Annual Report 2007

KGHM POLSKA MIEDŹ S.A.

Annual Report · 2007

2007 – exceptional and full of success

Exceptional

2007 was an exceptional year for KGHM Polska Miedź S.A. The Company celebrated two important anniversaries: the fiftieth anniversary of the discovery of the copper ore, and the tenth anniversary of its debut on the stock exchanges in Warsaw and London. Above all it was an exceptional year in terms of financial results. The shares of the Company reached their highest level in the history of their listing on the Warsaw stock exchange,while the financial results of KGHM reached unprecendented levels.

JUBILEES

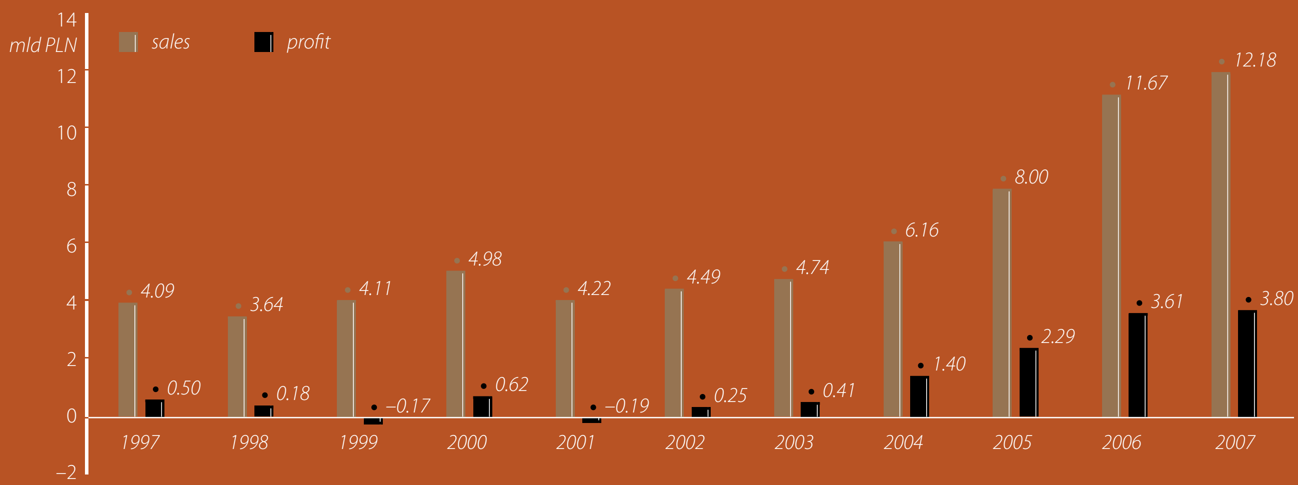
50TH ANNIVERSARY OF THE DISCOVERY OF THE COPPER DEPOSIT

On 23 March 1957, a test hole drilled in the village of Sieroszowice, located between Polkowice and Lubin and lying above the so-called Fore-Sudetic monocline, uncovered what turned out to be the largest copper ore deposit in Europe and one of the largest in the world. This historic discovery was made by a group of geologists under the direction of Dr. Jan Wyżykowski. This deposit became the foundation on which developed the modern enterprise KGHM Polska Miedź S.A.

10TH ANNIVERSARY OF THE STOCK EXCHANGE DEBUT

On 10 July 1997 the shares of KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The share price of the Company on this day was PLN 23.50. Also in July 1997 trading began in GDRs (Global Depositary Receipts) on the London Stock Exchange. Today, ten years after its debut, the share price of KGHM Polska Miedź S.A. is 5-times higher. The Company's share price reached its record high – PLN 143 per share – on 15 October 2007.

Sales and profit of KGHM Polska Miedź S.A., 1997–2007



1957
Jan Wyżykowski with drilling team at drill hole Sieroszowice S-1

Financial success

RECORD PROFIT AND SALES

The highest share prices in the Company's history reflected the excellent financial condition of the Company, which ably took advantage of the high copper and silver prices on global markets. Despite the steady increase in the value of the Polish zloty versus the American dollar, the revenues of KGHM Polska Miedź S.A. reached the unprecedented level of PLN 12.2 billion. The Company's profit for this period was equally impressive – PLN 3.8 billion.

KGHM POLSKA MIEDZ S.A. IN THE YEARS 1997-2007

(data for the years 1997–2005 per published annual reports, data for 2006 per annual report for 2007)		1997	1998	1999	2000
INCOME STATEMENT					
Sales	m PLN	4 089.5	3 641.7	4 113.3	4 982.8
Profit on sales	m PLN	905.0	240.4	347.5	941.1
EBITDA*	m PLN	1 203.2	562.4	540.2	1 238.6
Profit before income tax	m PLN	914.0	310.0	–57.6	795.1
Profit for the period	m PLN	501.8	178.8	–169.9	618.0
BALANCE SHEET					
Total assets	m PLN	4 936.7	4 974.9	4 883.7	5 756.9
Non-current assets	m PLN	3 558.2	3 697.9	3 579.3	4 176.5
Current assets	m PLN	1 363.9	1 242.5	1 250.4	1 380.7
Equity	m PLN	4 020.9	4 096.5	3 470.1	4 066.8
Liabilities and provisions	m PLN	845.8	774.9	1 186.8	1 380.4
FINANCIAL RATIOS					
Earnings per share (EPS)	PLN	2.51	0.89	–0.85	3.09
Dividend per share (DPS)**	PLN	0.25	0.10		1.00
Price per share / Earnings per share (P/E)	x	5.4	14.0	–30.6	8.3
Current liquidity	x	2.2	2.3	2.8	2.3
Quick liquidity	x	1.0	0.9	1.0	0.9
Return on assets (ROA)	%	10.2	3.6	–3.5	10.7
Return on equity (ROE)	%	12.5	4.4	–4.9	15.2
Debt ratio	%	14.2	13.5	14.3	15.9
Durability of financing structure	%	86.1	87.1	85.7	84.1
PRODUCTION RESULTS					
Electrolytic copper production	000 t	440.6	446.8	470.5	486.0
Metallic silver production	t	1 029	1 098	1 093	1 119
MACROECONOMIC DATA					
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95
Exchange rate	PLN/USD	3.28	3.49	3.96	4.35
OTHER					
Market value of Company shares at end of period	PLN/share	13.50	12.50	26.20	25.80
Investments in property, plant and equipment	m PLN	648.6	487.5	379.0	584.1
Equity investments	m PLN	492.6	199.7	228.7	468.3
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417

* (operating profit + depreciation)/amortisation
** dividend for financial year

2001	2002	2003	2004	2005	2006	2007	INCOME STATEMENT 2006=100
4 217.7	4 488.3	4 740.8	6 158.0	8 000.1	11 669.7	12 183.1	104.4
173.4	152.1	430.8	1 445.1	2 706.8	4 138.5	4 879.7	117.9
226.8	433.3	653.8	1 643.0	2 800.0	4 784.0	5 100.6	106.6
–146.9	310.1	569.3	1 445.9	2 634.6	4 380.0	4 655.5	106.3
–190.0	254.5	411.6	1 397.2	2 289.4	3 605.0	3 798.8	105.4
7 556.8	8 155.1	8 695.3	8 948.4	10 977.3	12 251.4	12 379.7	101.0
4 735.5	6 439.8	6 621.1	6 551.5	7 078.7	7 017.1	7 387.5	105.3
2 656.6	1 715.2	2 074.3	2 396.9	3 898.6	5 234.3	4 992.2	95.4
3 696.1	4 010.9	4 006.5	5 336.8	6 214.1	8 115.8	8 965.9	110.5
3 634.0	4 144.1	4 688.8	3 611.6	4 763.2	4 135.6	3 413.8	82.5
–0.95	1.27	2.06	6.99	11.45	18.02	18.99	105.4
			2.00	10.00	16.97		
–13.7	10.6	12.7	4.5	5.5	4.9	5.6	112.8
1.0	1.2	1.2	1.2	1.4	1.9	2.5	135.9
0.7	0.6	0.7	0.8	1.0	1.3	1.7	134.3
–2.5	3.1	4.7	15.6	20.9	29.4	30.7	104.3
–5.1	6.4	10.3	26.2	36.8	44.4	42.4	95.4
38.2	34.2	38.8	24.0	28.2	33.8	27.6	81.7
63.4	79.0	76.8	75.0	70.6	77.0	84.1	109.1
498.5	508.7	529.6	550.1	560.3	556.6	533.0	95.8
1 163	1 192	1 358	1 344	1 244	1 242	1 215	97.8
1 578	1 558	1 780	2 868	3 684	6 731	7 126	105.9
4.37	4.60	4.88	6.66	7.31	11.55	13.38	115.8
4.10	4.08	3.89	3.65	3.23	3.10	2.77	89.4
13.00	13.50	26.20	31.30	62.50	89.00	105.80	118.9
432.8	360.0	423.8	616.4	650.8	709.3	828.1	116.8
271.4	105.4	146.3	707.2	612.6	24.3	154.6	×6.4
6 328	6 305	6 237	6 660	7 723	10 497	11 160	106.3
1 544	1 545	1 603	1 825	2 388	3 381	4031	119.2


Calendar 2007

JANUARY

- The excellent financial results for the prior year mean that the nearly 18 thousand-strong workforce receives the maximum annual bonus. Prior to this the trade unions reach an agreement with the Management Board, based on which the amount of the annual bonus is dependent on the amount of profit achieved by the Company.

FEBRUARY

- The Legnica smelter opens a new lead refining section.

MARCH

- In Shanghai, a financial and cultural capital of China, the largest statue of Frederick Chopin in the world is unveiled. The copper for its casting was donated by KGHM.
- Celebrations begin related to the 50th anniversary of the discovery of the largest copper ore deposit in Europe.

APRIL

- A change in Company management. Adam Glapiński is named as the head of the Supervisory Board.
- In a ranking by the market gazette Gazeta Giełda „Parkiet" KGHM is named as the most valuable company on the Warsaw Stock Exchange and in the raw materials and energy sector.
- KGHM is the most effective company of the year and the largest exporter – according to a ranking by the staff of the newspaper „Rzeczpospolita"

MAY

- Very good Company results. Profit for the first three months of 2007 is PLN 200 million higher than predicted by analysts. KGHM during this time earned nearly PLN 915 million.
- The football club Zagłębie Lubin, one of the institutions sponsored by KGHM, for the second time in its history wins the Polish championship (the first time was in the 1990/1991 season).
- By a shareholder decision, the entire profit of the Company for 2006, i.e. PLN 3.39 billion, is distributed as a dividend.

JUNE

- KGHM, through its subsidiary KGHM Cuprum, obtains permission to conduct exploratory drilling for copper ore in eastern Germany.
- The Tailings Plant celebrates the thirtieth anniversary of the establishment of the Żelazny Most tailings pond – the largest facility of its type in Europe and the second largest facility for the storage of post-floatation tailings in the world.

JULY

- Formal signing of the notary act establishing the LETIA Legnica Technological Park, and the beginning of operations of a new company of KGHM.
- KGHM celebrates the 10th anniversary of its debut on the Warsaw Stock Exchange.
- Signing of an agreement establishing a scientific research consortium, bringing together Polish centers of learning and scientific and research institutions which carry out work on behalf of the KGHM Polska Miedź S.A. Group.

AUGUST

- In the presence of the Polish Premier, Jarosław Kaczyński, a contract is signed between the KGHM subsidiary Przedsiębiorstwo Budowy Kopalń PeBeKa and Hochtief Polska for the construction, over two years, of a modern football stadium in Lubin.

SEPTEMBER

- KGHM Ecoren opens a hydrometallurgical section on the terrain of the Głogów smelter. Its task is to recover rare elements, including rhenuim, from tailings.

OCTOBER

- KGHM acquires shares in the new issue of Zagłębie Lubin for PLN 100 million.
- Remigiusz Nowakowski and Leszek Jakubów are named as new members of the Supervisory Board of KGHM.
- KGHM most profitable company per a ranking by the newspaper Rzeczpospolita.
- The annual report of KGHM for 2006 takes second place in the competition The Best Annual Report.

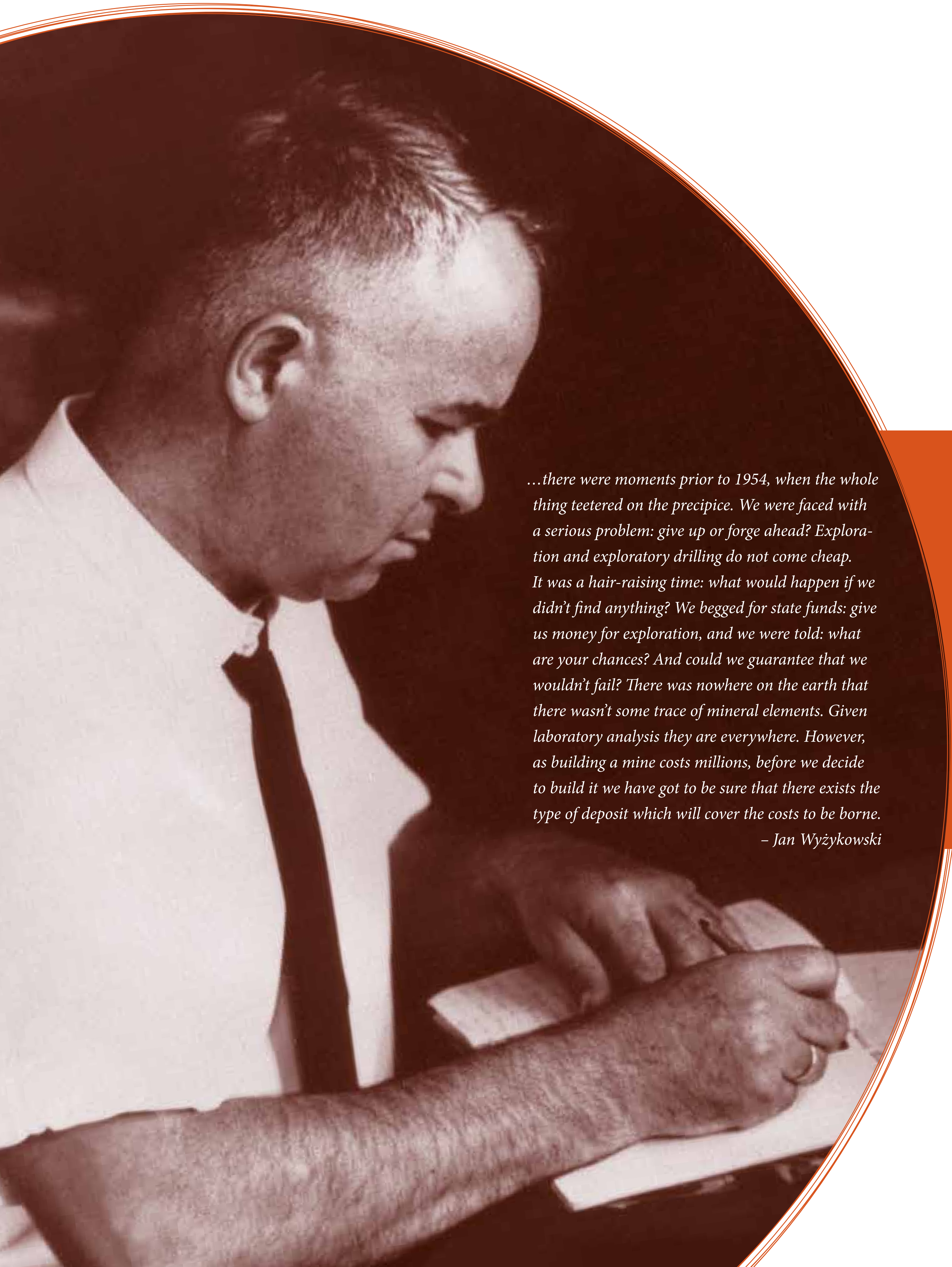
NOVEMBER

- The Supervisory Board of KGHM, chaired by Leszek Jakubów, dismisses a Vice President of KGHM. Maksymilian Bylicki replaces Dariusz Kaśków.
- The Data Processing Center (COPI) receives the first accredited ISO 20000:2005 certificate granted in Poland and Eastern Europe.

DECEMBER

- The Oxygen-Free Copper Section of the Cedynia Wire Rod Plant begins the production of low-alloy copper – CuAg rods.
- Saint Barbara's celebrations (Barbórka).

50th anniversary of the discovery of the copper deposit



…there were moments prior to 1954, when the whole thing teetered on the precipice. We were faced with a serious problem: give up or forge ahead? Exploration and exploratory drilling do not come cheap. It was a hair-raising time: what would happen if we didn't find anything? We begged for state funds: give us money for exploration, and we were told: what are your chances? And could we guarantee that we wouldn't fail? There was nowhere on the earth that there wasn't some trace of mineral elements. Given laboratory analysis they are everywhere. However, as building a mine costs millions, before we decide to build it we have got to be sure that there exists the type of deposit which will cover the costs to be borne.

– Jan Wyżykowski

2007 was the 50th anniversary of the discovery in Lower Silesia of the largest in Europe, and one of the largest in the world, deposits of copper ore, covering an area of around 468 km^2. 23 July 1957, when Jan Wyżykowski together with his team of geologists from the State Geological Institute in Warsaw in drill hole Sieroszowice IG-1 confirmed the presence of a rich deposit, became a watershed moment in the history of this part of Lower Silesia. The discovery of the copper ore deposit was the greatest achievement of Polish geology in the last century. It marked the beginning of development of the Polish Copper Belt. In 1961 KGHM was founded in Lubin, known today as KGHM Polska Miedź S.A. This company began the engine of growth and development of the entire region, and made the country one of the top global producers of copper and silver.

EXPLORATION

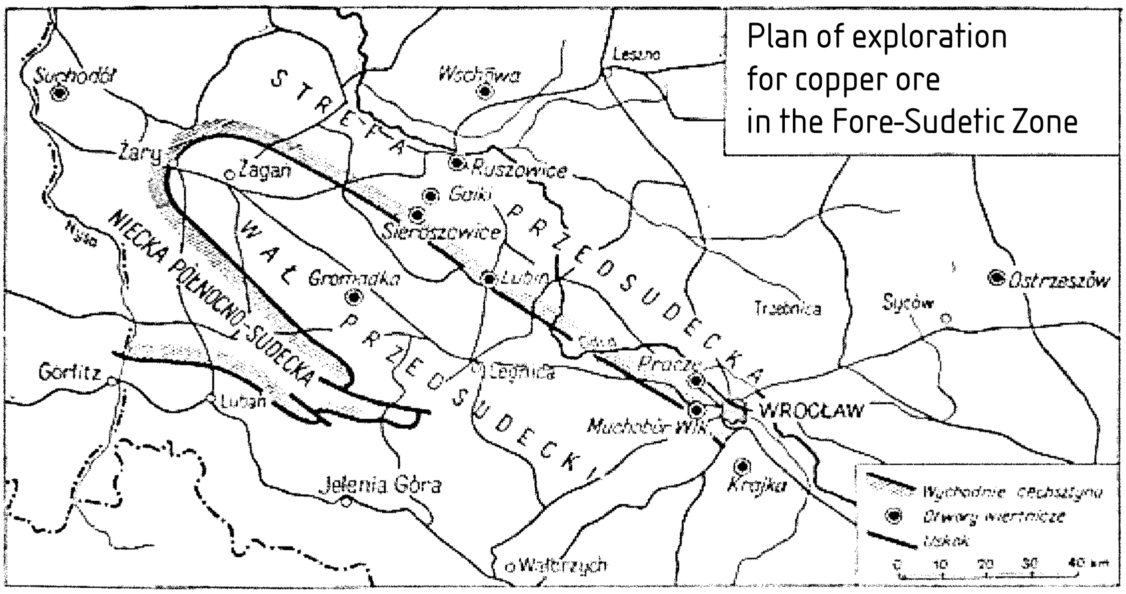
The first step on the road to discovering the copper ore was the work of Prof. Józef Zwierzycki. In 1951 he carried out a detailed mapping of the Permian limestone* in the Fore-Sudetic Zone, and prepared an *Overview map of the Wrocław geological region*. It was here that the first signs were seen of the possible existance of bituminous shales, generally known to contain copper in other areas, on the floor of the Permian limestone. It was precisely this work which formed the basis for taking the decision to search for ore in the Fore-Sudetic Monocline.

Professor Zwierzycki was not convinced by the assertions of the German researcher Eisentraut that there was no industrial-quality copper ore in the Permian limestone of the Fore-Sudetic Monocline. Eisentraut expressed this view in 1939 in work detailing the Permian limestone around Wrocław, in which he collected and systemetized all of the then-available geological knowledge on the area of his research.

In 1951 the State Geological Institute in Warsaw generated a seismic profile of the Bolesławiec-Głogów region based on the reasoning that it would serve in the planning of future exploratory work on the copper-bearing Permian limestone. Jan Wyrzykowski made on-going use of the results obtained to develop plans for exploration and as evidence of the necessity to carry them out.

Many researchers had access to these results. Józef Zwierzycki also interpreted them. Based on the results of geophysical measurement and on the analogy to the Outer-Sudetic Basin in interpreting this profile in 1954, he expressed the assumption that the Permian limestone of the Fore-Sudetic Monocline may contain elements of copper.

The drilling plans prepared by Jan Wyżykowski included two concepts for research:
– the first, based on suggestions by Zwierzycki, reflected the possible occurrance of Permian limestone in the vicinity of Gromadka,
– the second, based on an analysis of geophysical materials by A. Kisłów and J. Wyżykowski, allowed for the existance of eastern Permian limestone to the south of Głogów. The drilling plan of Jan Wyżykowski took into account both of these ideas.



Plan of exploration for copper ore in the Fore-Sudetic Zone

From the very beginning, those opposed to the theory of the young engineer, even before the geologists began work in the area, alleged that it was a wild goose chase and a waste of state funds, because there was absolutely no copper in the area where Wyżykowski wanted to drill. Their crowning argument was the work of Eisentraut…

Drilling carried out in the years 1955–1956 in the vicinity of Gromadka, Gaiki and Ruszowice did not in fact bring the anticipated results. The belief of Wyżykowski in the existance of copper strata was however confirmed by research carried out during these years on behalf of the oil industry:

„Drilling in Wschowa and in the vicinity of Ostrzeszów encountered at a depth of 2 km copper-bearing shales in lower Permian limestone, confirming the appropriateness of the decisions made to explore." These were not in fact thick layers, but said much about the extent of the boundaries of the Permian limestone, and won over the naysayers of Wyżykowski's theory.

* Permian limestone is the name given to formations of sedimentary rock which were formed during the Upper Permian period (approx. 250 million years ago). The Permian limestone contains copper-bearing ore.

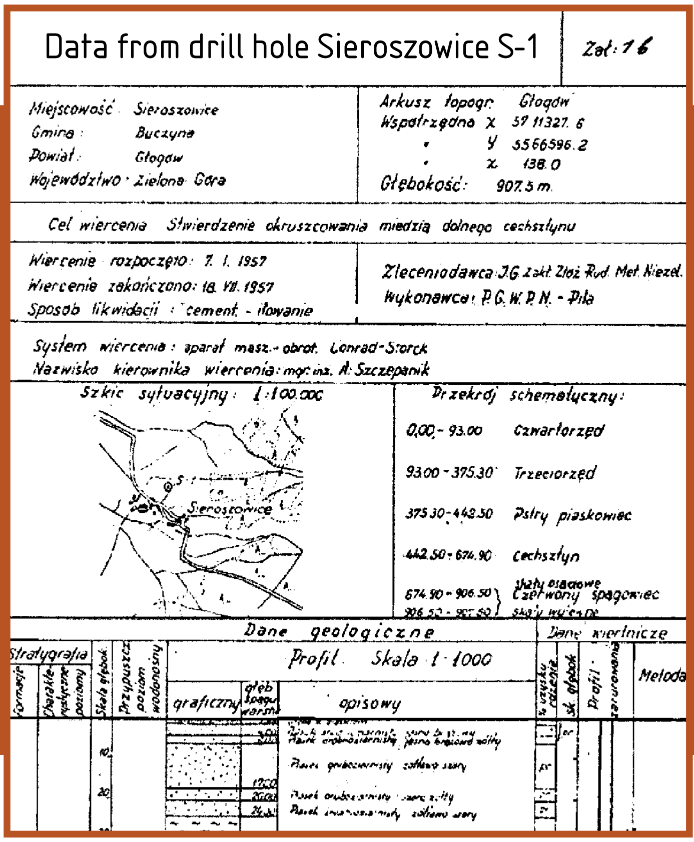
DISCOVERY

Based on geological data gained from the drillholes in Gromadka, Gaiki, Ruszowice and Wschowa, further drillholes were planned along the line of the seismic cross-section of Głogów–Bolesławiec. This time the researchers chose to drill in the vicinity of the village of Sieroszowice, which lay over 5 kilometers to the south-west of the previous drillholes in Gaiki. The exploratory efforts of Wyżykowski were at last rewarded on 23 March 1957. On this day the team of geologists under his direction encountered a layer of copper-bearing marl in the Sieroszowice IG-1 drillhole (later called S-1). Drilling was carried out at a depth of 655.951 – 658.700 m. They found that the layer of copper-bearing marl had a thickness 225 cm and a copper content of 1.40% Cu.

RECONNAISANCE

The first documentation of the deposit was made in 1959. Based on geological data from 24 drillholes (11 carried out by the State Geological Institute in Warsaw and 13 by the Ministry of Heavy Industry), the State Geological Institute in Warsaw created a file called Geological Documentation of the Copper Ore Deposit „Sieroszowice – Lubin". All of the exploratory-research work and work on documentation of the deposit was headed by Jan Wyżykowski.

The work carried out until that time on reconnaisance of the copper-bearing series of the Permian limestone in the Fore-Sudetic region is thanks to years of systematic research. In the years 1951–1991 over 1200 drillholes were made, and based on the resulting geological information, documentation was prepared and estimates were made of the unique copper ore resources. In 2008 KGHM Polska Miedź S.A. began to develop detailed information on the ore in the southern and south-western part of the deposit, which included the drilling of 28 surface holes.


Data from drill hole Sieroszowice S-1

Zał: 16

Miejscowość: Sieroszowice
Gmina: Buczyna
Powiat: Głogów
Województwo: Zielona Góra

Arkusz topogr. Głogów
Współrzędna X 57 11327.6
Y 5566596.2
Z 138.0
Głębokość: 907.5 m.

Cel wiercenia: Stwierdzenie okruszcowania miedzią dolnego cechsztynu

Wiercenie rozpoczęto: 7. I. 1957
Wiercenie zakończono: 18. VII. 1957
Sposób likwidacji: cement. - iłowanie

Zleceniodawca: I.G. Zakł. Złoż. Rud. Met. Niezel.
Wykonawca: P.G.W.P.N. - Piła

System wiercenia: aparat masz.-obrot. Conrad-Storck
Nazwisko kierownika wiercenia: mgr inż. A. Szczepanik

Szkic sytuacyjny: 1:100.000

Przekrój schematyczny:

0,00 - 93.00	Czwartorzęd
93.00 - 375.30	Trzeciorzęd
375.30 - 442.50	Pstry piaskowiec
442.50 - 674.90	Cechsztyn
674.90 - 906.50	Czerwony spągowiec

Dane geologiczne | Dane wiertnicze

Stratygrafia | Skala głębok. | Przypuszcz. poziom wodonośny | Profil Skala 1:1000 — graficzny, głęb. spągu warstw, opisowy | Metoda

"Our work was helped by luck," says Dr. Wyżykowski. "You can see that from our map. Had we drilled a kilometer further, the results would again have been poor. And I don't know if the faith in me would have been lost…"

Jan Wyżykowski and his spectacular discovery transformed this agricultural land into one of the largest copper centers in the world.
On the occassion of the 50th anniversary of discovery of the ore, the SW-1 shaft of the Polkowice-Sieroszowice mine was named in honor of Jan Wyżykowski, as the nearest shaft to the location of the historic first drill hole to uncover the copper ore.

The above text made use of information found in the following materials:

Monografia Polskiej Miedzi, collective work edited by A. Piestrzyński, Lubin, 2007, pp. 25–30
Przegląd Geologiczny, vol. 55, nr. 9, 2007, Jan Wyżykowski, I.B. Litwin, pp. 706–707
Przegląd Geologiczny, vol. 55, nr. 9, 2007, Nowe Zagłębie ma już 50 lat, In. Karczmarek, R. Rożek, pp. 735–738
Polska Miedź, wczoraj-dziś-jutro, A. Szydłowska-Szczecińska, Legnica, 2006, pp. 47–52

EXLOITATION

Due to the vast size of the deposit, the decision was quickly made to initiate mining. Already by 28 December 1959 the Minister of Heavy Industry, Franciszek Waniołka, established (as of 1 January 1960) the state enterprise Zakłady Górnicze Lubin w budowie. The next decision of the minister was to transform this enterprise from the beginning of May 1961 from a mine called ZG Lubin into KGHM. The name Kombinat Górniczo-Hutniczy Miedzi (KGHM) came into use from 1 January 1969, while the current name – KGHM Polska Miedź S.A. – has been used since 1991.

DISCOVERERS

In July 1966 the discoverers of the Polish copper deposit were honored with the National Award, I Degree. At the head of those so honored for the discovery and documentation of the ore was Dr. Jan Wyżykowski, followed by his team: Władysław Adamski, Franciszek Ekiert, Antoni Graniczny (posthumously), Roman Osika, Andrzej Rydzewski, Jan Tomaszewski, Eugeniusz Wutzen and Józef Zwierzycki (posthumously).

