-	-
Reclassification of shares in subsidiaries to available-for-sale financial assets		58 579	-
<b>Impairment allowance at the end of the period</b>	<b>8</b>	<b>58 579</b>	<b>-</b>

### 31. Income tax

Income tax	Note	For the period	
		from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Current income tax		620 775	576 428
Deferred income tax	20	(106 740)	71 301
Adjustments to income tax from prior periods		12 349	(14 478)
<b>Total</b>		<b>526 384</b>	<b>633 251</b>

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Profit before tax	3 066 569	3 553 629
Tax calculated at tax rates in force	582 648	675 190
Non-taxable income	(82 832)	(111 015)
Expenses not deductible for tax purposes	14 219	83 554
Adjustments to income tax from prior periods	12 349	(14 478)
<b>Income tax expense</b>	<b>526 384</b>	<b>633 251</b>

The rate applied to the taxation of income in accordance with tax law in force in corporate income tax amounted to 19 % (in 2008: 19%). The effective interest rate was 17.16% (2008: 17.82%).

### 32. Earnings per share

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
Profit (loss) for the period	2 540 185	2 920 378
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	12.70	14.60

There are no dilutive ordinary shares.

### 33. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2009 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 16 June 2009 regarding the appropriation of Company profit for financial year 2008 and setting of the right to dividend date and dividend payment date, the amount of PLN 2 336 000 thousand, representing PLN 11.68 per share, was allocated as a shareholders dividend from profit for financial year 2008.

The right to dividend date was set at 16 July 2009, and dividend payment dates: at 6 August 2009 in the amount of PLN 1 432 000 thousand, i.e. PLN 7.16 per share, and at 6 November 2009 in the amount of PLN 904 000 thousand, i.e. PLN 4.52 per share.

All shares of the Company are ordinary shares.

### 34. Notes to the statement of cash flows

#### Adjustments to profit for the period

	<b>For the period</b>	
	<b>from 1 January 2009 to 31 December 2009</b>	<b>from 1 January 2008 to 31 December 2008</b>
Income tax from the income statement	526 384	633 251
Depreciation/amortisation	547 653	481 376
Losses on sales of property, plant and equipment and intangible assets	17 844	9 431
Gains on sales of available-for-sale financial assets	(7 500)	(2 683)
Gains on sales of shares in subsidiaries and of investments in associates	-	(7 233)
Impairment loss on property, plant and equipment, intangible assets, shares in subsidiaries, loan	52 431	78 293
Interest and share in profits (dividends)	(460 304)	(235 194)
Foreign exchange losses/(gains)	18 261	(18 206)
Change in provisions	118 271	94 767
Change in derivative instruments	688 065	581 445
Realisation of derivative instruments recognised in equity	(433 187)	(579 992)
Other adjustments	(156)	(4 166)
<b>Changes in working capital:</b>	<b>(500 756)</b>	<b>(362 190)</b>
Inventories	(443 425)	156 685
Trade and other receivables	(54 968)	(493 721)
Trade and other payables	(2 363)	(25 154)
<b>Total adjustments to profit for the period</b>	<b>567 006</b>	<b>668 899</b>

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

	<b>For the period</b>	
	<b>from 1 January 2009 to 31 December 2009</b>	<b>from 1 January 2008 to 31 December 2008</b>
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	32 114	16 902
Losses on sales of property, plant and equipment and intangible assets	(17 844)	(9 431)
Negative/(Positive) change in receivables due to sales	10	(24)
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	(85)	-
<b>Proceeds from sales of property, plant and equipment and intangible assets</b>	<b>14 195</b>	<b>7 447</b>

### 35. Related party transactions

State Treasury Companies (Companies list as at 30 June 2009) meet the definition of related entities. Turnover and balances with these entities have been reflected in the disclosures presented in this note.

<b>For the period from 1 January 2009 to 31 December 2009</b>			
<b>Sales to related entities</b>	<b>Sales of products</b>	<b>Sales of goods for resale and materials</b>	<b>Other transactions</b>
To subsidiaries	628 605	51 006	3 152
To associates	105	33	19
To State Treasury Companies	20 775	1	19
<b>Total sales to related entities</b>	<b>649 485</b>	<b>51 040</b>	<b>3 190</b>

During the period from 1 January 2009 to 31 December 2009, KGHM Polska Miedź S.A. received dividends from subsidiaries in the amount of PLN 36 626 thousand (from 1 January 2008 to 31 December 2008: PLN 54 087 thousand) and dividends from an associate in the amount of PLN 418 222 thousand (from 1 January 2008 to 31 December 2008: PLN 182 860 thousand).

During the period from 1 January 2009 to 31 December 2009, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Company were reported.

Significant sales to State Treasury Companies during the period from 1 January 2009 to 31 December 2009:

1. Fabryka Przewodów Energetycznych S.A.	19 939
2. Huta Będzin S.A.	706

<b>For the period from 1 January 2008 to 31 December 2008</b>			
<b>Sales to related entities</b>	<b>Sales of products</b>	<b>Sales of goods for resale and materials</b>	<b>Other transactions</b>
To subsidiaries	1 345 203	49 821	5 300
To associates	168	117	8 560
To State Treasury Companies	18 346	6	14
<b>Total sales to related entities</b>	<b>1 363 717</b>	<b>49 944</b>	<b>13 874</b>



### 35. Related party transactions (continuation)

During the period from 1 January 2008 to 31 December 2008, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Company were reported.

Significant sales to State Treasury Companies during the period from 1 January 2008 to 31 December 2008:

1. Fabryka Przewodów Energetycznych S.A.	13 571
2. Huta Będzin S.A.	4 595

#### For the period from 1 January 2009 to 31 December 2009

Purchases from related entities	Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
From subsidiaries	617 143	1 830 058	421 159	51 441
From associates	1 483	57	5	-
From State Treasury Companies	360 993	339 567	1 606	6
<b>Total purchases from related entities</b>	<b>979 619</b>	<b>2 169 682</b>	<b>422 770</b>	<b>51 447</b>

Significant purchases from State Treasury Companies during the period from 1 January 2009 to 31 December 2009:

1. EnergiaPro S.A.	556 727
2. Polskie Górnictwo Naftowe S.A.	100 813

#### For the period from 1 January 2008 to 31 December 2008

Purchases from related entities	Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
From subsidiaries	565 180	1 936 382	446 024	74 792
From associates	1 929	3 437	16	-
From State Treasury Companies	611 919	62 999	6 697	25
<b>Total purchases from related entities</b>	<b>1 179 028</b>	<b>2 002 818</b>	<b>452 737</b>	<b>74 817</b>

Significant purchases from State Treasury Companies during the period from 1 January 2008 to 31 December 2008:

1. EnergiaPro S.A.	547 667
2. Polskie Górnictwo Naftowe S.A.	91 894

### 35. Related party transactions (continuation)

#### Remuneration of the Management Board in 2009

	Period when function served in 2009	Wages	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits due to termination of employment relationship	Retirement rights	Benefits, other earnings	Total earnings in 2009
<b>Members of the Management Board as at 31 December 2009</b>								
Herbert Wirth	01.01-31.12.2009	461	179	117	-	-	64	821
Maciej Tybura	01.01-31.12.2009	416	194	-	-	-	121	731
Ryszard Janeczek	24.08-31.12.2009	145	10	-	-	-	6	161
<b>Dismissed Members of the Management Board *</b>								
Mirosław Krutin	01.01-15.06.2009	239	133	-	22	-	65	459
Krzysztof Skóra	-	-	-	-	97	-	-	97
Maksymilian Bylicki	-	-	-	-	57	-	-	57
Marek Fusiński	-	-	46	-	119	-	-	165
Stanisław Kot	-	-	46	-	119	-	-	165
Ireneusz Reszczyński	-	-	46	-	119	-	-	165
Dariusz Kaśków	-	-	-	-	39	-	-	39
<b>Total</b>		<b>1 261</b>	<b>654</b>	<b>117</b>	<b>572</b>	<b>-</b>	<b>256</b>	<b>2 860</b>

\* the item „Wages” includes wages during the termination period

#### Remuneration of the Supervisory Board in 2009

	Period when function served in 2009	Wages for the period when function served in the Supervisory Board	Earnings from other contracts	Earnings from subsidiaries and associates	Total earnings in 2009
Marcin Dyl	01.01-31.12.2009	93	-	-	93
Arkadiusz Kawecki	01.01-31.12.2009	91	-	-	91
Jacek Kuciński	01.01-31.12.2009	108	-	-	108
Marek Panfil	01.01-31.12.2009	89	-	-	89
Marek Trawiński	01.01-31.12.2009	112	-	-	112
Marzena Weresa	01.01-31.12.2009	87	-	-	87
Józef Czyczerski	01.01-31.12.2009	85	112	-	197
Leszek Hajdacki	01.01-31.12.2009	85	152	-	237
Ryszard Kurek	01.01-31.12.2009	86	196	-	282
<b>Total</b>		<b>836</b>	<b>460</b>	<b>-</b>	<b>1 296</b>

#### Remuneration of the Management Board in 2008

	Period when function served in 2008	Wages	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits due to termination of employment relationship	Retirement rights	Benefits, other earnings	Total earnings in 2008
<b>Members of the Management Board as at 31 December 2008</b>								
Mirosław Krutin	23.04-31.12.2008	346	47	141	-	-	55	589
Maciej Tybura	23.04-31.12.2008	282	38	63	-	-	59	442
Herbert Wirth	23.04-31.12.2008	282	38	91	-	-	50	461
<b>Dismissed Members of the Management Board *</b>								
Krzysztof Skóra	01.01-17.01.2008	293	126	74	600	-	56	1 149
Maksymilian Bylicki	-	171	79	-	460	-	45	755
Marek Fusiński	01.01-23.04.2008	342	139	51	448	-	65	1 045
Stanisław Kot	01.01-23.04.2008	342	170	32	448	198	26	1 216
Ireneusz Reszczyński	01.01-23.04.2008	342	139	56	448	-	34	1 019
Dariusz Kaśków	01.01-17.01.2008	239	-	-	293	-	7	539
<b>Total</b>		<b>2 639</b>	<b>776</b>	<b>508</b>	<b>2 697</b>	<b>198</b>	<b>397</b>	<b>7 215</b>

\* the item „Wages” includes wages during the termination period

### 35. Related party transactions (continuation)

#### Remuneration of the Supervisory Board in 2008

	Period when function served in 2008	Wages for the period when function served in the Supervisory Board	Earnings from other contracts	Earnings from subsidiaries and associates	Total earnings in 2008
Marcin Dyl	14.02-31.12.2008	77	-	-	77
Arkadiusz Kawecki	14.02-31.12.2008	77	-	-	77
Jacek Kuciński	14.02-31.12.2008	87	-	-	87
Marek Panfil	14.02-31.12.2008	75	-	-	75
Marek Trawiński	14.02-31.12.2008	97	-	58	155
Marzenna Weresa	14.02-31.12.2008	75	-	-	75
Leszek Jakubów	01.01-14.02.2008	19	-	-	19
Stanisław Potycz	01.01-14.02.2008	14	-	-	14
Anna Mańk	01.01-14.02.2008	11	-	-	11
Remigiusz					
Nowakowski	01.01-14.02.2008	10	-	-	10
Marcin Ślęzak	01.01-13.02.2008	10	-	-	10
Jerzy Żyżyński	01.01-14.02.2008	15	-	-	15
Józef Czyczerski	01.01-31.12.2008	86	96	-	182
Leszek Hajdacki	01.01-31.12.2008	87	162	-	249
Ryszard Kurek	01.01-31.12.2008	89	134	-	223
<b>Total</b>		<b>829</b>	<b>392</b>	<b>58</b>	<b>1 279</b>

	At	
	31 December 2009	31 December 2008
<b>Trade receivables from related entities</b>		
From subsidiaries	201 606	181 538
From associates	26	26
From State Treasury Companies	3 038	369
<b>Total receivables from related entities</b>	<b>204 670</b>	<b>181 933</b>

Significant receivables due to sales transactions with State Treasury Companies at 31 December 2009:

1. EnergiaPro S.A.	1 200
2. Polskie Górnictwo Naftowe	920
3. Huta Będzin S.A.	879

#### Allowances for impairment of trade receivables from related entities

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Impairment allowance at the beginning of the period</b>	<b>21 376</b>	<b>17 852</b>
Impairment allowances recognised during the period	879	-
Impairment allowances utilised during the period	-	(244)
Reversal of impairment allowance on costs of legal proceedings	-	(33)
Impairment allowance due to foreign exchange differences	-	3 801
Reclassification due to loss of control over a subsidiary	(21 373)	-
<b>Impairment allowance at the end of the period</b>	<b>882</b>	<b>21 376</b>

	At	
	31 December 2009	31 December 2008
<b>Trade payables towards related entities</b>		
Towards subsidiaries	249 654	232 723
Towards associates	283	327
Towards State Treasury Companies	59 956	63 889
<b>Total payables towards related entities</b>	<b>309 893</b>	<b>296 939</b>

### 35. Related party transactions (continuation)

Significant payables due to purchases from State Treasury Companies at 31 December 2009:

1. EnergiaPro S.A.	54 884
2. NITROERG S.A.	3 674

	At	
	31 December 2009	31 December 2008
<b>No-cost guarantees granted to related entities</b>	-	<b>2 169</b>

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

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Ernst &amp; Young Audit Sp. z o.o.</b>	<b>1 010</b>	<b>1 206</b>
From contract for the review and audit of financial statements	978	1 068
audit of annual financial statements of the Company and of annual consolidated financial statements of the Group	597	687
review of financial statements of the Company and of consolidated financial statements of the Group	381	381
From realisation of other contracts	32	138
<b>Other companies of the Ernst &amp; Young Group in Poland</b>	<b>904</b>	<b>1 485</b>
From contract of tax consultancy	881	1 002

### 37. Liabilities not recognised in the statement of financial position due to operating leases

**Total value of future minimum payments due to non-rescindable contractual periods for operating leases and rental contracts**

	At	
	31 December 2009	31 December 2008
Up to one year	5 708	6 424
From one to five years	11 516	10 724
Over five years	2 363	4 247
<b>Total:</b>	<b>19 587</b>	<b>21 395</b>

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
<b>Lease payments recognised in profit or loss</b>		
Value of minimum lease payments	<b>7 389</b>	<b>7 605</b>

### 38. Contingent and other items not recognised in the statement of financial position

	At	
	31 December 2009	31 December 2008
<b>Contingent receivables</b>	<b>71 779</b>	<b>9 858</b>
Contested State Budget issues	22 993	9 216
Guarantees received	25 380	435
Promissory notes receivables	22 923	-
Other	483	207
<b>Other receivables not recognised in the statement of financial position</b>	<b>31 235</b>	<b>25 195</b>
Inventions, implementation of projects	31 235	25 195
<b>Contingent liabilities</b>	<b>23 128</b>	<b>31 002</b>
Guarantees	5 000	7 170
Disputed issues, pending court proceedings	15 611	14 185
Contingent penalties	23	1 627
Preventive safety measures in respect of mine-related damages	2 491	8 000
Other	3	20
<b>Other liabilities not recognised in the statement of financial position</b>	<b>507 425</b>	<b>465 264</b>
Due to implementation of projects and inventions	105 792	61 706
Operating leases	19 587	21 395
Payments due to perpetual usufruct of land	382 046	382 163

### 39. Government grants

In 2009 the Company made use of Government assistance in the form of grants for the financing of the target project "Modernisation of the local furnace ventilation system in the Metallurgy Department". The balance of grants recognised in deferred income at 31 December 2009 amounted to PLN 212 thousand (at 31 December 2008: PLN 272 thousand).

### 40. Social Fund assets and liabilities

KGHM Polska Miedź S.A., in accordance with the obligation resulting from the Social Fund Act dated 4 March 1994, creates a Social Fund. The Fund's purpose is to subsidise the Company's social activity, housing loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control of the Company and do not meet the definition of an asset. Accordingly, the net balance (liability towards Social Fund) at 31 December 2009 amounts to PLN 2 238 thousand, and the net balance (liability towards Social Fund) at 31 December 2008 amounted to PLN 1 370 thousand.

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

	At	
	31 December 2009	31 December 2008
<b>Social Fund assets and liabilities</b>		
Housing loans granted to employees	105 089	97 256
Other receivables	267	3
Cash and cash equivalents	14 939	25 797
Liabilities towards Social Fund	122 533	124 426
<b>Net balance</b>	<b>(2 238)</b>	<b>(1 370)</b>
<b>Transfers made to the Social Fund during the financial period</b>	<b>94 608</b>	<b>86 570</b>

#### 41. Employment structure

	For the period	
	from 1 January 2009 to 31 December 2009	from 1 January 2008 to 31 December 2008
White-collar workers	4 425	4 531
Blue-collar workers	13 945	13 955
<b>Total:</b>	<b>18 370</b>	<b>18 486</b>

#### 42. Subsequent events

##### Changes in the Statutes of the Company

On 7 January 2010 the Company received the ruling of the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court of Registration dated 31 December 2009 on the registration of the changes in the Statutes of the Company, approved by the Extraordinary General Meeting on 9 December 2009. The scope of the registered changes was presented in the Report on the Company's Activities in the part regarding the application of corporate governance principles, point 6.1 General Meeting.