Supervisory Board of KGHM Polska Miedź S.A:*

Marek Trawiński
Chairman of the Supervisory Board

Jacek Kuciński
Vice-Chairman of the Supervisory Board

Marek Panfil
Secretary of the Supervisory Board

Marcin Dyl
Member of the Supervisory Board

Arkadiusz Kawecki
Member of the Supervisory Board

Marzena Weresa
Member of the Supervisory Board

Members of the Supervisory Board elected by the employees of the Company:

Leszek Hajdacki
Member of the Supervisory Board

Ryszard Kurek
Member of the Supervisory Board

Józef Czyczerski
Member of the Supervisory Board

* since 14 February 2008

Dear Shareholders,

It is with great satisfaction that I offer you this summation of the year 2007, an exceptional one in every way. The Company celebrated two important anniversaries: the 50^{th} anniversary of the discovery of the copper ore deposit, and the 10^{th} anniversary of the Company's market debut. However, it was not these anniversaries alone that made the year so special. The year was also unique in terms of its financial results. The Company's record net profit increased to PLN 3.8 billion, on sales of almost PLN 12.2 billion. Another cause for satisfaction by the shareholders of KGHM was the highest dividend payout in the history of the Company.

Positive global economic conditions led to good Company results. The situation on the copper and silver markets fortunately suffered no negative repercussions from the American subprime loan crisis. Throughout the year copper prices remained at very high levels. A similar situation prevailed on the silver market.

Despite a significant improvement in the Polish economy, the situation on the domestic market was less favorable for the Company than on the foreign market. Throughout 2007 the Polish currency, as compared to the USD and EUR, systematically rose. This in turn negatively impacted export revenues.

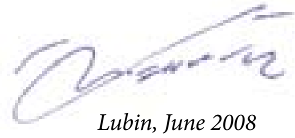
Another serious problem was the decrease in copper extraction in KGHM, as a result of work in regions having a lower copper content in extracted ore.

A change in policy with regards to hedging transactions had a positive effect on the Company's financial results. Its effect was to reduce the level of benefits lost from the negative impact of hedging on the financial result in comparison to the prior year by 70%. In addition the Company built a hedging position in future years, giving the possibility of participation in possible further rises in copper and silver prices on the global market to a greater extent.

Over the last ten years the share price of KGHM has increased by 410 procent. This shows among others that investors value the results achieved by the Company, and benefit from the profits they have gained by investing in our shares.

In closing I would like to thank all of our Shareholders for the trust they have placed in the Supervisory Board, for which we are duly proud and treat with great respect. I wish in particular to thank the Employees of KGHM Polska Miedź S.A. and of the companies of the KGHM Group. It was thanks to their commitment and hard work that the achievement of such good results was possible.

Marek Trawiński
Chairman of the Supervisory Board
KGHM Polska Miedź S.A.



Lubin, June 2008

Management Board of KGHM Polska Miedź S.A.
(from left):*
Mirosław Krutin – President of the Management Board
Maciej Tybura – Vice President of the Management Board
Herbert Wirth – I Vice President of the Management Board

* since 23 April 2008

Dear Shareholders,

In KGHM Polska Miedź S.A. we have learned to believe that success depends on the balance reached between the effective management of resources, justified decisions and the social commitment of the Company. The development of such an organisational culture, cultivating mining and smelting traditions on the one hand, and on the other dedicated to taking advantage of the newest achievements in technique and technology, has enabled the Company to successfully compete for the last 50 years on the global market.

Today, our customers, employees and investors are focused on the way in which the Company is managed. The Company's policy of transparency in its business activities creates a foundation of trust between the Company and its stakeholders. This is also why I am proud of the fact that in 2007 the financial results of KGHM reached record levels. The technical-economic plan published by the Company for 2007, despite some adjustments, was fully achieved.

For KGHM Polska Miedź S.A. the past year was the best in its history. Company revenues reached the record amount of PLN 12.2 billion, with profit of PLN 3.8 billion. The Company's economic ratios also confirm its good condition.

For years the Company has pursued a policy which is based on the principle of the participation of its investors and social partners in earned profit. In 2007 the profit per share earned by KGHM amounted to PLN 18.99, of which nearly half, or PLN 9, was paid out to shareholders as a dividend. The employees of KGHM Polska Miedź S.A., for their enormous effort, commitment and dedication to achieving the tasks and targets assigned them, received the highest bonus in the history of the Company.

KGHM is a company with a strong, stable position on the global market. It is among the top ten global producers of copper and one of the top global suppliers of silver. A measure of success for the Company is its supply of products of a stable and high quality to the market, as it is thanks to this that the Company has gained the loyalty and trust of its customers. KGHM is a trustworthy partner in business. It conscienciously runs a socially-responsible business, enhancing its image and building trust in the Company, all in order to effectively carry out its strategy of permanently growing the Company's value.

Dear Shareholders, export is the motor for domestic economic growth. And KGHM is one of the largest Polish exporters. Macroeconomic conditions in 2007, despite the significant weakening in the USD, were favorable for KGHM Polska Miedź S.A. The well-ended year allowed the Company to maintain a proper rate of growth, and, what is important, an optimal start to 2008 and the chance for further spectacular achievements.

I am convinced that the prepared strategy for the growth of KGHM Polska Miedź S.A. and the Group over the next several years will lead to a strengthening of the Company's position in the market. The decisive actions, professionalism and experience of the recently-reconstructed Management Board guarantee the proper functioning of the Company. I am deeply convinced that in 2008 shareholders will be investing in a stable company with tremendous potential for continued growth in its value.

I sincerely thank you for the trust you have shown in our company.

Mirosław Krutin
President of the Management Board of KGHM Polska Miedź S.A.

Lubin, June 2008

June 1960
Drilling completed of freeze holes for the future L-III shaft.
Until 1960 no shaft had been dug in Poland in such a heavily-flooded rock mass.

Company profile

The core business of the Company is the production of copper and silver. Annual production is 530 thousand tonnes of electrolytic copper and 1 200 tonnes of silver, making the Company one of the leaders in the production of both metals. The resource base for KGHM is the largest deposit of copper ore in Europe and one of the largest in the world, covering a surface area of around 468 km^2.

KGHM Polska Miedź S.A.

KGHM Polska Miedź S.A. was founded in 1961. Until September 1991 the Company operated as a state enterprise under the name Kombinat Górniczo Hutniczy Miedzi (KGHM). Since 12 September 1991 it has been a joint stock company. In July 1997 the shares of KGHM debuted on the Warsaw Stock Exchange, while its GDRs (Global Depositary Receipts) debuted on the London Stock Exchange.

KGHM Polska Miedź S.A. is comprised of a Head Office and 10 Divisions. At the end of 2007 the Company had 18 258 employees.

The core business of the Company is the production of copper and silver. Annual production is 530 thousand tonnes of electrolytic copper and 1200 tonnes of silver. This makes it one of the leaders in the production of both metals.

The resource base for KGHM is the largest deposit of copper ore in Europe and one of the largest in the world, covering a surface area of around 468 km^2.

The copper is mainly obtained from copper ore. Following enrichment of this ore concentrate is obtained, which is then processed by the smelters into anode copper. The process of electrorefining results in the production of refined copper of 99.99% purity. A by-product of the electrorefining process is ande slime, from which silver and gold are recovered.

KGHM POLSKA MIEDŹ S.A. *AT 31 DECEMBER 2007*

LUBIN MINE	GŁOGÓW SMELTER	HEAD OFFICE
POLKOWICE-SIEROSZOWICE MINE	LEGNICA SMELTER	MINE-SMELTE EMERGENCY RESCUE UNIT
RUDNA MINE	CEDYNIA WIRE ROD PLANT	DATA CENTER
ORE ENRICHMENT PLANTS		
TAILINGS PLANT		

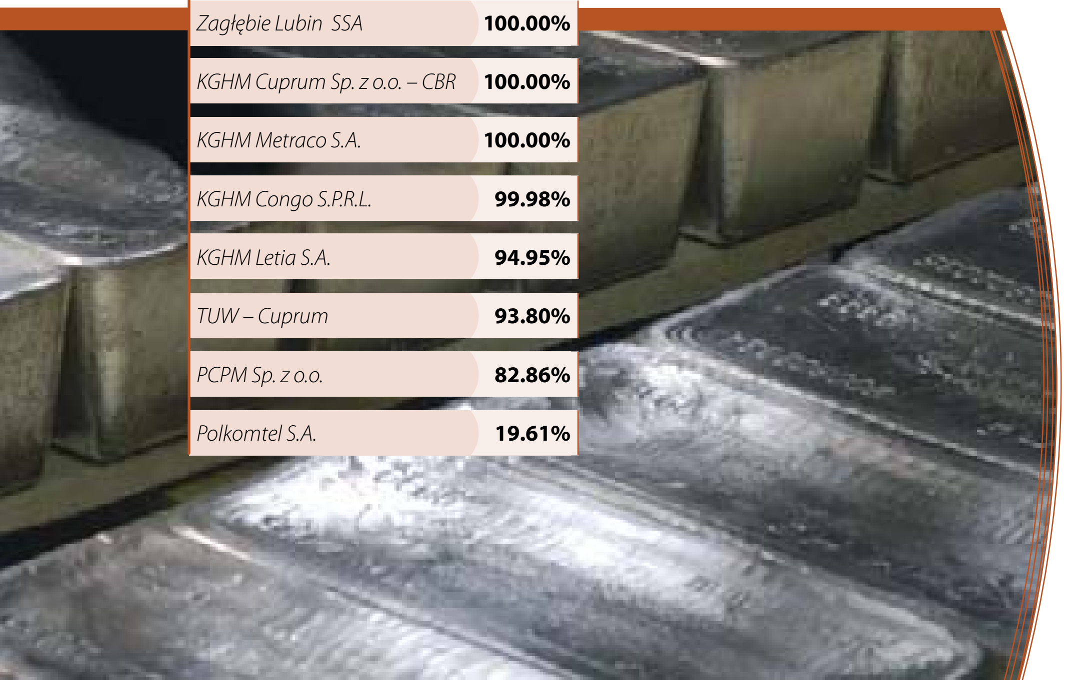
KGHM Polska Miedź S.A. Group

At 31 December 2007 KGHM Polska Miedź S.A. owned, directly or indirectly, shares in 39 commercial law companies, including in 28 subsidiaries, 3 associates and 8 other companies. The companies of the Group are separate legal entities, in which KGHM has varying stakes (directly or indirectly) in their share capital. The Company owns shares directly in 21 entities. Three of these – KGHM Ecoren S.A., PHP „MERCUS" sp. z o.o. and DIALOG S.A. – form their own capital groups.

The companies of the KGHM Polska Miedź S.A. Group operate in various economic sectors. Among these are companies in the following sectors: telecoms, trade, production, transportation, R&D, companies related to sport and tourism and also insurance. Companies of particular importance are those supporting the core business of KGHM Polska Miedź S.A. as well as the telecom companies. The former offer products and services supporting the core business, such as mine construction, equipment for the mining and construction industries, as well as analysis and R&D. They are also involved in the production of electrical and heating energy. The telecom companies represent a significant part in terms of value of the portfolio of companies belonging to the KGHM Polska Miedź S.A. Group.

MAJOR COMPANIES OF THE KGHM POLSKA MIEDŹ S.A. GROUP *(% SHARE IN COMPANY) AS AT 31.12.2007*

KGHM Ecoren S.A.	**100.00%**			*Inova Sp. z o.o.*	**100.00%**
PHP Mercus Sp. z o.o.	**100.00%**	*PU Mercus Serwis Sp. z o.o.*	**100.00%**	*WFP Hefra S.A.*	**97.52%**
KGHM Polish Copper Ltd.	**100.00%**	*PHU Lubinpex Sp. z o.o.*	**100.00%**	*DFM Zanam-Legmet Sp. z o.o.*	**100.00%**
KGHM Kupferhandels GmbH	**100.00%**	*PHU Mercus Bis Sp. z o.o.*	**47.62%**	*DKE Sp. z o.o.*	**50.32%**
MCZ S.A.	**100.00%**	*TUW – Cuprum*	**0.49%**	*Interferie S.A.*	**61.55%**
Dialog S.A.	**100.00%**	*Avista Media Sp. z o.o.*	**100.00%**	*WM Łabędy S.A.*	**96.92%**
Energetyka Sp. z o.o.	**100.00%**	*Vivid.pl S.A.*	**100.00%**	*Dol-Eko Organizacja Odzysku S.A.*	**19.53%**
CBJ Sp. z o.o.	**100.00%**			*Telewizja Familijna S.A. w upadłości*	**11.86%**
PeBeKa S.A.	**100.00%**			*Bank Ochrony Środowiska S.A.*	**0.73%**
Pol-Miedź Trans Sp. z o.o.	**100.00%**				
Zagłębie Lubin SSA	**100.00%**				
KGHM Cuprum Sp. z o.o. – CBR	**100.00%**				
KGHM Metraco S.A.	**100.00%**				
KGHM Congo S.P.R.L.	**99.98%**				
KGHM Letia S.A.	**94.95%**				
TUW – Cuprum	**93.80%**				
PCPM Sp. z o.o.	**82.86%**				
Polkomtel S.A.	**19.61%**				



The listing of KGHM Polska Miedź S.A. in Warsaw and London met with enormous interest by investors and the media.

10 years on the stock markets

Since its stock exchange debut KGHM Polska Miedź S.A. has remained one of the engines of the Warsaw stock exchange, with its major share of the WIG 20 index of leading companies.

10th anniversary of market debut

2007 marked the **tenth** anniversary of the debut of KGHM Polska Miedź S.A. on the stock exchanges in Warsaw and London.

Its presence on these markets is the mark of success of years of effort, which began with the political changes in Poland in 1989. The process of structural and ownership transformation in KGHM began in July 1990. A year later, on 12 September 1991, as a result of commercialisation, the state enterprise Kombinat Górniczo-Hutniczy Miedzi was transformed into the state-owned joint stock company KGHM Polska Miedź S.A. A privatisation consortium formed in 1996 by the Minister of Ownership Transformations prepared a privatisation prospectus, which was required to enable the public trading of the shares of KGHM Polska Miedź S.A. In June 1997 the State Treasury sold 65.7 million of the 200 million shares of KGHM Polska Miedź S.A. in a public offering, of which 30 million were sold in the domestic tranche, and 35.7 million in the foreign tranche in the form of GDRs (Global Depositary Receipts). Individual investors had the opportunity to acquire the shares of KGHM at the price of PLN 19, and institutional investors at the price of PLN 21. Of significance was the fact the the employees themselves were participants in this privatisation, receiving at no cost 15%, or 30 million, of the shares. Today the State Treasury is the owner of 83.6 million shares (41.79% of total issued shares). The first, historic listing of the Company's shares on the Warsaw Stock Exchange took place on 10 July 1997. The share price on the debut day of KGHM was PLN 23.50, which was 23.7% higher than the price at which the

individual investors had bought their shares. Ten years after this debut, on 10 July 2007 the share price of KGHM Polska Miedź S.A. amounted to PLN 119.90, meaning an increase during this period of 530%, while the per-share dividend paid was PLN 30.32.

The owners of the Company's shares also experienced difficult moments. A year after their debut, the shares of the Company were swept along on the wave of the Asian crisis, and the shares of mining companies sharply fell in value. On 8 October 1998 the share price of KGHM Polska Miedź S.A. recorded its lowest level – PLN 9.65. Another heavy time for shareholders was the period 2001 and 2002, when, due to low copper and silver prices (for many months the price of copper fluctuated in the range of 1300 – 1500 USD per tonne), the share price of the Company fluctuated in the range of PLN 10 – 12 per share.

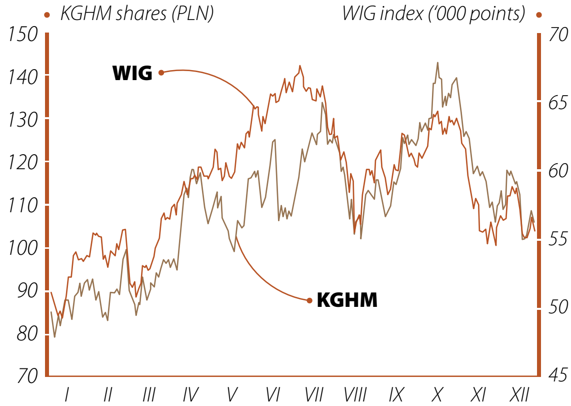
Beginning in 2004, together with an improvement in conditions on the metals markets, there was an increase in the share price, and on 11 May 2006 it reached PLN 135. The highest price in the history of the Company's shares occurred on 15 October 2007 when they closed at PLN 143. In 2005 the market newspaper „Parkiet" recognised the shares of KGHM as a „Best investment in a listed company" of the WIG20 index, and awarded the Company with the statuette „Bull and Bear". Since its stock exchange debut KGHM Polska Miedź S.A. has remained one of the engines of the Warsaw stock exchange, with its major share of the WIG 20 index of leading companies.

Company share performance in 2007

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Company are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indices. The Global Depositary Receipts of the Company (GDRs) have been traded since July 1997 on the London Stock Exchange.

The share price of the Company in 2007 increased by 19%, reaching PLN 105.80 at the close of the last market session of the year on 28 December 2007. This year also witnessed the historic maximum price for the Company's shares. On 15 October 2007 the per-share price of KGHM was PLN 143.00. In 2007 the WIG index increased by 10%, and the WIG20 index by 5%. The share prices of the Company on both exchanges – Polish and British – were similar.

Share performance of the Company in 2007



KEY SHARE PRICE DATA OF THE COMPANY ON THE WARSAW STOCK EXCHANGE	*Unit*	***2005***	***2006***	***2007***
Number of shares issued		*200 000 000*	*200 000 000*	*200 000 000*
Closing price from the last day of trading in the year	*PLN*	*62.50*	*89.00*	*105.80*
Market value of the Company at year's end million	*m PLN*	*12 500*	*17 800*	*21 160*
Highest closing price in the year	*PLN*	*64.40*	*135.00*	*143.00*
Lowest closing price in the year	*PLN*	*27.60*	*63.90*	*79.40*
Average trading volume per session	*'000*	*778.5*	*813.5*	*730.8*
Dividend paid in the financial year from appropriation of profit for the prior year	*PLN/share*	*2.00*	*10.00*	*16.97*

CAPITAL MARKET RATIOS		***2005***[1]	***2006***[2]	***2007***[2]
EPS (PLN)	*Profit (loss) for the period / number of shares*	*11.45*	*18.02*	*18.99*
P/CE	*Price per share / financial surplus per share**	*4.8*	*4.5*	*5.0*
P/E	*Price per share / earnings per share*	*5.5*	*4.9*	*5.6*
MC/S	*Market capitalisation** / revenues from sales*	*1.6*	*1.5*	*1.7*
P/BV	*Price per share book value per share****	*2.0*	*2.2*	*2.4*

* *Financial surplus per share= profit for the period + depreciation*

** *Market capitalisation represents total shares outstanding times share price from the last day of the year. (200 million shares × PLN 89.00 in 2006; PLN 105.80 in 2007)*

*** *Book value equals that of the balance sheet date.*

[1] *per annual report for 2005*

[2] *per annual report for 2007*

Dividend policy

The attractiveness of investing in the shares of KGHM Polska Miedź S.A. is enhanced not only by their increase in value but also by the amount of the dividend payout. In 2007 the Company paid a dividend of PLN 16.97 per share from the distribution of profit for the prior financial year. This gives a dividend payout rate of nearly 16% (calculated on the dividend date of record) and makes KGHM one of the top dividend payers on the Polish market.

The dividend policy represents an element ensuring balance between the amount of the dividend payout and the possibility of effectively investing the earnings of the Company. The General Shareholders Meeting of KGHM Polska Miedź S.A. on 26 June 2008 decided to pay a dividend for 2007 of PLN 9.00 per share.

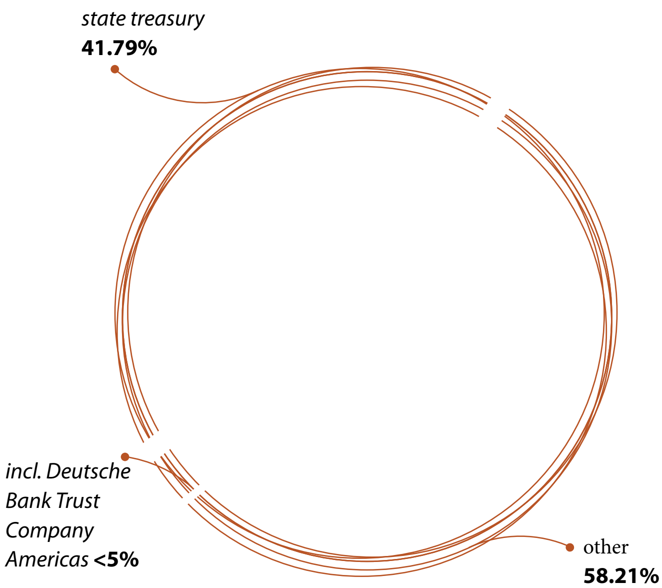
This level of dividend, recommended by the Management Board of the Company, is an element of the search for a balance between the interests of shareholders and the possibility of effectively investing the earnings of the Company.

Ownership structure KGHM Polska Miedź S.A.

The share capital of the Company at 31 December 2007 amounted to PLN 2 billion. This is divided into 200 million shares, series A, having a face value of PLN 10 per share. All of the shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the General Shareholders Meeting of the Company. In 2007 there were no changes in share capital.

On 31 December 2007 the only shareholder holding at least 5% of the total number of shares at the General Shareholders Meeting of the Company and granting the right to the same number of votes was the Polish State Treasury. Based on an anouncement dated 16 May 2007 it owned 83 589 900 shares, representing 41.79% of the share capital of the Company and the same number of votes at the General Shareholders Meeting.

Ownership structure of KGHM Polska Miedź S.A.



The remaining shareholders of the Company (including Deutsche Bank Trust Company Americas, the depositary bank in the depositary receipts program) each owned less than 5% of the share capital – altogether 116 410 100 shares, representing 58.21% of the share capital of the Company and the same number of votes at the General Shareholders Meeting.

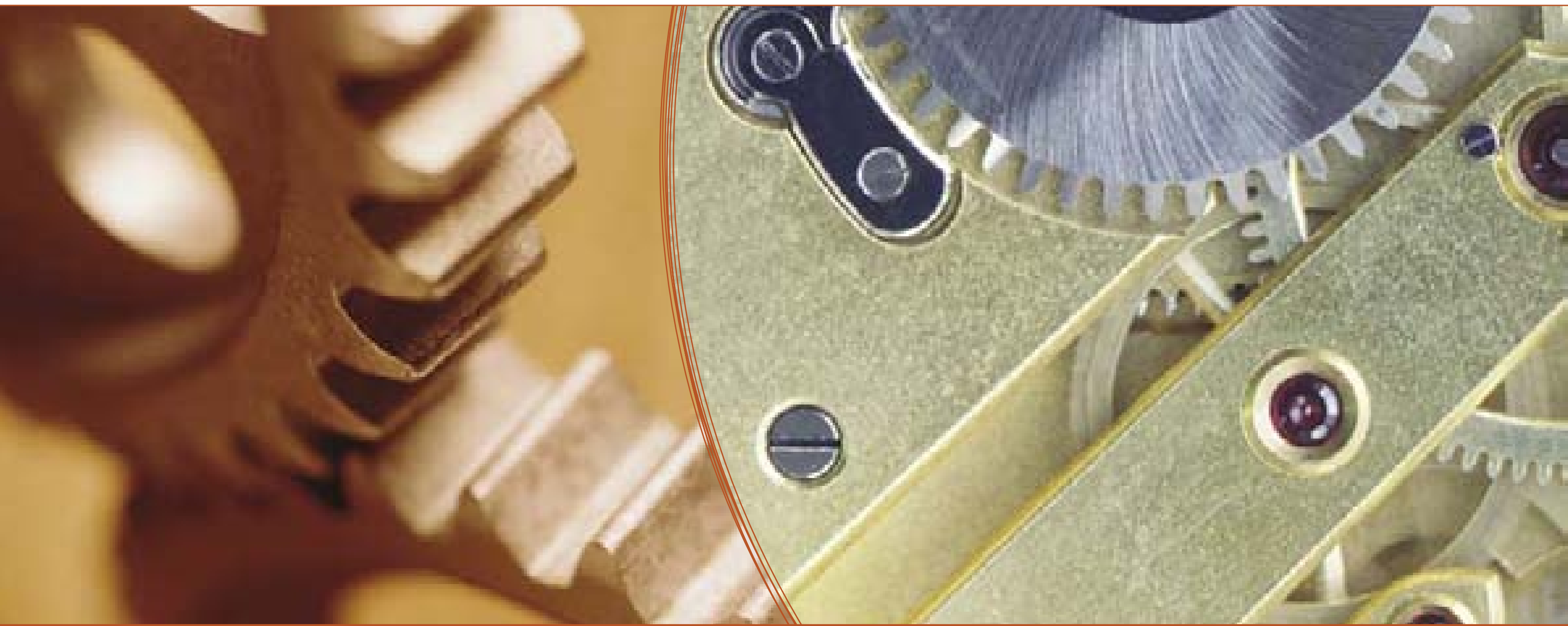
In 2007 the State Treasury reduced its ownership of the share capital of the Company due to the transfer of ownership to 5 million shares to the company Kompania Węglowa S.A. This block of shares represented 2.5% of the share capital and the total number of votes.

Report of the Management Board of KGHM Polska Miedź S.A. on the application of corporate governance principles in 2007

The Management Board of KGHM Polska Miedź S.A. hereby presents a report on the application of corporate governance principles in 2007, as described in §29 sec. 5 of the Warsaw Stock Exchange Rules.

A) List of corporate governance principles which have not been applied by the company, together with a description of the circumstances and reasons why a given principle has not been applied, and the means by which the company intends to eliminate any potential effects of non-application of a given principle, or the steps it intends to take to reduce the risk of non-application of a given principle in future

Due to the nature and character of the Company, to which the law dated 30 August 1996 on the commercialisation and privatisation of State-owned companies still applies as regards the composition of the Supervisory Board (⅓ of the members of the Supervisory Board are chosen by the employees of the Company), as well as taking into account the fact that the State Treasury, as a specific shareholder in possession of over 44% of the shares of the Company, remains the dominant shareholder, and also considering the usual course of voting at General Shareholders Meetings and Supervisory Board meetings, the Management Board and Supervisory Board of the Company have recommended a change in the Statutes to the General Shareholders Meeting, based on which the Company would meet the criteria for independence by members of the Supervisory Board in an analogous way to that described in point d) of Principle Nr 20, in a case where a single shareholder owns a packet of shares granting over 50% of the total number of votes. The General Shareholders Meeting has accepted this recommendation, with the resolution as passed and registered by the court of registrations with respect to the wording of § 16 sec. 5–8 of the Statutes reading as follows:



At the beginning of 2007, the Company again applied all of the corporate governance principles described in the document „Best practices in public companies in 2005" (with stipulations to principle 20 on the independence of Supervisory Board members). A „Declaration by KGHM Polska Miedź S.A. regarding the implementation of corporate governance principles by the Company" was signed by the Management Board of the Company on 15 February 2007, countersigned by the Supervisory Board on 23 February 2007, published together with the annual report for 2006 on 12 March 2007 and accepted by the General Shareholders' Meeting on 30 May 2007.

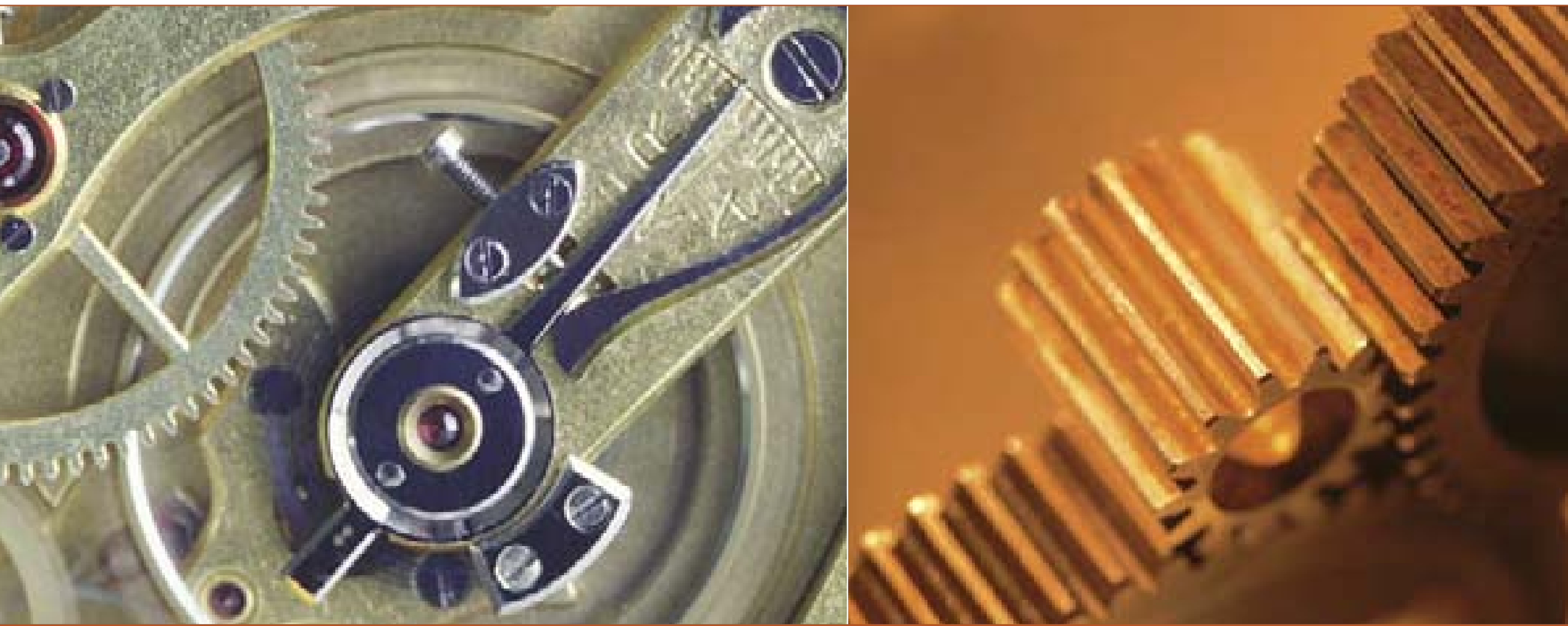
Stipulations to principle 20 were discussed in the following commentary to this principle:

„5. At least two members of the Supervisory Board should be independent members, meeting the following criteria:

1) does not work for the Company, its divisions, or with a related entity of the Company, either as an employee or in any other legal relationship,
2) is not a member of the Supervisory Board or Management Board of an entity related to the Company,
3) is not a partner or shareholder controlling 5% or more of the votes at the General Shareholders Meeting of the Company or at the General Shareholders Meeting of a related entity,
4) is not a member of the Supervisory Board or Management Board or an employee of an entity controlling 5% or more of the votes at the General Shareholders Meeting of the Company or at the

General Shareholders Meeting of a related entity,
5) is not a direct family member related by blood in an ascending or descending line, a spouse, brother or sister, a parent of a spouse or an adoptee of any of the persons mentioned above in points 1–4.

6. An independent member of the Supervisory Board should meet the criteria for independence defined in sec. 5, throughout his entire tenure on the Supervisory Board. Should the Supervisory Board or Management Board of the Company be informed that an independent member of the Supervisory Board of the Company has ceased during his tenure to meet the criteria for independence, and should this cause the Company to fail to meet the criteria of having at least two independent members, action should be taken to ensure that the said member of the Supervisory Board submit his/her early resignation or that said member is recalled.
7. Prior to being appointed to the Supervisory Board of the Company, a candidate for the position of independent member of the Supervisory Board is required to submit a declaration in writing that he/she meets the criteria for independence defined in sec. 5.



8. A related entity as mentioned in sec. 5 is hereby defined as a parent entity of the Company, a subsidiary of the Company or as a subsidiary of the entity which is a parent to the Company. Determination as to whether an entity is a parent to or subsidiary of the Company is made based on the appropriate clauses of the Corporate Partnerships and Companies Code or on the Accounting Law".

In accordance with principle 19, candidates for members of the Supervisory Board should be presented and supported by reasons in sufficient detail to allow an educated choice. The normal practice until now in the Company has been that candidates for the Supervisory Board have been presented during General Shareholders' Meetings. The Company attempts to ensure that the names of such candidates are made publicly available prior to this.

The most important corporate governance principles are reflected (have been strengthened) in the fundamental documents regulating the activities of the Company:

1. The Statutes of KGHM Polska Miedź S.A.
2. The Regulations of the General Shareholders' Meeting of KGHM Polska Miedź S.A.
3. The Regulations of the Supervisory Board of KGHM Polska Miedź S.A.
4. The Regulations of the Management Board of KGHM Polska Miedź S.A.

These documents, along with the „Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company" are available on the Internet website of the Company, www.kghm.pl.

B) Description of the functioning of the general shareholders' meeting and its fundamental rights, along with the rights of shareholders and how they are executed

The functioning of the General Shareholders' Meeting of KGHM Polska Miedź S.A., its rights and the rights of shareholders and how they are executed are described in the following documents:

1. The Statutes of the Company – Chapter IV C, §22–§30
2. The Regulations of the General Shareholders' Meeting of KGHM Polska Miedź S.A.
3. The Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company

The schedule of work on organising the General Shareholders' 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 Company has a depositary receipts program. The representative of the owners of GDRs at the General Shareholders' Meeting is the Depositary Bank, which executes 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.
During General Shareholders' Meetings members of the media are present.

C) The composition and principles of functioning of management and supervisory bodies of the company and their committees

Supervisory Board

The principles of functioning of the Supervisory Board of KGHM Polska Miedź S.A. are described in the following documents:

1. The Statutes of the Company – Chapter IV B, §16–§21
2. The Regulations of the Supervisory Board of KGHM Polska Miedź S.A. with its registered head office in Lubin
3. The Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company

In accordance with corporate governance principle 20 together with the commentary included in the „Declaration" and described in point A) of this report, two members of the Supervisory Board of the Company meet the criteria for independence.

The composition of the VIth term Supervisory Board of KGHM Polska Miedź S.A., during the period from 1 January 2007 to 31 December 2007 was as follows:

FIRST NAME, SURNAME	FUNCTION	period when function served in 2007
Adam Łaganowski*	Chairman Member	01.01.07 – 24.04.07 24.04.07 – 18.10.07
Adam Glapiński*	Member Chairman	11.04.07 – 24.04.07 24.04.07 – 10.07.07
Leszek Jakubów*	Member Chairman	18.10.07 – 06.11.07 06.11.07 – 31.12.07
Stanisław Andrzej Potycz	Deputy Chairman	01.01.07 – 31.12.07
Jan Sulmicki*	Member	01.01.07 – 11.04.07
Marcin Ślęzak*	Member	01.01.07 – 31.12.07
Jerzy Żyżyński	Member	01.01.07 – 31.12.07
Anna Mańk	Member	11.04.07 – 31.12.07
Remigiusz Nowakowski	Member	18.10.07 – 31.12.07
Members of the Supervisory Board elected by the employees of the Company:		
Józef Czyczerski	secretary	01.01.07 – 31.12.07
Leszek Hajdacki	Member	01.01.07 – 31.12.07
Ryszard Kurek	Member	01.01.07 – 31.12.07

* Independent members

The following committees work under the auspices of the Supervisory Board:

- Auditing Committee

The tasks of the Committee and the duties of members of the Supervisory Board assigned to it are described in §6 sec. 3 of the Regulations of the Supervisory Board:

1) supervision, on behalf of the Supervisory Board, of the other participants in the process of financial reporting and the process of reporting to the Supervisory Board,
2) analysis of the accounting principles applied in the Company,
3) the review of transactions with parties related to the Company and the review of unusual transactions,
4) analysis of conclusions arising from the risk management process,
5) reviewing the offers of independent auditors, recommending a selected auditor to the Supervisory Board and analysing agreements entered into with an auditor by the Company,
6) continuous co-operation with the auditor,
7) analysing the opinion of the auditor regarding financial reporting by the Management Board of the Company, as well as the letter of the auditor to the Management Board and the Supervisory Board and preparing the report of the Supervisory Board on its evaluation of the annual report of the Management Board on the activities of the Company as well as the financial statements,
8) evaluation of the internal auditing plan of the Company, approval of the internal auditing regulations, and of changes of the director of internal auditing,
9) analysis of the conclusions reached and the recommendations made by an internal audit of the Company, with an evaluation of the degree of implementation of these recommendations by the leadership of the Company,

10) these tasks and rights of the Auditing Committee do not mean that it has the obligation to plan or conduct an audit of the documents of the Company, or that it must confirm that the documents of the Company are in conformance with accounting principles and prevailing law.

The composition of the Auditing Committee of the VI[th] term Supervisory Board of KGHM Polska Miedź S.A., during the period from 1 January 2007 to 31 December 2007 was as follows:

FIRST NAME, SURNAME	*period of work of the Committee in 2007*
*Adam Łaganowski**	*08.01.2007 – 18.10.2007*
*Marcin Ślęzak**	*01.01.2007 – 31.12.2007*
Leszek Hajdacki	*01.01.2007 – 31.12.2007*
Anna Mańk	*30.08.2007 – 31.12.2007*
*Leszek Jakubów**	*06.11.2007 – 31.12.2007*

** Independent members*

4) to periodically analyse the strategy of leadership staff remuneration, and to submit if necessary recommended changes in remuneration to the Supervisory Board.

The composition of the Remuneration Committee of the VI[th] term Supervisory Board of KGHM Polska Miedź S.A., during the period from 1 January 2007 to 31 December 2007 is as follows:

FIRST NAME, SURNAME	*period of work of the Committee in 2007*
Adam Łaganowski	*08.01.2007 – 18.10.2007*
Stanisław Andrzej Potycz	*08.01.2007 – 31.12.2007*
Jan Sulmicki	*08.01.2007 – 11.04.2007*
Jerzy Żyżyński	*08.01.2007 – 31.12.2007*
Remigiusz Nowakowski	*06.11.2007 – 31.12.2007*

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 Shareholders' Meeting.

- Remuneration Committee

The tasks of the Committee and the duties of members of the Supervisory Board assigned to it are described in §6 sec. 5 of the Regulations of the Supervisory Board:

1) to pursue a policy of preparing reserve candidates to serve on the Management Board of the Company,
2) to carry out the process of selecting candidates to serve as members of the Management Board and, following their examination, to present the Supervisory Board with selected candidates,
3) to supervise realisation of the system of remuneration of the management staff, and to submit recommended changes in remuneration to the Supervisory Board,

Management Board

The duties and principles of functioning of the Management Board of KGHM Polska Miedź S.A. are described in the following documents:

1. The Statutes of the Company – Chapter IV A, §12–§15
2. The Regulations of the Management Board of KGHM Polska Miedź S.A. with its registered head office in Lubin
3. The Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company

During the period from 1 January 2007 to 31 December 2007 the composition of the Management Board and the delegation of duties amongst the members of the Management Board were as follows:

FIRST NAME, SURNAME	FUNCTION	period when function served in 2007
Krzysztof Skóra	President of the Management Board	01.01.07 – 31.12.07
Maksymilian Bylicki	I Vice President of the Management Board (Development)	01.01.07 – 06.11.07
Marek Fusiński	Vice President of the Management Board (Finance)	01.01.07 – 31.12.07
Ireneusz Reszczyński	Vice President of the Management Board (Sales)	01.01.07 – 06.11.07
	I Vice President of the Management Board (Sales)	06.11.07 – 31.12.07
Stanisław Kot	Vice President of the Management Board (Metallurgy), temporarily acting Vice President of Mining Division	01.01.07 – 31.03.07
	Vice President of the Management Board (Production)	01.04.07 – 31.12.07
Dariusz Kaśków	Vice President of the Management Board (Development)	06.11.07 – 31.12.07

D) Description of basic characteristics applied in the company of systems for internal control and risk management as respects the process of preparation of financial reports

In the process of preparing the financial reports of the Company, one of the basic elements of control is the verification of financial statements by an independent auditor. The tasks of the independent auditor include in particular: review of the half-year financial statements and interim audit and final audit of the annual report.
Selection of the independent auditor is carried out by the Supervisory Board through a public tender from amongst renowned auditing firms, guaranteeing high standards of services and the required level of independence. The current contract for the auditing of financial statements by a certified auditor was entered into for a 3-year period (2007–2009). The body which supervises the process of financial reporting and which cooperates with the independent auditor is the Auditing Committee, which is appointed by the Supervisory Board.

In order to ensure accuracy in the keeping of Company accounting records and the generation of financial data for high-quality presentation, the Management Board of the Company has accepted and approved for continuous use the following:

1. an Accounting Policy and a Sector Chart of Accounts, in accordance with International Financial Reporting Standards,
2. Principles for Financial Management and for an Economic System,
3. Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets,
4. Sector Inventorisation Instructions, and
5. 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.

KGHM Polska Miedź S.A. keeps accounting records in the integrated IT system mySAP. The modular structure of this system ensures a transparent segregation of duties, uniformity in account operating procedures and control between ledgers: special purpose ledger, general ledger and subledgers, through the developed reporting system. The high flexibility of the system enables it to be continuously adapted to changing accounting principles or other legal standards. The system has full technical documentation, both in the part meant for end-users, as well as in the configuration for setting the parameters

of the system and calculation algorythms. In accordance with article 10 of the Act dated 29 September 1994 on accounting, documentation of the IT accounting system is periodically updated and confirmed by the Management Board of the Company.
Access to IT system information resources 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.

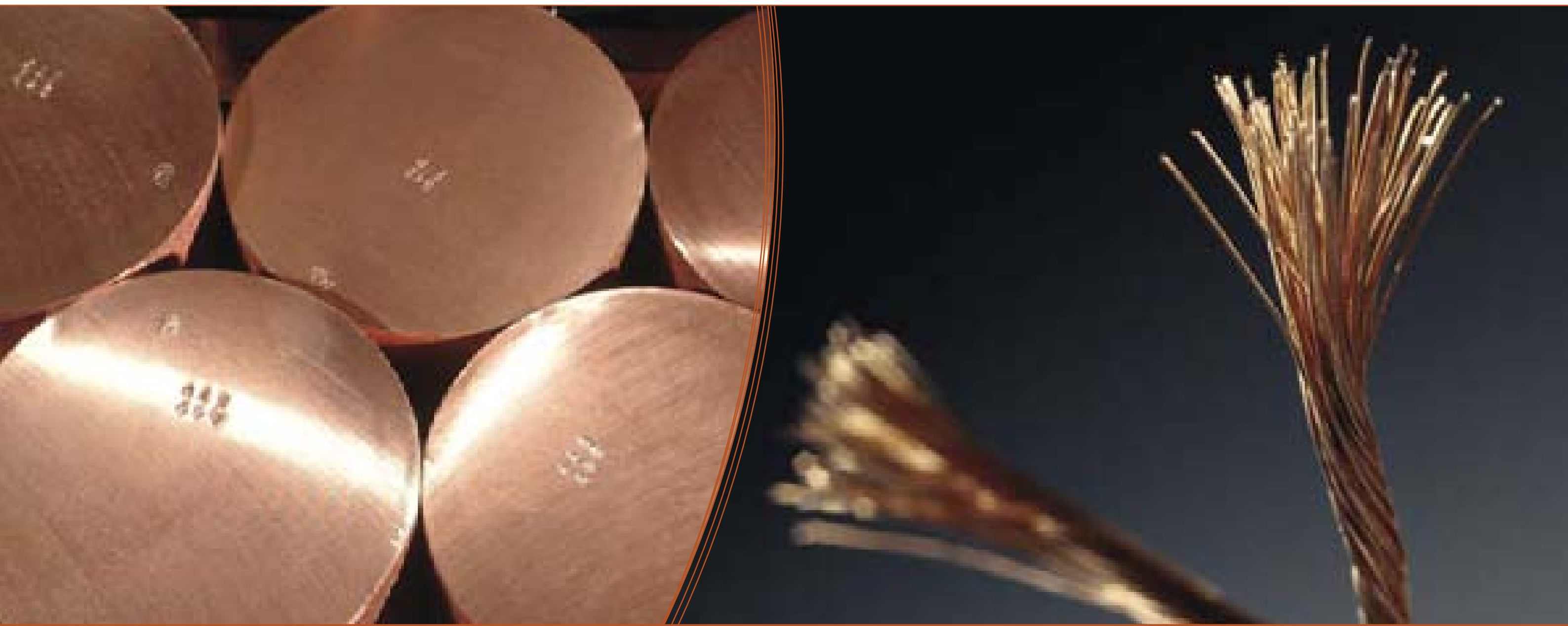
A significant element of risk management with respect to the process of preparing financial statements is the internal con-

trol carried out by internal auditing and internal control within the Company.
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. Amongst the tasks of internal auditing are the examination and evaluation of control mechanisms to ensure the trustworthiness and uniformity of financial data, representing the basis for the preparation of financial statements required by law, and of management reports. In this respect, in 2007 the examination and evaluation of risk was subjected to the following processes: the delegation of rights, the setting of prices and the sale of Company products.

Internal control operates based on the „Internal Control Regulations" approved by the Management Board of the Company. This system of internal control based on the principle of independence comprises all Company processes, including those areas which directly or indirectly affect the correctness of financial statements.

Amongst areas of risk to which the Company is exposed, the most important is market risk. Due to the exposure of the Company to market risk (copper and silver prices and the USD/PLN exchange rate), derivative instruments are used to manage this risk. Organisation of the market risk management process 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. 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 a leading position amongst listed companies.



SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD		*Position/Function*	*Signature*
4 March 2008	*Ireneusz Reszczyński*	*Acting President of the Management Board and I Vice President of the Management Board*	
4 March 2008	*Marek Fusiński*	*Vice President of the Management Board*	
4 March 2008	*Stanisław Kot*	*Vice President of the Management Board*	

*November 1960
Shaft L-III – first shaft
in the New Copper Belt,
also known as the pilot,
eastern, LW shaft,
today called
the „Bolesław" shaft.*

Development strategy

The activities of KGHM Polska Miedź S.A. are aimed at building the value of the Company, by maintaining its position as a leading global producer of copper and silver, as well as growth as respects the mining and processing of other non-ferrous metals ores. In addition, the strategy foresees the taking of actions respecting the utilisation of tailngs, the production of rock salt and optimal utilisation of its telecom assets.

Basic elements of the Company strategy

According to the current „Strategy of KGHM Polska Miedź S.A. and Group for the years 2007–2016", the activities of KGHM Polska Miedź S.A. are aimed at increasing the value of the Company by maintaining its position as a global producer of copper and silver, as well as through development as respects the mining and processing of other non-ferrous metals. In addition, the Strategy foresees actions being taken as respects waste management and utilisation, the production of rock salt and optimal utilisation of telecom assets.

The strategy of KGHM Polska Miedź S.A. is carried out in three main areas:

1. Development and increased effectiveness of the core business

The actions of the Company in this area are aimed at:

a. increasing the resource base (including maintaining the current level of copper production from domestic resources by accessing and mining the Głogów Głęboki-Przemysłowy deposit), evaluating the possibility of mining the Radwanice–Gaworzyce deposit and eventual commencement of accessing of this deposit, and exploration of other copper and non-ferrous ore resources.

b. improving management effectiveness, among others by limiting core business costs and increasing the effectiveness of Group companies. In this area actions will be undertaken aimed at improving effectiveness by reducing costs at every stage of the production process, altering the model of mining and smelting management, centralising auxiliary activities, limiting the number of Group companies and increasing the effectiveness of Group companies operating on the KGHM market. In addition, plans call for the modernisation of production assets by improving the processes of ore enrichment, concentrate hydrotransport, limiting environmental emissions at every stage of the production process, and modernising smelter processes in order to maintain the capacity to produce the highest-quality copper, as well as tasks related to replacing the machine park.

2. Diversification

In this area the activities of the Company will be aimed at:

a. optimising utilisation of its telecom assets. This will be accomplished by an increase in the value of the telecom assets of KGHM (Polkomtel and Dialog), including a significant strengthening of the position of DIALOG on the Polish telecom market. It is assumed there will be a combination of both organic growth and the takeover of profitable telecom firms. Dialog is in a position to finance these investments by using its own internal funds and external financing, to be acquired mainly from the debut of the company on the Warsaw Stock Exchange.

b. gaining a significant position in the waste management and processing market, in particular by managing and utilising the waste generated by KGHM, achieving an effective scale of operations in commercial waste management (new technology for the recovery of copper from waste along with equity investments, utilising the Company's own integrated recycling system based on smelting).

c. examining the possibilities of investing and diversifying into new sectors. Operations in this area are aimed at the development of current projects for the recovery of non-ferrous metals and for advanced hydrometallurgical technology, as well as the review and implementation of

MISSION OF KGHM:

„The effective processing of natural resources is the road to Company growth"

investment projects in new areas. Realising the assumptions of the Strategy in this regard, in July 2007 the company KGHM LETIA Legnicki Park Technologiczny spółka akcyjna was established. Among its tasks is the promotion of scientific research in order to improve the economic position of Lower Silesia and the competitiveness of entities operating in its area, cooperation with domestic and foreign research institutions in order to transfer new technology to existing and newly-created economic entities, and conducting research and development.

With the participation of the Ministry of Science and Higher Education, on 17 July 2007 an academic consortium was established with the KGHM Polska Miedź S.A. Group. This consortium encompasses nearly 40 domestic academic and research institutions. Within its structure, three areas of research are specified: mining, metallurgy and new technologies. As a result of the consortium's actions, research

projects will be carried out on selected strategic goals of KGHM Polska Miedź S.A. Work is currently being carried out on developing specific R&D subjects.

3. Support of the development of KGHM

In this area the activities of the Company will be aimed at:

a. continued implementation of corporate governance principles;

b. an increase in human resource management effectiveness and improvement in working conditions; and

c. implementation of a Responsible Business program, which means above all an increase in activity by KGHM on behalf of the local community.

Realisation of Company Strategy in 2007

As part of those activities whose goal is to increase the copper ore resources owned by the Company (so-called resource assets), work was continued on gaining working access to the Głogów Głeboki-Przemysłowy deposit. Realisation of this project will increase the resource base currently owned by the Company, allowing continuation of the present level of copper production over the long term.

In order to streamline the implementation process and monitor realisation of the Strategy, the Company continued to implement a Balanced Scorecard. This tool improves the process of taking strategic and operational decisions by concentrating on those key factors responsible for shaping the value of the Company.

On 4 September 2007 the Management Board of KGHM Polska Miedź S.A. resolved to implement the Strategy of KGHM Polska Miedź S.A. It assumes realisation of the

Strategy segregated by the following Strategic Business Units (SBU):

- mining,
- metallurgy,
- telecoms,
- diversification,
- Capital Group,
- strategic supporting unit (SSU) – Corporate Center.

With respect to the Strategic Business Units, it was decided to pursue the strategy in accordance with strategic maps, systems for measuring realisation of strategic goals and lists of strategic initiatives, which were agreed on during work related to the Budget for 2008 and the Five-Year Plan for the years 2008–2012. Assumptions were also approved for changes in the budgeting system, action plans were developed as respects setting definitions for measuring success and the status of realisation of strategic initiatives, and details of the system for reporting on realisation of the strategy were determined. In addition, projections were developed of key goals, measuring tools and strategic initiatives.

November 2007 saw commencement of the work of the Project team for implementation of Balanced Scorecards using the SAP SEM IT module.

The task of this team is is to develop a business concept, to implement the Balanced Scorecards, conduct acceptability tests of the Balanced Scorecards, carry out training of end-users and to implement the Balanced Scorecards in production.

Plans for 2008

The most important strategic actions of the Company in 2008 will be the realisation of strategic initiatives in the following functional areas:

1. Core business

Improving the effectiveness of the core business and guaranteeing the planned production level through:

a developing the mine infrastructure in the region of Głogów Głęboki Przemysłowy,

b. construction of shaft SW-4,

c. continuous equipping of the mining divisions.

In addition, the Company is seeking ways to expand the resource base, as a result of which the possibility is being considered of KGHM Polska Miedź S.A. participating in entities which own metal deposits, and which own exploration rights in various parts of the world. Work is currently at the conceptual stage.

2. Diversification

a. Telecom assets

plans call for the acquisition in 2008 of an additional block of shares of Polkomtel S.A., and the acquisition of a stable dividend flow from ownership of these assets in future years.

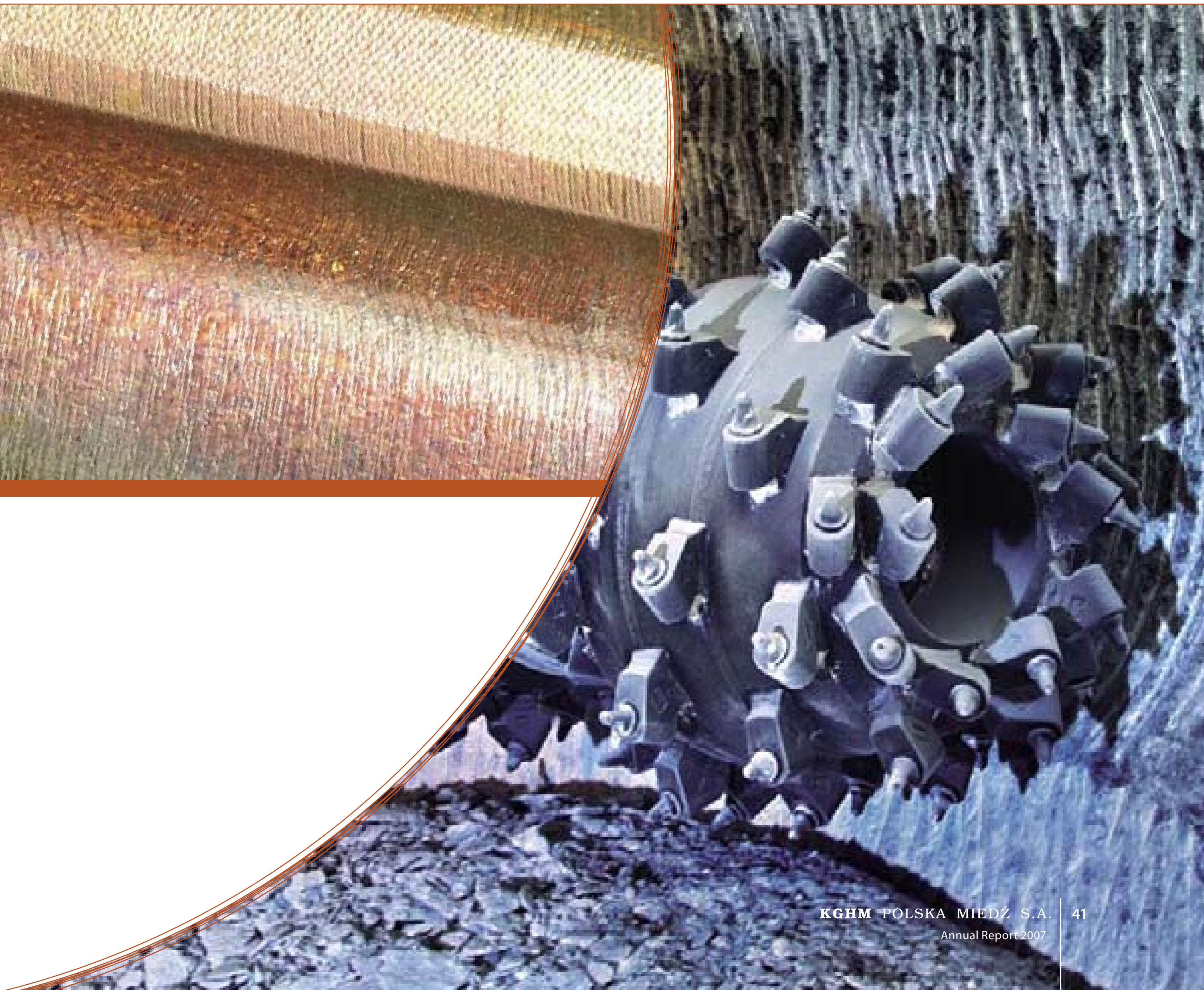
b. Power assets

an increase in the share capital of Energetyka Sp. z o.o., in order to:

- modernise and expand existing power generation capacity based on steam-gas units, which will lead to a decrease in energy costs incurred by KGHM,
- purchase shares of the local energy producer.

3. Equity investments

Their main goal is to increase equity inflow (dividends) and to increase the value of these assets over the long term.



September 1962
A party-government delegation reviewed the progress on construction of KGHM. Throughout its construction, questions constantly rose on its profitability.

Results and forecasts

Positive global economic conditions led to good Company results. The situation on the copper and silver markets fortunately suffered no negative repercussions from the American subprime loan crisis. Throughout the year copper prices remained at very high levels. A similar situation prevailed on the silver market. Despite a significant improvement in the Polish economy, the situation on the domestic market was less favorable for the Company than on the foreign market. Throughout 2007 the Polish currency, as compared to the USD and EUR, systematically rose. This in turn negatively impacted export revenues. Another serious problem was the decrease in copper extraction in KGHM, as a result of work in regions having a lower copper content in extracted ore.

Market conditions and trends

MACROECONOMIC SITUATION

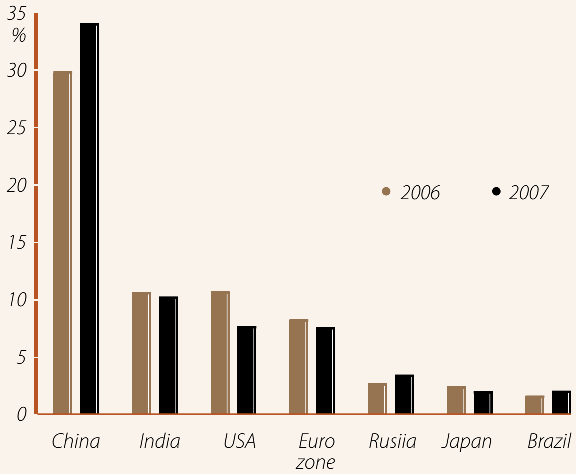
The global economy in 2007 found itself on rough and uncertain ground. Global financial tensions which appeared at mid-year cast a shadow over the growth in Gross National Product of many global economies.

Based on estimates of the International Monetary Fund, the rate of global economic growth in 2007 was 4.9%, which was 0.1 of a percentage point lower than in the prior year. The tense situation on the financial market, whose origins lead back to the subprime crisis in the United States, was intensified even further after financial institutions publicized their losses due to direct or indirect involvement in this affair. The result globally of the reduction in economic perspectives of the world's largest economies in 2007 was however limited. Support came from the strong economic growth of developing countries, especially the east Asian economies.

In evaluating the global macroeconomic situation in the past year, attention must be drawn to the difficulties of the world's leading economy, that of the United States. The adjustment in the housing market and the reduced level of investment therein, the losses of financial institutions involved in the subprime loans market, the resulting credit crunch and the sell-off in the stock markets were the main factors causing increasing uncertainty as to further macroeconomic growth. Economic growth in the United States in 2007 decreased year-on-year, mainly due to the above-mentioned factors, by 0.7 percent to the level of –2.2%. Along with the economic slowdown in this country, inflationary pressures once more appeared. The first half brought an increase in the consumer price index, mainly due to the increase in energy prices. Following the summer period, when the index decreased, it once more increased in November to a record 4.3%.

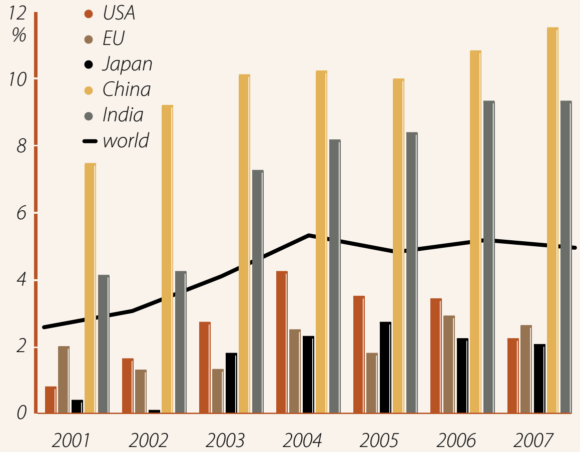
The weakening growth in the mature economies in 2007 was balanced by the good results in developing nations. The emerging economies grew on average at a rate of 7.9% versus an increase in GNP in developed countries of 2.7%. The Chinese economy was particularly strong, and for the fifth year in a row recorded double-digit economic growth. Due to both strong domestic demand as well as high net export, the Gross National Product in this region increased in 2007 by 11.4%. However, while in most emerging economies strong economic growth was associated with moderate inflation, in China inflationary pressures could not be held in check. In November the CPI inflation index increased to 6.9%. For China, 2007 saw further increases in the trade surplus, reaching 262 billion USD and nearly 50% (and perhaps by half) higher than in the prior year. FX reserves at the end of 2007 reached 1.5 billion USD. The share of this country in the global Gross National Product, measured by purchasing power parity, was nearly 34% in 2007.