##### Change in the amount of shares held by the State Treasury

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

Following this sale, the State Treasury owns 63 589 900 shares of KGHM Polska Miedź S.A., giving the same number of votes and representing 31.79% of the share capital of the Company and of the total number of votes.

##### Significant contract with MKM Mansfelder Kupfer und Messing GmbH

On 14 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2010. The estimated value of this contract is USD 522 872 608, i.e. PLN 1 460 383 thousand.

##### Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.

On 20 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2010 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 478 758 499, i.e. PLN 1 354 695 thousand to USD 579 026 934, i.e. PLN 1 638 414 thousand.

##### Company's Budget for 2010

The Supervisory Board of the Company at its meeting on 1 February 2010 approved the Company's Budget for 2010. The basis for preparation of the Budget were the anticipated results for 2009 and the assumptions contained in specific operating plans.

The accepted Budget assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million.

##### Contract between Capital Partners S.A. and KGHM Polska Miedź S.A.

On 3 March 2010 a contract was signed between Capital Partners S.A. and KGHM Polska Miedź S.A., in which Capital Partners S.A. committed itself to offer for tender no less than 879 501 shares of the company BIPROMET S.A. in response to an announced tender offer to subscribe to the sale or exchange of shares.

This commitment by Capital Partners S.A. to sell shares under a tender is binding, contingent upon meeting among others the following conditions: the subject of the tender will be the amount of shares granting the right to 66% of the votes at the General Meeting, with the per-share price in the tender to be no lower than PLN 7.50, with the tender to be announced no later than 19 March 2010.

Capital Partners S.A. owns 2 043 944 shares of BIPROMET S.A., representing 32.97% of the shares and the votes at the General Meeting.

##### Tender offer to subscribe for the sales of shares of BIPROMET S.A.

On 19 March 2010, KGHM Polska Miedź S.A. announced a tender offer for the sale of 4 091 868 shares of the company BIPROMET S.A., representing 66% of the share capital and of the votes at the General Meeting of the company, at PLN 7.50 per share. Subscriptions for these shares will take place during the period of 4 May to 2 June 2010. The tender offer was announced under the legal condition of the obtaining by KGHM Polska Miedź S.A. of the agreement of the President of the Office of Competition and Consumer Protection for the concentration of enterprises, based on obtaining control over the company.

##### Understanding on the construction of "Elektrownia Blachownia" power plant

On 23 March 2010, KGHM Polska Miedź S.A. signed an understanding on the Principles of cooperation with the company Tauron Polska Energia S.A. on the founding of the company "Elektrownia Blachownia Nowa". Prior to founding the target company the signing of a Shareholders Agreement is planned. The new company will build a 910 MW, coal-fired power plant on the grounds of PKE Elektrownia Blachownia in Kędzierzyn – Koźle. This understanding was signed by KGHM Polska Miedź S.A., and by Tauron Polska Energia S.A. and its subsidiary – Południowy Koncern Energetyczny S.A. This is the result of a Letter of Understanding signed by KGHM Polska Miedź S.A. and Tauron Polska Energia S.A. in April 2009. Based on this, the partners will prepare the necessary documentation to establish the target company. The development and signing of the articles of incorporation of the company and shareholders agreement, as well as the performance of necessary procedures with external institutions should be carried out this year.

Failure to sign the Shareholders Agreement by 30 July 2010 would result in termination of the Principles of cooperation, without financial consequences for the Parties.

<b>SIGNATURES OF PERSONS REPRESENTING THE COMPANY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION</b>	<b>SIGNATURE</b>
26 March 2010	Herbert Wirth	President of the Management Board	
26 March 2010	Maciej Tybura	I Vice President of the Management Board	
26 March 2010	Ryszard Janeczek	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION</b>	<b>SIGNATURE</b>
26 March 2010	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	

**KGHM POLSKA MIEDŹ S.A.**

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**REPORT OF THE MANAGEMENT  
BOARD ON THE COMPANY'S  
ACTIVITIES IN 2009**

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**Lubin, March 2010**



## KGHM POLSKA MIEDŹ S.A. IN THE YEARS 1997-2009

(data for the years 1997-2005 per annual reports, and since 2006 per IFRS)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Change 2008=100
<b>Income statement</b>															
Sales	m PLN	4 089	3 642	4 113	4 983	4 218	4 488	4 741	6 158	8 000	11 670	12 183	11 303	11 061	97.9
Profit on sales	m PLN	905	240	348	941	173	152	431	1 445	2 707	4 139	4 880	3 392	3 197	94.3
EBITDA*	m PLN	1 212	631	319	1 198	144	753	956	1 761	2 937	4 784	5 101	4 078	3 646	89.4
Profit before income tax	m PLN	914	310	(58)	795	(147)	310	569	1 446	2 635	4 380	4 656	3 554	3 067	86.3
Profit for the period	m PLN	502	179	(170)	618	(190)	255	412	1 397	2 289	3 605	3 799	2 920	2 540	87.0
<b>Balance sheet</b>															
Total assets	m PLN	4 937	4 975	4 884	5 757	7 557	8 155	8 695	8 948	10 977	12 251	12 424	13 901	13 953	100.4
Non-current assets	m PLN	3 558	3 698	3 579	4 177	4 735	6 440	6 621	6 552	7 079	7 017	7 431	8 704	9 509	109.2
Current assets	m PLN	1 364	1 242	1 250	1 381	2 657	1 715	2 074	2 397	3 899	5 234	4 992	5 174	4 444	85.9
Equity	m PLN	4 021	4 096	3 470	4 067	3 696	4 011	4 007	5 337	6 214	8 116	8 966	10 591	10 404	98.2
Liabilities and provisions	m PLN	846	775	1 187	1 380	3 634	4 144	4 689	3 612	4 763	4 136	3 458	3 309	3 549	107.3
<b>Financial ratios</b>															
Earnings per share (EPS)	PLN	2.51	0.89	(0.85)	3.09	(0.95)	1.27	2.06	6.99	11.45	18.02	18.99	14.60	12.70	87.0
Dividend per share (DPS) **	PLN	0.25	0.10	-	1.00	-	-	-	2.00	10.00	16.97	9.00	11.68	x	x
Price per share / Earnings per share (P/E)	x	5.4	14.0	(30.8)	8.3	(13.7)	10.6	12.7	4.5	5.5	4.9	5.6	1.9	8.3	x 4.3
Current liquidity	x	2.2	2.3	2.6	2.3	1.0	1.2	1.2	1.2	1.4	1.9	2.5	3.1	2.4	77.4
Quick liquidity	x	1.0	0.9	1.0	0.9	0.7	0.6	0.7	0.8	1.0	1.3	1.7	2.2	1.4	63.6
Return on assets (ROA)	%	10.2	3.6	(3.5)	10.7	(2.5)	3.1	4.7	15.6	20.9	29.4	30.6	21.0	18.2	86.7
Return on equity (ROE)	%	12.5	4.4	(4.9)	15.2	(5.1)	6.3	10.3	26.2	36.8	44.4	42.4	27.6	24.4	88.4
Debt ratio	%	14.2	13.5	14.3	15.9	38.2	34.2	38.8	24.0	28.2	33.8	27.8	23.8	25.4	106.7
Durability of financing structure	%	86.1	87.1	85.7	84.1	63.4	79.0	76.8	75.0	70.6	77.0	83.8	88.0	86.8	98.6
<b>Production results</b>															
Electrolytic copper production	000 t	440.6	446.8	470.5	486.0	498.5	508.7	529.6	550.1	560.3	556.6	533.0	526.8	502.5	95.4
Metallic silver production	t	1 029	1 098	1 093	1 119	1 163	1 192	1 358	1 344	1 244	1 242	1 215	1 193	1 203	100.8
<b>Macroeconomic data</b>															
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814	1 578	1 558	1 780	2 868	3 684	6 731	7 126	6 952	5 164	74.3
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.99	14.67	97.9
Exchange rate	PLN/USD	3.28	3.49	3.96	4.35	4.10	4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	129.5
<b>Other</b>															
Market value of Company shares at end of period	PLN/share	13.50	12.50	26.20	25.80	13.00	13.50	26.20	31.30	62.50	89.00	105.80	28.12	106.00	x 3.8
Capital expenditures	m PLN	649	487	379	584	433	360	424	616	651	709	828	1 140	1 070	93.9
Equity investments ***	m PLN	493	200	229	468	271	105	146	707	613	24	155	793	170	21.4
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156	6 328	6 305	6 237	6 660	7 723	10 497	11 160	11 736	11 170	95.2
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417	1 544	1 545	1 603	1 825	2 388	3 381	4 031	4 878	3 582	73.4

\* operating profit (in the years 1997-2006 profit (loss) before extraordinary items and taxation adjusted by interest cost) + depreciation/amortisation

\*\* dividend for financial year

\*\*\* purchase and acquisition of shares

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## 1. Company profile

### 1.1. Company organisation

In 2009 the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions. The organisational structure of KGHM Polska Miedź S.A. at 31 December 2009 is presented in the diagram below:

**Diagram 1. Organisational structure of the Company at 31 December 2009**



### Information on the employment contracts and remuneration of Management Board Members

In accordance with the Statutes of KGHM Polska Miedź S.A. the members of the Management Board are appointed and dismissed by the Supervisory Board.

The employment contracts which are signed with members of the Management Board provide for the payment of wages, composed of the basic monthly wage, variable wages, bonuses and additional benefits resulting from the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. and sector rules. Payment of the variable wage 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 wage. 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 wage.

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 equalling the 10 basic monthly wages. Employment contracts describe those cases in which a Member of the Management Board shall not receive the above-mentioned compensation.

The employment contracts with the Members of the Management Board of KGHM Polska Miedź S.A. do not foresee compensation with respect to forbidding any activities which would be competitive towards KGHM. One of the points of the chapter „Forbidding of employment and forbidding of competition” of the employment contract states: „The parties shall regulate in a separate contract the principles of forbidding competition following termination of employment and of the amount of compensation due in this regard.” At the date of preparation of this report such a contract had not been signed.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the Company of costs required for the proper fulfilment of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the budget),
- the use of business cars and rental of a flat for Management Board members (the costs associated with the use of a business car and flat are defined in a separate contract),
- medical benefits (in each calendar year of the life of the contract the Company purchases a medical packet for Management Board members worth up to PLN 10 thousand),
- life insurance premiums (once every year the Company covers the amount of the premiums to an amount up to one monthly basic wage, with the principles and manner of settlement being agreed by the parties in a separate contract).

### Information on the remuneration of Supervisory Board Members

The question of remuneration for members of the Supervisory Board is regulated by Resolution No. 15/2003 regarding: changes in the remuneration principles of the Supervisory Board members adopted by the Ordinary General Meeting dated 29 May 2003.

The Company also covers or reimburses those costs related to the participation in the work of the Supervisory Board, and in particular the costs of travel from the place of residence to the meeting site of the Supervisory Board and back, as well as room and board.

Detailed information on wages, bonuses or benefits for supervisory and management personnel can be found in Note 35 of the financial statements.

## 1.2. Production results

The main objectives set forth by the Management Board with respect to production in 2009 were: optimal utilisation of the resource base and of the production capacity of the Company, and optimisation of the copper content in ore and concentrate.

The objectives set forth required fulfilment of the following tasks:

- improving the ore selection system by:
  - a) selecting an appropriate size for the support pillars and the geometry of working fields in order to restrict the risk of rock collapse,
  - b) applying so-called partial backfill in thick ore deposits,
  - c) increasing the scope of selective mining (i.e. leaving a larger amount of uncrushed stone at the bottom of the mine) and utilising wheeled machines which are an appropriate height for the thickness of the ore;
- increasing the scope of drift work to prepare new working areas in the mines and improve knowledge of the deposit;
- adapting the production capacity of specific areas of the Ore Enrichment Plants to the amount and quality of ore supplied,
- improving enrichment parameters through the successive exchange of floatation equipment,
- maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters;
- preparation and modernisation of the flash furnace unit at the Głogów smelter,
- maintenance of the main Contirod production line at the Cedynia wire rod plant in Orsk, and
- work on an investment comprising construction of the 4th Doerschel furnace at the Głogów smelter,

## Mine production

Ore extraction by dry weight in 2009 was higher by 0.3 million tonnes than in 2008 and amounted to 29.7 million tonnes. This increase in extraction in 2009 was mainly achieved thanks to an increase in daily ore extraction.

The average copper content in extracted ore amounted to 1.68% and was higher than that achieved in 2008 (1.64%) mainly due to an improvement in the purity of the extracted ore and to work in regions with higher copper ore mineralisation.

The increase in extracted ore and the improvement in its quality caused an increase in the amount of copper in extracted ore by 17.9 thousand tonnes, i.e. by 4%.

The increase in copper content in extracted ore (despite a decrease in copper recovery by 0.6%) had a direct impact on the amount of copper in concentrate produced, which was 2% higher versus 2008.

**Table 1. Production results in mining**

	Unit	2007	2008	2009	Change 2008=100
Copper ore (dry weight)*	million t	30.3	29.4	29.7	101.0
of which mineral exploited from deposit**	million t	23.9	22.7	23.2	102.2
Copper content in ore	%	1.67	1.64	1.68	102.4
Copper concentrate (dry weight)	'000 t	1 875	1 866	1 929	103.4
Copper content in concentrate	'000 t	451.9	429.4	439.0	102.2

\* As defined by the Decree of the Council of Ministers dated 6 April 2004 regarding the Polish Classification of Goods and Services (known as PKWiU).

\*\* As defined by the Law on Mining and Geology dated 4 February 1994 with later changes and by executory provisions to the Law.

## Smelter production

In comparison to the prior year the production of electrolytic copper decreased in 2009 by 24.3 thousand tonnes, i.e. by 5%, mainly due to the three-month maintenance on the flash furnace at the Głogów smelter.

The production of other smelter products (silver, wire rod, OFE rod and round billets) depends on the level of electrolytic copper production, the type of raw materials used and on market demand.

The lower level of wire rod production (by 14%) and of round billets (by 26%) is due to lower demand caused by the economic crisis, while the decrease by 10% in the volume of gold production is due to a lower content of this metal in purchased copper-bearing materials than in the prior year.

**Table 2. Production results in smelting**

	Unit	2007	2008	2009	Change 2008=100
<b>Copper products:</b>					
Electrolytic copper	'000 t	533.0	526.8	502.5	95.4
of which from external copper-bearing materials	'000 t	92.3	105.1	103.8	98.8
Wire rod (Contirod)	'000 t	250.9	206.2	177.5	86.1
Oxygen-free copper rod (UPCAST)	'000 t	10.9	11.8	13.8	116.9
Round billets	'000 t	19.0	20.2	14.9	73.8
Granular copper	'000 t	2.1	2.3	2.5	108.7
<b>Other metals:</b>					
Metallic silver	t	1 215	1 193	1 203	100.8
Metallic gold	kg	883	902	814	90.2
Crude lead	'000 t	21.1	23.7	24.1	101.7
Refined lead	'000 t	15.2	20.0	21.6	108.0

### Main directions in production

The main production goals set out by the Management Board in 2010, as in the prior year, are: optimal utilisation of the resource base and of the production capacity of the Company and optimisation of the copper content in ore and concentrate.

As a result of the above the key goals for 2010 will be:

- continued drift preparation work being realised in the direction of the Głogów Głęboki Przemysłowy deposit,
- the application of new drift preparation work technology using drift combines,
- restricting depletion and moving from mining areas with low copper content to those with higher copper content,
- continued exchange of floatation machinery,
- optimisation of the enrichment processes in order to counter the effects of a decrease in ore quantity-quality parameters,
- continued work on an investment comprising construction of the 4th Doerschel furnace at the Głogów smelter,
- renovation of the Sulphuric Acid Plant at the Głogów smelter,
- modernisation of electrolyte cleaning facilities at the Legnica smelter and the Głogów smelter, and
- construction of a concentrate warehouse at the Głogów smelter.

### 1.3. Product sales structure

In 2009 the Company sold 509.9 thousand tonnes of copper and copper products, meaning a decrease in the volume of sales by 27.4 thousand tonnes (5%), mainly due to a decrease by 30.4 thousand tonnes (15%) in wire rod sales. The decrease in the volume of copper sales is due to the global financial crisis. Silver sales amounted to 1 198 t and were higher by 2% (23 t) versus the comparable prior period. Gold sales also decreased, by 12% (106 kg) and amounted to 818 kg.

**Table 3. Sales volume for basic products**

	Unit	2007	2008	2009	Change 2008=100
Copper and copper products	'000 t	526.8	537.3	509.9	94.9
of which export *	'000 t	335.2	382.6	390.5	102.1
Silver	t	1 177	1 175	1 198	102.0
of which export *	t	1 088	1 094	1 150	105.1
Gold	kg	738	924	818	88.5
of which export *	kg	-	348	755	217.0

\* including sales to European Union countries

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

	2007	2008	2009	Change 2008=100
<b>Total</b>	<b>12 103 511</b>	<b>11 220 197</b>	<b>10 965 336</b>	<b>97.7</b>
<b>of which export **</b>	<b>7 582 119</b>	<b>7 872 270</b>	<b>8 479 444</b>	<b>107.7</b>
Copper and copper products	10 328 748	9 442 761	8 815 919	93.4
of which export **	6 281 316	6 586 294	6 733 784	102.2
Silver	1 402 819	1 348 511	1 731 718	128.4
of which export **	1 296 542	1 255 464	1 663 074	132.5
Gold	45 527	62 652	84 721	135.2
of which export **	-	24 605	78 563	319.3
Other products and services	326 417	366 273	332 978	90.9
of which export **	4 261	5 907	4 023	68.1

\* Reflecting impact of commodity hedging transactions

\*\* including sales to European Union countries

Total revenues from the sale of KGHM Polska Miedź S.A. products amounted to PLN 10 965 336 thousand and were lower by 2% than those achieved in 2008, mainly due to the low level of copper prices at the start of 2009 and to the decrease in the volume of copper sales.

Revenues from the sale of copper and copper products were lower by 7%, while revenues from silver and gold sales, in comparison to their level in 2008, were higher respectively by 28% and 35%. This is due to the increase in precious metals prices against the backdrop of the global crisis in financial markets.

Revenues from the sale of products in 2009 reflect the positive result from the settlement of commodity hedging instruments in the amount of PLN 425 402 thousand (in 2008 PLN 569 132 thousand) and currency hedging instruments in the amount of PLN 7 785 thousand (in 2008 there was no adjustment of revenues in this regard). In 2009 there was no adjustment of revenues due to exchange differences related to the hedging of foreign-denominated credit, which in 2008 was recognised in revenue from cathode exports in the amount of +PLN 10 859 thousand.

#### Geographical structure of product sales

In 2009 the volume of domestic sales of copper and copper products represented 23% of total copper sales, with export and European Union sales accounting for 77%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, France and the Czech Republic.

During the twelve months of 2009 domestic silver sales amounted to 4% of the total volume of silver sales, while export and European Union sales accounted for 96% of sales volume. The largest foreign customers for silver were Great Britain, Belgium, Germany and the USA.

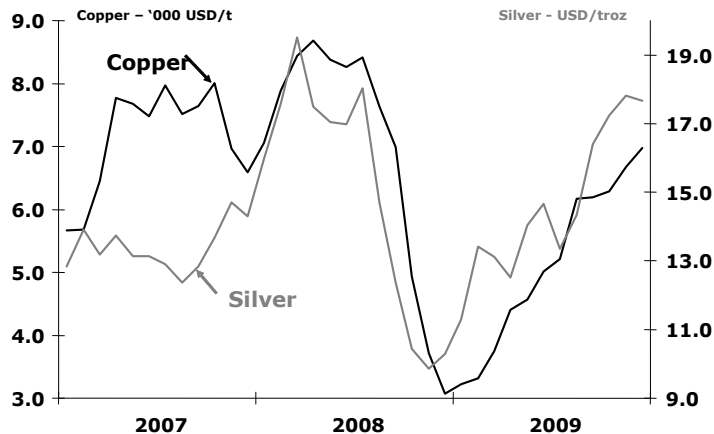
#### Macroeconomic sales conditions

Metals prices in 2009 entered a rising trend after the significant decrease on commodities markets in the prior year. The average electrolytic copper price on the London Metal Exchange (LME) amounted to 5 164 USD/t, meaning a decrease of 26% compared to 2008, when it amounted to 6 952 USD/t. The minimum average monthly copper price was recorded in January and amounted to 3 221 USD/t. The best month for copper producers was December, when prices varied around the average level of 6 982 USD/t.

The average annual silver price on the London Bullion Market (LBMA) in 2009 amounted to 14.67 USD/troz (472 USD/kg). This means a decrease by 2% compared to the average price in 2008 of 14.99 USD/troz (482 USD/kg). The minimum average monthly silver price was recorded in January at the level of 11.29 USD/troz (363 USD/kg), while the highest price was observed in November – 17.82 USD/troz (573 USD/kg).

Copper prices on the LME and silver on the LBMA in the years 2007-2009 are shown in the chart below.

**Chart 1. Copper prices on the LME and silver quotations on the LBMA**



The first half of 2009 brought a dynamic weakening of the Polish zloty versus the USD and Euro. In February, the price of the Polish currency denominated in USD and Euro reached a level not seen since 2004. Further into the year the Polish zloty began a trend of appreciation which lost strength in the final months of the year. The average USD/PLN (NBP) exchange rate in 2009 amounted to 3.12 USD/PLN and was higher versus the prior year by 30% (2.41 USD/PLN). In 2009 the minimum PLN exchange rate versus the USD was recorded at the beginning of December at the level of 2.71 USD/PLN, with its maximum value reached in February – 3.90 USD/PLN.

#### **Position of the Company on the copper and silver markets**

In 2009 global copper mine production amounted to 15 095 thousand tonnes (estimated data from CRU International Ltd). KGHM Polska Miedź S.A. produced 439 thousand tonnes of copper in concentrate, representing 3% of global production. Global production of refined copper amounted to 17 395 thousand tonnes. Refined copper production in KGHM amounted to 502 thousand tonnes, also representing 3% of global production.

During this same period global silver mine production amounted to 17 614 t (estimated data from CPM Silver Yearbook 2009). The Company produced 1 206 tonnes of silver in concentrate, representing 7% of global production.

#### **1.4. Signed contracts impacting the activities of the Company**

In 2009 the Company entered into the following significant contracts:

##### **Trade contracts of the Company (value of contracts based on data current at the time contract signed):**

- Contract for the sale-purchase of copper concentrate in the years 2012-2016 signed on 29 May 2009 between KGHM Polska Miedź S.A. and SALOBO METAIS S.A. in Brazil. The estimated value of this contract is from USD 639 million (i.e. around PLN 2 072 million) to USD 969 million (i.e. around PLN 3 141 million),
- Contract for the sale of silver in 2009 signed on 1 December 2009 between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch. The estimated value of this contract is PLN 33 million. This contract met the criteria to be considered a significant contract, together with other contracts from the last 12 months preceding its signing (the highest-value contract in the amount of PLN 671 million was entered into on 27 March 2009).

There was no instance of dependence on a single or multiple customers or suppliers. Customers whose share in revenues from sales exceed 10%: Tele-Fonika Kable S.A. and MKM Mansfelder Kupfer und Messing GmbH, whose share in the revenues from sales of KGHM Polska Miedź S.A. are respectively 11% and 10%.

##### **Information on contracts for the review or auditing of the separate or consolidated financial statements**

The entity entitled to audit the separate and consolidated financial statements of the Company is Ernst & Young Audit Sp. z o.o. with its registered head office in Warsaw, Rondo ONZ 1, 00-124 Warsaw.

The contract which was signed on 30 April 2007 is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2007, 2008 and 2009.

Detailed information on the amount of remuneration due to the entity entitled to audit the financial statements for the review and audit of the financial statements, and remuneration for other purposes is shown in Note No. 36 of the financial statements.

## 1.5. Employment and remuneration

### Employment

Employment in KGHM Polska Miedź S.A. at the end of 2009 was 18 413 persons, which was 1% lower than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 370 and was lower than the level of employment in 2008 by 116 persons.

**Table 5. End-of-period employment (# of persons)**

	2007	2008	2009	Change 2008=100
Mines	11 998	12 468	12 397	99.4
Smelters	4 044	4 024	3 931	97.7
Other divisions	2 217	2 143	2 085	97.3
<b>Total</b>	<b>18 259</b>	<b>18 635</b>	<b>18 413</b>	<b>98.8</b>

### Average remuneration

In 2009 the average wage excluding the annual bonus was PLN 7 003, meaning a statistical increase of 7% as compared to the level in 2008.

**Table 6. Average monthly remuneration (in PLN)**

	2007	2008	2009	Change 2008=100
Mining divisions	8 341	8 293	8 476	102.2
Smelting divisions	6 303	6 529	6 769	103.7
<b>Total</b>	<b>7 842</b>	<b>7 909</b>	<b>8 097</b>	<b>102.4</b>

### Relations with the trade unions

Negotiations with the trade unions regarding the setting of the average monthly wages increase index for 2009 in KGHM Polska Miedź S.A. did not conclude with the reaching of an agreement. In accordance with the law on the negotiating system for setting wages and with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., the index was set separately by the Management Board of the Company at 0%.

As a result of the lack of agreement as to the setting of the wages increase index for 2009, in April 2009 six trade unions issued wage demands: an increase in the wages increase index by 8%, an increase in contributions to the Employee Retirement Program by 2 percentage points, the introduction of a packet of additional medical services, and contributions to the Social Fund.

These demands led to meetings between representatives of the unions and the Management Board of KGHM Polska Miedź S.A. As a result, on 5 May 2009, after the following meeting, the parties signed an agreement with the following terms:

- the employees of the Company were paid a bonus of PLN 5 thousand in two instalments,
- the basic contribution to the Employee Retirement Program was increased by 2 percentage points, i.e. to 5% of wages,
- the employees of KGHM Polska Miedź S.A. were covered with a packet of additional medical services provided by Miedziowe Centrum Zdrowia S.A.,
- the trade unions declared that realisation of this agreement exhausted the wage demands for 2009.

The Company assumes a minor (less than 1%) increase in resources for wages in 2010 excluding the annual bonus. The resources in the amount allocated in 2009 for payment of the one-off bonus are to be used for the implementation of motivational pay schemes. The planned average monthly wage excluding the annual bonus will amount to PLN 7 028, and including the annual bonus – PLN 8 447, which means an increase by 4%. The planned level of employment for 2010 is 18 330.



## 2. Investments and development

### 2.1. Investments in property, plant and equipment

The structure of investments realised in 2009 is presented in the table below:

**Table 7. Investment expenditures ('000 PLN)**

	2007	2008	2009	Change 2008=100
Mining	666 136	879 829	833 507	94.7
Smelting	128 841	243 135	218 998	90.1
Other activities	33 112	16 911	17 307	102.3
<b>Total</b>	<b>828 089</b>	<b>1 139 875</b>	<b>1 069 812</b>	<b>93.9</b>

Investment activities were primarily aimed at the realisation of development projects and the replacement of equipment:

**Table 8. Structure of realised development-related investments ('000 PLN)**

	2007	2008	2009	Change 2008=100	Structure (%)
<b>Development:</b>	<b>383 022</b>	<b>492 015</b>	<b>513 195</b>	<b>104.3</b>	<b>48.0</b>
in mining	309 805	422 123	429 759	101.8	40.2
in smelting	54 110	62 331	78 180	125.4	7.3
in other Divisions	19 107	7 561	5 256	69.5	0.5

**Table 9. Structure of realised replacement-related investments ('000 PLN)**

	2007	2008	2009	Change 2008=100	Structure (%)
<b>Replacement:</b>	<b>445 067</b>	<b>647 860</b>	<b>556 617</b>	<b>85.9</b>	<b>52.0</b>
in mining, of which:	356 331	457 707	403 748	88.2	37.7
mining machinery	190 303	222 204	194 485	87.5	18.2
in smelting	74 731	180 804	140 818	77.9	13.2
in other Divisions	14 005	9 349	12 051	128.9	1.1

Major projects and facilities realised in 2009:

- **Construction of the SW-4 shaft** – work continued on freezing and excavating the shaft, which was deepened by 567.5 meters. Work was also carried out on surface infrastructure and on drift tunnelling (1 168.5 meters of was performed).
- **Głogów Głęboki Przemysłowy** – work continued on drift tunnelling to access the Głogów Głęboki Przemysłowy mining area. During the reporting period 5 874 meters of tunnels were dug (altogether since 2005, 32 thousand meters of the planned 130 thousand meters of tunnels have been developed). Work continued on developing the technical infrastructure with respect to: the underground power grid, dewatering system, horizontal transport system and ventilation. With respect to preparatory work on excavating the GG-1 shaft, work was completed on drilling test holes, geological documentation was developed and other design work was performed.  
In 2009, an event occurred in the network of drift tunnels accessing the Głogów Głęboki Przemysłowy deposit which was characterised as an outburst of gas and rock. Work in this direction was halted until an explanation for the cause of this event was determined, and principles for safely working were developed. The event required an alteration of the order in the schedule of work.
- **Investments related to developing the infrastructure of the excavation sections of the mines** – conveyor belts and retention tanks were developed, underground electrical switching gear and power lines were built and heavy machinery cells were built and outfitted.
- **Modernisation and replacement of the machinery park in the mines** – pursuant to plan, 198 mining machines were purchased for PLN 195 million.
- **Replacement-related investments in the smelters**, including:
  - mechanical assembly completed of the concentrate drier at the Głogów II smelter,
  - a contract was signed with Chemadex S.A. from Katowice to develop project documentation to replace the sulphuric acid plant at the Głogów I smelter, and selection was made of suppliers for the heat exchangers. During the tender process, contractors are selected for the

- construction/assembly work on the exchangers, delivery of the contact device and the starting unit,
- in the sulphuric acid plant at the Głogów II smelter work was completed related to construction of the wet electrofilters and replacement of the heat exchangers,
- in the Electrical Furnace and Convertors Section at the Głogów smelter work was completed on replacing the walls and cooling units of the electrical furnace,
- at the Legnica smelter a steering and control system for the copper electrorefining process was realised, the electrolyte heaters and cathode drawing equipment was replaced and other minor investments related to replacement were carried out.
- Investments related to improving and maintaining the safety of the **Żelazny Most** tailings pond, and eliminating its environmental impact.
- **Power and communications facilities** – realisation of investment respecting electrical switching gear and power lines, and transformer stations, power supply units and electrical installations were modernised.
- **Ventilation and air conditioning equipment** – investments related to ventilation equipment (ventilation belts, mine ventilators) and air conditioning equipment (air conditioning piping) in the mines were realised.
- **Investments related to conveyor belt and pipe transport** in the mines.
- **Modernisation of pirometallurgy in the Głogów II smelter** – the flash furnace was modernised and put into operation in August 2009. Work on adjusting and testing the installation was completed. Due to the lack of positive results with respect to the size of the feed to the furnace, a team was appointed whose purpose is to determine the following:
  - the impact of organic coal content in concentrate on the size of the concentrate feed,
  - the conditions for minimising the occurrence in the flash process of the oxides SO<sub>3</sub> and NO<sub>x</sub>,
  - optimisation of the mixture composition in order to achieve maximum smelting.
- **Construction of a 4th Doerschel furnace at the Głogów smelter** – project documentation was developed, bidding was held to select a contractor for the construction-assembly work and a supplier for the furnace's power system was chosen.
- **Pirometallurgy Modernisation Program at the Głogów I smelter** – preparation of a program:
  - the Finnish company OUTOTEC developed an updated base project,
  - BIPROMET S.A. worked on an update of the area management program as well as on an update of the environmental impact analysis for the project „Modernisation of pirometallurgy in KGHM Polska Miedź S.A. – the Flash Furnace at the Głogów I smelter,
  - AS BUD Brenno worked on construction of a new administration-social building at the Głogów I smelter.
- **Construction of gas-steam blocks in the powerplants in Głogów and Polkowice** – expenditures incurred by "Energetyka" sp. z o.o. to develop a technical-economic analysis for the selection of gas-steam blocks were reimbursed. A technical advisor was selected to develop technical documentation and to prepare tender procedures. Negotiations were held in November and December 2009 on the conditions for a contract respecting the supply of natural gas from PGNiG S.A. and the submission of bids to supply gas turbines. The signing of a contract with PGNiG which is planned by the end of April 2010 is a necessary condition for the signing of contracts for the supply of equipment. During the last period actions were also taken with respect to obtaining project financing from EU funds.