Economies most resonsible for global economic growth in 2006 and 2007



Source: KGHM, based on World Economic Outlook. Housing and the business cycle. International Monetary Fund, April 2008

Percentage change in GDP in the largest global economies versus prior year



Source: KGHM, based on World Economic Outlook. Housing and the business cycle. International Monetary Fund, April 2008

Copper market

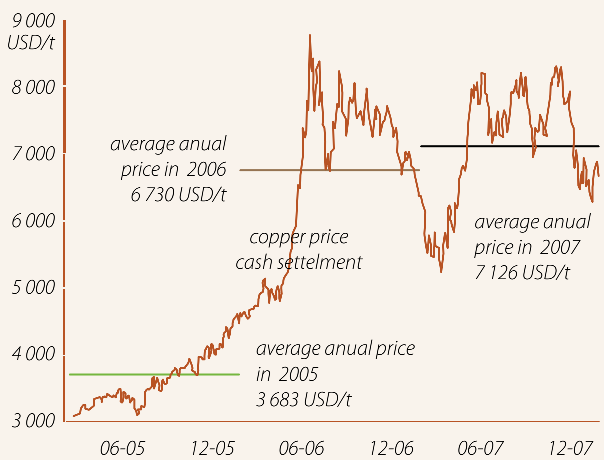
Copper prices on the London Metal Exchange in the first months of 2007 remained significantly below the average for 2006. In the second quarter copper prices clearly grew, forming a sideways trend in further months. Three times they failed to exceed the upper limit of this consolidation, and the final months of the year brought a deep fall to approx. 6 400 USD per tonne. The average cash settlement copper price in 2007 was 7 126.3 USD/t, meaning an increase of 5.9% versus the prior year (6 730 USD/t).

The rapid increase in copper prices in the second quarter of 2006 and the continuation of prices at historically very high levels in the latter part of the year was mainly caused by the relatively low level of metals inventories and the lack of expected new refined copper production. In the last quarter of 2006 the copper price began to significantly decrease due to negative information from the USA (such as weakening economic growth and and the deepening crisis on the property market) and the increase of metals inventories.

In the final quarter of 2007 there appeared a rash of negative information on the deterioration in the US economy, and especially in the financial sector. Expectations fell for global economic growth, which in the opinion of some investors meant a decrease in metals demand. Copper prices in the final months of 2007 fell dramatically.

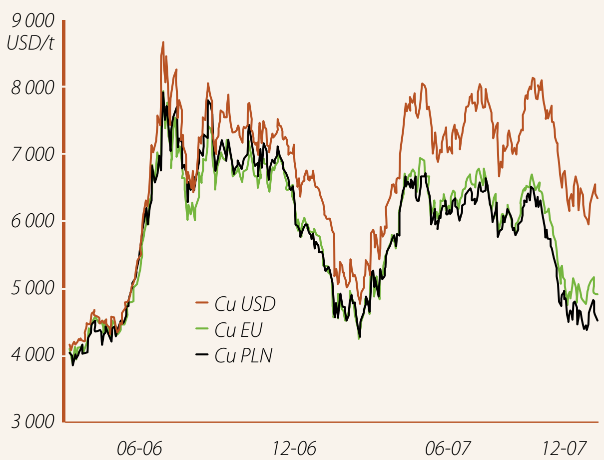
Due to the strong depreciation of the USD versus other currencies, the price of copper denominated in currencies other than the USD fell significantly in the second half of 2007. At the end of 2007 the USD copper price had increased by nearly 46% versus the end of 2005, while the price in Euros had only increased by 17%, and in Polish zloties by 9%.

Daily cash settlement from the London Metal Exchange, 2005–2007



Source: KGHM

Indexed copper price in USD, EUR and PLN from the LME, 2006–2007 (3 January 2006 = 100)



Source: KGHM

From the second half of February 2007 the falling trend in the copper price reversed itself and this metal quickly grew in value. By the end of September the price of copper was oscillating within a range of 7 000 to 8 200 USD/t.

The main cause of this dynamic increase in prices was the growing Chinese import of this metal, and also in the following months information on the stabilisation of the situation in the US and on worker protests in the mining sector in South America (in particular in Mexico and Peru).

Investment funds

In looking at the commodities markets, investment funds must be taken into account. Their involvement has been growing for many years, and based on estimates, in 2007 they exceeded 1.6 trillion USD. Index funds, whose portfolios reflect the share of various commodities in various types of commodity indices (for example S&P GSCI, DBLCI), increased their assets in 2007 to over 140 billion USD.

Copper production

According to analysts of the International Copper Study Group, in 2007 mine production increased by 3.5% versus 2006 and amounted to 15 465 thousand tonnes. Refined production during this period amounted to 18 157 thousand tonnes, or an increase of 4.6%. Production increases were recorded in all regions. Only in Europe was there a decrease, of nearly 2%. The greatest percentage increase was in Africa (16.54%), while in terms of volume it was in Asia (mainly China).

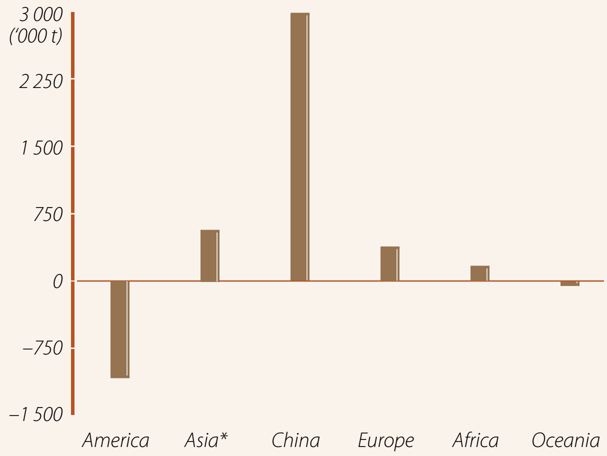
REGION	2006 ('000 t)	2007 ('000 t)	change
Africa	553	645	16.54%
America	5 661	5 729	1.20%
Asia	7 025	7 716	9.83%
Europe	3 699	3 627	–1.95%
Oceania	429	441	2.87%
TOTAL	17 367	18 157	4.59%

Source: International Copper Study Group – March 2008

Copper consumption

According to the ICSG refined copper consumption in 2007 increased by over 6.5 percent to 18 199 thousand tonnes, and was 42 thousand tonnes higher than metal production during this period. In terms of volume, global metals consumption increased by 1.12 million tonnes, while in China this increase amounted to nearly 1.3 million tonnes. Copper consumption in Africa increased slightly (30 thousand tonnes), and in the remaining parts of Asia and Oceania it remained unchanged, while there was a decrease in America (76 thousand tonnes) and in Europe (139 thousand tonnes). China was the main source of increased demand for copper not only in the past year, but also during the entire present decade. In the years 2000–2006 global metals consumption increased by 3 million tonnes, which was the same amount of the increase in the world's most populated nation during this period. The main cause of such a spectacular demand for copper is the enormous amount of infrastructural investments (mainly in the energy sector).

Increase in refined copper consumption by geographic region, 2000–2007

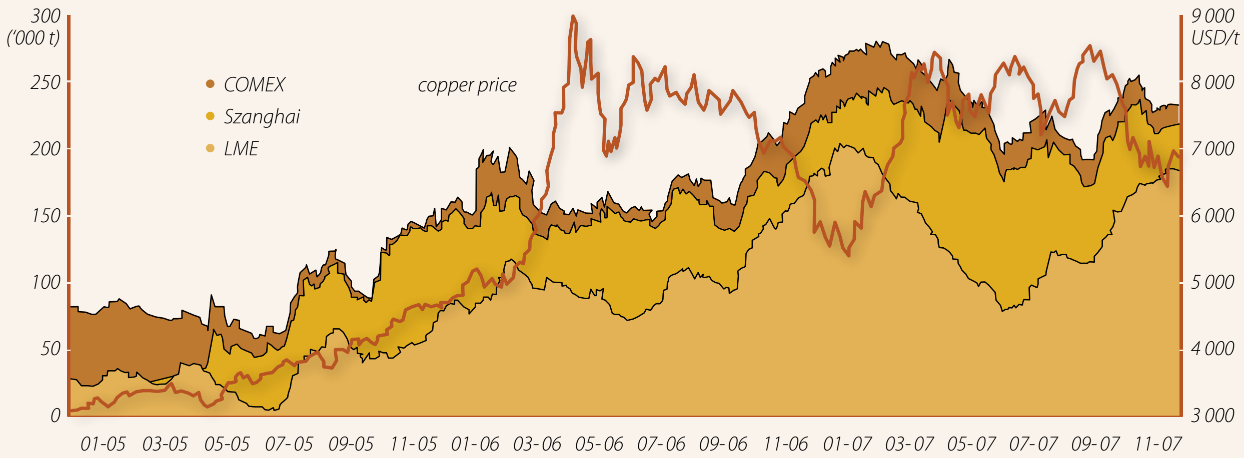


Source: International Copper Study Group
*Asia excl. China

Copper inventories

The lowest level of LME inventories over the last several decades was recorded on 22 July 2005 – 25 525 tonnes. Since this record low, the level of inventories has steadily increased in market warehouses. In October 2006 total copper inventories on all three markets amounted to 166 thousand tonnes. In successive months this level dynamically increased, which caused a rapid depreciation in the price of this metal during the end 2006/beginning 2007 period. In March 2007 inventories exceeded 280 thousand tonnes, following which they began to decrease, so that for several months they have stabilised in the area of 200 thousand tonnes. The dynamic increase in inventories in the last quarter of 2007, along with the negative information from the US economy, caused a drop in copper prices. At the end of 2007 the official level of market inventories on the three markets reached nearly 240 thousand tonnes.

Global prices and copper stocks in the years 2005–2007



Source: COMEX, SHSE, LME

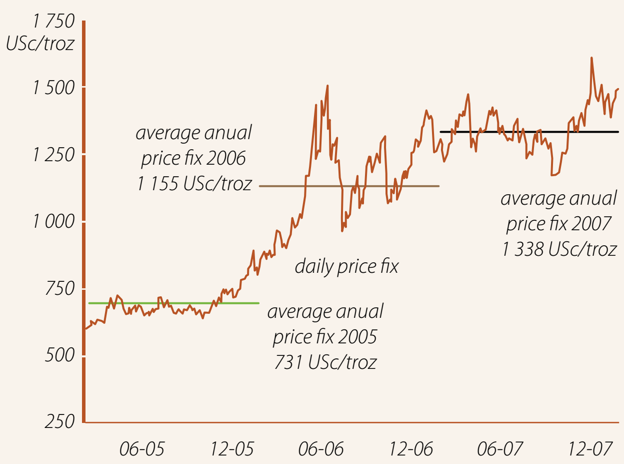
Silver market

The average annual silver price on the London Bullion Market in 2007 was 13.38 USD/troz and was nearly 16% higher than in the prior year. Silver prices quickly rose in the first two months of 2007, reaching 14.58 USD/troz at the end of February. Over the next several days the price fell rapidly to 12.61 USD/troz. After a period of consolidation of prices of several months, the price in August reached the annual minimum (11.67 USD/troz). Since that time prices systematically rose until November, when they reached their annual maximum (15.82 USD/troz). The year 2007 ended with a fixing price of 14.76 USD/troz.

For most of the year silver prices oscillated in a sideways trend, with a slight falling tendency. Historically, this metal has usually reflected movements in the price of gold, although displaying a greater variability. When gold prices have increased, silver has likewise risen quickly in value, and when prices on the precious metals markets have fallen it has also done the same. This tendency ceased at the end of 2006. The weakness in the silver market may be explained by the time needed for investors to react and accustom themselves to the new price levels after the dynamic increase in the price of this metal since 2006. This can easily be seen in the Gold/Silver Ratio, which reflects the relative strengths of both markets. An increase in this ratio indicates the better performance of gold versus silver.

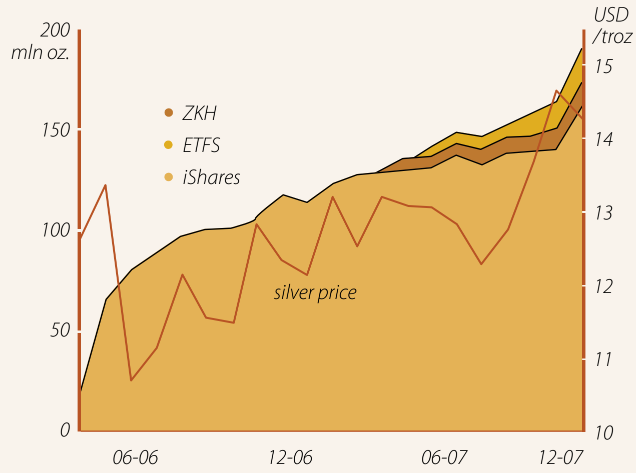
In April 2006 a new ETF (Exchange Traded Fund) type fund was created called the iShares Silver Trust. These funds enable investors to benefit from rising metals prices without the need to physically acquire the metal, thanks to which they increase the availability of this market to a wider group of investors. During its first five months this ETF encompassed over 100 million ounces of silver. At the end of 2007 the assets of this fund amounted to nearly 170 million ounces. In the second quarter of 2007 two further funds of a similar nature appeared. These are significantly smaller than the Barclays product described above, although by the end of the year they had managed to encompass over 20 million ounces, giving total assets of 190 million ounces of this metal. Despite the fluctuations in the silver price, these funds successively increased their assets during the year, which demonstrates their long-term nature.

Silver supply and price in the years 2005–2007

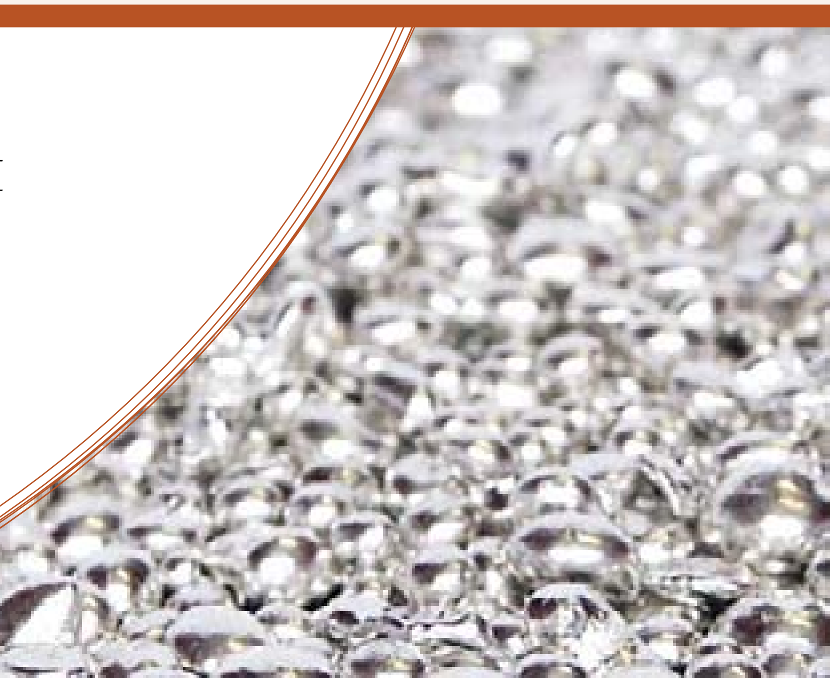


Source: KGHM

Assets of the ETF I fund-shares



Source: KGHM



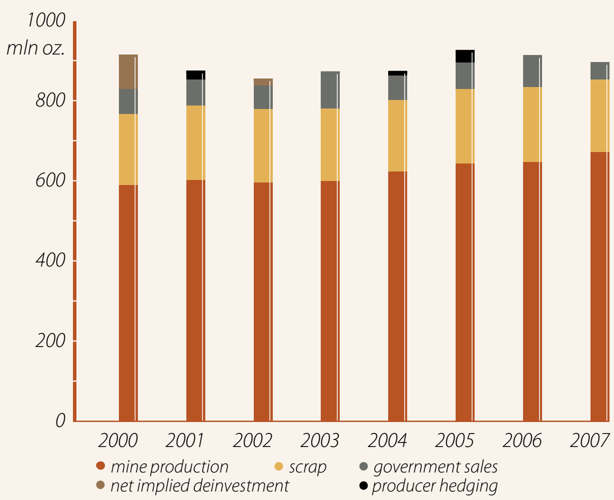
Silver supply

Global silver mine production, mainly due to a strong increase in extraction in Asia and Latin America, increased in 2007 by 4%, to 670.6 million ounces. The share of primary silver production in mine production increased by 11% and amounted to 198.1 million ounces. This represents barely 29.5% of total silver mine production. The remaining silver is mined as a by-product of the mining of other metals (mainly copper, zinc, lead and gold). Despite the nearly 16% increase in the silver price in 2007 the availability of this metal from recovery decreased by 3%. The main reason is the decrease in the amount of silver recovered from the photographic industry. The greatest impact on the level of silver supply in 2007 was the activity of producers as respects hedging against fluctuations in silver prices. In 2006 hedging by producers decreased by 6.8 million ounces, while in 2007 it decreased by 25 million ounces. Sales of this metal by the so-called official sector (national reserves) decreased by 46% to 42.3 million ounces.

Silver consumption

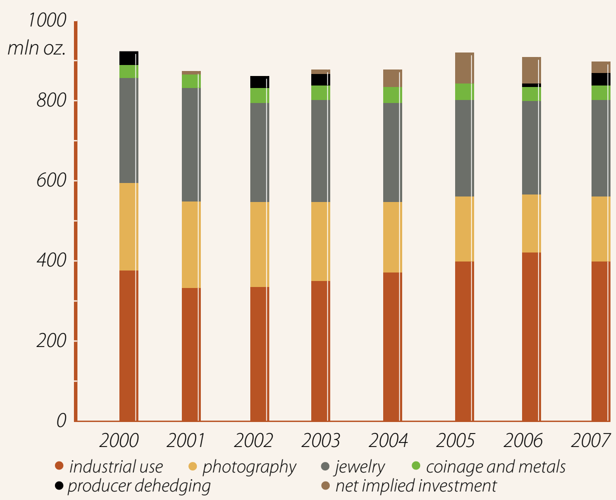
In 2007 industrial demand for silver increased by nearly 7% to the record level of 455.3 million ounces. The steady increase in the industrial use of silver alongside a significant increase in the price of this metal shows how weak is the short-term demand price flexibility and the difficulty of finding a substitute for this metal. In 2007 the share of this segment in total production demand (industry, photography, jewelery, silver products and coinage) increased to nearly 54%. Demand for silver by the photographic industry, as forecasted, continued to fall. In 2007 it decreased by nearly 11% and amounted to 128.3 million ounces. Demand by the jewelery and coinage industries decreased respectively by 2.3% and 5%.

Silver supply, 2000-2007



Source: Word Silver Survey 2008 – The Silver Institute

Silver consumption, 2000-2007



Source: Word Silver Survey 2008 – The Silver Institute

Currency market

In 2007 the the Polish currency continued its rising trend, begun in May 2004. The scope of fluctuation of the Polish zloty versus the USD in 2007 may be seen by the wide range in the USD/PLN exchange rate: 2.4110–3.0619. During this period (based on NBP rates) the average USD/PLN exchange rate was 2.7686, while the EUR/PLN rate was 3.7843. The levels in both cases are lower versus those of the prior year (respectively by 10.8% and 2.9%). In 2007 the minimum USD/PLN exchange rate was recorded in mid-December: USD/PLN 2.4110. The maximum rate was at the end of January: USD/PLN 3.0619. During this period the EUR was at its lowest in mid-December (3.5577 PLN), while the maximum EUR/PLN rate of 3.9523 was reached in January.

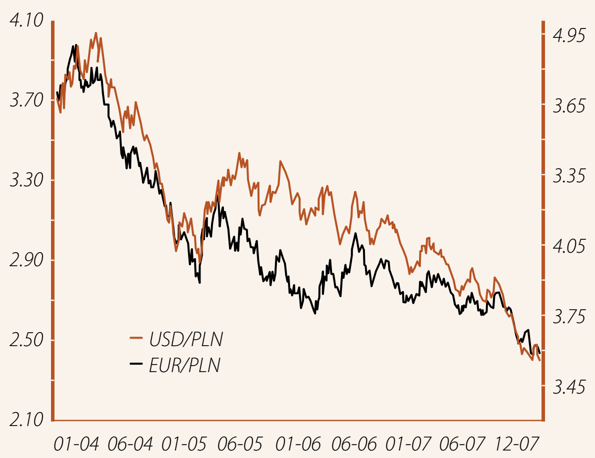
Following the increase in GNP in 2006 by 6.2%, according to the Polish statistical office (GUS), the rate of economic growth in 2007 was 6.6%. In quarterly terms, in 2007 the rate of increase in GNP slowed. The fastest increase was in the first quarter and amounted to 7.4%, while the weakest was in the fourth quarter, when the increase in GNP was at 6.4%.

At the end of December, it increased slightly to 11.4%, though this was more a seasonal phenomenon than a sign of a collapse of the labor market.

Such good results were also due to the 2007 state budget deficit of PLN 16.9 billion versus the planned yearly deficit of PLN 30 billion. State spending grew by PLN 252.9 billion, or 97.7% of that planned for by law. State revenues amounted to PLN 236.0 billion, representing 103.1% of the annual plan. In 2007 the CPI average was at the level of inflation, i.e. around 2.5% yoy. However, its steady month-by-month increase caused inflation to increase by the end of the year by 4.0% yoy.

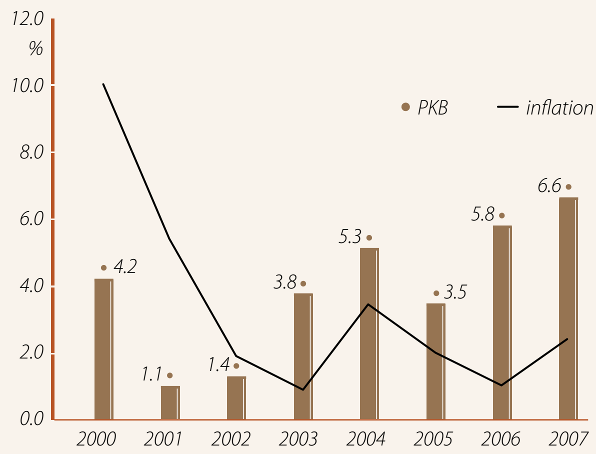
The increase in inflation was the main reason for the rise in interest rates. In 2007 the Monetary Policy Council raised interest rates four times, altogether by 1.00 percentage point (in April, June, August and November). At the end of 2007 the main percentage rate was 5.00% (with a lombard rate of

USD/PLN and EUR/PLN rates, 2004-2007



Source: KGHM

GDP and average annual Polish inflation, 2000–2007



Source: KGHM, based on GUS data

One of the most important factors in the increase in GNP in 2007 was internal demand, which was mainly due to personal consumption. The stronger rate of GNP growth versus the prior year was due to the higher rate of increase of nominal disposable income and easier access to consumer credit (the average increase in 2007 was around 20% yoy.

Consumer spending was also greater due to an improvement in the job market. In 2007 unemployment fell from the January level of 15.1% to the record low of 11.2% at the end of November.

6.50%, a deposit rate of 3.50%, and a bond rediscount rate of 5.25%).

The significant improvement in the Polish economy and the inflow of foreign capital in 2007 was reflected in the Warsaw Stock Exchange. The bull market on the WSE was in great measure responsible for the increase in the value of the Polish zloty versus the EUR and USD. The WIG20 index in 2007 systematically increased, and by the beginning of July had reached its historic maximum of 3 899.59 points. Despite falls in the market of nearly 15% in mid-July, by the end of the year the WIG20 index remained at a high level.

Core business

Resource base

The resource base for the core business of KGHM Polska Miedź S.A. (comprising mines, ore enrichments plants and smelter/refineries) is the largest copper ore deposit in Europe and one of the largest in the world, lying between the towns of Lubin, Sieroszowice and Głogów. To exploit its resources a mining region was established with a total area of around 468 km^2.

That part of the copper ore deposit currently being mined lies at a depth of from 600 to 1380 meters.

Among the numerous associated elements occurring together with the copper ore are those whose presence in the ore serve to increase the financial result of the Company, for example, silver, nickel and gold. Of particular economic importance for the Company is the relatively high silver content of the excavated ore (47 grams per tonne of ore).

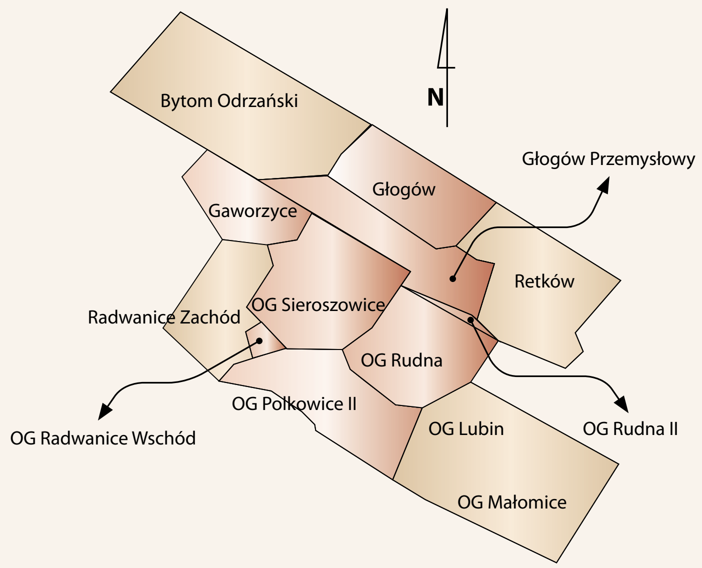
Due to the thinness of the layer of mineralisation of precious metals (appx. 25 cm), the lack of mineralisation continuity and its high irregularity, the concentrations documented are not treated as ore which meets economic criteria for separate mining operations. It should however be pointed out that a significant part of the precious metals contained in the copper ore are retained in the concentrate and recovered by the processing of anode slimes.

The amount of documented copper ore resources in areas licensed by KGHM Polska Miedź S.A. gives Poland 6th – 8th place globally in terms of its resources, and first place in terms of its silver resources (U.S. Geological Survey – 2007).

Current mining areas

KGHM Polska Miedź S.A. holds licenses for the mining of copper ore from the following regions: Lubin-Małomice, Polkowice, Sieroszowice, Rudna (mining areas Rudna I and Rudna II), Radwanice-Wschód and Głogów Głęboki-Przemysłowy. The licenses held by the Company entitle it to conduct copper ore mining until the year 2013 in the regions Lubin, Małomice, Polkowice, Sieroszowice and Rudna, until 2015 in the region Radwanice Wschód, until 2046 in the region Rudna II and until 2054 in the region Głogów Głęboki-Przemysłowy.

The Company will be allowed to prolong the mining licenses which expire in the year 2013, in accordance with Polish law, until the completion of mining operations (i.e. exhaustion of the ore). The estimated amounts of the balance and industrial copper ore reserves in those regions currently being mined by KGHM Polska Miedź S.A. are presented in the following tables.



Balance resources of copper ore and metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (at 31.12.2007)

DIVISION / MINE	Ore resources [mln t]	Cu [%]	Ag [g/Mg]	Cu vol. [mln Mg]	Ag vol. [Mg]
Lubin	346.8	1.26	58	4.37	20 132
Polkowice-Sieroszowice	387.3	2.65	54	10.28	21 088
Rudna	513.3	1.78	42	9.12	21 606
Głogów Głęboki Przemysłowy	292.1	2.40	79	7.01	22 981
KGHM Polska Miedź S. A.	1 539.5	2.00	56	30.78	85 807

Industrial resources of copper ore and metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (at 31.12.2007)

DIVISION / MINE	Ore resources [mln t]	Cu [%]	Ag [g/t]	Cu vol. [mln t]	Ag vol. [t]
Lubin	276.3	1.26	58	3.48	16 136
Polkowice--Sieroszowice	336.5	2.71	55	9.11	18 491
Rudna	382.1	1.82	44	6.94	16 716
Głogów Głęboki Przemysłowy	267.4	2.40	78	6.42	20 819
KGHM Polska Miedź S. A.	1 262.3	2.06	57	25.95	72 162

Balance resources of copper ore and metals (Cu, Ag) in reserve areas to a depth of 1250 m

UNMINED DEPOSIT	Ore resources [mln t]	Cu [%]	Ag [g/t]	Cu vol. [mln t]	Ag vol. [t]
Bytom Odrzański	31.5	2.47	56	0.8	1 762
Retków	135.8	1.77	86	2.4	11 645
Gaworzyce	44.8	3.05	44	1.4	1 981
Radwanice Zachód	18.6	2.50	42	0.5	783

Following exhaustion of the ore, in a north-westerly direction from the ore currently being worked and from the "Głogów Głęboki-Przemysłowy" deposit which is being prepared for exploitation, at a depth of up to 1500 m occur regions of proven increased copper mineralisation: "Głogów", "Bytom Odrzański" and „Retków". As they do not meet current criteria for being treated as mineable copper ore at a depth below 1250 m, they are not treated as documented copper ore balance resources.