#### Main areas of investment activities in the years 2010-2014

The main areas of investment activities in the years 2010-2014 comprise the following key activities:

##### 1. Development and increased effectiveness of the core business:

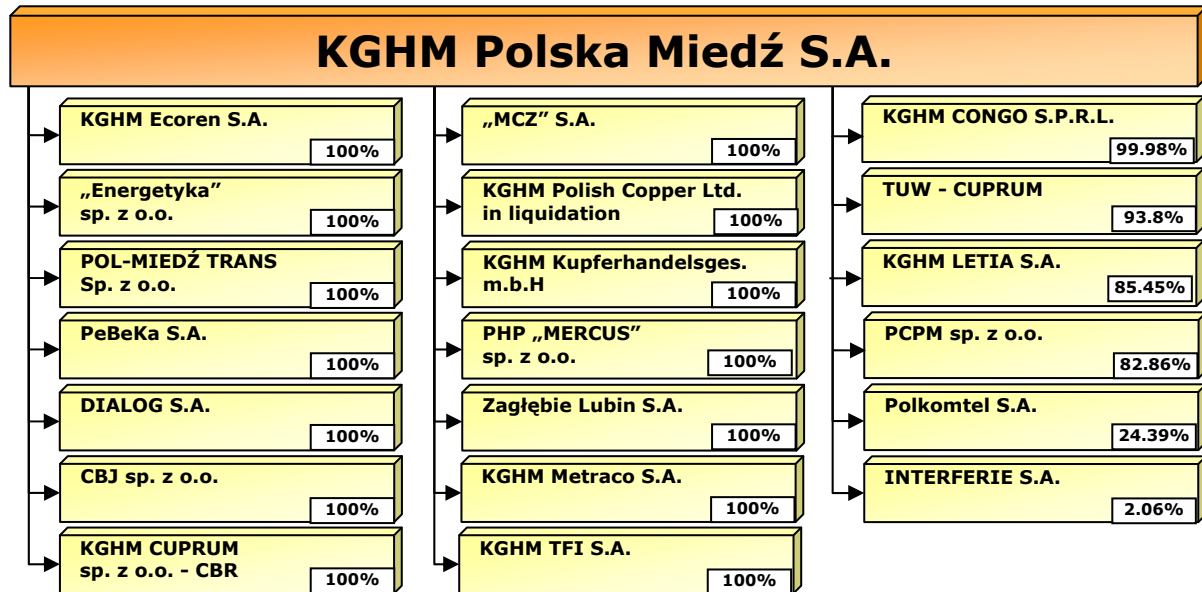
- increasing the resource base, including maintaining the level of copper production from domestic sources, by: replacing production-related assets in the divisions, developing the technical infrastructure of new mining regions, construction of the SW-4 shaft, realisation of the Głogów Głęboki Przemysłowy project, which will enable continuation of the current level of copper production over the long term, and exploring the possibility of mining the Radwanice-Gaworzyce deposit.
- improving effectiveness, including restriction of basic operating costs and modernisation of production-related assets by: replacing floatation machinery, modernising pirometallurgy, constructing gas-steam blocks, more rapid exchange of mining machinery, and other investments related to reducing costs, which are currently being analysed,

2. Diversification of activities and supporting the development of KGHM – increasing the production of salt associated with the copper ore, increasing the production of crude and refined lead and the production of copper from scrap.

## 2.2. Equity investments

At 31 December 2009 KGHM Polska Miedź S.A. directly owned shares of 20 entities. Six of them have their own capital groups: KGHM Ecoren S.A., PHP „MERCUS” sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., KGHM CUPRUM sp. z o.o. – CBR, „Energetyka” sp. z o.o. The equity investments of KGHM Polska Miedź S.A. in specific entities is shown in the diagram below.

**Diagram 2. Entities in which KGHM Polska Miedź S.A. had a direct ownership of shares at 31 December 2009**



The companies of the Group are diversified in terms of their activities. They offer products and services both related to the core business of KGHM Polska Miedź S.A. (including mine construction, the production of electrical power and heat, mining machinery and equipment and research and development) as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications and medicine. In 2009 there were no changes in the basic management principles of the Group.

The value of the equity investments of KGHM Polska Miedź S.A. in 2009 related to the acquisition of shares in Group companies amounted to PLN 170 170 thousand. They were financed by the internal funds of the Company.

### – POL-MIEDŹ TRANS Sp. z o.o.

In 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of POL-MIEDŹ TRANS Sp. z o.o. twice:

- in February 2009 KGHM Polska Miedź S.A. acquired newly-created shares of the company and covered them, at their face value, by a contribution in kind in the form of perpetual usufruct of land with a total amount of PLN 150 thousand. This investment was aimed at regulating the legal status of the property.
- In November 2009 KGHM Polska Miedź S.A. acquired newly-created shares of the company which will be covered, at their face value, by cash in the total amount of PLN 10 000 thousand. Payment for these shares was set in two instalments. The first instalment in the amount of PLN 8 000 thousand was paid in November 2009. The date for payment of the second instalment was set at 10 May 2010. The company used the funds obtained from this increase in share capital for partial financing of the purchase of electric locomotives.

The share capital of POL-MIEDŹ TRANS Sp. z o.o. following the above-mentioned increases amounts to PLN 150 568 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

– **„MCZ” S.A.**

In 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of „MCZ” S.A. twice - in June in the amount of PLN 900 thousand and in November in the amount of PLN 600 thousand. In both cases the Company acquired the shares of the new issue and covered them, at their face value, by cash

The company used the funds obtained from this increase in share capital for the purchase of medical equipment. The share capital of „MCZ” S.A. following the above-mentioned increases amounts to PLN 53 718 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

– **CBJ sp. z o.o.**

In December 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of CBJ sp. z o.o. and covered them, at their face value, by cash in the total amount of PLN 2 205 thousand. The company used the funds obtained from this increase in share capital for realisation of investments related to automatization of the processes of selecting samples for analysis. The share capital of CBJ sp. z o.o. following the increase amounts to PLN 5 123 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

– **„Energetyka” sp. z o.o.**

In December 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of „Energetyka” sp. z o.o. and covered them, at their face value, by cash in the total amount of PLN 153 500 thousand. The company used the funds obtained from this increase in share capital for partial financing of the purchase of 85% of the shares of WPEC Legnica S.A. The share capital of „Energetyka” sp. z o.o. following the increase amounts to PLN 402 293 thousand. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

– **KGHM TFI S.A.**

In June 2009 KGHM Polska Miedź S.A. founded a company called KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SPÓŁKA AKCYJNA, in which it acquired 100% of the shares and covered them, at their face value, by cash in the total amount of PLN 2 800 thousand.

### **Sale of shares**

In January 2009 KGHM Polska Miedź S.A. sold all of the shares it owned in Polskie Towarzystwo Reasekuracji Spółka Akcyjna with a total nominal amount of PLN 12 500 thousand, representing 11.88 % of the share capital of this company. The shares' sale price amounted to PLN 20 000 thousand. The purchase price of these assets amounted to PLN 12 500 thousand.

### **Dividends**

In 2009 KGHM Polska Miedź S.A. received dividends from the following entities (in '000 PLN):

– Polkomtel S.A.	418 222,
incl. an interim dividend for 2009 of PLN 113 256 thousand,	
– KGHM Ecoren S.A.	21 891,
– KGHM Metraco S.A.	9 726,
– KGHM Polish Copper Ltd.	5 010.

### **Owner loans**

In 2009 KGHM Polska Miedź S.A. granted owner loans to the following Group entities:

- „Energetyka” sp. z o.o. – a loan in the amount of PLN 50 300 thousand for partial financing of the purchase of shares of WPEC w Legnicy S.A., with annual interest of WIBOR 1M + a margin of 2.77% and repayment by 31 December 2019;
- Zagłębie Lubin S.A. – a loan in the amount of PLN 19 132 thousand to continue an investment – construction of a football stadium, with annual interest of WIBOR 3M + a margin of 3 % and repayment by 31 December 2011.

### **Payments to share capital**

In 2009 KGHM Polska Miedź S.A. granted a payment to the capital of the subsidiary KGHM CUPRUM sp. z o.o. – CBR in the amount of PLN 1 604 thousand for the purchase of land related to realisation of a project involving construction of the conference-hotel center CUPRUM III in Wrocław.

### Equity investments outside the Group

In 2009 KGHM Polska Miedź S.A. continued to invest in the AIG Emerging Europe Infrastructure Fund. The fair value of the investment in this Fund at 31 December 2009 is PLN 7 930 thousand. In 2009 the Company paid a management fee of PLN 99 thousand.

### Significant transactions entered into by the subsidiaries of KGHM Polska Miedź S.A. with related entities

In 2009 the subsidiaries of KGHM Polska Miedź S.A. did not enter into significant transactions with related entities under other than arms length conditions.

### Telecom assets of the Company

#### Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. in the consolidated financial statements at 31 December 2009 accounted for using the equity method is PLN 1 346 273 thousand. The basic items of the company's income statement are presented below:

**Table 10. Financial results of Polkomtel S.A. ('000 PLN)**

	2008	2009	Change 2008=100
Revenues from operating activities	8 547 427	8 104 367	94.8
Operating profit	1 889 180	1 532 943	81.1
EBITDA	3 105 925	2 840 732	91.5
Profit before tax	1 678 319	1 385 161	82.5
Profit for the period	1 361 239	1 107 237	81.3

On 9 June 2009 the Ordinary General Meeting of Polkomtel S.A. resolved to allocate profit for 2008. In accordance with the decision of the shareholders, the amount of PLN 1 250 295 thousand was allocated as a dividend. KGHM Polska Miedź S.A. received, proportionally to its shareholding, the amount of PLN 304 966 thousand. The dividend was paid in two instalments, the first in the amount of PLN 76 204 thousand on 29 June 2009, the second in the amount of PLN 228 762 thousand on 29 September 2009.

On 18 November 2009 the Supervisory Board of Polkomtel S.A. adopted a resolution in which it gave its consent to the payment of an interim shareholder dividend towards the dividend for 2009 in the total amount of PLN 464 325 thousand. KGHM Polska Miedź S.A., proportionally to its shareholding, consequently received in December 2009 the amount of PLN 113 256 thousand.

#### DIALOG S.A.

DIALOG S.A. is a parent entity in respect of two entities – at 31 December 2009 the DIALOG S.A. Group comprised the following subsidiaries:

- „PETROTEL” sp. z o.o. (8 199 shares with a total nominal value of PLN 8 199 thousand, representing 99.99% of the share capital) – this company provides telecom services in the region of Płock and vicinity,
- AVISTA MEDIA Sp. z o.o. (20 000 shares with a total nominal value of PLN 10 000 thousand, representing 100% of the share capital) – the core business of the company is providing call center services and direct marketing.

**Table 11. Financial data of the DIALOG S.A. Group ('000 PLN)**

	2008	2009	Change 2008=100
Sales	554 004	520 896	94.0
Result on sales	(273 158)	32 540	x
Operating profit /(loss)	(301 620)	34 682	x
EBITDA*	83 394	135 382	162.3
Profit /(loss) before taxation	(310 245)	27 043	x
Profit /(loss) for the period	(284 086)	10 436	x

\* EBITDA calculated as the result on operating activities increased by depreciation/amortisation and impairment respecting 2008

**Table 12. Financial data of DIALOG S.A. ('000 PLN)**

	2008	2009	Change 2008=100
Sales	548 034	493 800	90.1
Result on sales	(272 842)	31 486	x
Operating profit /(loss)	(305 406)	32 650	x
EBITDA*	76 301	122 974	158.1
Profit /(loss) before taxation	(313 839)	25 452	x
Profit /(loss) for the period	(292 139)	9 808	x

\* EBITDA calculated as the result on operating activities increased by depreciation/amortisation and impairment respecting 2008

In 2009 the sales of the DIALOG S.A. Group were lower than those in the comparable prior period by PLN 33 108 thousand due to restriction of low-margin transit services. However, after excluding these transit services, the sales of the DIALOG S.A. Group, despite the general downward market trend in fixed-line telephony, were higher by PLN 24 414 thousand, i.e. by 5%. The increase in sales was mainly in respect of services provided based on external infrastructure (WLR, 1011 and BSA) - versus 2008 by PLN 23 633 thousand.

The decrease in sales did not, however, cause a decrease in the financial result. In 2009 the DIALOG S.A. Group achieved better financial results than in the comparable prior period. A significantly higher result on operating activities and higher EBITDA were recorded versus the comparative prior period (respectively by PLN 336 302 thousand and PLN 51 988 thousand). The significant loss incurred in 2008 was mainly due to an impairment of assets (IAS 36 *Impairment of assets*), in the amount of PLN 268 270 thousand.

During the analysed period the DIALOG S.A. Group increased its customer base, in both voice and data transmission services. At the end of December 2009 it had 445.2 thousand ringing lines in its own network and 250.3 thousand WLR lines (an increase of 54% versus the end of 2008). The number of customers using data transmission services amounted to 157.2 thousand.

The DIALOGmedia package introduced in 2008, combining fixed-line telephony, Internet access and digital TV and video on demand, gained customer interest, with their number increasing to 21 thousand at the end of December 2009 (an increase in 2009 by 17.5 thousand, of which 6.8 thousand were in the 4th quarter alone).

In the 4th quarter of 2009 the DIALOG S.A. Group continued to realise a project on the introduction of mobile telephone services as a so-called virtual operator (MVNO) - commercial commencement of these services took place in February 2010.

DIALOG S.A. is carrying out the strategy of the company for the years 2009 – 2015 which was adopted at the start of 2009. It assumes investments in the development of infrastructure based on the most modern technology, new services and selective acquisitions. In the 4th quarter of 2009 the company's strategy was reviewed, and as a result it was decided that modernisation of the network to incorporate PON technology will be carried out in selected areas and will depend on actual bandwidth demand.

Work is currently underway in the company related to the development of an operational plan for implementation of the strategy, which in particular will include definition of the following: a product development map in terms of realisation of the company's strategy, a sales strategy, pricing policy and a marketing strategy, as well as the preparation of an operational plan to implement strategic initiatives.

In November 2009 DIALOG S.A. signed an agreement respecting financing from EU funds (in the amount of 40% of expenditures) to realise a project titled „Implementation of innovative services based on an access network using passive optical network (PON) technology”. Realisation of this project will enhance the possibility of increasing company sales through the sale of larger service packages. This project will be realised at the area of the following voivodeships: dolnośląskie, lubuskie and łódzkie, and will encompass 70 thousand housing units. It is the largest project of its type in Poland, and one of the largest in Europe.

In November 2009 DIALOG S.A. acquired the bankrupt company Nyska Sieć Informatyczna Sp. z o.o. from a official receiver. Thanks to this transaction the operator gained access to the infrastructure of a new geographical region with great sales potential. DIALOG S.A. became the owner of a modern telecommunications network using ETTH technology.

### **Intentions as regards other equity investments**

The intentions of the Company as regards equity investments are mainly aimed at:

- investments in the main strategic area – mining,
- investments in the KGHM Polska Miedź S.A. Group,
- acquisition of investment certificates for the Closed-End Investment Funds managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A.,

Investments in mining are aimed at expanding the resource base. They include the acquisition of a foreign mining entity and investments in entities involved in exploration.

The intentions of KGHM Polska Miedź S.A. with respect to investments in the Group are aimed at investments supporting the core business, aimed among others at reducing production costs. In carrying out these strategic intentions, those subsidiaries which provide services to the divisions of KGHM Polska Miedź S.A. have developed investment programs reflecting these aspects.

Investments planned within the Group are also aimed at developing and increasing the productivity of Group entities. In realising the strategy of increasing value through investments in develop-related areas, KGHM Polska Miedź S.A. provides equity support for investments by Group entities, aimed at strengthening their positions in the sectors in which they operate. A significant part in the realisation of development-related investment plans will be played by POL-MIEDŹ TRANS Sp. z o.o., in which expenditures are planned for realising investments aimed at increasing its expertise in railway transport. The first expenditure on this investment was incurred in 2009. Investments within its sector are also planned by „Energetyka” sp. z o.o. These involve the acquisition of new, alternative sources of energy. The strategy of increasing the productivity of the Group will also be realised by investing in the property sector.

In addition, actions taken within the Group in 2010 will aim at liquidating selected entities. This involves liquidation procedures begun in the prior year. The liquidation of KGHM Polish Copper Ltd. is related to assuming the activities of this company by KGHM Polska Miedź S.A. The decision to liquidate KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi was made due to the termination by this company of an investment project in the Democratic Republic of Congo.

In realising the strategy of responsibility to the local community, KGHM Polska Miedź S.A. provides equity support for investments of social significance. Support by KGHM Polska Miedź S.A. in 2010 will involve the development of medical activities by „MCZ” S.A. and completion of the construction of a football stadium by Zagłębie Lubin S.A.

In order to diversify investment risk, KGHM Polska Miedź S.A. intends to acquire investment certificates for Closed-End Investment Funds managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A. (KGHM TFI S.A.) – a company 100% owned by KGHM Polska Miedź S.A. This investment is of a long-term nature, is not related to the core business and does not require operational commitment in the activities of companies belonging to the funds. KGHM Polska Miedź S.A., as the owner of KGHM TFI S.A., will have complete say as to the investment strategy of the created funds.

The level of expenditures related to equity investments which KGHM Polska Miedź S.A. intends to realise in 2010 is similar to the capital expenditures planned during this period. In order to fully realise the investment plan, the Budget for 2010 assumes the use of both internal funds as well as external financing.

### **2.3. Environmental protection**

In 2009 KGHM Polska Miedź S.A. carried out its production tasks while endeavouring to protect the natural environment. This adherence to strict environmental standards, as determined by law, is possible thanks to the systematic modernisation of existing environmental protection equipment, as well as to new investments in this area. In 2009 the Company spent PLN 47 807 thousand on the realisation of projects related to environmental protection.

#### **Environmental fees**

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2009 amounted to PLN 26 140 thousand. This decrease in the amount of fees versus 2008 (PLN 68 612 thousand) is due to changes in the law on mining waste. The law eliminates the payment of fees by economic entities which treat their mining waste through storage, and the floatation tailings from ore enrichment falls into this category.

In 2009 the largest fees paid by the Company were for waste discharge: PLN 18 021 thousand, including PLN 18 017 thousand for the drainoff of excess water from the Żelazny Most tailings pond.

## Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning depends on the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits - the Głogów smelter,
- an installation titled The Biechów industrial waste storage facility - the Głogów smelter,
- an installation titled The Biechów II industrial waste storage facility - the Głogów smelter,
- the Legnica smelter - an installation for the production of refined lead,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electrical processes, the tailings waste facility „Polowice”, a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the smelter - the Legnica smelter,
- an installation for the melting, continuous casting and drawing of copper rod - the Cedynia Wire Rod Plant,
- an installation for the storage of tailings from the floatation of copper ore - the Tailings Plant, and
- an installation for the neutralisation of sulphuric acid waste - the Ore Enrichment Plants.

The remaining Divisions of the Company possess environmental sector administrative decisions.

In 2009 the procedure was begun to acquire a permit by the Tailings Plant to operate a waste treatment facility in accordance with the law on mining waste. Based on this law, the Żelazny Most tailings pond is a mining waste treatment facility and by the end of April 2012 we are required to adapt its status to the provisions of this law.

In 2009 in the Głogów smelter an audit was performed to certify the system for managing workplace safety and hygiene. Acquisition of a certificate confirming implementation of the standard PN 18001 caps years of effort by the Głogów smelter to achieve an Integrated Management System. This also marked the completion of the certification stage in the smelting divisions, which will operate in accordance with management systems in the areas of environment, quality and workplace safety and hygiene.

The Company has achieved a high level of technical solutions which enable the operation of installations in accordance with prevailing environmental law. In the near future it will be necessary to keep up with changes in EU law with respect to environmental protection in order to make the process of production compliant with the law. In addition, it will be necessary to modernise our installations in such a way as to increase production while minimising environmental impact. Amongst the most important investments planned in the near term are the following:

- beginning the process of implementing an Integrated Management System in the Company,
- work related to securing the Żelazny Most tailings pond, including strengthening of the dam,
- continued modernisation of atmospheric protection equipment at the Głogów II smelter – a desulphurisation installation for the convertor furnaces,
- modernisation of the electrolyte treatment equipment at the Głogów I smelter,
- construction of a fourth Doerschel furnace with infrastructure at the lead section of the Głogów smelter to increase the management of lead-bearing waste,
- continued construction of a copper concentrate warehouse at the charge preparation section of the Głogów II smelter,
- modernisation of the sulphuric acid plant at the Głogów I smelter,
- documentation work related to the restoration of land following liquidation of a shaft at the Polkowice – Sieroszowice mine.

## 2.4. Research and Development

R&D work in KGHM Polska Miedź S.A. is closely connected to the Company's strategy and is aimed at:

- development and expansion of the core business,
- diversifying activities, and
- supporting the development of KGHM.

External funding for R&D work in 2009 in KGHM Polska Miedź S.A. and the development of feasibility studies and analyses in the R&D amounted in total to PLN 16 141 thousand, and was slightly less than in 2008 (PLN 17 845 thousand). The decrease in expenditures was mainly in respect of R&D work (Table 13). In 2009 efforts focused on preparations to carry out the strategic R&D projects described in the new „Strategy of KGHM Polska Miedź SA for the years 2009–2018”.



**Table 13. R&D expenditures ('000 PLN)**

	2007	2008	2009	Change 2008=100
Mining	4 414	3 518	2 517	71.5
Smelting	1 662	2 368	1 757	74.2
<b>Total</b>	<b>6 076</b>	<b>5 886</b>	<b>4 274</b>	<b>72.6</b>

R&D work is mainly financed by the Company's internal funds. In certain cases the Company makes use of public funds. In 2009 KGHM Polska Miedź S.A. received information from the Polish Agency for Enterprise Development on the granting of a development subsidy under the auspices of the Innovative Economy Operational Programme for the years 2007-2013, actions 1.4-4.1., from the funds of the European Regional Development Fund for an R&D project titled „Development of mining technology through the use of an ACT combine by KGHM”. Support amounted to PLN 39 560 thousand, i.e. 32% of planned expenditures on the entire project. An applicable agreement is being developed which will be realised by 2015.

KGHM Polska Miedź S.A. is pursuing new forms of cooperation with R&D facilities and scientific institutions. The Company has participated in the initiation of several R&D projects of significance to the Company financed by the National Centre for Research and Development under the auspices of the IniTech program, in which KGHM Polska Miedź S.A. has declared its role as an end-user for the developed methods. An important initiative of this type is the R&D project titled „Technology for hydrometallurgical treatment of semi-products and copper concentrates by the Lubin Ore Enrichment Plant”, which is being realised by the Chemical Department of the Wrocław University of Technology.

Examples of activity in international sector projects with respect to R&D of a private-government initiative character are: Company participation in EFRB (EXPLOSIVE - FREE ROCK BREAKAGE INITIATIVE) projects, involving the search for alternative methods for explosion-free breakage of hard rock, and the initiative MIFU (MINE OF THE FUTURE), i.e. designing model future mines.

Amongst the main directions in the search for innovative technology in future years will be the following:

- work on developing mining technology – excavation and drift work in the mines of KGHM Polska Miedź S.A. – using mining combines,
- development of modified and/or new technology for the mining of deep deposits,
- research into automatisisation, visualisation and controlling mining processes,
- improving safety during mining operations under conditions of associated threats,
- searching for possibilities to reduce production costs, to improve the use of machinery and equipment, the consumption of materials and energy, and better organisation of work,
- development of processing procedures in terms of increasing the amount of recovered useful elements aimed at reducing the costs of this process,
- development of technology enabling a reduction in the amount of stored waste using the hydrotechnical method,
- ensuring the safe operation of the Żelazny Most tailings pond,
- research into the usefulness of new technology for the smelters of KGHM in order to reduce processing costs,
- searching for technology to enable the full use of individual concentrate smelting units,
- comparative research into various technological methods for realising the copper scrap smelting circuit at the Legnica smelter,
- searching for ways to improve the parameters of currently-applied copper electrorefining technology,
- minimalisation of the impact of the Company's smelting operations on the environment,
- searching for possibilities to manufacture new products.

### 3. Review of financial position

#### 3.1. Assets

In comparison to the end of 2008, total assets increased by less than 1% (PLN 52 466 thousand). There were significant changes in particular items of the balance sheet, including primarily property, plant and equipment and inventories, whose total amount increased by PLN 865 969 thousand (12%) as well as cash and cash equivalents and derivative financial instruments, which decreased during the year by PLN 1 214 698 thousand (48%).

**Table 14. Assets ('000 PLN)**

	31.12.2008	31.12.2009	Change 2008=100	Structure (%)
<b>Non-current assets</b>	<b>8 703 565</b>	<b>9 508 897</b>	<b>109.3</b>	<b>68.1</b>
Property, plant and equipment	5 515 028	5 937 513	107.7	42.6
Intangible assets	80 904	76 147	94.1	0.5
Shares in subsidiaries	1 795 013	1 915 224	106.7	13.7
Investments in associates	1 163 640	1 159 947	99.7	8.3
Deferred tax asset	-	167 062	x	1.2
Available-for-sale financial assets	21 034	17 700	84.1	0.1
Held-to-maturity investments	59 545	67 097	112.7	0.5
Derivative financial instruments	6 501	58 034	8.9	0.4
Trade and other receivables	61 900	110 173	178.0	0.8
<b>Current assets</b>	<b>5 173 979</b>	<b>4 443 909</b>	<b>85.9</b>	<b>31.8</b>
Inventories	1 446 802	1 890 286	130.7	13.5
Trade and other receivables	1 222 501	1 314 598	107.5	9.4
Held-to-maturity investments	-	580	x	0.0
Derivative financial instruments	711 096	263 247	37.0	1.9
Cash and cash equivalents	1 793 580	975 198	54.4	7.0
<b>Non-current assets held for sale</b>	<b>23 020</b>	<b>224</b>	<b>1.0</b>	<b>0.0</b>
<b>Total Assets</b>	<b>13 900 564</b>	<b>13 953 030</b>	<b>100.4</b>	<b>100.0</b>

The value of property, plant and equipment increased in 2009 by PLN 442 485 thousand (8%), mainly due to realisation of the investment program. Capital expenditures amounted to PLN 1 069 812 thousand, i.e. nearly twice as much as depreciation on property, plant and equipment (PLN 538 157 thousand).

The total carrying amount of shares was PLN 3 075 171 thousand, representing 22% of total assets at the end of 2009. As a result of equity investments the carrying amount of shares in subsidiaries and associates increased by PLN 116 518 thousand (4%). The largest cause of the increase in this balance sheet item was the increase in the share capital of „Energetyka” sp. z o.o. by PLN 153 500 thousand to be used for investments in the power sector (the purchase of shares of WPEC Legnica). Conversely, due to impairment, there was a decrease in the carrying amount of the shares of Zagłębie Lubin S.A. from PLN 100 000 thousand in 2008 to PLN 50 041 thousand at the end of 2009.

Available-for-sale financial assets in the amount of PLN 17 700 thousand represented shares in unlisted companies in the total amount of PLN 9 770 thousand (including shares in KGHM Congo S.P.R.L. measured at a fair value amounting to PLN 0) and in the investment fund AIG in the amount of PLN 7 930 thousand. Held-to-maturity investments were all in respect of the Mine Closure Fund in the amount of PLN 67 677 thousand.

Current assets amounted to PLN 4 443 909 thousand and are more than twice as much as current liabilities. In the structure of current assets the highest-value item was inventories, which at the end of 2009 amounted to PLN 1 890 286 thousand. The increase in inventories by PLN 443 484 thousand (31%) was mainly in respect of semi-products, including copper concentrate. Due to maintenance performed on the flash furnace at the Głogów II smelter, at the end of 2009 concentrate inventories in the smelters increased to 217 thousand tonnes (dry weight), i.e. three times as much as at the start of the year. Also of significance was the concentrate purchased on the market. At the end of 2009 nearly 12 thousand tonnes of concentrate worth PLN 65 547 thousand was en route to the Company (no concentrate inventories en route at 31 December 2008).

An important item in the structure of current assets was current receivables in the amount of PLN 1 314 598 thousand, of which:

- trade receivables (less allowance for impairment) PLN 1 003 016 thousand.
- other receivables PLN 311 582 thousand

During the year trade receivables increased by PLN 504 470 thousand, i.e. by twice, with a decrease in their average amount by PLN 72 091 thousand (10%). This discrepancy is due to the significant volatility in receivables at the end of 2008 and start of 2009. Other receivables decreased by PLN 412 374 thousand (57%), mainly due to receivables on unsettled derivative instruments, of which there were none at 31 December 2009, but at the end of 2008 amounted to PLN 287 146 thousand.

Cash and cash equivalents amounted to PLN 975 198 thousand, and during the year decreased by PLN 818 382 thousand (46%), mainly due to the payment of a shareholders dividend in the amount of PLN 2 336 000 thousand.

Assets due to derivative financial instruments amounted to PLN 321 281 thousand (total non-current and current), which means a decrease in comparison to their carrying amount at the end of 2008 by PLN 396 316 thousand (55%).

Assets effectiveness ratios were at comparable levels to those in 2008:

**Table 15. Assets effectiveness ratios**

	2008	2009
Assets turnover ratio	0.8	0.8
Non-current assets turnover ratio	1.3	1.2
Current assets turnover ratio	2.2	2.5
Liquid assets turnover ratio	3.7	4.8

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

### 3.2. Equity and liabilities

In 2009 the basic source for financing assets was equity, exceeding by 9% the amount of non-current assets. The share of equity in total assets was 75% and was slightly lower than at the end of 2008 (76%).

**Table 16. Sources of financing assets ('000 PLN)**

	31.12.2008	31.12.2009	Change 2008=100	Structure (%)
<b>Equity</b>	<b>10 591 292</b>	<b>10 403 957</b>	<b>98.2</b>	<b>74.6</b>
Share capital	2 000 000	2 000 000	100.0	14.3
Accumulated other comprehensive income	518 748	127 228	24.5	0.9
Retained earnings	8 072 544	8 276 729	102.5	59.3
<b>Non-current liabilities</b>	<b>1 640 668</b>	<b>1 704 420</b>	<b>103.9</b>	<b>12.2</b>
Trade and other payables	24 962	17 472	70.0	0.1
Borrowings and finance lease liabilities	17 173	11 576	67.4	0.1
Derivative financial instruments	-	61 354	x	0.4
Deferred tax liabilities.	31 516	-	x	0.0
Liabilities due to employee benefits	975 697	1 098 399	112.6	7.9
Provisions for other liabilities and charges	591 320	515 619	87.2	3.7
<b>Current liabilities</b>	<b>1 668 604</b>	<b>1 844 653</b>	<b>110.6</b>	<b>13.2</b>
Trade and other payables	1 476 088	1 376 049	93.2	9.9
Borrowings and finance lease liabilities	7 120	6 109	85.8	0.0
Current corporate tax liability	64 866	78 183	120.5	0.6
Derivative financial instruments	3 771	273 503	x7.3	2.0
Liabilities due to employee benefits	73 289	93 122	127.1	0.7
Provisions for other liabilities and charges	43 470	17 687	40.7	0.1
<b>Total equity and liabilities</b>	<b>13 900 564</b>	<b>13 953 030</b>	<b>100,4</b>	<b>100,0</b>

The decrease in equity during the year by PLN 187 335 thousand was comprised of:

- accumulated other comprehensive income (PLN (391 520) thousand), mainly adjustment due to the reclassification of hedging instruments (reclassified to profit or loss),
- the profit for 2009, less the dividend for 2008 (PLN 204 185 thousand).

Total non-current and current liabilities amounted to PLN 3 549 073 thousand, i.e. PLN 239 801 thousand higher than at the end of 2008. Their share in the assets financing structure increased, as shown by the relation of liabilities to equity – an increase from 31% to 34%.

The largest item was trade and other payables (current and non-current) in the total amount of PLN 1 393 521 thousand, of which:

- trade payables in the amount of PLN 427 790 thousand (an increase by 13% during the year),
- payables due to the purchase and construction of fixed assets and intangible assets in the amount of PLN 181 181 thousand (a decrease by 45% during the year),
- other payables in the amount of PLN 784 550 thousand, of which: taxation and social security PLN 176 052 thousand, accruals, PLN 303 769 thousand, mainly respecting the annual bonus. Payables in this regard did not significantly change during the year.

A significant item is the liabilities due to employee benefits in the total amount of PLN 1 191 521 thousand, of which:

- the coal equivalent payment PLN 753 304 thousand,
- jubilee bonuses PLN 232 680 thousand,
- retirement and disability benefits PLN 180 847 thousand.

Liabilities due to derivative financial instruments amounted in total to PLN 334 857 thousand, and during the year increased by nearly a factor of nine.

The prevailing part of provisions for other liabilities (PLN 533 306 thousand - total non-current and current) is a revalued provision for decommissioning costs of mines and other facilities (PLN 510 903 thousand).

Due to positive cash flow in 2009 the Company did not make use of bank loans. At the end of the year the sole liability of the Company was due to a loan from the Regional Fund for Environmental Protection and Water Management in the amount of PLN 3 005 thousand and liabilities to the State Treasury due to finance leasing in the amount of PLN 14 680 thousand.

Ratios illustrating the financing of assets did not change significantly with respect to 2008 .

**Table 17. Assets financing ratios**

	2008	2009
Coverage of assets by equity	0.8	0.7
Coverage of non-current assets by equity	1.2	1.1
Coverage of non-current assets by long-term capital	1.4	1.3
Coverage of current assets by current liabilities	0.3	0.4

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

#### **Contingent and off-balance sheet receivables and liabilities**

At 31 December 2009, contingent receivables of the Company amounted to PLN 71 779 thousand and related to contested State budget issues, guarantees received and promissory note receivables. Off-balance sheet receivables amounted to PLN 31 235 thousand and related entirely to implementation of projects and inventions.

Contingent liabilities at the end of 2009 amounted to PLN 23 128 thousand, including due to:

- disputed issues, pending court proceedings PLN 15 611 thousand.
- guarantees granted PLN 5 000 thousand,
- preventive safety measures in respect of mine-related damage PLN 2 491 thousand,

Off-balance sheet liabilities in the amount of PLN 507 425 thousand comprised:

- payments due to perpetual usufruct of land PLN 382 046 thousand,  
*(this is not a due liability, but only represents the basis for making annual payments to the State Treasury)*
- liabilities due to implementation of projects and inventions PLN 105 792 thousand,
- an operating lease PLN 19 587 thousand.