Reserve areas

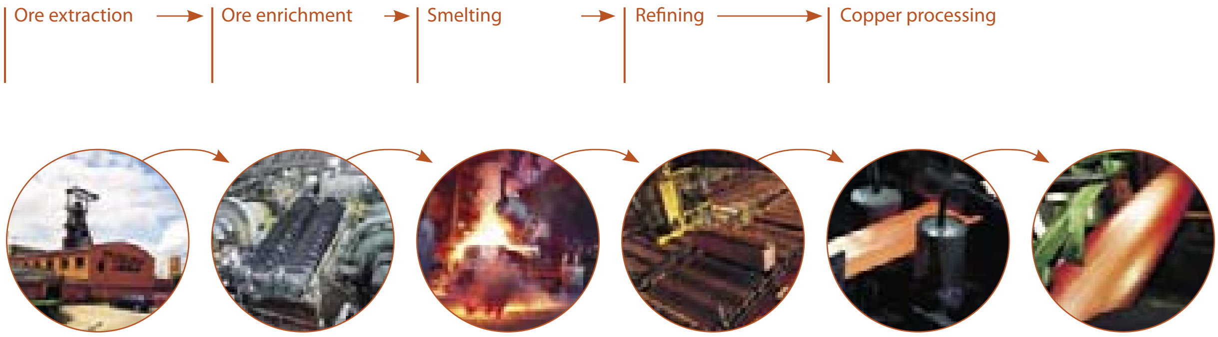
Adjoining the area of the deposit currently being worked by KGHM Polska Miedź S.A. are the documented ore zones of "Gaworzyce" and „Radwanice Zachód". These contain balance copper ore resources, and at present are treated as reserve areas which may in the future be brought into exploitation.

Due to the continuation of high copper and silver prices on the global market, KGHM Polska Miedź S.A. has begun to gather further geological information on the ore zones of "Gaworzyce" and „Radwanice". In 2007 the Company submitted requests to be granted licenses to explore these deposits.

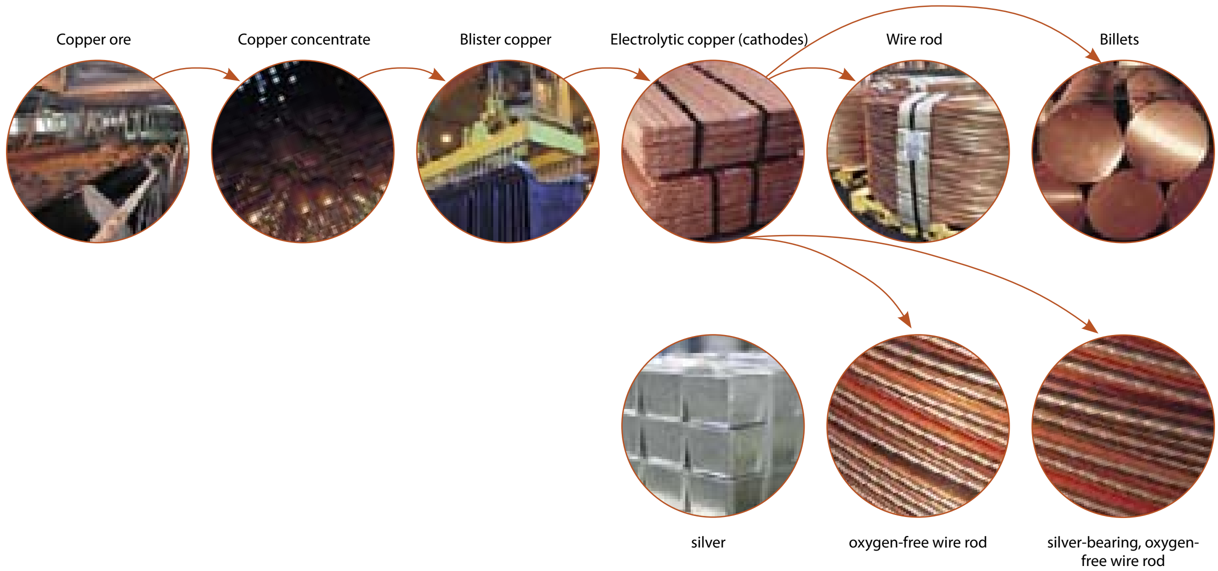
The core business of KGHM

The core business of the Company is an integrated production process, in which the end product of one stage of the process is a semiproduct used in the next stage.

The production line of KGHM



Production process



Mine production

MINE PRODUCTION *('000 t)*	*2005*	*2006*	*2007*	*Change 2006=100*
Copper concentrate (dry weight)	*1 975.5*	*1 945.4*	*1 874.9*	*96.4*

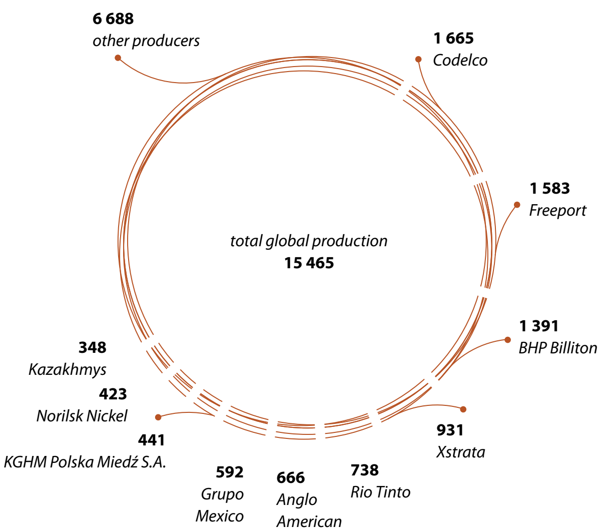
The main objectives set forth by the Management Board with respect to production in 2007 were:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimalisation of the copper content in ore and concentrate.

The objectives set forth required fulfilment of the following tasks:

- improving the ore selection system,
- increasing the scope of drift work to prepare new working areas in the mines and improvement in the degree of knowledge of the deposit,
- adapting the production capacity of specific areas of the Ore Enrichment Plants to the amount and quality of ore supplied,

Global copper mine production in 2007 (thousand tonnes)



Source: CRU International Ltd.

- improving enrichment parameters through the successive exchange of floatation equipment in specific areas of the Ore Enrichment Plants, and
- maintaining the production of concentrates in an amount and quality necessary for the fullest use of the production capacity of the furnace sections of the smelters.

Ore extraction by dry weight in 2007 was lower by one million tonnes than in 2006, and amounted to 30.3 million tonnes. The decrease in extraction in 2007 was caused by the curtailment, at the request of the National Labor Inspectorate, of extraction in the mines on days legally free from work. The average copper content in extracted ore was 1.67% and was lower than that realised in 2006 (1.79%). This decrease in copper content in ore was caused by work in areas having a lower content of copper ore. The decrease in the amount of extracted ore and its decreased quality caused a decrease in the extraction of copper in ore. The amount of copper in extracted ore was lower than that achieved in 2006 by 53.6 thousand tonnes, i.e. by 10% and amounted to 505.9 thousand tonnes.

The decrease in copper content in extracted ore directly affected the amount of copper in concentrate produced. In 2007 451.9 thousand tonnes was produced, i.e. 45.3 thousand tonnes (9%) less than in 2006. There was also a decrease in the content of copper in concentrate, from 25.6%

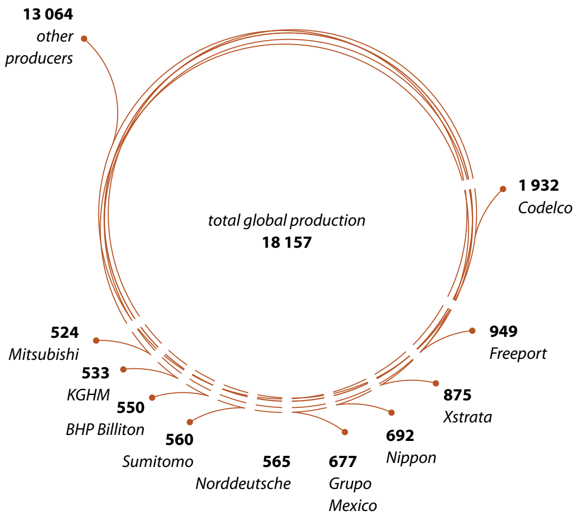
in 2006 to 24.1%. The amount of Ag in concentrate was lower than that produced in 2006 by 5% (a decrease from 1 265 tonnes to 1 199 tonnes. To increase extracted ore in future, actions were taken on the development and implementation of a new system of labor organisation in the mines, which is aimed at extending the operating time of the mines without infringing on the statutory time free from work.

Smelter production

REFINED COPPER PRODUCTION	2005	2006	2007	Change 2006=100
Electrolytic copper ('000 t)	560.3	556.6	533.0	95.8
Silver (t)	1 244	1 242	1 215	97.8

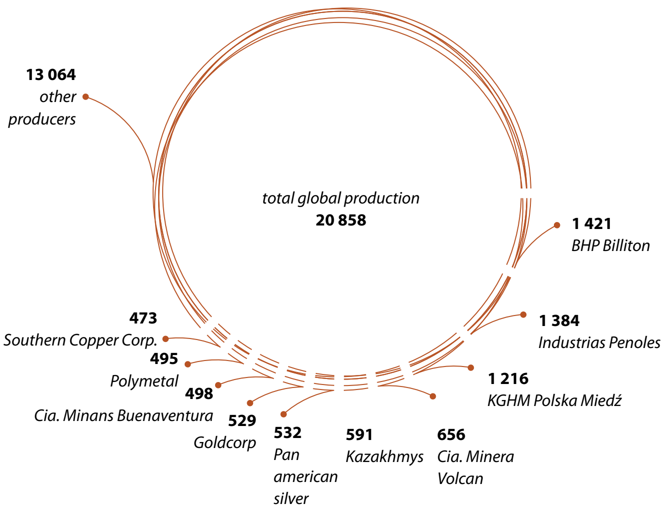
Electrolytic copper production was lower than that in 2006 by 23.6 thousand t (i.e. by 4%) and amounted to 533.0 thousand t. Despite the decrease in production from internal charges by 3% in relation to 2006, the final level of production was achieved thanks to an increase in the share of external charges (imported concentrate, blister copper and scrap). The lower production of gold is due to the processing in 2006 of purchased copper-bearing materials having a high gold content. The production of other smelter products depends on the level of electrolytic copper production and on market demand. In January 2007, the production of refined lead commenced at the Legnica smelter (total production amounted to 15 228 tonnes).

Global refined copper production (thousand tonnes)



Source: CRU International Ltd.

Global silver production (tonnes)



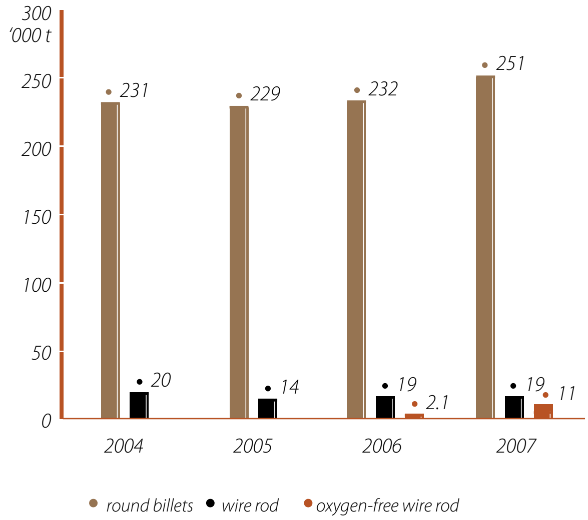
Source: The Silver Institute

Copper processing

The main product of KGHM Polska Miedź S.A. is copper cathode, of which over half of that produced is used in further production in the divisions of KGHM:

- in the Cedynia Wire Rod Plant – into wire rod, oxygen-free rod and silver-bearing oxygen-free rod
- in the Legnica Smelter into round billets.

Copper processing



New product

At the end of 2006 the Cedynia Wire Rod Plant in Orsk commenced operation of a new 8 mm, oxygen-free wire rod production line using Upcast technology. In 2007 the range of diameters was expanded and currently includes 8–25 mm rod. The new line increased the production capacity of the plant by 15 thousand tonnes. This enables the manufacture of product with varying uses and meeting various requirements. Since December 2007 this modern Upcast production line technology is also used in the production of low-alloy copper – silver-bearing oxygen-free rod of 8–25 mm.

Main directions in production

In 2008 the Company will continue to realise basic production goals, including optimalisation of:

- utilisation of the resource base and production, and
- the copper content in ore and concentrate.

Realisation of these goals will be aided by the following projects:

- utilisation of the resource base and production, and
- the copper content in ore and concentrate.

Realisation of these goals will be aided by the following projects:

- continued preparation of mine drifts being realised in the Rudna mine in the direction of the Głogów Głeboki Przemysłowy deposit,
- the application of new drift preparation work technology using drift combines,
- the development and implementation of a new labor organisation system in the mines, which will enable an ex-

tension of working time in the mines without infringing on the statutory time free from work,

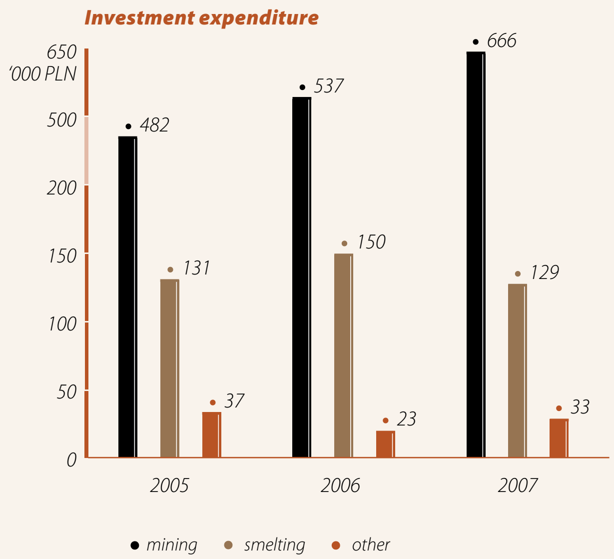
- exchanging floatation machinery in the Ore Enrichment Plants,
- optimalisation of the enrichment processes in order to counter the effects of a decrease in ore quantity-quality parameters, and
- preparations to modernise the flash furnace complex in the Głogów II smelter I.

Investment and development

In 2007 investments were financed by internal funds and were mainly for the realisation of development-related goals (40%) and for equipment replacement (50%).
Investments related to replacing equipment and those related to the resource base are fundamental for the realisation of other projects. A stable level of extraction over the long term allows for other decisions to be made related to production.

Major projects and facilities realised in 2007:

- Construction of the SW-4 shaft – work was completed on the building of temporary facilities for the digging of the shaft, freezing of the rock mass was begun, digging of the shaft began and equipment was constructed for lifting and drilling. In addition 70% of the access tunnels to the SW-4 shaft were completed (PLN 66.5 million).
- Głogów Głęboki-Przemysłowy – 10 115 meters of tunnel were built and infrastructural work was carried out respecting power equipment, dewatering, ventilation and air conditioning, and ore haulage. With respect to preparations for digging the GG-1 shaft, work was completed on seismic research for the shaft and terrain was purchased.
- Investments related to the continuous outfitting of the mining divisions (PLN 86 million).
- With respect to modernisation and replacement of machinery in the mines, 242 mining machines were purchased, for the amount of PLN 190 million.
- Power and communications facilities – PLN 56 million was spent on exchanging and modernising infrastructure.
- Smelter machinery and aggregates were replaced and modernised: – projects carried out included: exchanging the power unit in the electrical furnace of the Głogów II smelter, cooling and heating equipment was exchanged in the Sulphuric Acid Plant of the Głogów II and Legnica smelters, the pulsation filter at the Legnica smelter was replaced, and renovation was completed of the wet electrofilters in the Sulphuric Acid Plant of the Głogów I smelter (PLN 36 million).
- Facilities were realised related to improving and maintaining the safe operation of the Żelazny Most tailings pond and eliminating its impact on the environment (PLN 26.2 million).
- Modernisation of pyrometallurgy – the Management Board of the Company in March 2007 approved the assumptions for the „Pyrometallurgy modernisation program in KGHM in the years 2007–2011". A plan was developed for modernising the flash furnace of Głogów II, which was added to the tangible investments plan for the years 2008–2009. A decision has yet to be made.



Main areas of investment activities in the years 2008–2012

The main areas of investment activities in the years 2008–2012 were developed based on thedevelopment strategy and comprise the following key activities:

Development and increased effectiveness of the core business

1. increasing the resource base, including:

a. replacing production-related assets in the divisions,
b. developing the technical infrastructure of new mining regions,
c. construction of the SW-4 shaft,
d. realisation of the Głogów Głeboki Przemysłowy project, and
e. exploring the possibility of mining the Radwanice-Gaworzyce deposit (initiation of mining would commence about 2012),

2. improving effectiveness, including:

a. renovation of the tailings hydrotransport installation,
b. modernisation of pyrometallurgy,
c. replacing railway transport of concentrate from the OEPs to the Głogów smelter with hydrotransport, and
d. more rapid exchange of mining machinery.

Diversification of activities:

a. increasing the utilisation of tailings waste, and
b. increasing the production of salt associated with the copper ore.

Research and development

R&D work in KGHM Polska Miedź S.A. is closely related to the strategy of the Company, and is aimed at development and expansion of the core business, diversification of the Company's activities and at supporting the development of its human resources.

R&D work is financed by the Company's internal funds, and in certain cases the Company also makes use of public and EU funds. Expenditures by KGHM Polska Miedź S.A. on R&D work in 2007 remained at a similar level to those in 2006 and amounted to PLN 6.076 million.

EXPENDITURES ON R&D (mln PLN)	2005	2006	2007	Change 2006=100
Mining	6.698	3.670	4.414	120.3
Smelting	3.516	2.385	1.662	69.7
Total	10.214	6.055	6.076	100.3

Another integral element of the innovation process involves expenditures on expert opinions preceeding the research stage or supporting the process of technical change. Toward this end the Company spent PLN 9 060 thousand in 2007.

Main directions in R&D in the years 2008–2012

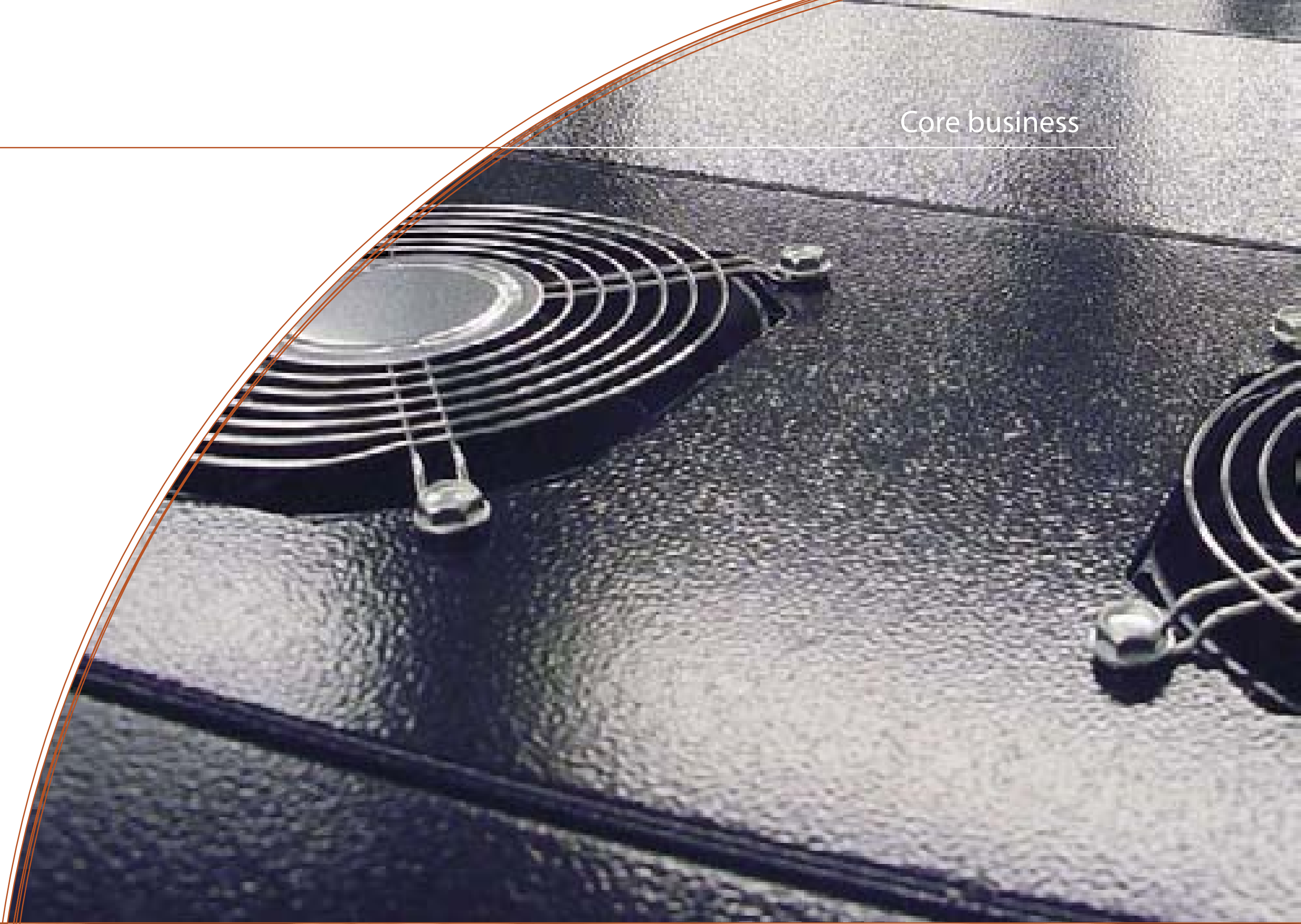
Mining:

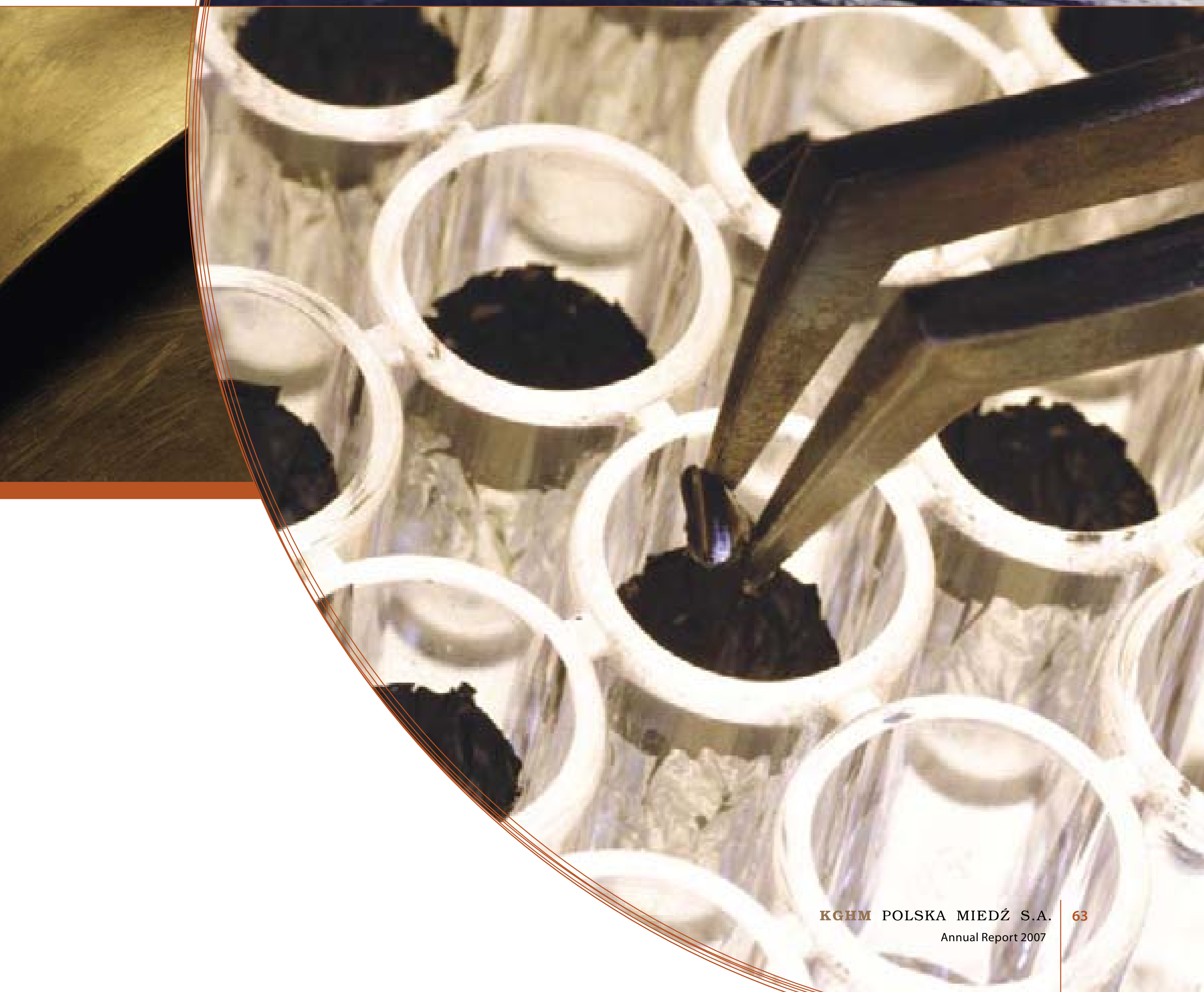
- Testing the application of new methods for exploring the copper ore deposit, and forecasting and controlling the occurrence of associated and co-occurring metals.
- Developing new techniques for mining the copper ore deposit at greater depths, in difficult atmospheric and geotechnical conditions.
- Improving existing mining methods in conditions where there exist the threat of mine bursts and collapses.
- Modeling ventilation networks to ensure proper working conditions in the mines, to achieve the planned level of extraction, and to reduce the costs of ventilation and air conditioning.
- Improving the safety and reliability of mining machinery and equipment.
- Limiting the impact of mining on surface terrain.
- Introducing new techniques for rock haulage and transport, automating rock haulage.
- Introducing new organisational solutions in ore mining.
- Developing models for closing down sections of the mines.
- Developing processing techniques in terms of adapting technology to the fluctuating qualities of the mined ore and reducing costs, and in terms of the possibility of reducing losses of metal in tailings.
- Effective management of the rock salt deposit.
- Dealing with the problem of managing deposits of brown coal.

Metallurgy:

- Research into the modernisation of pyrometallurgy in order to adapt production capacity to forecasted deliveries of concentrate.
- Optimising lead production technology and intensifying the management of lead-bearing materials.
- Optimising the processes of fire and electrolytic refining in order to increase copper cathode quality and reduce costs.
- Diversifying the production of finished goods.
- Research into the industrial possibilities of replacing black liquor with another binder.
- Research into the impact of selected impurities in the anodes on cathode quality.
- Limiting the impact of smelting on the environment.

KGHM Polska Miedź S.A. is also a member of the integrated project „BioMinE" realised as part of the 6th EU framework program. It comprises research into the use of bioleaching for the recovery of useful metals from copper ore, concentrates and tailings.





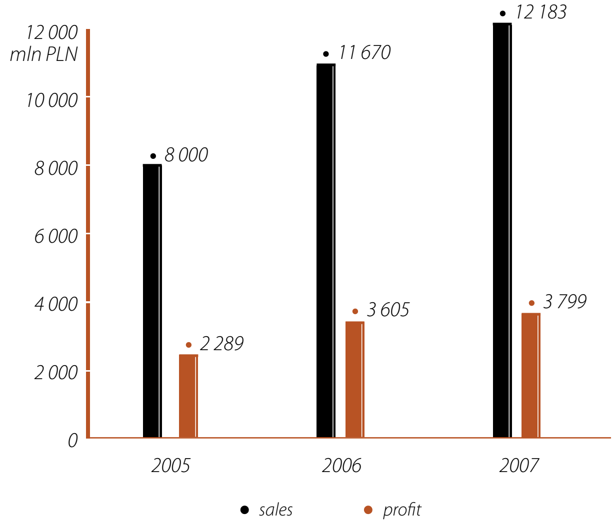
Financial results

Profit before income tax in 2007 amounted to PLN 4 655 530 thousand and was 6% higher than in the comparable prior period. This was the best result in the history of the Company. This was due to:
– profit on sales – PLN 4 880 million
– loss from other operating activities – PLN (198) million
– loss from financing activities – PLN (27) million

In relation to 2006, the increase in profit on sales was mainly due to:
- the decrease by PLN 1 895 million of the negative result from the measurement of hedging transactions (from PLN (2 331) million to PLN (436) million), and
- the increase in copper and silver prices on global markets (Cu +6%; Ag +16%) by PLN 1 010 million.

Profit on sales was negatively impacted by:
- the strengthening of the PLN versus the USD by 11% (which decreased sales by PLN 1 359 million)

Revenues from sales, 205–2007 (mln PLN)



BASIC ELEMENTS OF THE INCOME STATEMENT, 2005–2007 *(mln PLN)*	***at 31.12.06***	***at 31.12.07***	***change*** *2006 = 100*
Sales	*11 670*	*12 183*	*104.4*
Operating costs	*7 531*	*7 303*	*97.0*
PROFIT ON SALES	*4 139*	*4 880*	*117.9*
Result on other operating activities	*264*	*–198*	
OPERATING PROFIT	*4 403*	*4 682*	*106.3*
Result on financing activities	*–23*	*–27*	*117.5*
PROFIT BEFORE INCOME TAX	*4 380*	*4 656*	*106.3*
PROFIT FOR THE PERIOD	*3 605*	*3 799*	*105.4*
EBITDA (EBIT + depreciation)	*4 784*	*5 101*	*106.6*

- the decrease in the volume of copper and silver by 5% (which decreased revenues from copper and silver sales by PLN 709 million)

In 2007 99% of revenues from sales represented revenues from the sale of products, of which: 36% – from the sale of cathodes and their constituent parts, 44% – copper wire rod, 12% – metallic silver. Revenues from the sale of products were higher by PLN 838 million, i.e. by 7% versus the comparable period.