### 3.3. Liquidity

#### Financial resources of the Company

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

**Table 18. Structure of cash and cash equivalents ('000 PLN)**

	31.12.2007	31.12.2008	31.12.2009	Change 2008=100
Cash in hand and at bank	1 628	110 904	8 685	7.8
Other monetary assets, of which:	2 533 367	1 682 676	966 513	57.4
- monetary assets with a maturity up to 3 months	2 530 859	1 678 914	965 222	57.5
- interest on financial assets with a maturity up to 3 months	2 508	3 762	1 291	34.3
<b>Total</b>	<b>2 534 995</b>	<b>1 793 580</b>	<b>975 198</b>	<b>54.4</b>

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

**Table 19. Financial income from the depositing of periodically unallocated cash and cash equivalents and short-term investments ('000 PLN)**

	2007	2008	2009	Change 2008=100
On-demand bank deposits	266	253	887	x 3.5
Securities and participation units	14 019	14 644	-	-
Fixed term bank deposits	99 944	104 498	69 453	66.5
<b>Total</b>	<b>114 229</b>	<b>119 395</b>	<b>70 339</b>	<b>58.9</b>

Periodically unallocated cash and cash equivalents deposited in fixed term bank deposits generated financial income in the amount of PLN 69 453 thousand. The decrease in financial income was due to the lower level of unallocated cash and cash equivalents and to a decrease of market interest rates

#### Credit servicing in 2009

In 2009 KGHM Polska Miedź S.A. did not make use of external sources of financing in the form of bank loans.

At 31 December 2009 the Company had a liability of PLN 3 005 thousand due to a loan received on 21 November 2003 from the Regional Fund for Environmental Protection and Water Management in Wrocław. Interest on this loan is fixed and amounts to an annual rate of 4%. Repayment on the final instalment of this loan in the amount of PLN 1 000 thousand is on 16 September 2010.

#### Credit facilities in current accounts

In 2009 the Company held no credit facilities in current accounts.

#### Loans granted

At 31 December 2008, KGHM Polska Miedź S.A. had a balance of loans granted to 3 Group companies, including the subsidiaries KGHM Congo S.P.R.L. and Zagłębie Lubin S.A., and the related company Polskie Centrum Promocji Miedzi Sp. z o.o. – which amounted to PLN 9 323 thousand. By the end of 2009 the balance of receivables due to loans granted had increased to PLN 76 814 thousand, which includes the following loans:

##### – Energetyka Sp. z o.o.

On 21 December 2009 the Company granted a loan of PLN 50 300 thousand. Interest on the loan is based on WIBOR 1M + a margin of 2.77%, with interest payable monthly. Repayment will be made in forty equal instalments of PLN 1 257.5 thousand, payable at quarter's end. Repayment of the first instalment will be made on 31 March 2010. At 31 December 2009 the balance of granted loans was PLN 50 362 thousand.

##### – Zagłębie Lubin S.A.

At 31 December 2009 the balance of granted loans was PLN 26 452 thousand. A loan in the amount of PLN 7 000 thousand was granted on 15 April 2008, with interest based on WIBOR 1M + a margin of 1.2% and payable monthly, and a date of repayment of the principal of 31 December 2010.

A subsequent loan of PLN 19 132 thousand was granted on 9 July 2009, with interest based on WIBOR 3M + a margin of 3% and payable quarterly, and a repayment date of 31 December 2011.

In addition, in 2009 the following occurred with respect to loans granted by the Company.

– **KGHM Congo S.P.R.L.**

Due to the arising of a high level of credit risk associated with the loans granted to KGHM CONGO S.P.R.L., the Management Board of KGHM Polska Miedź S.A. on 7 April 2009 resolved to record as at 31 March 2009 an allowance for impairment on receivables due to loans granted to KGHM CONGO S.P.R.L. in the total amount of PLN 2 643 thousand.

As a result of actions taken aimed at recovering these receivables, an agreement was signed ceding to KGHM Polska Miedź S.A. the receivables of KGHM CONGO from a contracting party. During the year the amount of receivables due to loans granted by KGHM Polska Miedź S.A. to KGHM CONGO S.P.R.L. decreased by PLN 1 413 thousand.

– **Polskie Centrum Promocji Miedzi Sp. z o.o.**

On 24 February 2009, Polskie Centrum Promocji Miedzi Sp. z o.o. repaid in entirety a loan granted on 10 December 2008 in the amount of PLN 100 thousand.

**Financial guarantees granted**

In 2009 the Company granted no financial guarantees.

**3.4. Income statement**

Profit before income tax in 2009 amounted to PLN 3 066 569 thousand and was 14% lower than in the comparable prior period. This result was impacted by ('000 PLN):

– profit on sales	3 196 905
– loss on other operating activities	(98 813)
– net finance costs	(31 523)

**Table 20. Income statement – basic items ('000 PLN)**

	2008	2009	Change 2008=100
Sales	11 302 913	11 060 540	97.9
Operating costs	7 910 537	7 863 635	99.4
<b>Profit on sales</b>	<b>3 392 376</b>	<b>3 196 905</b>	94.2
Profit/(loss) on other operating activities	203 988	(98 813)	x
<b>Operating profit (EBIT)</b>	<b>3 596 364</b>	<b>3 098 092</b>	86.1
Net finance costs	(42 735)	(31 523)	73.8
<b>Profit before income tax</b>	<b>3 553 629</b>	<b>3 066 569</b>	86.3
<b>Profit for the period</b>	<b>2 920 378</b>	<b>2 540 185</b>	87.0
<i>EBITDA (EBIT + depreciation/amortisation)</i>	4 077 740	3 645 745	89.4

In relation to 2008, profit on sales decreased by PLN 195 471 thousand, mainly due to:

- weakening of the PLN exchange rate from 2.41 to 3.12 USD/PLN PLN 2 911 915 thousand,
- lower average prices of copper products by 23% PLN (2 525 923) thousand,
- a decrease by 27.4 thousand t in the volume of sales of copper products PLN (453 141) thousand,
- and a lower positive adjustment of revenues due to the hedging of copper and silver prices PLN (143 730) thousand.

**Table 21. Basic factors affecting the profit on sales**

	Unit	2008	2009	Change 2008=100
Sale of copper and copper products	'000 t	537.3	509.9	94.9
Silver sales	t	1 175	1 198	102.0
Average copper price on the LME	USD/t	6 952	5 164	74.3
Average silver price on the LBM	USD/troz	14.99	14.67	97.9
Average USD/PLN exchange rate per NBP	PLN/USD	2.41	3.12	129.5
Unit cost of electrolytic copper production	PLN/t	11 736	11 170	95.2
	USD/t	4 878	3 582	73.4

In 2009, 99% of sales represented revenues from the sale of products, of which: 48% - from the sale of cathodes and their constituent parts, 30% - copper wire rod, 16% - metallic silver. Revenues from the sale of products, excluding hedging transactions, were lower by PLN 108 057 thousand, i.e. by 1% versus the comparable period.

The loss on other operating activities of PLN 98 813 thousand was mainly due to the following (in '000 PLN):

– income from dividends	454 848
– loss on measurement and realisation of derivative instruments	(538 637)
– interest income on financial instruments	79 787
– foreign exchange losses	(61 664)
– impairment losses on shares in a subsidiary	(49 959)
– release of unused provisions, recognition of provisions	35 369

The net finance costs of PLN (31 523) thousand were mainly due to the change in the level of provisions (unwinding of the discount effect) in the amount of PLN (29 764) thousand.

Profit before income tax was charged by income tax in the amount of PLN 526 384 thousand. Current income taxation in the amount of PLN 620 775 thousand was decreased by PLN 106 740 thousand due to temporary differences.

In accordance with the requirements of the income tax law, the basis for taxation (taxable base) was established by the adjustment to profit before income tax („+” being an increase, „-” being a decrease in the profit before taxation):

**Table 22. Adjustment to profit before income tax by the change in taxable base ('000 PLN)**

<b>Profit before income tax (gross)</b>	<b>3 066 569</b>
- Income tax calculated at tax rates in force	582 648
- Non-taxable income	(82 832)
- Expenses not deductible for tax purposes	14 219
- Adjustments to current income tax from prior periods	12 349
<b>Income tax expense</b>	<b>526 384</b>

#### Financial ratios

The table below presents the basic ratios describing the economic activities of KGHM in the years 2008-2009:

**Table 23. Basic ratios describing the economic activities of the Company**

	<b>2008</b>	<b>2009</b>
Current liquidity	3.1	2.4
Quick liquidity	2.2	1.4
ROA - return on assets (%)	21.0	18.2
ROE - return on equity (%)	27.6	24.4
Debt ratio (%)	23.8	25.4
Durability of financing structure (%)	88.0	86.8

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in the liquidity ratios was mainly due to a decrease in cash and cash equivalents.

The decrease in the financial result resulted in the deterioration of the return on assets (ROA) and the return on equity (ROE) ratios.

The increase in the debt ratio is due to the increase in liabilities, mainly with respect to derivative financial instruments and to liabilities due to employee benefits, alongside a decrease in equity. The decrease in equity was the main cause of the decrease in the durability of financing structure ratio.

#### Capital market ratios

The Company's activities are characterised by the following ratios, significant from a shareholder's point of view:

**Table 24. Capital market ratios**

		2008	2009
EPS (PLN)	Profit (loss) for the period / number of shares	14.60	12.70
P/CE	Price per share / financial surplus per share *	1.7	6.9
P/E	Price per share / earnings per share	1.9	8.3
MC/S	Market capitalisation**/ revenues from sales	0.5	1.9
P/BV	Price per share / book value per share ***	0.5	2.0

\* Financial surplus = profit for the period + depreciation.

\*\* Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 28.12 in 2008; PLN 106.00 in 2009).

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



### 3.5. Operating costs

The Company's operating costs are decisively impacted by the costs of electrolytic copper production, whose share in the Company's costs is over 90%.

**Table 25. The unit cost of electrolytic copper production**

	Unit	2007	2008	2009	Change 2008=100
Pre-precious metals credit cost of copper production	PLN/t	12 744	13 434	13 944	103.8
	USD/t	4 603	5 583	4 472	80.1
of which: from internal concentrates	PLN/t	11 127	12 882	13 153	102.1
Total cost of copper production	PLN/t	11 160	11 736	11 170	95.2
	USD/t	4 031	4 878	3 582	73.4
of which: from internal concentrates	PLN/t	9 313	10 797	9 750	90.3
Electrolytic copper production	'000 t	533.0	526.8	502.5	95.4
of which: from internal concentrates	'000 t	440.7	421.7	398.6	94.5

The pre-precious metals credit unit cost of copper production (prior to decreasing by the value of silver and gold) in 2009 was higher versus 2008 by 510 PLN/t, i.e. by 4%, mainly due to:

- an increase in costs by type, of which:
  - energy costs (315 PLN/t) and the value of external copper-bearing materials (242 PLN/t) due to higher purchase prices,
  - labour costs, excluding the provision for future employee benefits (+190 PLN/t),
  - depreciation/amortisation (+113 PLN/t),
- lower electrolytic copper production by 24.3 thousand t, i.e. by 5% (+367 PLN/t),
- the transferral to inventories of 37.1 thousand tonnes of copper in concentrate (-649 PLN/t).

The favourable valuation of anode slimes due to the increase in the price of gold and silver caused a decrease in the total unit cost of electrolytic copper production by 566 PLN/t, i.e. by 5%.

The pre-precious metals credit cost of copper production from internal concentrates increased by 271 PLN/t, i.e. by 2%, which was primarily due to the above-mentioned increase in costs by type and the decrease in the volume of copper production from internal concentrate by 5%.

The structure of costs by type is shown in the table below:

**Table 26. Structure of costs by type (%)**

	2007	2008	2009
Depreciation of property, plant and equipment and amortisation of intangible assets	6	6	7
Materials and energy consumption	45	44	46
including external copper-bearing materials	23	21	23
External services	12	13	12
Employee benefits costs	32	31	31
Taxes and charges	4	4	3
Other	1	1	0

In 2009 total costs by type increased by 434 660 thousand, i.e. by 6%, mainly due to (in PLN '000):

- the higher value of external copper-bearing materials 244 315
- production-related energy costs 174 672
- labour costs, mainly including provisions for future employee benefits 133 860
- depreciation/amortisation 66 277

alongside a decrease in the costs of materials and fuels by PLN 75 829 thousand, a lower write-down of inventories by PLN 60 635 thousand and lower taxation due to waste storage by PLN 49 549 thousand.



### 3.6. Risk management in the Company in 2009

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

In 2009 the result on derivative instruments was at the level of PLN (105 450) thousand (in 2008 PLN 367 990 thousand), of which:

- revenues from sales were increased by PLN 433 187 thousand (in 2008 PLN 579 991 thousand) – reclassified from accumulated other comprehensive income to revenues from sales in the reporting period,
- PLN (192 783) thousand (in 2008 PLN (99 575) thousand) adjusted other operating costs – loss from the realisation of derivative instruments,
- PLN (345 854) thousand (in 2008 PLN (112 426) thousand) adjusted other operating costs - loss from the measurement of derivative instruments. The adjustment of other operating costs due to the measurement of derivative transactions results mainly from changes in the time value of options which are to be settled in future periods. Due to the existing hedge accounting of the Company, changes in the time value of options are not accounted for in accumulated other comprehensive income.

In 2009, the Company implemented copper price hedging strategies of a total volume of 264 thousand tonnes and a time horizon falling in the second half of 2009, 2010 and in the first half of 2011. The Company made use of options (Asian options) including puts, corridors, seagulls and producer puts. Additionally, the Company performed a restructurisation, implemented during the analysed period, of its seagull options strategy for 2010 of a total volume of 58.5 thousand tonnes through the buyback of sold puts. During the analysed period the Company did not implement adjustment hedge transactions.

In the case of the silver market, during the analysed period strategies for hedging the price of this metal were implemented of a total volume of 7.2 million troz and a time horizon falling in 2010. The Company made use of puts (Asian options). In 2009, there were no adjustment hedge transactions implemented on the silver market.

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

The Company remains hedged for a portion of copper sales planned in the first half of 2010 (78 thousand tonnes), in the second half of 2010 (58.5 thousand tonnes) and in the first half of 2011 (19.5 thousand tonnes), and for a portion of silver sales planned in 2010 (7.2 million troz). With respect to revenues from sales (currency market) the Company holds a hedging position for 2010 (USD 600 million).

The Company continuously monitors the commodity and currency markets, and these monitoring activities are the basis for taking decisions on implementing hedging strategies.

At 31 December 2009, the fair value of open positions in derivative instruments amounted to PLN (13 576) thousand, financial assets represented PLN 321 281 thousand and financial liabilities, PLN 334 857 thousand. The fair value of transactions settled on 5 January 2010, in the amount of PLN (30 611) thousand, was recognised in trade and other payables as a liability due to unsettled derivative instruments (Note 18). The fair value of open positions in derivative instruments varies in dependence on changes in market conditions, and the final result on these transactions may vary significantly from the amounts described above.

At 31 December 2009, accumulated other comprehensive income in respect of future cash flow hedging instruments amounted to PLN 155 233 thousand and was in respect of commodity price risk hedging transactions (copper and silver) in the amount of PLN (3 937) thousand and currency risk hedging transactions in the amount of PLN 159 170 thousand.

At the end of 2008, the accumulated result achieved on future cash flow hedging instruments amounted to PLN 627 757 thousand.

During 2009, the change in accumulated other comprehensive income in respect of future cash flow hedging instruments (a decrease) amounted to PLN (472 524) thousand. This amount is comprised of changes recognised in the reporting period due to hedging transactions, i.e. a decrease of accumulated other comprehensive income in respect of future cash flow hedging instruments in the amount of PLN 39 337 thousand, and the amount reclassified from accumulated other comprehensive income to revenues from sales,

i.e. a decrease of accumulated other comprehensive income by PLN 433 187 thousand (an adjustment in plus of revenues from sales for 2009).

Details of the risk management policy in the Company together with identification of the main types of risk can be found in Notes 10, 29 and 30 of the financial statements.

### 3.7. Contested issues

At 31 December 2009, the total value of ongoing contested issues both by and against the Company amounted to PLN 225 970 thousand, of which: PLN 117 279 thousand relates to receivables, and PLN 108 691 thousand - to liabilities.

The largest proceedings being pursued by the Company at the end of 2009 related to the following:

– **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. The Regional Court in Legnica has admitted evidence in this matter – an opinion prepared by a scientific institute to determine whether project no. 1/97/KGHM meets the criteria for an invention project as understood by internal regulations regarding the process of innovation in KGHM Polska Miedź S.A., and ordered its authors to pay court fees under threat of suspension of the proceedings.

In the Company's opinion the royalties being pursued by the Court is undue, with respect to the coverage by KGHM Polska Miedź S.A. of receivables due to the authors of the project due to use of an invention project.

– **return of undue royalties for use of invention project no. 1/97/KGHM**

On 21 January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 195 thousand for use of invention project no. 1/07/KGHM. The court has combined both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 413 thousand with the claims of the Company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 195 thousand, for mutual hearing. Proceedings are in progress. In the Company's opinion the payment of royalties to the project's authors was unfounded.

– **return of costs of protecting against mining damage**

Value of amount under dispute: PLN 16 409 thousand. A claim was filed with the Regional Court in Legnica by a company from Polkowice on 4 August 2009 for payment of the amount of PLN 16 409 thousand due to the return of protection costs incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA” in Lubin. Proceedings are in progress. In the Company's opinion the claim is unfounded and should be dismissed.

– **setting the amount of corporate income tax liabilities for KGHM Polska Miedź S.A. for the year 2003**

On 10 July 2009 the Company submitted an appeal to the Director of the Tax Chamber in Wrocław of a decision of the Legnica branch of the Director of the Tax Inspection Office in Wrocław dated 30 June 2009, calling for a decrease in the amount of liabilities set by the Director of the Tax Inspection Office by PLN 13 915 thousand.

The appeal involves what the Company considers as the unfounded decision by the tax authority not to recognise as tax deductible costs a portion of expenses incurred by the Company related to a business activity and income earned, as well as refusal of the right to deduct subsidies related to environmental protection, health, etc., for which the tax law (as worded and in force in 2003) allowed deduction. Proceedings are in progress.

– **return of excise tax**

Value of amount under dispute: PLN 12 531 thousand. A claim was filed with the Voivodeship Administrative Court by POL-MIEDŹ TRANS Sp. z o. o. - a subsidiary of KGHM Polska Miedź S.A. - against a decision of the Director of the Customs Office setting excise taxation for the months from March to December 2003. The proceedings were suspended at the mutual request of the parties until the receipt, in other proceedings on this same matter being heard by the Supreme Administrative Court, of an answer from the Constitutional Tribunal to a legal question of the Supreme Administrative Court with respect to the

conformance of standards set forth in the act on VAT and the act on excise tax with the decree regarding excise tax, with respect to the level of excise taxation rates in the sale of furnace fuel for heating purposes.

If the Constitutional Tribunal declares that the legal solutions set forth by the decree are unconstitutional, the amount of excise tax in question, which was paid based on this decision, should be returned to the Company in whole or part.

– **return of receivables for unrealised delivery of tubing**

Value of amount under dispute: USD 4 222 thousand. Denominated in the Polish zloty, according to the NBP exchange rate from 31 December 2009, the amount of the dispute is PLN 12 034 thousand. The claim was filed with the Regional Court in Legnica on 2 April 2009 by DFM ZANAM-LEGMET Sp. z o. o. in Polkowice, a subsidiary of KGHM Ecoren S.A., which in turn is a subsidiary of KGHM Polska Miedź S.A., against a company with its registered head office in Dnipropietrowsk in Ukraine, for failure to uphold the conditions of a contract entered into in May 2007. The amount of the claim includes contractual penalties for late deliveries of tubing, and for failures to adhere to the contract by the plaintiff, as well as the return of the prepayment. Multiple actions are underway aimed at satisfying the claims of DFM ZANAM-LEGMET Sp. z o. o. Simultaneous proceedings are underway at the Regional Court in Legnica, the Regional Court in Dnipropietrowsk and the Court of Appeals in Dnipropietrowsk, as well as actions aimed at determining the possibility of holding conciliatory negotiations between the parties. Proceedings are in progress.

– **royalties for use of patent no. 174450 for the period from 1 January 1997 to 31 December 2002**

Value of amount under dispute: PLN 10 602 thousand. A claim was filed by TKW Combustion Sp. z o. o. in Głowno at the Regional Court in Legnica on 30 July 2003. Court proceedings were suspended until the resolution of proceedings involving annulment of patent no. 174450, initiated at the request of KGHM Polska Miedź S.A. on 6 November 1998. The Regional Court, by a ruling dated 13 January 2004, suspended the proceedings until the resolution of the matter of the patent for invention.

The matter of annulment of patent no. 174450 will be re-heard by the Patent Office of the Republic of Poland due to the reversal by the Regional Administrative Court in Warsaw dated 27 December 2007 of a decision of the Patent Office of the Republic of Poland on annulment of the disputed patent. The Company filed a cassation appeal of the decision of the Regional Administrative Court at the Supreme Administrative Court. Proceedings are in progress.

In the opinion of KGHM Polska Miedź S.A. the claim for payment of royalties for the use of a patent is unfounded, as the Company has regulated all of the receivables payable to TKW Combustion Sp. z o. o. with respect to licensing fees arising from the licensing contract, as well as to the fact that TKW Combustion Sp. z o. o. did not receive patent protection for inventions being the subject of the licensing contract signed by the parties.

## 4. Realisation of Company development assumptions

### 4.1. Company Strategy

On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018. In realising the Strategy, the Company intends to become a major, global copper producer and will increase copper production to approx. 700 thousand tonnes annually.

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

#### I. Improving productivity – aimed at halting increases in the unit cost of production, including:

- investments in new technology, including combines for the mechanical mining of ore and the construction of a flash furnace,
- modernisation of existing infrastructure, including intensifying the replacement of machinery, and
- optimisation of production procedures and organisation.

In 2009 realisation of a project was completed related to the centralisation of procurement, which has substantially promoted optimisation of processes in KGHM Polska Miedź S.A.

#### II. Developing the resource base – aimed at increasing the production of copper in concentrate to approx. 700 thousand tonnes annually, which assumes:

- further work on accessing and mining the Głogów Głęboki-Przemysłowy deposit,
- developing the system for mining ore at depths below 1200 meters,
- investments in foreign mining assets,
- searching for new local deposits: further exploration of the possibilities of mining the region of Radwanice-Gaworzyce,
- exploring and documenting the region of Weisswasser (Germany), exploratory work in regions adjacent to the deposits of KGHM, and
- intensifying the processing of scrap.

Realisation of the assumptions of the Strategy in this regard has included the foundation, together with a German partner, of the company KGHM HMS Bergbau AG, involved in the exploration of deposits of copper and other metals throughout Europe. The first project to be realised by this company will be exploration of deposits in the Weisswasser region of Germany.

#### III. Diversifying sources of revenues, which assumes:

- continued investment in the telecoms sector, and
- gradual entrance into the power sector.

KGHM Polska Miedź S.A. increased its stake in Polkomtel S.A. through acquisition of the company's shares from TDC Mobile International A/S. Currently KGHM owns 24.39% of the share capital of Polkomtel S.A.

The goal is to have around 30% of the Company's revenues come from non-core business activities.

#### IV. Regional support to help solidify the local importance of the Company, which assumes:

- creating jobs and developing social activities,
- developing regional entrepreneurship,
- protecting the environment as well as the health of employees and of the local community, and
- supporting local sport and local development of the arts and sciences.

#### V. Developing organisational know-how and capabilities, which assumes:

- introducing management through goals,
- staff development programs, and
- creating a transparent Group structure.

In realising the adopted Strategy with respect to creating a transparent Group structure, on 27 April 2009 the Supervisory Board of KGHM Polska Miedź S.A. agreed to foundation of the company KGHM Towarzystwo Funduszy Inwestycyjnych S.A. On 11 January 2010, KGHM TFI S.A. obtained a licence from the Polish Financial Supervision Authority to operate as an investment fund management company. The goal of KGHM TFI S.A. is to create and manage close-end sector investment funds. The activities of KGHM TFI S.A. create the possibility of obtaining external investment capital. In addition, it creates the possibility for the independent and rapid assessment of investment projects as well as the diversification of investment risk for KGHM Polska Miedź S.A.

In the short term, the adopted Strategy aims at improving the costs competitiveness of KGHM on the global copper market. In the medium term (up to 10 years), as a result of expansion of its resource base, the Company will become a major, global copper producer. In the long term, diversification and investments in the

power sector will enable KGHM Polska Miedź S.A. to become an international copper group with diversified revenue sources.

#### 4.2. Realisation of projected Company results for 2009

In a current report dated 23 February 2009, the Company published its Budget assumptions for 2009 as accepted by the Supervisory Board on the same day. The Budget assumes the achievement in 2009 of revenues from sales in the amount of PLN 7 048 million and profit of PLN 488 million. Together with the improvement in macroeconomic conditions during the year, the Company updated its forecast. The final projection of financial results was published in a current report dated 12 November 2009.

In addition, on 18 February 2010 the Company published a current report on the estimated results in 2009, in which it announced achievement of a profit for the period in the amount of PLN 2.5 billion and revenues from sales at the level of PLN 11.1 billion.

Basic assumptions, projected results and their realisation are shown in the following table:

**Table 27. Realisation of projected Company results for 2009**

		<b>Budget 2009</b> (23.02.2009)	<b>Updated projection</b> (14.05.2009)	<b>Adjusted Budget</b> (24.08.2009)	<b>Adjusted projection</b> (12.11.2009)	<b>Execution 2009</b>	<b>Execution %</b>
<b>Sales</b>	<b>million PLN</b>	7 048	9 065	9 662	10 829	<b>11 061</b>	102.1
<b>Profit for the period</b>	<b>million PLN</b>	488	1 906	1 950	2 249	<b>2 540</b>	112.9
Average annual copper price	USD/t	3 200	3 800	4 500	5 045	<b>5 164</b>	102.4
	PLN/t	9 280	12 350	13 950	15 791	<b>15 781</b>	99.9
Average annual silver price	USD/troz	10.00	12.60	13.00	14.53	<b>14.67</b>	101.0
USD/PLN exchange rate	USD/PLN	2.90	3.25	3.10	3.13	<b>3.12</b>	99.7
Electrolytic copper production	'000 t	512.0	496.0	500.9	500.9	<b>502.5</b>	100.3
Silver production	t	1 125	1 159	1 203	1 203	<b>1 203</b>	100.0
Total unit cost of electrolytic copper production	PLN/t	10 466	10 659	11 160	11 254	<b>11 170</b>	99.3
Capital expenditure	million PLN	1 235	1 235	1 235	1 235	<b>1 070</b>	86.6
Equity investments *	million PLN	939	939	369	369	<b>220</b>	59.6

\* Includes purchase /sale of shares, increases /decreases of capital and owner loans and payments to capital

The higher-than-expected profit is mainly the result of better-than-expected copper prices, alongside a lower-than-expected level of impairment losses due to the measurement of assets at year's end.

#### 4.3. Projected Company financial situation

On 1 February 2010 the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2010. The basis for preparation of the Budget were the preliminary results for 2009 and the assumptions contained in specific operating plans. The accepted Budget assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million.

Details of the basic assumptions of the Budget for 2010 are presented below:

**Table 28. Company Budget assumptions for 2010**

	<b>Unit</b>	<b>2009</b>	<b>Budget 2010</b>	<b>Change 2009=100</b>
<b>Sales</b>	<b>million PLN</b>	<b>11 061</b>	<b>11 736</b>	106.1
<b>Profit for the period</b>	<b>million PLN</b>	<b>2 540</b>	<b>2 898</b>	114.1
Average annual copper price	USD/t	5 164	<b>6 700</b>	129.7
	PLN/t	15 781	<b>18 090</b>	114.6
Average annual silver price	USD/troz	14.67	<b>17.00</b>	115.9
USD/PLN exchange rate	USD/PLN	3.12	<b>2.70</b>	86.5
Electrolytic copper production	'000 t	502.5	<b>512.0</b>	101.9
- of which from external copper-bearing materials	'000 t	103.8	<b>84.0</b>	80.9
Silver production	t	1 203	<b>1 100</b>	91.4
Total unit cost of electrolytic copper production	PLN/t	11 170	<b>12 548</b>	112.3
	USD/t	3 582	<b>4 648</b>	129.8
Capital expenditure	million PLN	1 070	<b>1 633</b>	152.6
Equity investments *	million PLN	220	<b>1 635</b>	x 7.4

\* Includes purchase /sale of shares, increases /decreases of capital and owner loans and payments to capital

The expected increase in electrolytic copper production in 2010 is mainly due to an increase in production from internal concentrates (utilisation of concentrate inventories created during the maintenance halt in the Głogów smelter in 2009) and due to initiatives undertaken with respect to realisation of the "Effectiveness" project.

The change in the level of the planned total unit copper production cost in 2010 results mainly from an increase in labour costs, higher depreciation and the utilisation of internal semi-products inventories, alongside an unfavourable valuation of anode slimes.

The investment program assumed in the Budget is aimed at realisation of the following goals:

- replacing worn-out assets and maintaining production over the long term from domestic resources (the technical infrastructure of new mining regions),
- improving productivity through realisation of projects resulting in reducing core business costs, and
- additional revenues from new production.

The main elements in planned equity investments are:

- the acquisition of a foreign mining entity, in order to expand the resource base of KGHM Polska Miedź S.A.,
- the acquisition of investment certificates of Close-end Funds, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A., and
- investments within the KGHM Polska Miedź S.A. Group.

With respect to the "Effectiveness" project, which has been in effect since February 2009 and is aimed at reducing the unit copper production cost, over 70 programs are planned in all operating areas of the Company. The potential for improving effectiveness/reducing costs has been initially estimated at over PLN 700 million on an average annual basis after the implementation of all programs.

In the 4th quarter of 2009 the project team presented an update of the result of its work, comprising the entire copper production process, from excavation of the copper ore through enrichment to final smelting, and indicated an identified potential for improving effectiveness/reducing costs at an average annual level of over PLN 600 million. The change in the level of identified savings, in respect of earlier assumptions, is due to the updating of detailed plans respecting exhaustion of the deposit, and reflects projected macroeconomic conditions.

The first effects from realisation of this project are expected in 2010.

Realisation of this forecast will be monitored by the Company on an on-going basis. Evaluation of realisation of this forecast will be made quarterly. Should there occur significant deviation from the amounts forecasted, the Company will perform an adjustment to the forecast and will publish it in the form of a current report.

## 5. The Company on the securities markets

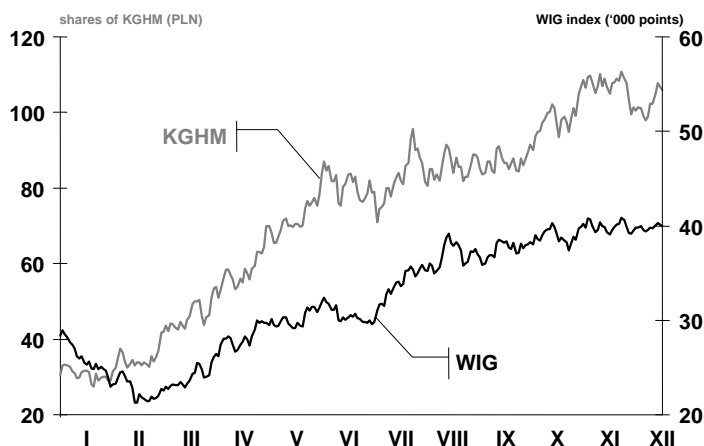
### 5.1. Company quotations in 2009

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Company are traded on the primary market in a continuous trading system, and are a component of the WIG, WIG20 and RESPECT indices. This latter index was listed for the first time on the Warsaw Stock Exchange on 19 November 2009. KGHM Polska Miedź S.A. was included in the group of 16 listed companies which comprised the RESPECT Index – an index of socially responsible companies. These companies were the most highly assessed according to the RESPECT Rating, and became the leaders of this ranking, as confirmed by the project's auditor.

The global depositary receipts (GDRs) had been listed since July 1997 on the London Stock Exchange (LSE). Recently, investors' interest in this form of investment in the shares of KGHM Polska Miedź S.A. had diminished. The number of issued GDRs of the Company fell to around 0.5% of the share capital of KGHM Polska Miedź S.A., and for many months remained at this level. The GDR program ceased to be effective. As of 22 December 2009, at the Company's request, the GDRs were withdrawn from the list of securities admitted to trading on the LSE, and the GDR program of KGHM Polska Miedź S.A. was ended.

2009 was a very successful year for the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange. The Company's share price rose by 277%, from PLN 28.12 on the last trading session of 2008 to PLN 106.00 on 31 December 2009. During the year the WIG index of the Warsaw Stock Exchange rose by 47%, and the WIG20 by 33%:

**Chart 2. Share price of KGHM Polska Miedź S.A. versus the WIG index in 2009**



In 2009, KGHM Polska Miedź S.A. was among leading companies in terms of turnover value on the Warsaw Stock Exchange. An average trading volume of the Company's shares per session on the Warsaw Stock Exchange in 2009 amounted to 1 222.1 thousand.

Key share data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2007-2009 is presented in the following table:

**Table 29. Key share data of the Company on the Warsaw Stock Exchange**

	Unit	2007	2008	2009
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	105.80	28.12	106.00
Market value of the Company at year's end	million PLN	21 160	5 624	21 200
Highest closing price in the year	PLN	143.00	112.00	110.70
Lowest closing price in the year	PLN	79.40	21.40	27.50
Average trading volume per session	'000	730.8	1 124.3	1 222.1
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	16.97	9.00	11.68

## **5.2. Information on the ownership structure and on the issued shares of the Company**

At 31 December 2009, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 billion and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the General Meeting.

In 2009 there was no change either in registered share capital or in the number of issued shares. Based on information held by the Management Board of the Company there were also no changes of ownership of significant blocks of shares of KGHM Polska Miedź S.A.

At 31 December 2009, the shareholder structure of KGHM Polska Miedź S.A. was as follows:

- State Treasury - 83 589 900 shares (41.79%),
- other shareholders - 116 410 100 shares (58.21%).

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

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

At 31 December 2009, based on information held by the Management Board of the Company, among management and supervisory personnel only Ryszard Kurek – a Member of the Supervisory Board – owned shares of KGHM Polska Miedź S.A. (10 shares with a total nominal value of PLN 100).