Risk management

In 2007 copper price hedging strategies represented approx. 25% (in 2006 34%) of sales of this metal realised by the Company. In the case of silver they amounted to approx. 6% (in 2006 31%). In the case of the currency market, hedged revenues from sales represented approx. 10% (in 2006 13%) of total revenues from sales realised by the Company.

Transactions in derivative instruments entered into on the metals market were settled with a negative result, while currency hedging transactions were settled with a positive result. In 2007 the result on derivative instruments amounted to PLN (749) million (in 2006 PLN (2 481) million), of which:

- revenues from sales were adjusted by PLN (436) million (in 2006 PLN (2 331) million) – being the amount transferred from revaluation reserve to profit and loss in the financial period,
- PLN (47) million (in 2006 PLN (12) million) adjusted other operating costs – loss from the realisation of derivative instruments,
- PLN (266) million (in 2006 PLN (139) million) 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 from changes of the time value of options which are to be settled in future periods. Due to the existing hedge accounting regulations, changes in the time value of options may not be recognised in the revaluation reserve.

In 2007, the Company implemented copper price hedging strategies of a total volume of 150 thousand tonnes and a maturity falling in 2008. The Company made use of options. Additionally, during this period the Company implemented adjustment hedge transactions of a total volume of 5 390 tonnes and a maturity falling in January, the period from March to July, September and October 2007, and for the period from April to September 2008. In the case of the silver market, during the analysed period strategies were implemented to hedge the price of this metal in a total volume of 19.2 million troz and a time horizon falling in 2008 and 2009. The Company made use of options. In 2007, there were no adjustment hedge transactions implemented on the silver market.

In the case of the forward currency market, in 2007 the Company implemented strategies hedging the USD/PLN rate for an amount of USD 300 million and a maturity falling in the second half of 2007. The Company made use of forward contracts. 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 2008 (150 thousand t) and for a portion of silver sales planned in 2008 (12.0 million troz) and in 2009 (9.6 million troz). The Company has no hedged positions with respect to revenues from sales (currency market.

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 2007, the fair value of open positions in derivative instruments amounted to PLN 97.417 million, of which PLN 97.419 million was in respect of the fair value of hedging instruments, while PLN (2) thousand was in respect of the fair value of traded derivative instruments. 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 2007, the revaluation reserve amounted to PLN 9.89 million, of which PLN (964) thousand respected the effective part of the amount from the measurement of transactions hedging the metals price risk, while PLN 10.86 million respected the effective part of the amount from the measurement of transactions hedging the currency risk (loans denominated in foreign currency).

At the end of 2006 the revaluation reserve from measurement of the effective portion of the fair value of hedging instruments amounted to PLN (558) million.

During 2007 the change in the revaluation reserve (an increase) amounted to PLN 567 million. This amount is comprised of changes in fair value during the period recognised in the revaluation reserve due to the effective portion of hedging transactions entered into, i.e. an increase in revaluation reserve by PLN 132 million and the amount transferred from the revaluation reserve to profit and loss due to the settlement of hedging transactions, an increase in the revaluation reserve by PLN 436 million (an adjustment in minus of revenues from sales for 2007).

Details of the risk management policy in the Company together with identification of the main types of risk can be found in Notes 8, 30 and 31 of the financial statements.

Balance sheet: assets

In comparison to the end of 2006, total assets increased by PLN 128 million, i.e. by 1%, and amounted to PLN 12 380 million.

Property, plant and equipment is the largest item of assets, whose value at the end of 2007 was higher than the prior year by PLN 454 million. The more-than ten percent increase in the value of these assets is primarily the result of realisation of the investment program. Expenditures on property, plant and equipment amounted in 2007 to PLN 828 million, i.e. nearly twice as much as depreciation. A significant portion of these expenditures were related to development (40%) and replacement (50%), including the exchange of mine machinery (PLN 190 million).

The total value of shares held amounted to PLN 2 242 million, of which PLN 439 million represented investments in associates. The increase in the value of shares held by PLN 120 million (7%) versus the end of December 2006 was due to the realisation of equity investments. In 2007 KGHM financed the development of subsidiaries, mainly through the acquisition of shares in increased share capital.

Cash and cash equivalents was the largest item of current assets, in the amount of PLN 2 535 million. Their value increased during the year by 21%, or PLN 442 million. Unallocated funds were invested in financial assets, mainly short-term bank deposits and participation units in investment funds. The participation units held in investment funds represented up to 18% of the value of cash and cash equivalents. All of these participation units were sold in December 2007, the cash being allocated for payment of the second tranche of the shareholder dividend.

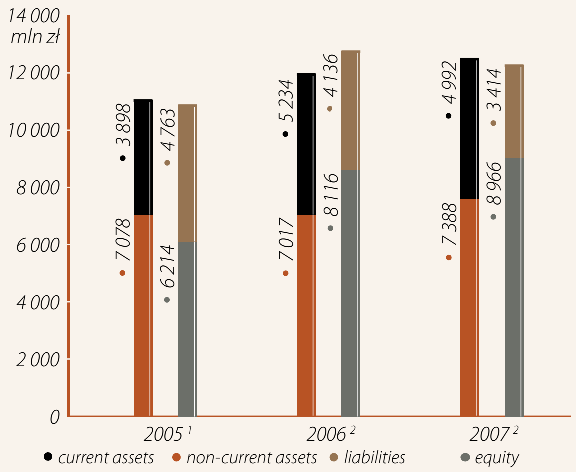
The value of inventories at the end of 2007 amounted to PLN 1 603 million, i.e. PLN 35 million (2%) less than in 2006, of which:

- semi-products and work in progress - a decrease by PLN 51 million,
- products – an increase by PLN 34 million,
- materials – a decrease by PLN 18 million, mainly due to purchased charge materials in transit to the Company.

A significant item in current assets at the end of 2007 was current receivables in the amount of PLN 772 million. This was mainly comprised of trade receivables, whose value decreased from PLN 1 078 million at the end of 2006 to PLN 558 million w 2007. The decrease in trade receivables by nearly half was mainly related to domestic receivables from copper wire rod.

Derivative financial instruments were measured at PLN 33 million in non-current assets, and PLN 81 million in current assets.

Balance sheet structure in the years 2006–2007



[1] per 2005 annual report
[2] per 2007 annual report

Balance sheet: equity and liabilities

In 2007 the basic source for financing assets was equity, whose share in total assets amounted to 72% (66% in 2006). The increase in equity by PLN 850 million was comprised of:
- the change in the revaluation reserve on financial instruments and on available-for-sale financial assets (PLN 445 million), mainly due to the settlement of hedging transactions,
- the financial result for 2007, less the dividend for 2006 (PLN 405 million).

In addition, there were significant changes in share capital from revaluation due to hyperinflation, which at the end of 2006 represented a significant part of share capital. Based on a Resolution of the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A., this capital in the amount of PLN 5 414 million was transferred to reserve capital.

Total non-current and current liabilities amounted to PLN 3 414 million, i.e. PLN 722 million less than at the end of 2006. Their share also decreased in the assets financing structure, as demonstrated by the relation of liabilities to equity – a decrease from 51% to 38%.

Liabilities due to derivative transactions mainly respected trade instruments and amounted to PLN 17 million, i.e. far less than in 2006. The decrease in liabilities in this regard by PLN 821 million is mainly the result of a change in hedging strategy.

The prevailing part of provisions for liabilities (PLN 632 million – total non-current and current) is made up of a revalued provision for decommissioning costs of mines and other facilities (PLN 550 million).

BASIC RATIOS DESCRIBING THE ECONOMIC ACTIVITIES OF THE COMPANY	***2006***	***2007***
Current liquidity	*1.86*	*2.53*
Quick liquidity	*1.28*	*1.72*
ROA – return on assets (%)	*29.4*	*30.7*
ROE – return on equity (%)	*44.4*	*42.4*
Debt ratio (%)	*33.8*	*27.6*
Durability of financing structure (%)	*77.0*	*84.1*

Operating costs

The Company's operating costs are decisively impacted by the costs of electrolytic copper production.

The total unit cost of copper production increased by 663 PLN/t, i.e. by 6%, mainly due to:
- the increase in labor costs, in connection with a higher additional annual bonus (an increase from 14% in 2006 to 24% in 2007),
- the decrease in copper production from internal concentrate, and
- the use of relatively more expensive internal semi-products from storage, alongside a lower price and amount of external copper-bearing materials used in production.

The cost of copper production from internal charges increased by 1 128 PLN/t, i.e. by 14%, which was primarily due to the increase in labor costs and the decrease in copper production from internal concentrate.
The cost of copper production represents 94% of total costs by type.

Financial ratios

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The increase in the liquidity ratios was mainly due to a decrease in current liabilities by 30%. The increase in the financial result by 5% alongside the increase in total assets by 1% caused a slight increase in the return on assets (ROA).

The decrease in the return on equity (ROE) is due to an increase in equity by 10%. The decrease in the debt ratio was due to a decrease in liabilities by 17%. The increase in the durability of financing structure ratio was mainly due to the increase in equity by 11%.

THE UNIT COST OF ELECTROLYTIC COPPER PRODUCTION	*J.m.*	***2005***	***2006****	***2007***
Total unit cost	*PLN/t*	*7 723*	*10 497*	*11 160*
of copper production	*USD/t*	*2 388*	*3 381*	*4 031*
– of which: from internal charges	*PLN/t*	*7 421*	*8 185*	*9 313*

** 2006 under 2007 conditions with respect to smelter processing costs – relates to method for valuing anode forms*

Realisation of financial forecasts

In a current report dated 21 August 2007 the Company published the adjusted Budget assumptions for 2007 as confirmed by the Management Board of the Company on the same day and approved by the Supervisory Board on 30 August 2007 (current report from the same day). The adjusted Budget assumes the achievement in 2007 of revenues from sales in the amount of PLN 11 854 million and profit for the period of PLN 3 682 million.

In 2007, the Company earned revenues from sales in the amount of PLN 12 183 million and a profit for the period of PLN 3 799 million, which means the planned amounts were exceeded by 2.8% and 3.2%, respectively. The exceeded realisation of the planned financial results is mainly the result of:
- higher-than-planned metals prices on global markets, and
- lower-than-forecast negative results from hedging transactions
- alongside the negative impact of the strengthening of the PLN versus the USD and the losses incurred due to exchange differences.

REALISATION OF THE PROJECTED FINANCIAL RESULTS OF THE COMPANY FOR 2007		Forecast dated 17.01.2007*	Forecast dated 21.08.2007**	Execution 2007	Realisation of forecast %
Sales	million PLN	10 647	11 854	12 183	102.8
Profit for the period	million PLN	2 978	3 682	3 799	103.2
Average annual copper prices	USD/t	5 700	6 950	7 126	102.5
Average annual silver prices	USD/troz	12.00	12.50	13.38	107.0
USD/PLN exchange rate	zł/USD	2.95	2.80	2.77	98.9
Electrolytic copper production	'000 t	538.0	531.5	533.0	100.3
of which from external copper-bearing materials	'000 t	73.3	79.6	92.3	116.0
Silver production	t	1 125	1 148	1 215	105.8
Unit electrolytic copper production cost	PLN/t	9 450	10 320	11 160	108.1
Expenditure on property, plant and equipment	million PLN	1 142	1 020	828	81.2

* Based on the Budget for 2007 approved by the Supervisory Board on 17 January 2007
** Based on the Adjusted budget for 2007 approved by the Supervisory Board on 30 August 2007

The total unit cost of electrolytic copper production in 2007 amounted to 11 160 PLN/t and is higher by 8% than that assumed in the Budget for 2007 (10 320 PLN/t).

Projected financial situation in 2008

On 27 March 2008 the Supervisory Board of KGHM Polska Miedź S.A approved the budget of the Company for 2008. The budget assumes the following:

– the achievement in 2008 of revenues from sales in the amount of PLN 11 193 million and net profit of PLN 2 904 million.

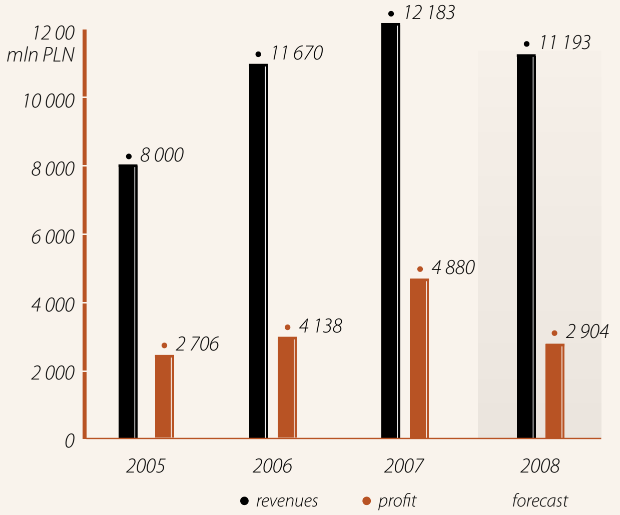
Important assumptions of the forecast:

1. Macroeconomic factors:
– average annual electrolytic copper price of 7 100 USD/t,
– average annual metallic silver price of 15.00 USD/troz (482 USD/kg),
– average annual exchange rate of 2.50 PLN/USD

The level of expenditure on the purchase and construction of fixed assets is primarily related to:
– the replacement of worn-out assets, and
– the continuation of extraction at the planned level over the long term, mainly through the opening of new areas to mining.

The level of total planned unit copper production cost in 2008 (12 455 PLN/t Cu) will be affected mainly by:
– a decrease of electrolytic copper production volume,
– an increase of mine development works costs and amortisation,
– an increase in prices of technological materials and energy.

Revenues from sales and net profit in the years 2005–2007



2. Internal factors:
– electrolytic copper production of 512 thousand t, including 94 thousand t from external copper-bearing materials,
– metallic silver production of 1 110 t,
– expenditure for the purchase and construction of fixed assets of PLN 1 637 million.
– total unit cost of electrolytic copper production of 12 455 PLN/t,

Intentions as regards equity investments

The intentions of KGHM Polska Miedź S.A. as regards equity investments are mainly aimed at:
- investments in the areas considered by KGHM Polska Miedź S.A. as strategic,
- realisation of investments supporting the core business of KGHM Polska Miedź S.A.,
- actions aimed at improving the Group structure, and
- increasing the liquidity of assets and their reallocation in accordance with strategic investment directions.

The actions of KGHM Polska Miedź S.A. related to supporting the core business assume the realisation of projects aimed at modernising the technology of copper extraction and processing and 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 plans aimed at these aspects.

„Energetyka" sp. z o.o. is continuing an investment project related to the modernisation and development of its power generation capacity, arising from a current evaluation of the energy needs of the Divisions of KGHM Polska Miedź S.A., and to reducing its production costs. The funds allocated for the partial financing of this program, in the form of an increase in the share capital of „Energetyka" sp. z o.o., represent a significant part of the equity investment plan of KGHM Polska Miedź S.A. for the years 2008–2012.

As a result of the implementation of this project, „Energetyka" sp. z o.o. has held discussions with PGNiG S.A. with the participation of KGHM Polska Miedź S.A. aimed at adapting contracts to the current energy needs of KGHM Polska Miedź S.A. and ensuring the profitability of the venture. Preliminarily, in the course of negotiations new, adjusted to needs, gas amounts, dates of starting deliveries, gas prices and way of its indexation were set. KGHM Polska Miedź S.A. and „Energetyka" sp. z o.o. are awaiting the final attitude of PGNiG S.A. in this matter.

In 2008 KGHM Polska Miedź S.A. is planning to increase the share capital of PeBeKa S.A. in order to finance the purchase of a modern tunnel drilling combine for the divisions of KGHM. In addition, PeBeKa S.A. has undertaken actions aimed at increasing its expertise in specialty construction and tunnelling. KGHM Polska Miedź S.A. will partially finance these investments through an increase in share capital.

In realising the strategy of increasing its value through investing in development-related areas, KGHM Polska Miedź S.A. also provides equity support to other investments by the entities of the Group, aimed at strengthening their positions in those sectors in which they operate. A significant part in the realisation of development-related investment plans will be played by POL-MIEDZ TRANS Sp. z o.o., in which expenditures are planned for realising investments aimed at increasing its expertise in railway transport. KGHM Polska Miedź S.A. will allocate significant amounts towards this goal over the next five years.

Significant investments with respect to the accepted strategy, with equity support by KGHM Polska Miedź S.A., will be realised by KGHM Ecoren S.A. This company aims to develop its activities in areas related to the production of road-building materials, utilising waste and recovering elements associated with the non-ferrous metals ores.

Realising its strategy with respect to the local community, KGHM Polska Miedź S.A. provides equity support to investments of social importance. In 2008 financing will continue for construction of a stadium for „Zagłebie" Lubin SSA, an investment begun in 2007. KGHM Polska Miedź S.A. will also support the purchase of new medical equipment in MCZ S.A.

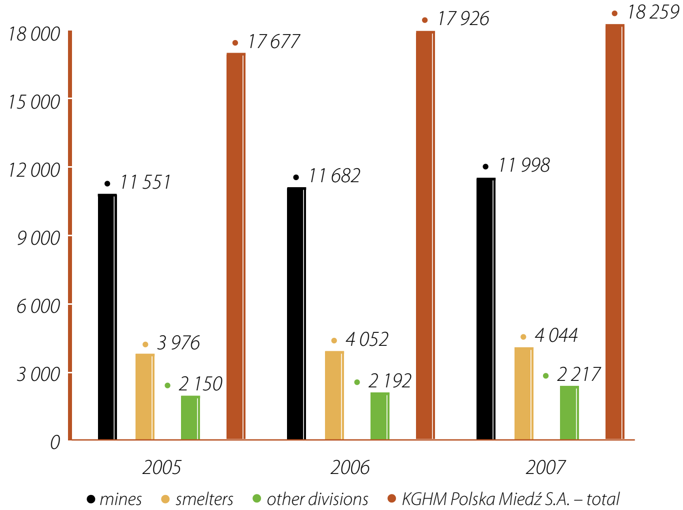
Tasks related to simplifying and improving the structure of the KGHM Polska Miedź S.A. Group over the next several years will involve disposing of some entities unrelated to the core business of KGHM Polska Miedź S.A. and assuming direct supervisory control over entities directly related to KGHM Ecoren S.A. which are significant for the functioning of the core business. The financial results of KGHM Polska Miedź S.A. for 2007 permit realisation of the accepted equity investment plan. To realise these investment projects the use of internal funds is assumed.

Employment in KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. at the end of 2007 was 18 259, meaning an increase in employment by 333, i.e. by 2%, versus the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 17 989 and was higher than the level of employment in 2006 by 309.

The highest increase in employment was recorded in the mining divisions. This was related to decisions to reorganise the ventilation and road maintenance sections, and to create separate ventilation sections, as well as to create two preparatory work sections in the Polkowice–Sieroszowice mine.

End-of-period employment



Human Resource Management System

In 2007 KGHM Polska Miedź S.A. continued to introduce and improve its Human Resource tools within the scope of the Human Resource Management System, which the Company began implementing in 2006. Requisite changes were introduced to carry out employee evaluations, in association with the system of training, and actions were undertaken aimed at introducing a motivational remuneration system based on assigning a value to a particular job. In 2007 valuation was made of senior management positions. This process will continue until all of the job positions in the Company have been assigned a value.

Training

The training which is carried out is closely connected to the Company strategy, in which the strategic goals of KGHM include an increase in the effectiveness of human resource management and an improvement in working conditions. Training was financed by the internal funds of KGHM and by the European Social Fund.

Training financed by internal funds

In 2007 training was carried out in all professional groups. A total of 28 659 people underwent training. Training was undertaken in four categories:
- employee training – improving knowledge, raising qualifications, filling out education,
- courses and professional training – granting the right to work at a given position,

- conferences – exchange of knowledge, familiarisation with new techniques, exchanging opinions in professional and academic circles,
- workplace safety and hygiene training – meeting legal requirements.

PERSONS TRAINED IN 2007	*# of persons*	*% share*
White collar	*9 854*	*34%*
Blue collar	*18 805*	*66%*
TOTAL	*28 659*	*100%*

Ratio: # of persons/average annual employment = 159,36%

Training financed by the European Social Fund

KGHM Polska Miedź S.A. as a company operating in a competitive, international environment, tries to use various ways and means to enhance the qualifications of its employees. One of these involves funds from the European Social Fund. These are granted for the realisation of projects aimed at developing human resources, increasing one's ability to find and hold a job, and at promoting entrepreneurship and equality of opportunity. In 2006 KGHM Polska Miedź S.A. developed projects for three applications on financing training. These applications were approved and, as a result, 2 353 employees were able to take part in training financed by this fund in 2007.
These three projects were as follows:

1. „Enhancing the key qualifications of the senior management of KGHM Polska Miedź S.A."
2. „Enhancing the qualifications of mid-management in KGHM Polska Miedź S.A."
3. „Developing the key qualifications of employees in KGHM Polska Miedź S.A."

„Activating unemployed graduates" program and student practicum

Based on an agreement without time limit dated 23 December 2003 regarding the activation of unemployed graduates, entered into between KGHM Polska Miedź S.A and the starosts (mayors) of the following powiats (municipalities): Lubiń, Legnica, Polkowice, Głogow and Złotoryja, the Company is carrying out a program called „Activating unemployed graduates." The goal of this program is to grant assistance to young people in gaining professional experience. The Company allows them to gain practical experience in the Divisions of KGHM Polska Miedź S.A, companies of the Group and economic entities grouped under the organisation Związek Pracodawców „Polska Miedź". To ensure the efficient operation of this program, the Head Office of KGHM Polska Miedź S.A. supervises its coordination. The program encompasses unemployed youth who are registered in five powiats of the former Legnica voivideship, where the economic entities of KGHM Polska Miedź S.A. are situated.

After gaining a position, those graduates with the best recommendations are placed in a pool of candidates for work in KGHM, representing a reviewed employee pool. The number of such student positions depends on the number of candidates

who meet the requirements, and on the amount of the funds at the disposal of the Employment Offices. Since the commencement of this project, 511 student work agreements have been signed. Of these, 96 people have found work in KGHM. Both parties to these agreements have praised the relationship thus far, while the project itself has garnered the interest of the young graduates.

In 2007 around 250 persons, both students still in school and graduates, participated in practicum experiences in KGHM, and 150 people were given materials to assist in earning diplomas.

Employee Retirement Program (ERP)

On 2 March 2004 the Insurance and Pension Funds Supervisory Commission registered employee retirement programs created throughout the Divisions and in the Head Office of the Company. The ERP in KGHM Polska Miedź S.A. are based on agreements on the payment by the employer of contributions to investment funds:

1. PZU Fundusz Inwestycyjny Otwarty Shares KRAKOWIAK,
2. PZU Fundusz Inwestycyjny Otwarty Papierów Dłużnych POLONEZ
3. PZU Fundusz Inwestycyjny Otwarty Stabilnego Wzrostu MAZUREK.

These funds are managed by the company Towarzystwo Funduszy Inwestycyjnych PZU S.A. in Warsaw. The basic employer contribution amounts to 3% of the employee's wages. As at 31 December 2007 14 600 employees belonged to the program, i.e. 80% of the workforce, of which 3 075 employees have declared for additional contributions.

Social actions

KGHM Polska Miedź S.A. has an active social policy toward employees, retirees and those on disability, as well as family members. Apart from its obligatory financing of the Social Fund (in Polish ZFŚS), it also provides additional financing based on the Collective Labor Agreement (CLA). The amount of this financing is from 106% to 166% of the average national monthly wage, on which the obligatory payment is based. The total average contribution to the Social Fund (basic and additional, due to the CLA) per employee amounted to PLN 4.035. The total amount of the obligatory and additional payments in 2007 amounted to over PLN 74 million. Apart from this, in 2007 the Social Fund was strengthened by an allocation from profit of PLN 20 million to be used for housing.

Almost 18.5 thousand employees benefit from the Social Fund as well as 17 thousand retirees and those on disability. Also benefitting are the members of their families. The funds allocated each year to these benefits serve to satisfy employees' social needs to a significantly greater degree than is found in other companies.

Among those items financed by the Social Fund in 2007 were the following:

- holiday payments of up to PLN 1 650
- holidays for children and youth – in 2007 nearly 6 300 children took part in holiday camps and related activities
- the financing of school expenses for employees' children. In 2007 this financing amounted to PLN 1 501.91 paid out to over 12 thousand children
- health-related holidays for employees. In 2007 the Company financed 21-day health-related holidays for 400 employees.

Apart from these benefits, the following was also financed by the Social Fund: housing-related loans, help for employees as well as retirees and those on disability who find themselves in difficult financial or other circumstances, holiday packages for children for Children's Day or Christmas, gift coupons, cultural activities and sport-recreational events.

Apart from the benefits of the Social Fund, retirees and those on disability receive financial benefits, known as equivalents, in place of coal deliveries equal to 2.5 tonnes annually. In 2007 this equivalent amounted to PLN 1230 per entitlee.

Employment in the Group

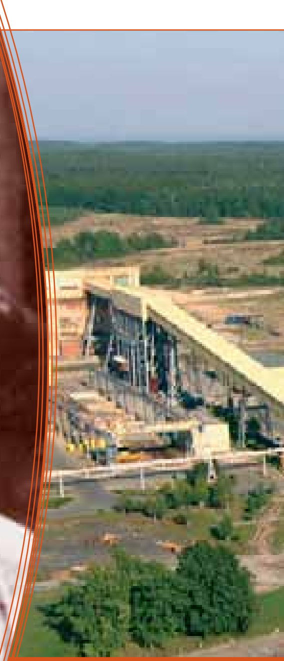
The highest average level of employment in 2007, at 17 989 persons, was recorded by the Parent Entity. Among the remaining Group companies the highest average number of employees in 2007 was recorded by:

- PeBeKa S.A. 1 661 employees
- POL-MIEDŹ TRANS Sp. z o.o. 1 515 employees
- ZANAM-LEGMET Sp. z o.o. 1 019 employees
- DIALOG S.A. 991 employees
- Energetyka Sp. z o.o. 817 employees

In 2007 average employment in the Group increased in comparison to 2006 by 763. The largest rate of increase in employment was in the following companies: KGHM Ecoren S.A. (an increase by 27%, i.e. by 37 positions), PeBeKa S.A. (an increase by 14.4%, i.e. by 209 positions), and in PHU MERCUS sp. z o.o. (an increase by 14.2%, i.e. by 92 positions). This increase was mainly in blue-collar positions, and was due to the need to insure realisation of increasing production tasks.

AVERAGE EMPLOYMENT, 2006–2007	2007	2006
White collar	8 428	8 385
Blue collar	19 264	18 544
TOTAL	27 692	26 929

March 1963
Shaft drillers
descending to work.



We are part of this world

The social activities of KGHM Polska Miedź S.A. have many aspects, comprised of various aims and initiatives. These are not simply temporary actions. When KGHM became one of the largest producers of copper in Europe, as part of its effort to create a mission of socially-responsible commitment, has invested in a variety of projects involving environmental protection, health and safety, sport, culture and education. It has also become a sponsor of actions and projects aimed at preserving items of historical importance and national heritage. It also is concerned with cultivating tradition, not only of miners and metallurgists, but also of those which serve to integrate local society in Lower Silesia.

Actions by the Company on behalf of environmental protection

All industries place a burden on the natural environment, the copper industry in particular. This is due to the low metal content in the ore, which contains only a few percent of copper. The remaining material must be disposed of gradually at each stage of the production process. When the copper industry commenced operations in the Legnica-Głogów region, it led to the growth of this region. However, it also caused unfavorable changes in the environment. This is why the activities of KGHM Polska Miedź place special emphasis on initiatives aimed at protecting the environment, including limiting the impact of its production operations.

Thanks to its investments in environmental protection, all of the major threats to the environment due to the operations of KGHM have been eliminated. This includes a significant drop in atmospheric emissions. Nevertheless, the Company remains committed to making significant efforts to reduce its environmental imact still further. And this is not because of the rigorous environmental laws. The Company is dedicated to protecting the environment because of its commitment to the local community, to the land on which its Divisions are located.

The costs borne by KGHM Polska Miedź S.A. on behalf of the environment comprise: investment exenditures on ecological-type investments, projects related to production which also have an environmental aspect, and also environmental and mining fees.

The financial expenditures incurred by the Company and its actions related to environmental protection have brought measurable effects. The level of emissions to the air and water have been stable for several years, and meet EU standards.

Projects of a typically environmental character realised in 2007:

- construction of a system for dewatering and filtration of neutralised waste from the treatment plant at the Głogów smelter,
- renovation of the sulphuric acid plant at the Głogów smelter,
- construction of a dedusting installation for the smelting-refining installation in the anode furnaces section at the Głogów smelter,
- renovation of the bag deduster of the converter slag grinding system in the charge preparation section at the Głogów smelter,
- renovation and replacement of the pulsation filter after an accident in the lead refining section at the Legnica smelter,
- stabilisation of the foundation of the Żelazny Most tailings pond,
- land reclamation, including the construction of well barriers around the Żelazny Most tailings pond, at the Tailings Plant.

Legal aspect:

On-going care for the environment and the search for new methods remain an integral part of the routine operations of the Company. All of the Divisions of KGHM Polska Miedź S.A. have current, valid administrative decisions respecting the environment.

In the prior year the following facilities received integrated permits:

Comparison of total emissions from KGHM Polska Miedź S.A., 1985–2007 [t/yr]

EMISSIONS	1985	1990	2000	2007	Reduction versus 1985
Dust	9 596	9 211	915	522	93.6%
Copper	315.6	204.0	23.2	18.8	92.7%
Lead	356.2	124.3	13.8	4.8	98.2%
Sulphur dioxide	79 006	48 719	6 202	4 580	94.5%
Carbon monoxide	192 636	121 499	2 683	4 209	98.6%

- the Głogów smelter for operating 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 for operating the "Biechów industrial waste storage facility".
- the Głogów smelter for operating the "Biechów II industrial waste storage facility".
- the Legnica smelter for operating an installation for the production of refined lead.