At 31 December 2009, the members of the Management Board and Supervisory Board of the Company did not own shares of the remaining related entities of the Company.

The Company does not have an employee share incentive program.



## 6. Report on the application of corporate governance principles

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 nr 12/1170/2007 of the Supervisory Board dated 4 July 2007 and which came into force on 1 January 2008. The contents of this document are available on the official website of the Warsaw Stock Exchange under the section on corporate governance ([www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)), as well as on the website of the Company ([www.kghm.pl](http://www.kghm.pl)) under the section on corporate governance.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, has made every effort to apply the corporate governance principles described in document „Code of Best Practice for WSE Listed Companies”. The Company has endeavoured at every stage of its operations to carry out all of the recommendations respecting best practice for listed companies as well as suggestions directed to management boards, supervisory boards and shareholders.

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, the Company made the broadest possible use of both traditional as well as modern technology for the distribution of information about the Company (recommendation I.1 of the "Code of Best Practice for WSE Listed Companies"). In 2009 the Company decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and made them available on the Company website in both Polish and English, and is available under the section Investor Zone/Transmissions.

At present the Company is not planning to offer live transmissions of its General Meetings, but will continue to register these meetings and make them available on its website.

In accordance with principle II.1.4 of the "Code of Best Practice for WSE Listed Companies", the Company should publish on its corporate website items such as proposed General Meeting resolutions together with justifications, at least 14 days prior to the date set for the meeting.

The proposed resolution on the appropriation of profit for financial year 2008 for the Ordinary General Meeting was provided at a later date than indicated by this principle. The Management Board had earlier informed shareholders (in current reports 18/2009 and 21/2009) of a planned change in the recommendation to the General Meeting regarding the appropriation of profit from financial year 2008 owing to an analysis of the financial position of the Company carried out at that time. The proposed resolution on the appropriation of profit from financial year 2008 was published by the Company immediately after the Management Board had taken appropriate decisions, i.e. 11 days prior to the date set for the Ordinary General Meeting.

This was the first time such a situation had occurred in the Company, and was of an incidental nature. KGHM Polska Miedź S.A. makes every effort to ensure that it is in compliance with obligatory dates.

### 6.1. General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the Company and the Regulations of the General Meeting. The Company's corporate documents are available on 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 report of the Group of the Company, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- changing the subject of the Company's activity,
- amending the Company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the establishment of the Company, or from management or supervisory activities,
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the 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.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the National Court Register of a statutory nature. Changes in the Company Statutes are made by the General Meeting in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

In 2009 the General Meeting of the Company made changes to the Statutes of the Company arising from changes to the *act dated 15 September 2000 respecting the Commercial Partnerships and Companies Code* (CPCC), which came into force on 3 August 2009 and related to the *Decree of the Council of Ministers dated 24 December 2007 regarding the Polish Classification of Activities* (PCA).

The updating of the CPCC has fundamentally altered the process of organising General Meetings and has assigned new rights to shareholders. Certain regulations are of an obligatory nature, while others are optional for companies.

From the new regulations of the CPCC, the Company has adopted only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the Company website and the adoption of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication were, however, not adopted.

Apart from those changes arising from adaptation of the Statutes to the updated CPCC, changes were made to the Statutes relating to:

- realisation of the right to redeem shares. Regulations were refined which only allow for the voluntary (i.e. by shareholder permission) redemption of shares, and not their forced and automatic redemption;
- the possibility to make an interim dividend payment to shareholders on the anticipated dividend at the financial year's end. The Management Board of the Company has been authorised to adopt resolutions on the matter of an interim dividend payment to shareholders on the anticipated dividend at the financial year's end, if the Company is in possession of sufficient funds for said payment. The payment of an interim dividend requires the approval of the Supervisory Board;
- expanding the list of rights assigned to the General Meeting, in respect of which resolutions should be passed by a qualified majority of votes cast;
- decreasing the quorum from 1/3 to 1/4 in order to ensure that, in the case of the presence at the General Meeting of the shareholder representing 1/4 of the share capital, it will still be possible to pass resolutions;
- the right of the State Treasury to convene General Meetings in specified cases.

Due to the changes in the CPCC, the Company intends to submit a motion to the next General Meeting on the passage of new Regulations for the General Meeting of KGHM Polska Miedź S.A.

## 6.2. Shareholders and their rights

At 1 January as well as at 31 December 2009, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting was the Polish State Treasury, which - based on an announcement dated 16 May 2007 - held 83 589 900 shares, representing 41.79% of the share capital of the Company.

The remaining shareholders held shares representing less than 5% of the share capital – a total of 116 410 100 shares, representing 58.21% of the share capital and the same number of votes at the General Meeting.

On 12 January 2010 the Company received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury, represented by the Minister of the State Treasury, sold on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors. Following this sale, the State Treasury owns 63 589 900 shares of KGHM Polska Miedź S.A., granting the same number of votes and representing 31.79% of the share capital of the Company and of the total number of votes.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Regulations of the General Meeting.

Shareholders are entitled to exercise their voting during General Meetings either personally or through a representative. All of the shares are bearer shares. Each share grants the right to one vote. There is no limitation to the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights attached to the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special proprietary rights in respect of the Company.

Until 22 December 2009 the Company had a depositary receipts program. The representative of the owners of GDRs at the General Meeting was the Depositary Bank, which executed its voting rights through its representative, in accordance with the instructions issued by the owners of the said GDRs and in accordance with the principles of the Depositary Agreement entered into with the Company. Due to the low effectiveness of

the depositary receipts program of KGHM Polska Miedź S.A., the Depositary Agreement was terminated on 22 December 2009.

### 6.3. Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis of prevailing law, the Statutes of the Company and the Regulations of the Supervisory Board.

The composition of the 7th-term Supervisory Board from 1 January to 31 December 2009 was as follows:

- Marek Trawiński            Chairman
- Jacek Kuciński            Deputy Chairman
- Marek Panfil              Secretary
- Marcin Dyl
- Arkadiusz Kawecki
- Marzenna Weresa

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

On 16 February 2010 Marek Trawiński submitted his resignation from membership in the Supervisory Board of KGHM Polska Miedź S.A. as of 17 February 2010.

The cause of the decision of Marek Trawiński is the possibility that actions, which may be taken in the near future by a company in which he serves as a member of the management board, may create the potential risk of a conflict of interest with KGHM Polska Miedź S.A.

### Supervisory Board Committees

Under the auspices of the Supervisory Board are two committees: the Audit Committee and the Remuneration Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits. The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the Company and Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

The rights, scope of action and manner of work of these Committees are described by regulations approved by the Supervisory Board.

The specific duties and composition of the Committees are as follows:

#### Audit Committee

In accordance with the Regulations of the Supervisory Board the duties of the Audit Committee are as follows:

- supervision, on behalf of the Supervisory Board, of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles applied in the Company,
- the review of transactions with parties related to the Company, and of unusual transactions,
- the analysis and monitoring of post-control conclusions arising from the risk management process,
- conduct of the process of selecting independent auditors to audit the financial statements of the Company in order to recommend their acceptance by the Supervisory Board, and participation in commercial negotiations prior to the Company signing a contract with an auditor,
- continuous co-operation with the independent auditor of the Company during the audit, analysis and formulation of conclusions from the audit and opinion of the auditor respecting the financial statements, the auditor's letter to the Management Board and/or Supervisory Board, and the preparation of draft statements and evaluations required by the by-laws for Company bodies and other administrative institutions,
- providing an opinion on the internal auditing plan and the internal auditing regulations of the Company, and of changes of the director of internal auditing,
- 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, which came into force in December 2009, required public companies to appoint Supervisory Board Audit Committees and listed tasks which should be in particular the responsibility of such Committees.

The law in addition calls for Audit Committees to include at least 3 members, of which at least one member should meet the criteria for independence and hold qualifications in the areas of accounting or financial review.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. throughout 2009:

- Marcin Dyl
- Marek Panfil
- Marzenna Weresa

#### Remuneration Committee

In accordance with the Regulations of the Supervisory Board the duties of the Remuneration Committee are as follows:

- to carry out the recruitment and employment of members of the Management Board by developing and organising draft documents and procedures to be submitted to the Supervisory Board for their acceptance,
- to develop draft agreements and samples of other documents related to the hiring of members of the Management Board, and supervision over the realisation of the contractual obligations entered into by the parties,
- to supervise realisation of the system of remuneration of the Management Board, in particular to prepare documents related to contingent pay and premiums, in order to submit recommendation to the Supervisory Board,
- to monitor and make periodic analyses of the remuneration system of the management staff of the Company and, if necessary, to formulate recommendations to the Supervisory Board,
- to supervise realisation of additional benefits received by the Management Board arising from labour contracts, such as: insurance, automobiles, housing, etc.

The following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2009:

- Leszek Hajdacki
- Arkadiusz Kawecki
- Jacek Kuciński

At the end of the year the auditing and remuneration committees submit a report of their activities to the Supervisory Board. These reports, following approval by the Supervisory Board, are made available to shareholders in the materials for the General Meeting.

#### **6.4. 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 the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The Management Board 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.

During the period from 1 January 2009 to 16 June 2009 the composition of the Management Board, and the respective segregation of duties amongst the members of the Management Board, was as follows:

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

On 15 June 2009 Mirosław Krutin submitted a statement to the Chairman of the Supervisory Board, in which he announced that he would not be a candidate for the position of President of the 7th-term Management Board.

On 15 June 2009 the Supervisory Board resolved that the subsequent (7th) term Management Board of KGHM Polska Miedź S.A., commencing on 16 June 2009, would be composed of two members of the Management Board, and appointed the following persons thereto:

- Herbert Wirth                    granting him the responsibilities of the President of the Management Board,
- Maciej Tybura                granting him the function of Vice President of the Management Board.

Simultaneously the Supervisory Board decided to commence the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. for the 7th term.

On 20 July 2009 the Supervisory Board appointed Herbert Wirth to the position of President of the Management Board of KGHM Polska Miedź S.A. for the 7th term.

On 24 August 2009 the Supervisory Board appointed Ryszard Janeczek to the position of Vice President of the Management Board of KGHM Polska Miedź S.A. for the 7th term and granted Maciej Tybura the function of I Vice President of the Management Board.

At 31 December 2009 the composition of the Management Board, and the respective segregation of duties amongst the members of the Management Board, was as follows:

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

#### **6.5. 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**

The Management Board of KGHM Polska Miedź S.A. is responsible for the internal control system and its effectiveness in the preparation of financial reports. The management of company risk in this regard is performed by the identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimisation or total elimination.

KGHM Polska Miedź S.A. uses its many years of experience in the identification, documentation, record maintenance and control of economic operations, including set audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data.

In order to ensure truth and accuracy in the keeping of accounting records of KGHM Polska Miedź S.A. and subsidiaries of the Group, based on fixed principles, and the generation on their basis of high-quality financial data for presentation, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group and a Sector Chart of Accounts, in accordance with International Financial Reporting Standards,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets,
- Sector Inventorisation Instructions,

and in addition, for KGHM Polska Miedź S.A.:

- Principles for Financial Management and for an Economic System,
- Documentation for an IT system for the processing of accounting data,

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of the Company and the Group, along with the established scope and principles of financial reporting based on International Financial Reporting Standards and other legal standards.

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of duties, uniformity of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Company and its subsidiaries continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. The technical servicing of the system is ensured by the highly experienced specialists employed by the Company. 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 updated and confirmed by the head of the units, i.e. the Management Board of the Company and management boards of subsidiaries.

The Company has introduced organisational and systemic solutions with respect to ensuring the proper use and protection of systems and data, as well as secure access to data and hardware. Access to the resources of the

financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

One of the primary elements of control as respects the preparation of separate and consolidated financial statements of KGHM Polska Miedź S.A. is the verification of financial statements of the Company and financial statements of subsidiaries by external independent certified auditors. The tasks of the auditors include in particular: review of the half-year financial statements and preliminary audit and final audit of the annual financial statements. Selection of the certified auditor in the key companies of the Group is carried out from amongst renowned auditing firms, guaranteeing high standards of services and the required level of independence. In KGHM the selection of the certified auditor is carried out by the Supervisory Board, and in subsidiaries by Supervisory Boards or General Meetings.

The body which supervises the process of financial reporting in KGHM and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Company. The Audit Committee, in accordance with its duties as set forth in the *Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision* (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the Company and prevailing laws,
- monitors the effectiveness of internal control systems, internal auditing and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- recommends to the Supervisory Board an entity entitled to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

A significant element of risk management with respect to the process of preparing financial statements of KGHM is the internal control carried out by internal auditing and internal control.

Internal auditing operates based on the „Regulations for internal auditing in KGHM Polska Miedź S.A.” approved by the Management Board of the Company and on the „Code of ethics for internal auditors in KGHM Polska Miedź S.A.” – developed based on International Professional Standards in Internal Auditing Practice published by the Institute of Internal Auditors. The Internal Audit Department has complete, assured independence in its auditing activities.

In performing auditing tasks in 2009, risk associated with the audited processes was identified and assessed, and the adequacy and effectiveness of control mechanisms, aimed among others at the reliability and uniformity of financial data being the basis for the preparation of financial statements required by law as well as management reports, was assessed. The Company is also undertaking to include companies from the Group in internal auditing.

Internal control operates based on the „Internal Control Regulations of KGHM Polska Miedź S.A.” approved by the Management Board of the Company. Internal (institutional) control is performed by a separate department in the organisational structure – the Department Internal Control. The internal control system in KGHM is based on the principle of independence and encompasses all Company processes, including those areas which directly or indirectly affect the correctness of the financial statements. Additionally, the obligation fully remains for each employee to control their own performance, and for every level of management staff to perform their control – within supervisory-related duties.

Amongst those areas of risk to which the Group is exposed, the most important is market risk. Due to the exposure of the Group to market risk (copper and silver prices and the USD/PLN exchange rate), derivative instruments to manage this risk are used.

Organisation of the process of market risk management in the Group as regards entering and realising transactions on the derivative instruments market is based on proxy authority granted by the management boards of Group companies.

Organisation of the market risk management process in the Company separates the functions of units responsible for entering transactions on the derivative instruments market from the functions of units responsible for their authorisation, settlement and the preparation of information on the measurement of these transactions. Such an organisational structure, in accordance with best practice in risk management, permits control over the process of entering into transactions and the elimination of derivative instruments transactions unauthorised by the Management Board.

The effectiveness of the control and risk management procedures in the process of preparing financial statements of KGHM Polska Miedź S.A. may be seen in the form of the high quality of these statements, as confirmed by the opinions put forth thus far by certified auditors from their auditing of the financial statements and by the high evaluations of the recipients of these statements. In addition, KGHM Polska Miedź S.A. regularly participates in the competition The Best Annual Report organised by the Institute of Accounting and Taxation under the patronage of the Warsaw Stock Exchange, gaining leading positions amongst listed companies.

## Appendix A: Methodology of calculating ratios used in the report

### Assets effectiveness ratios

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

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

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

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

### Assets financing ratios

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

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

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

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

### Economic activity ratios

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

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

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

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

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

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



## **Appendix B: Current reports of the Company published in 2010 – to the date of preparation of the annual report for 2009**

After the end of the reporting period the Company published the following current reports:

### **Significant blocks of shares - change in the amount of shares held by the State Treasury (12 January)**

On 8 January 2010 the State Treasury sold on a regulated market 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors. Following this sale, the State Treasury owns 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital of the Company.

### **Significant contract with MKM Mansfelder Kupfer und Messing GmbH (15 January)**

On 14 January 2010 a significant contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2010. The estimated value of this contract is USD 522 873 thousand, i.e. PLN 1 460 383 thousand.

### **Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A. (21 January)**

On 20 January 2010 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2010 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 478 759 thousand, i.e. PLN 1 354 695 thousand, to USD 579 027 thousand, i.e. PLN 1 638 415 thousand.

### **Resignation of Chairman of the Supervisory Board (17 February)**

On 16 February 2010 the Company received the resignation of Marek Trawiński from the function of Chairman of the Supervisory Board of KGHM Polska Miedź S.A. as of 17 February 2010. The cause of the decision of Marek Trawiński is the possibility that actions, which may be taken in the near future by a company in which he serves as a member of the management board, may create the potential risk of a conflict of interest with KGHM Polska Miedź S.A.

### **Other information published:**

- Publication dates for periodic reports in 2010 (21 January 2010),
- Registration of changes to the Statutes of the Company (8 January 2010) and adoption of a unified text of the Statutes of the Company (2 February 2010),
- adoption by the Supervisory Board of the Budget for 2010 (1 February 2010),
- information on the estimated Company's profit in 2009 (18 February 2010).

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<b>SIGNATURES OF PERSONS REPRESENTING THE COMPANY</b>			
<b>Date</b>	<b>First name, surname</b>	<b>Position/Function</b>	<b>Signature</b>
26 March 2010	Herbert Wirth	President of the Management Board	
26 March 2010	Maciej Tybura	I Vice President of the Management Board	
26 March 2010	Ryszard Janeczek	Vice President of the Management Board	