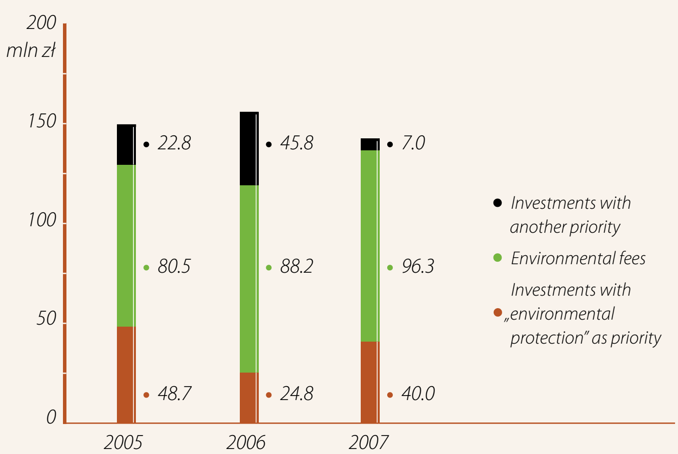
All of the metallurgical plants of KGHM Polska Miedź S.A. (Legnica, Głogów, Cedynia) hold Integrated Management System certificates, which also comprise, apart from product quality, environmental management systems (ISO 14001) as well as workplace safety and hygiene systems.

- modernisation of the gas dedusting installation of the concentrate drier at the Legnica smelter,
- reclamation work at the tailings pond of the Legnica smelter in Polowice,
- exchange of the loaded concentrate drying installation in the charge preparation section at the Głogów II smelter, and
- construction of a copper concentrate warehouse in the charge preparation section at the Głogów II smelter.

International activities

Today, when environmental technology is well developed and widely available, the job of protecting the environment not only in KGHM, but also in Poland and Europe, is moving towards more stringent standards and increasingly restrictive laws. It has therefore become necessary to actively participate in the creation of domestic and EU laws. In this regard, KGHM attempts to be up-to-date and regularly participates in public debate on the creation of such laws.

Structure of spending on environmental protection in KGHM Polska Miedź S.A., 2005–2007



Future intentions:

The Company's Divisions have achieved a level of environmental protection which permits them to operate these installations in accordance with prevailing law. Due to increasingly stringent laws and to the necessity to adhere to changing requirements arising from BAT (Best Available Technology) it will however be necessary in the future to carry out regular maintenance and modernisation on these installations. Amongst the most important investments planned in the near term are the following:

- continuation of current activities aimed at limiting the impact of the Żelazny Most tailings pond
- on the environment, and in particular stabilisation of the foundation of the tailings pond,

Thanks to its membership in international industry organisations which unite mining firms (Euromines), with the non-ferrous metals sector (Eurometaux), and in the European Copper Institute, the Company has the opportunity of actively participating in the creation, among others, of the following: REACH regulations; two directives on air quality and directives related to the management of waste in the extraction industry; directives on environmental quality standards respecting water; framework directives respecting waste and protection of soil, and also in the updated version of the IPPC Directives (*Integrated Prevention and Pollution Control*).

BREF (Best Available Techniques reference document)

KGHM was the only Polish company to take active part in the creation of a BREF document for the management of tailings and waste-rock in mining activities, and today, in concert with the European non-ferrous metals industry, is working on an up-date of this BREF document for the non-ferrous metals industry.

To assist in understanding IPPC Directive 96/61/WE, the European Commission decided it was necessary to provide descriptions of Best Available Techniques for each industrial sector. These documents, known as BAT REFerence notes, or simply BREF, have been developed by the IPPC office.

Each BREF contains information on a given industrial sector, the technology applied, production amounts, raw materials consumption and emissions, best available and emerging techniques, as well as conclusions and recommendations. These notes are of strategic importance due to their nature as reference documents for the issuance of integrated permits for industrial installations.

The participation of KGHM in concerts and in special artistic events, sponsoring locales or events visited by thousands of people and representing a regional calling card, or the sponsoring of sporting events such as: the football matches of Zagłębia Lubin, the International Tennis Tournament KGHM Polish Indoors, the Piast Run or the International Piast Road Race is one of the best ways to build a positive Company image.

In 2007 the most important sucess in sponsoring, which was also well-received by the public, was winning the Polish Handball Championships by the KGHM Zagłębie Lubin team, and participation in the finals of the Masters League.
Thanks to financing by KGHM, these events promoted not only the Company, but the city and region as well.

KGHM also supports the arts. In 2007 the most important artistic events sponsored by KGHM were the International Jazz Jamboree, the Wratislavia Cantans classical music festival, the Głogów Jazz Meeting, the musical project „Music from a besieged city" as well as the Satyrykon festival of drawing and the Polish choir competition Legnica Cantat. For years KGHM has worked with the Helen Modrzejewski Theater in Legnica.

Sponsoring

For many years, sponsoring has played a major role in KGHM Polska Miedź S.A. It is a tool used to support other activities of a public relations nature.
It has a long-term and systematic character. Sponsoring domestic enterprises, and in particular those in the Copper Belt, creates community trust and a positive image of KGHM both locally and afar.

Of no little importance is the participation and co-participation of KGHM in scientific research, conferences, and seminariums realised in cooperation with institutions of higher learning, such as Kraków's AGH and the University of Wrocław. KGHM, by supporting institutions of higher learning and scientific institutes, ensures closer relationships and creates bridges between industry and the scientific community. The Company, both financially and through its expertise, assists enterprises related thematically with problems encountered by KGHM and the region.

The Polish Copper Foundation

The establishment of the Foundation was not an entirely new target of the proactive social policy of of KGHM Polska Miedź S.A. Since its birth, KGHM has used its earnings to support a wide range of initiatives, both regional and national. The Polish Copper Foundation is only the latest proponent of these activities. It represents a further, more professional step, based on a new organisational and legal form. This type of solution, which codifies the initial goals of the Foundation in its statutes, enables a more effective means of distributing Company funds.
The Polish Copper Foundation was formally established by the Management Board of KGHM Polska Miedź S.A. Its public activities began on 23 March 2003.

The idea underlying the establishment of the Foundation may be divided into two parts: general – arising from age-old traditions respecting the establishment of foundations, based on noble goals of a humanitarian, artistic, social and sometimes economic nature, and specific (internal) – based on the relationship of its Founder, KGHM Polska Miedź S.A., with the local community and region and the country as a whole.

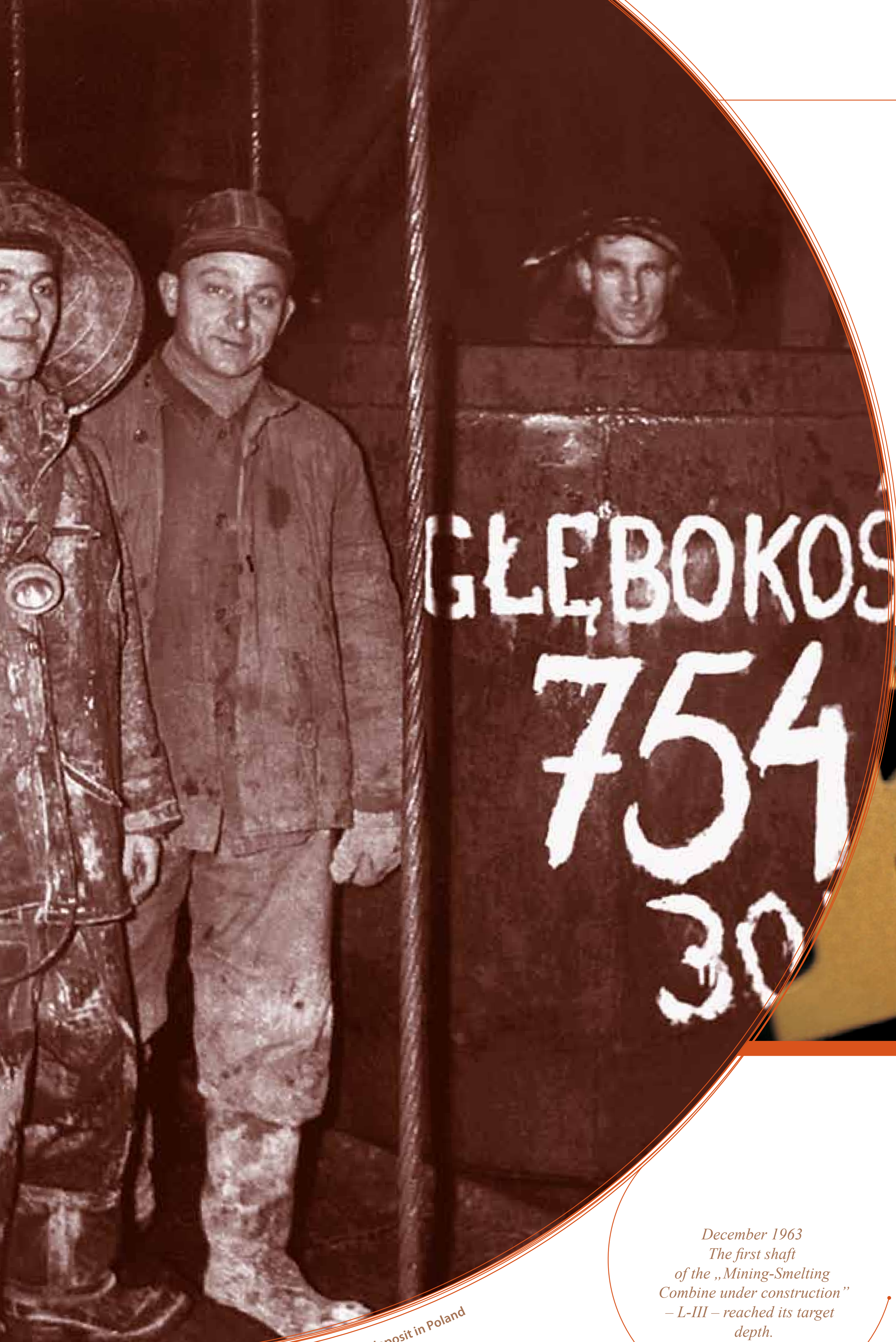
The goal of the Polish Copper Foundation is to support and augment those areas of life which, due to the condition of the state budget, remain under-financed. The statutory scope of its actions includes supporting the arts, rescuing objects of a historical significance, supporting academic, research and medical institutions and other institutions, supporting endeavors aimed at integrating the Republic of Poland with the European Union, working with Polish emigré communities; and supporting activities involving sport and athletics, as well as participating in the building and renovation of sports facilities and supporting initiatives aimed at promoting sport among children and youth. In addition, to support its aim of granting charitable donations and subsidies to entities for the purpose not only of covering their current needs, but also to support them in more fundamental and precise ways, the Foundation was created to effectively realise the goals of its program.

Apart from fulfilling its noble mission of serving as the sponsor of numerous enterprises, the Foundation promotes the activities of the KGHM Group. It has become a general world-wide custom for large companies to support major, prestigious events, thereby enhancing their image.

Such activities may have an indirect affect, for example, on building customer trust and on promoting more intensive economic development.

An important event which had a direct impact on the functioning of the Foundation was gaining the status on 17 January 2006 of a so-called organisation of public utility under Polish law.

The main sponsor, as well as the founder of the Polish Copper Foundation, is the Management Board of KGHM Polska Miedź S.A., which once per year allocates funds to the statutory activities of the Foundation.



*December 1963
The first shaft
of the „Mining-Smelting
Combine under construction”
– L-III – reached its target
depth.*

KGHM Polska Miedź S.A. Group

The companies of the Group are entities with separate legal status, in which KGHM holds various degrees of ownership (either direct or indirect) in their share capital. The Company has direct ownership of shares in 21 entities. Three of them – KGHM Ecoren S.A., PHP „MERCU S" sp. z o.o. and DIALOG S.A. – comprise their own capital groups.

The companies of the KGHM Polska Miedź S.A. Group are diversified in terms of their activities. They include the following types of companies: telecoms, trade, production-oriented, transport, R&D, companies related to sport and tourism and also insurance.

Group

In 2007 the KGHM Polska Miedź S.A. Group achieved record results. The net profit of the Group was 13% higher than in the prior year. There was an increase in effectiveness and in Group development. The largest impact on the results of the Parent Entity, and therefore on the Group, came from copper and silver prices.

In 2007 the „Strategy of KGHM Polska Miedź S.A. and the Group for the years 2007–2016" was carried out, which is aimed, as respects Group companies, at increasing their effectiveness, which means the stabilisation and improvement of their financial results and an increase in their value.

In 2007 KGHM Ecoren S.A. opened a hydrometallurgical section, involved in the production of ammonium perrhenate (a compound of rhenium, containing 69.4% pure rhenium), thereby becoming the sole producer of this compound in Europe from its own resources. Thanks to this new installation, KGHM Ecoren has become one of the top producers globally of this compound. Over the next several years plans

call for the development of its operations based on other elements, produced by the processing of tailings from copper production. Apart from the economic benefits, this is also of significance for the environment.

The telecom company DIALOG S.A. has implemented a variety of projects aimed at expanding the scope of the company's activities, such as wholesale line rental (WLR), virtual mobile telephony (MVNO), the introduction of internet tv and the sale of complementary telecom services.

Energetyka sp. z o.o. realised a project to modernise its existing power generation capacity.

PHP „MERCUS" sp. z o.o. opened a new Bundled Electrical Cable Production Section in Legnica and opened a Gallery of Interior Design (the renovated Furniture Salon) in Głogów.

In 2007 actions were also undertaken aimed at improving the Group's structure. KGHM Polska Miedź S.A. re-acquired a block of shares in KGHM Metraco S.A. from a minority shareholder, thereby becoming its 100% owner; purchased a block of shares of Infomonitor Biuro Informacji Gospodarczej S.A. and acquired direct shares in Polskie Centrum Promocji Miedzi sp. z o.o. from other Group entities.

An element in the realisation of the strategy was the creation, together with the Voivode of Lower Silesia and the University of Wrocław, a new entity – KGHM LETIA Legnicki Park Technologiczny S.A. The purpose of this enterprise is to take advantage of the technological potential of KGHM Polska Miedź S.A., to create an attractive area for pursuing business ventures and to invest in activities based on new technology.

The increase in the results of the Group is also related to the restructurisation carried out in individual entities.

Actions in this area concentrated on the disposal of property which was unprofitable or was not related to the core business of these companies, actions which were carried out in nearly all Group entities.

In 2007, as in prior years, KGHM Polska Miedź S.A. financially supported projects serving the local community. These activities included an increase in the share capital of Miedziowe Centrum Zdrowia S.A. which was used to purchase modern medical equipment and to improve the quality of its medical services. Work was also begun on the construction of a new football stadium in Lubin – KGHM Polska Miedź S.A. increased its capital commitment in Zagłębie Lubin SSA as a means of financing this project.

The goals of KGHM Polska Miedź S.A. as respects equity investments are aimed at investing in areas of strategic importance (increasing its stake in POLKOMTEL S.A., exploration for new ore deposits), activities leading to the growth and development of the potential of Group companies, the realisation of investments supporting the core business of KGHM Polska Miedź S.A. and the continuation of activities aimed at improving the structure of the Group and the resources of its companies. Realising these goals will lead to growth of the Group and will strengthen the competitive position of individual companies within their respective sectors.

Review of financial results

During the analysed period the KGHM Polska Miedź S.A. Group increased its sales versus the comparable prior period by PLN 631 million. The increase in sales was mainly dictated by the increase in revenues achieved by the Parent Entity, mainly due to a lower adjustment of revenues due to hedging transactions and to the increase in copper and silver prices (Cu +6%; Ag +16%).
Gross profit increased slightly faster than sales. This was mainly due to the decrease in the negative result from the measurement of hedging transactions in KGHM Polska Miedź S.A.
The increase in other operating costs was due to the loss from the measurement and realisation of derivative instruments by PLN 161 million and to the exchange loss by PLN 121 million. Finally, profit for the period increased versus the prior year by 13.1 %, i.e. by PLN 456 million.

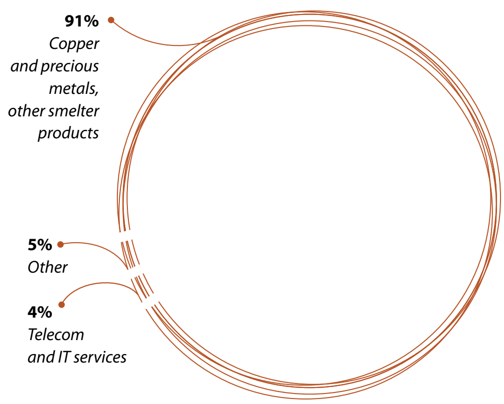
The largest share in Group sales is held by the segment of activities which involve the extraction and processing of copper and precious metals, the production of non-ferrous metals, trade and copper promotion. A significantly lower amount of sales is generated by the segment of telecom and IT services, which is nearly at the level of other sales.

Structure of the profit for the period of the KGHM Polska Miedź S.A. Group (million PLN)

NAME OF ENTITY	***Profit for 2007***
KGHM Polska Miedź S.A.	*3 798.83*
Subsidiaries	*114.95*
of which:	
DIALOG S.A.	*63.37*
KGHM Ecoren S.A.	*33.05*
KGHM Metraco S.A.	*13.21*
DFM Zanam-Legmet sp. z o.o.	*4.25*
KGHM Congo S.P.R.L.	*3.73*
Walcownia Metali Nieżelaznych sp. z o.o.	*3.36*
PHP Mercus sp. z o.o	*3.27*
CBJ sp. z o.o.	*2.86*
Associates – attributable to the Group	*265.09*
of which:	
Polkomtel S.A.	*264.19*
Consolidation adjustment	*(244.31)*
Profit for the period attributable to shareholders of the Parent Entity	*3 934.56*

INCOME STATEMENT *(million PLN)*	***2006***	***2007***	***change*** *2006=100*
Sales	*12 862.90*	*13 494.13*	*104.9*
Costs of sales	*(7 760.22)*	*(7 578.22)*	*97.7*
Gross profit	*5 102.68*	*5 915.90*	*115.9*
Operating profit	*4 022.94*	*4 526.95*	*112.5*
Profit before income tax	*4 216.61*	*4 756.89*	*112.8*
Profit for the period	*3 479.38*	*3 935.52*	*113.1*
– attributable to shareholders of the Parent Entity	*3 479.18*	*3 934.56*	*113.1*

Structure of revenues by segment in 2007



Telecom assets

Among the most important entities of the Group are:

- KGHM Polska Miedź S.A – the Parent Entity,
- Polkomtel S.A., in which KGHM Polska Miedź S.A. owns 19.61% of the share capital – consolidated using the equity method, and
- DIALOG S.A. – a subsidiary in which KGHM Polska Miedź S.A. owns 100% of the share capital. The results of this company have a direct impact on the consolidated financial statements of the KGHM Polska Miedź S.A. Group.

Polkomtel S.A.

In 2007 Polkomtel S.A. was one of four mobile telephone operators in Poland (not counting MVNO-type virtual operators).
Polkomtel S.A. is a pioneer in the introduction to the Polish market of innovative services utilising GSM technology: as the first to offer its customers data transmission using GPRS and EDGE technology, multimedia messaging services (MMS), and the possibility of audio short message services (SMS).

Polkomtel S.A. was also the first operator to sign an agreement to provide services to so-called virtual operators.
In 2007 Polkomtel S.A. was the leader in providing services to MVNO operators – out of seven signed contracts, three were with Polkomtel S.A.

In 2007 the company, versus the comparable prior period of 2006, increased revenues from sales by 6%. This increase in revenues was mainly due to a larger customer base, which increased during 2007 by 1 446 thousand persons, exceeding 13 454 thousand. The level of EBITDA generated in 2007 amounted to PLN 2 833 million, with a profit for the period of PLN 1 359 million.

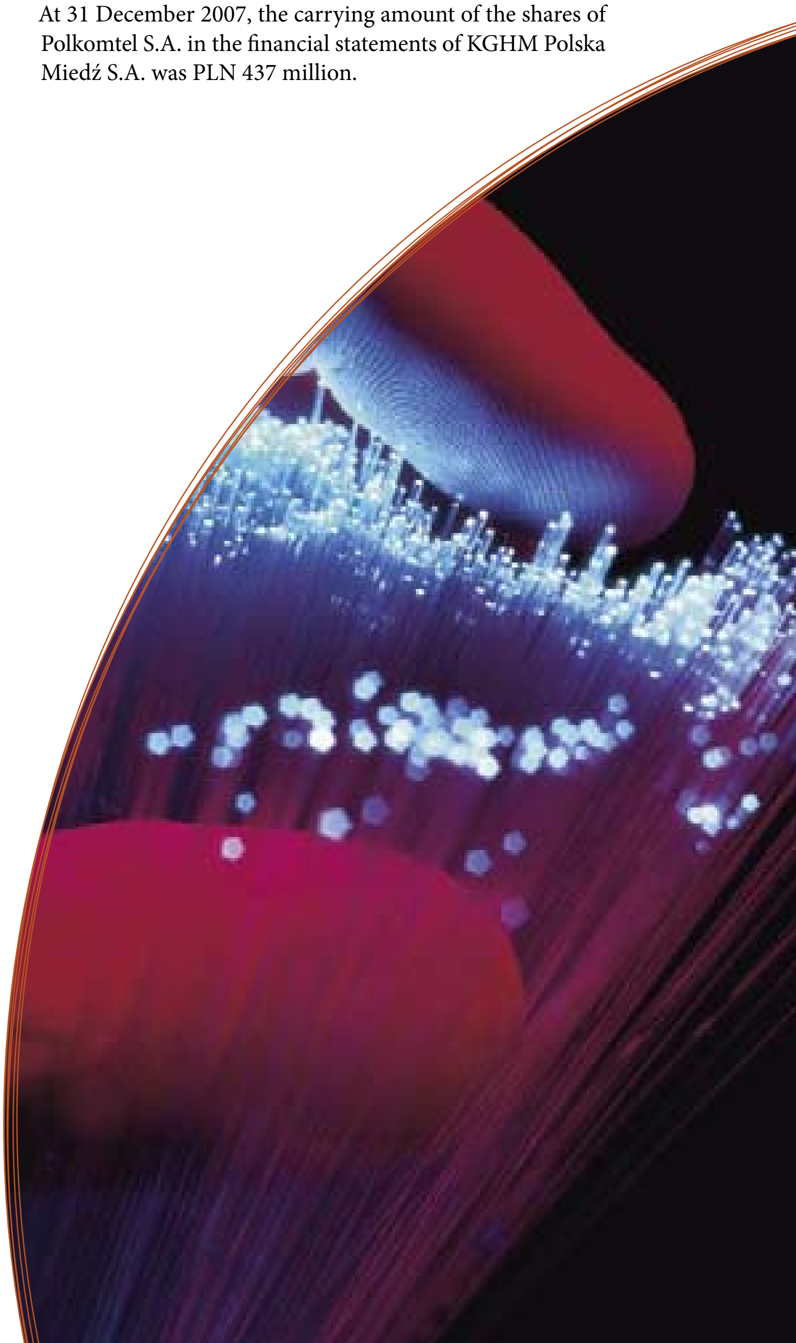
On 29 March 2007, the Ordinary General Shareholders' Meeting of Polkomtel S.A. resolved to pay a total shareholders dividend of PLN 1 032 million. Of this amount, the company paid an interim dividend of PLN 253 million in March 2007 based on a resolution of the Supervisory Board of the company.

The remaining amount of PLN 778 million, was paid on 8 June 2007. KGHM Polska Miedź S.A. received a total amount, proportional to its shares in the company, of PLN 202 million.

On 26 October 2007, the Supervisory Board of Polkomtel S.A. resolved to pay an interim dividend for 2007. The total amount of PLN 315 700 thousand was paid to shareholders, of which KGHM Polska Miedź S.A. on 18 December 2007 received PLN 61 905 thousand.

On 28 March 2008 attorneys ad litem of the Parent Entity received a copy of the partial verdict of the Court of Arbitration in Vienna on the claim of Vodafone Americas Inc. against Polkomtel S.A. and the other shareholders of Polkomtel S.A. The Court ruled that the agreement dated 10 March 2006 on purchasing the remaining shares of Polkomtel S.A. (belonging to TDC Mobile International A/S) by the Polish shareholders of Polkomtel S.A. is valid, and does not infringe either on the statutes of Polkomtel S.A. or on the shareholder agreements. The legal consequences of this verdict are currently being analysed, and based on this analysis further steps may be taken in this matter.

At 31 December 2007, the carrying amount of the shares of Polkomtel S.A. in the financial statements of KGHM Polska Miedź S.A. was PLN 437 million.



DIALOG S.A.

DIALOG S.A. operates in two telecom segments:

- the fixed-line voice segment (traditional voice services provided directly or indirectly, intelligent network services, additional VAS voice services, transit services); and
- the fixed-line network data transmission segment (data transmission, communications leasing, and narrow and broadband Internet access using ground lines and radio).

DIALOG S.A. is one of the largest alternative operators (largest in terms of the number of active ringing lines using its own infrastructure, third after Netia and Exatel in terms of the size of its revenues, and second after Tele2 in terms of the number of active WLR lines).

In 2007 DIALOG S.A. had a share of approx. 3.64% of the fixed-line voice segment market.

The value of this segment in Poland is in a falling trend, while the data transmission segment in fixed-line networks is growing.

In 2007 the company generated revenues from sales of PLN 496 million, i.e. 1 % less than in the comparable period of 2006, and a profit for the period of PLN 63 million. Despite the general erosion of prices on the market and the strong competition from mobile phone operators, the company achieved EBITDA which was only slightly less than in the comparable period of 2006, i.e. PLN 119 million.

The intensive development of new services (including mobile and IPTV) expected over the next several years is necessary, as the strong competition from mobile phone operators means that DIALOG S.A., like other fixed-line operators, is experiencing a fall in voice service subscribers. At the end of December 2007 the company had 409.7 thousand traditional ringing lines. In accordance with the approved strategy and business plan of DIALOG S.A., the company expects, apart from the continuation of projects already begun, to commence in the near future a variety of investment projects and products which together are aimed at increasing revenues and expanding the activities of the company, as well as permanently improving its profitability. Thanks to an agreement entered into with TP S.A., in March 2007 the company commenced sales of its services beyond its own network by using the incumbent operator's network (WLR services). During the nine months following commencement of WLR services, 144.0 thousand contracts were signed, which was 25% higher than the planned amount.

The Management Board expects that, over the next several years, WLR services will represent a significant share of the company's revenues. The company is also expanding its broadband Internet access services. At the end of December 2007 the number of broadband Internet users amounted to 110.0 thousand. In December 2007, the company signed a contract of cooperation with Polkomtel S.A., thanks to which in 2008 it will be able to begin offering mobile services as a so-called virtual operator (MVNO services).

In order to achieve its strategic goals, i.e. increasing its client base and increasing revenues and EBITDA, DIALOG S.A. is finalising transactions involving the takeover of other telephone operators. These transactions will permit an increase in the subscriber base of DIALOG S.A. and, thanks to the acquisition of infrastructure, will enable additional services to be provided, which will result in an increase in the company's sales and profitability.

In February 2007, DIALOG S.A. finalised a transaction for the purchase of an organised part of an enterprise called E-wro. As part of this transaction, the company purchased an Ethernet technology network together with a base of 6.5 thousand subscribers with Internet access, along with other tangible and intangible assets. The purchase of this network increases the ability of DIALOG S.A. to provide modern services (e.g. interactive television).

In the third quarter of 2007 the Management Board of DIALOG S.A. resolved to commence actions aimed at the public listing of this company on the Warsaw Stock Exchange. The market debut of the company is possible in 2008, although the final date will depend on an owner's analysis of the situation on the equity markets. As part of the preparations for this offer, on 6 December 2007 the Extraordinary General Shareholders' Meeting of Telefonia DIALOG S.A. resolved to decrease the share capital of the company from PLN 1 960 million to PLN 490 million, i.e. by PLN 1 470 million. The purpose of this operation was to improve the equity structure, i.e. to cover the accumulated losses in the amount of PLN 913 million and to change the face value of the shares in connection with the planned IPO of the company's shares and their planned listing on a regulated market. This decrease in capital was carried out without payout to the company's shareholders.

Other important companies of the KGHM Group

Name: **KGHM Metraco S.A.**
Percentage of company owned by the KGHM Group – 100%

Core business
The main business of the company is wholesale trade in scrap and raw material semi-products. KGHM Metraco is currently the largest buyer of copper scrap in Poland. The company is also involved in trading of the following items:
- scrap and raw material semi-products (main business),
- chemical products,
- lead,
- coke,
- precious metals.

Main directions of growth
- constant improvement in the complex services provided to KGHM Polska Miedź S.A., especially as respects raw materials and strategic products based on its own logistical-expediting activities,
- expanding its scope of activities,
- maintaining and strengthening its position as the top supplier of precious metals to smaller customers on the domestic market.

Financial data for the years 2005–2007

AMOUNTS (mln PLN)	2005	2006	2007
Sales	752.79	1 148.07	1 313.35
Net profit	8.55	9.11	13.21
Share capital	2.55	2.55	2.55
TOTAL ASSETS	92.51	114.36	116.08

Important events in 2007
- the company successfully passed an ISO certification audit,
- conducted by TÜV Management Service GmbH,
- KGHM Polska Miedź S.A. performed an obligatory buy-back of shares of KGHM Metraco S.A. from a minority shareholder, becoming the sole owner of the company.

References – of highest importance
- complex servicing of the core business of KGHM Polska Miedź S.A. in raw and other materials (black liquor, other chemicals, copper scrap, coke) as well as sales of the by-products of KGHM's core business (sulphuric acid),
- in-depth knowledge of the metals and chemicals markets,
- the largest share of the copper market in the vicinity of KGHM Polska Miedź S.A.

Name: **PHP „MERCUS" sp. z o.o.**
Percentage of company owned by the KGHM Group – 100%

Core business
The company operates in four sectors:
- material logistics, mainly on behalf of the divisions of KGHM Polska Miedź S.A. and companies of the Group,
- production – bundled electrical cables for producers of home appliances, and high-pressure hydraulic lines for machinery and equipment used in mining and construction,
- wholesale and retail sales – department stores, warehouses etc., and
- international trade – the import of machinery and equipment.

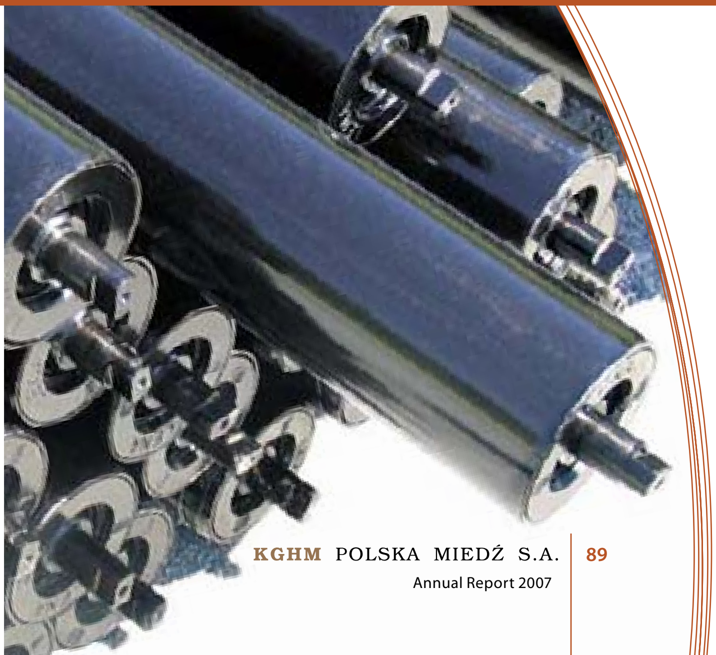
Main directions of growth
- increasing the production of bundled electrical cables, including the introduction of a new assortment of bundled electrical cables based on new technology,
- expanding its sales network,
- expanding the variety of logistical supply services it offers beyond the KGHM Polska Miedź S.A. Group.

Financial data for the years 2005–2007

AMOUNTS (mln PLN)	2005	2006	2007
Sales	555.14	563.48	577.72
Net profit	6.88	4.10	3.90
Share capital	6.47	10.73	10.73
TOTAL ASSETS	138.56	147.95	157.19

Important events in 2007
- the opening in Legnica of a second Electrical Bundles Production Section,
- completing the investment to increase the production capacity of the Electromechanical Production Plant,
- opening a further Gallery of Interior Design in Głogów,
- completing a project to fully computerise its sales outlets,
- renewing the quality management system certificates of the Electromechanical Production Plant,
- once again being awarded with the title „Fair Play Enterprise".

References – of highest importance
- a strategic role for KGHM Polska Miedź S.A. – the company is the main supplier of KGHM's core business in materials and spare parts,
- possession of its own network of wholesale and retail sales outlets and its own foreign trade office,
- in-depth knowledge of the markets for and producers of the goods which it sells,
- the company has been on the market since 1991.



Name: **KGHM Ecoren S.A.**
Percentage of company owned by the KGHM Group – 100%

Core business
This company is involved in the production of metals and their compounds as well as the management of industrial waste. It operates as a company aimed at reducing emissions to the environment.

Core business of the company
– the production of ammonium perrhenate (a rhenium compound) from filtered acids
– the production of road-building material.

The products of KGHM Ecoren S.A. are recovered from the waste generated by the production of copper in KGHM Polska Miedź S.A.

Main directions of growth
– restricting the role of equity management of the entities within its own group in favor of developing production-related activities,
– developing modern metals recovery technology, in particular the production of nickel, cobalt and zinc compounds using waste from KGHM Polska Miedź S.A.,
– increasing the production of ammonium perrhenate by increasing its processing of waste,
– commencing the production of metallic rhenium, and
– acquiring new sources of raw materials for the production of road-building material.

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	*2005*	*2006*	*2007*
Sales	*52.88*	*53.49*	*93.73*
Net profit	*3.54*	*18.70*	*27.81*
Share capital	*223.37*	*223.37*	*213.32*
TOTAL ASSETS	*245.90*	*278.84*	*311.07*

Important events in 2007
- opening of the Hydrometallurgical Section at the Głogów smelter – commencing the production of catalytic ammonium perrhenate (a rhenium compound containing 69.4% pure rhenium),
- opening of the Raw Materials Recovery Section within the grounds of the company Inowa – purchase of a production line whose end products are copper and silver concentrates,
- a gold medal at the International Poznań Fair in the competition „Transforming research into economically beneficial applications" for rhenium recovery technology, developed by specialists from KGHM Ecoren S.A. and the Institute of Non-Ferrous Metals in Gliwice.

References – of highest importance
- The company has a share of approx. five percent in global rhenium production,
- carrying out ventures aimed at reducing the problems encountered by KGHM Polska Miedź S.A. in connection with the generation of industrial waste,
- a significant role in KGHM's strategy of diversification of activities as respects waste management and the production and recovery of metals.

Name: **KGHM CUPRUM sp. z o.o. – CBR**
Percentage of company owned by the KGHM Group – 100%

Core business
The company is engaged in research and development work in the following sectors:
geology, mining, machinery, electronics, environmental protection and restructuring companies, and in providing expert opinions in these areas. The work carried out comprises all stages of R&D activity, from initial research to the project stage, the evaluation of environmental impact and feasability analysis to supervising realisation of a project.

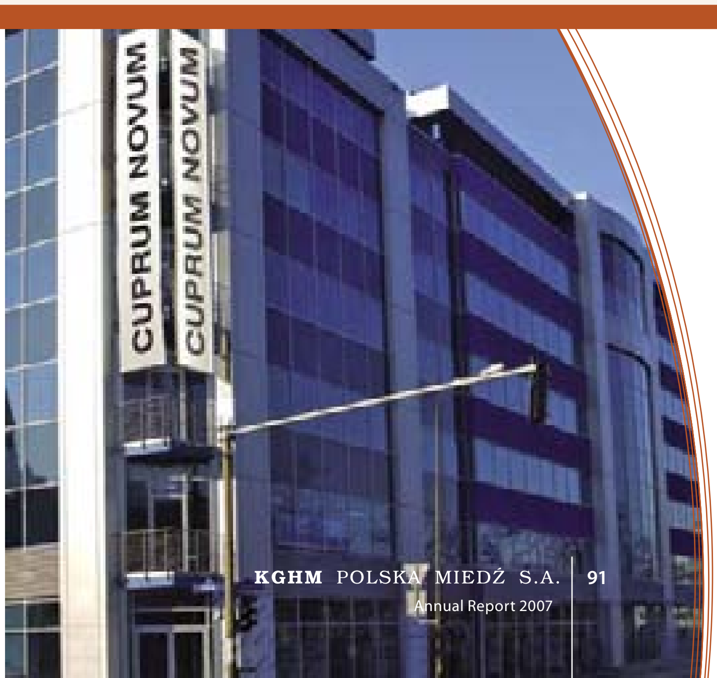
References – of highest importance
- the performance of R&D for most of the core business-related investment projects realised by KGHM Polska Miedź S.A.,
- storage of the technical (geological) and technological documentation of KGHM Polska Miedź S.A.,

Main directions of growth
- exploration – searching for new deposits,
- increasing its participation in mining R&D, and the processing of non-ferrous metals and other natural resources,
- expanding the scale of its services with respect to environmental geoengineering.

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	*2005*	*2006*	*2007*
Sales	*30.41*	*30.78*	*25.32*
Net profit	*0.70*	*1.34*	*1.09*
Share capital	*3.51*	*8.51*	*8.51*
TOTAL ASSETS	*19.25*	*24.06*	*51.73*

Important events in 2007
- the company continued construction of a new, 'A'-class multi-purpose office building at the corner of Sikorski and Podwale streets in Wrocław,
- a license was obtained for carrying out geological research in the Weisswasser region in Germany,
- the company participates in cooperative consortiums involved in innovations in the extractive industry:
  a) a Polish-Swedish consortium with the participation of the AGH University of Mining and Technology, Wrocław University of Technology, MITU (a Swedish center for mine research), and Lulea University of Technology
  b) a KGHM-led consortium with the participation of Polish centers of learning and scientific-research institutes,
- the Polish Minister of Science and Higher Learning named KGHM CUPRUM as a Sector Point of Contact for Balanced Development of the Copper and Brown Coal Mining Industries in Southern and Western Poland (known by the Polish abbreviation BPK-MWPPZ) under the 7th Framework Program of the European Union in the years 2007–2013.
- the company is recognised as an R&D enterprise by the Minister of Science and the Chairman of the Scientific Research Committee,
- the company cooperates with a range of Polish and foreign centers of learning involved in science and research,
- a highly-qualified staff, with specialties which include environmental protection, geology and hydrogeology,
- high quality services confirmed by ISO 9001 and ISO 14001 certificates, and by 40 years of experience.



Name: **PeBeKa S.A.**
Percentage of company owned by the KGHM Group – 100%

Core business

PeBeKa S.A. provides complex services in general and specialty civil engineering projects, builds facilities for underground and surface mines, transport and related construction, and industry, and has recently become involved in environmental projects (waste treatment projects):

- the construction of mines together with infrastructure (shafts, tunnels, and the assembly and construction of associated facilities),
- drilling roadway and railway tunnels, underground railways,
- underground construction (for example metro stations, underground garages),
- the reconstruction of historic mining facilities,
- constructing deep foundations, securing excavated construction sites, and
- the construction and repair of all kinds of pipelines without the use of excavation.

Main directions of growth

- strengthening its position in mine construction,
- developing its expertise in general, underground and civil construction,
- increasing its potential with respect to projects for KGHM Polska Miedź S.A.,
- remaining involved in the construction of the Warsaw metro and foreign contracts,
- expanding its engineering know-how, applying new technology and production solutions,
- work on implementing new technology for the mechanical working of hard rock masses.

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	2005	2006	2007
Sales	267.89	353.22	468.07
Net profit	3.99	2.09	2.57
Share capital	27.35	30.82	30.82
TOTAL ASSETS	128.51	196.40	212.29

Important events in 2007

- signing of a turnkey-type contract by the consortium PeBeKa – HOCHTIEF to design and build a stadium in Lubin,
- awarded the title „TYTAN 2007" at the Vth International Conference, Technology Exhibitions „INŻYNIERIA 2007" in the category „Company of the Year – underground construction" for construction of the Bielański section of the Warsaw Metro.

References – of highest importance

- the company has been on the market for 46 years,
- the company is the primary contractor for the shafts and mine infrastructure belonging to KGHM Polska Miedź S.A.,
- involved for 21 years in building the Warsaw Metro,
- renovation of the Wieliczka salt mine,
- realisation of foreign contracts for mines and tunnels (e.g. Algieria, Israel, Hong Kong, Germany).

Name: **Centrum Badań Jakości sp. z o.o.**
Percentage of company owned by the KGHM Group – 100%

CBJ® CENTRUM BADAŃ JAKOŚCI SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ

Core business

The company offers the following services:

- analysis and measurement of factors which are harmful in the workplace,
- measurements of emmissions,
- the analysis of water, waste and waste runoff,
- the microbiological analysis of foodstuffs,
- soil analysis,
- industrial research,
- research into permanent waste,
- research on fuels and smelter materials from the copper industry.

Main directions of growth

– increasing sales of its services (the puchase of research laboratories and mobile laboratories),
– maintaining the level of its sales to KGHM Polska Miedź S.A. and increasing its external market share,
– increasing revenues from the sale of non-industrial research,
– expanding the scope of research services offered,
– improving its integrated management system.

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	*2005*	*2006*	*2007*
Sales	*34.43*	*37.02*	*38.38*
Net profit	*2.70*	*3.31*	*2.86*
Share capital	*2.92*	*2.92*	*2.92*
TOTAL ASSETS	*25.48*	*29.26*	*30.51*

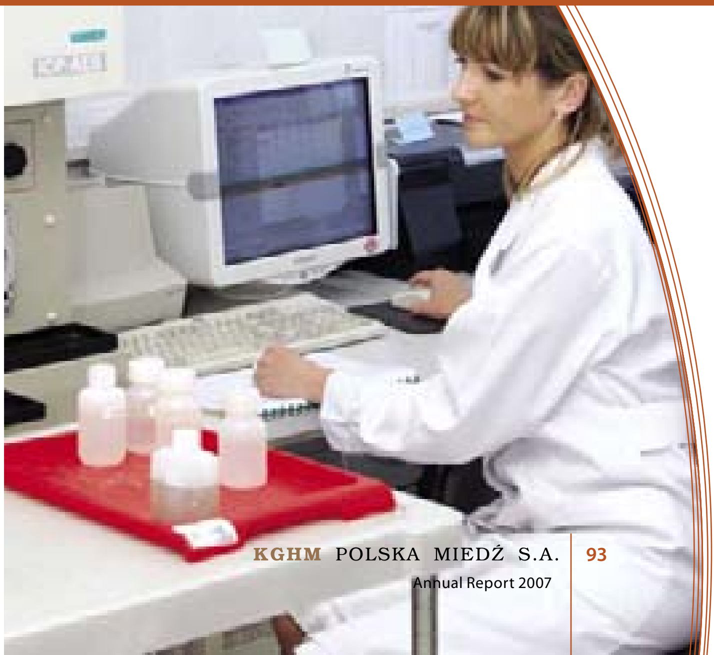
Important events in 2007

- the announcement that its accreditation for 168 research methods had been prolonged and expanded for a further 4 years,
- gaining authorisation to carry out government research into the microbiology of foodstuffs,
- prolongation of the validity of its Integrated Management System Certificate in accordance with the quality and workplace safety and hygiene standards PN-EN ISO 9001:2001, PN-N-18001:2004 and OHSAS 18001:1999,
- In 2007 the company was distinguished with the following awards:

– The Gold Certificate in the Polish Program „Solid Firm" (a five-time winner of the title „Solid Firm"),
– The Silver medal in the category highest quality management, as a laureat of the competition International Quality Forum 2007,
– The Emblem of the Certyfying Program „Customer Friendly Firm".

References – of highest importance

- primary provider of industrial research and analysis for the core business of KGHM Polska Miedź S.A.,
- the company holds accreditation issued by the Polish Center for Testing and Certification with respect to physical-chemical and microbiological analysis of foodstuffs,
- high quality of services – the company holds an Integrated Management System Certificate in accordance with the standards PNEN ISO 9001, PN-N 18001 and OHSAS 18001 issued by the Polish Center for Testing and Certification.



Name: **DFM ZANAM-LEGMET Sp. z o.o.**
Percentage of company owned by the KGHM Group – 100%

Core business

- The core business is the production and servicing of mining machines (loaders, haulers, drilling-bolting rigs, auxilliary machines),
- the production and servicing of conveyor belts,
- the production of steel castings,
- the production of casings for boilers and crushers,
- steel-based constructions.

Main directions of growth

– increasing the share of the company's core business in its sales,
– maximum satisfaction of KGHM Polska Miedź S.A. with respect to meeting its need for the production and after-sale servicing of mining and haulage systems,
– increasing and implementing the potential of the Service Center,
– improving the quality of its products and services,
– gaining access to external markets,
– implementing the ERP System, and
– implementing new products to meet the needs of KGHM Polska Miedź S.A.

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	2005	2006	2007
Sales	199.35	211.19	235.30
Net profit	0.91	3.16	4.63
Share capital	30.47	35.97	35.97
TOTAL ASSETS	87.50	97.21	103.29

Important events in 2007

- signing a major contract for the supply of tubing (iron elements of mine shafts),
- centralising production planning,
- reorganisation of the service system structure,
- realisation of a machine quality improvement program.
- the company produces such unique constructions as desulphurisation installations and tall chimneys,
- the company is working intensively to expand its product range and to implement new and modernised machines of a higher production capacity and greater functionality, for the mining of deposits located in difficult thermal and geological conditions in the mines of KGHM,
- the machines designed by the engineers of ZANAM-LEGMET are often unique in terms of their mining and haulage systems in underground mines (the loader LKP 0903 and the hauler WKPL 30HS),
- over 100 machines produced by the company are used in a copper mine in the Ural mountains.

References – of highest importance

- the company is the largest producer in Poland of mining machinery for use in methane-free, underground non-ferrous metals and salt mining tunnels,
- the company's largest customer is KGHM Polska Miedź S.A.,
- in 2007 the company supplied 40% of the need of KGHM Polska Miedź S.A. for mining machinery and 100% of the need for conveyor belts,

Name: **POL-MIEDŹ TRANS Sp. z o.o.**
Percentage of company owned by the KGHM Group – 100%

GRUPA KAPITAŁOWA KGHM POLSKA MIEDŹ S.A.
POL-MIEDŹ TRANS

Core business

POL-MIEDŹ TRANS Sp. z o.o. provides the following types of transport services:

- roadway – passenger, commodity and specialist,
- railway – commodity, specialist, and
- the trade of oil-based products, as well as the repair of wheeled and railway vehicles, machinery and equipment. The company also offers laboratory services – the analysis of oil-based products.

Main directions of growth

- taking over full servicing of KGHM Polska Miedź S.A. with respect to mass railway transport, and increasing its share of the domestic market in mass railway transport,
- increasing its know-how as a transportation expediter and coordinator alongside decreasing use of its own rolling stock,
- maintaining its position as the largest independent distributor in Lower Silesia of a full range of oil-based products.

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	*2005*	*2006*	*2007*
Sales	*440.86*	*445.07*	*441.83*
Net profit	*5.03*	*–20.38*	*0.40*
Share capital	*140.42*	*140.42*	*140.42*
TOTAL ASSETS	*225.85*	*222.77*	*206.66*

Important events in 2007

- restructurisation of its assets (the disposal of redundent property),
- geographical centralisation of its activities (with its base in Polkowice),
- increasing its railway transport potential by purchasing 95 coal cars and and a fuel-burning locomotive.

References – of highest importance

- the company is the main supplier of KGHM Polska Miedź S.A. with respect to passenger and commodity transport, and directly supplies fuel to the divisions of KGHM Polska Miedź S.A.,
- the company is one of the largest domestic railway firms using its own wagons and locomotives, and has its own railway lines,
- the company operates on the expediter market, working with numerous major partners on the market.

Name: **„Energetyka" sp. z o.o.**
Percentage of company owned by the KGHM Group – 100%

Core business
The company provides the following types of services:
- the generation, distribution and sale of heating energy and electricity,
- the intake, purification and distribution of water from its own sources,
- the collection and treatment of sewage and the utilisation of industrial rain water,
- the production of industrial water,
- the collection and treatment of industrial waste and the utilisation of water from waste flows,
- services related to these activities.

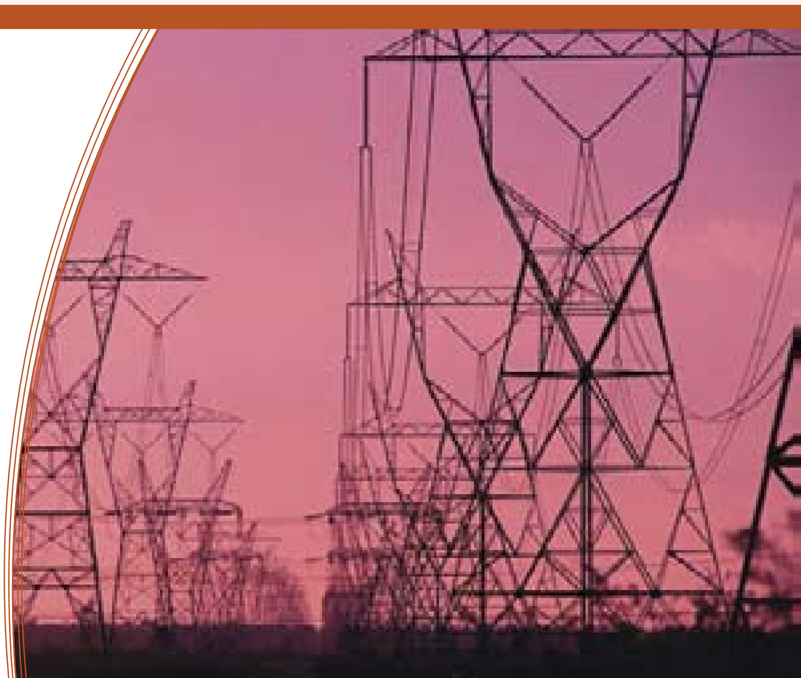
Main directions of growth
- increasing the generation of co-occurring heating energy and electricity,
- guaranteeing supply of the majority of KGHM's energy needs,
- guaranteeing KGHM Polska Miedź S.A. and its remaining customers for heat a secure supply of energy,
- increasing its share in the heating energy market, including consolidation of the local market,
- searching for alternative sources of energy,
- decreasing the environmental impact of the company.

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	2005	2006	2007
Sales	*216.61*	*229.54*	*211.12*
Net profit	*0.07*	*–13.62*	*0.88*
Share capital	*191.05*	*191.05*	*221.48*
TOTAL ASSETS	*306.64*	*318.09*	*328.19*

Important events in 2007
- the share capital of the company was increased, and was used for modernisation and development,
- the company continued to modernise its boilers in order to increase its production capacity and effectiveness, as well as the energy security of KGHM Polska Miedź S.A., and
- the compressor unit of the Głogów power plant was modernised.

References – of highest importance
- complete supply of energy and sewage management for KGHM Polska Miedź S.A.,
- guaranteeing the heating needs of neighboring towns – Polkowice, Głogów, Lubin – using its own power plants,
- the production and distribution of potable water for the neighboring municipalities.



Name: **INTERFERIE S.A.**
Percentage of company owned by the KGHM Group – 65,67%

interferie.pl

Core business

- the sale of domestic and foreign tourism-related services, including: holidays, spas and hotels,
- the organisation of courses for schools, conferences and symposiums, casual events etc.,
- intermediary in the sale of tourism services – realised by the Tourism Office of INTERFERIE.

Main directions of growth

– realisation of the investment program aimed at developing its tourism base, enabling an expansion of its holiday services combined with rehabilitation and curative spas, through the purchase or construction of new recreational centers and the renovation and modernisation of existing units,
– the restructuring of assets, involving the lease or sale of units which do not fit into the strategy of the company,
– construction of a high-standard unit offering spa services,
– increasing sales to foreign tourist agencies, mainly from Germany and Scandinavia).

Financial data for the years 2005–2007

AMOUNTS *(mln PLN)*	*2005*	*2006*	*2007*
Sales	*37.04*	*37.43*	*36.65*
Net profit	*4.24*	*2.46*	*1.08*
Share capital	*47.82*	*72.82*	*72.82*
TOTAL ASSETS	*68.42*	*99.79*	*103.32*

Important events in 2007

- the company paid PLN 19 million for a hotel unit in Świnoujście, which s to be renovated into a 5-star hotel offering spa, conference and rehabilitation and curative services,
- together with the town of Szklarska Poręba, the company has begun preparing for EURO 2012 – Hotel Bornit is seeking to be named as a rest-training site for footballers.

References – of highest importance

- INTERFERIE S.A. is the largest tourism company in Lower Silesia and one of the largest in Poland,
- the company owns numerous tourist facilities, from high-class hotels to basic residential quarters for workers,
- the company specialises in the organisation of medical and rehabilitation-type holidays.

Products and services of KGHM Polska Miedź S.A. Group companies

The activities of the Group may be divided into three business segments:
SEGMENT I – metals (copper, precious metals), other smelter products – extraction, processing, production, trade and promotion
SEGMENT II – telecommunications
SEGMENT III – other sectors which comprise the activities of subsidiaries of the Group which are not included in segments I and II

	ENTITY	TYPE OF ACTIVITY
		SEGMENT I
1.	KGHM Polska Miedź S.A.	copper ore mining; the production of non-ferrous and precious metals and salt; the casting of light and non-ferrous metals; the management of waste; activities related to financial holding associations; geological-exploratory activities, research and technical analysis; professional rescue services; telecommunications and IT services
2.	KGHM CONGO S.P.R.L	copper and cobalt extraction services
3.	WMN Sp. z o.o.	non-ferrous metals processing
4.	KGHM Polish Copper Ltd.	copper trading
5.	KGHM Kupferhandelsges.m.b.H	copper trading
6.	WM „ŁABĘDY" S.A.	trading in coal, grinding mediums used in the production of copper concentrate
7.	KGHM Metraco S.A.	trading of metals, chemicals, copper scrap
		SEGMENT II
1.	DIALOG S.A.	telecommunications services
2.	Vivid.pl. S.A.	internet sales
3.	AVISTA MEDIA Sp. z o.o.	multimedia services
		SEGMENT III
1.	KGHM Ecoren S.A.	the production and sale of road-building materials and of rhenium compounds
2.	PeBeKa S.A.	construction of mines with infrastructure; building of roadway, railway and subway tunnels, underground construction
3.	DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery, machinery repairs
4.	Energetyka sp. z o.o.	generation, distribution and sale of electrical and heating energy, water-sewage management
5.	POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport, passenger and cargo road transport, trade in fuels
6.	PHP „MERCUS" sp. z o.o.	trade in consumer goods, production of bundled electrical cables
7.	INTERFERIE S.A.	tourism services, including holiday resorts, health spas and hotels
8.	„MCZ" S.A.	medical services
9.	KGHM CUPRUM sp. z o.o. – CBR	CBR R&D activities
10.	CBJ sp. z o.o.	research and chemical-physical analysis
11.	INOVA Spółka z o.o.	electrotechnics, attestation and expertise, certification
12.	KGHM LETIA S.A.	sale and rental of property, promotion of scientific achievements, technology transfer
13.	WFP Hefra SA	production and sale of rust-proof, silver-plated and semi-silverplated table settings
14.	PCPM sp. z o.o.	promotion of copper products
15.	„Zagłębie" Lubin SSA	management of a football club, organisation of professional sporting events
16.	PHU „Lubinpex" Sp. z o.o.	food industry and catering services

Condensed financial report of KGHM Polska Miedź S.A.

The accompanying condensed financial report of KGHM Polska Miedź S.A. with its registered head office in Lubin was prepared by the Management Board of the Company based on the audited full-year financial statements in accordance with International Financial Reporting Standards approved by the European Union for the financial period from 1 January to 31 December 2007.

For a complete understanding of the material and financial condition of the Company and its financial results for the financial period from 1 January to 31 December 2007, the complete financial statements of the Company must be read in conjunction with the registered auditor's opinion and report concerning these financial statements (the full text of these statements are on the Company website www.kghm.pl).

Independent Auditors' Opinion to the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

On 15 April 2008 we issued an unqualified opinion regarding the consolidated financial statements for the financial year ending 31 December 2007, as presented below:

1. 1.We have audited […] the consolidated financial statements of the KGHM Polska Miedź S.A. Group („the Group"), in which the parent entity is KGHM Polska Miedź S.A. („the Company") with its registered head office in Lubin, ul. Marii Skłodowskiej-Curie 48, for the year ended 31 December 2007, containing:
- the consolidated balance sheet as at 31 December 2007, with total assets amounting to 13,459,505 thousand zlotys,
- the consolidated income statement for the year from 1 January 2007 to 31 December 2007, with a net profit amounting to 3,935,516 thousand zlotys,
- the consolidated statement of changes in equity for the year from 1 January 2007 to 31 December 2007, with a net increase in equity amounting to 1,239,207 thousand zlotys,
- the consolidated cash flow statement for the year from 1 January 2007 to 31 December 2007, with a net cash inflow amounting to 490,965 thousand zlotys, and
- the summary of significant accounting policies and other explanatory notes

(„[…] consolidated financial statements").

1. The truth and fairness of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair.
2. **We conducted […] our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:**
- chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act"),
- the auditing standards issued by the National Chamber of Auditors,

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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated financial statements for the year ended 31 December 2006 were respectively audited by another certified auditor, acting on behalf of another entity. The certified auditor issued an unqualified audit opinion dated 13 April 2007.
5. **In our opinion, […] the attached consolidated financial statements, in all material respects:**
- present truly and fairly all information material for the assessment of the results of the Group's operations for the year from 1 January 2007 to 31 December 2007, as well as its financial position3 as at 31 December 2007;
- have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

7. We have read the 'Directors' Report for the year from 1 January 2007 to 31 December 2007 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these consolidated financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744)."

In our opinion, the information presented in the condensed published version of the financial statements on pages 103 to 105 of this annual report are in all significant aspects presented correctly with respect to the above-mentioned, audited consolidated financial statements, based on which they were prepared. The consolidated financial statements which we audited contain notes which were not fully presented in the attached, condensed financial statements. In order to obtain full and accurate information about the Company as at 31 December 2007 and about the results of its activities from 1 January 2007 to 31 December 2007, the full version of the consolidated financial statements must be consulted, containing those disclosures required by International Financial Reporting Standards as approved by the EU.

Warsaw, 30 June 2008

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130
Marek Musiał
Certified Auditor No. 90036/7272
Jacek Hryniuk
Certified Auditor No. 9262/6958

BALANCE SHEET	At 31 December 2007	At 31 December 2006
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	4 832 630	4 378 301
Intangible assets	74 830	75 424
Shares in subsidiaries	1 803 390	1 683 209
Investments in associates	438 559	438 559
Deferred tax assets	160 781	289 997
Available-for-sale financial assets	32 935	87 864
Derivative financial instruments	33 395	17 016
Trade and other receivables	11 012	46 734
	7 387 532	7 017 104
CURRENT ASSETS		
Inventories	1 603 487	1 638 271
Trade and other receivables	772 279	1 220 583
Derivative financial instruments	81 444	282 043
Cash and cash equivalents	2 534 995	2 093 436
	4 992 205	5 234 333
TOTAL ASSETS	12 379 737	12 251 437
EQUITY AND LIABILITIES		
EQUITY		
Share capital, of which:	2 000 000	7 413 573
– Registered share capital	2 000 000	2 000 000
– Share capital from revaluation due to hyperinflation		5 413 573
Other reserves	13 783	(431 526)
Retained earnings	6 952 166	1 133 767
TOTAL EQUITY	8 965 949	8 115 814
LIABILITIES		
NON-CURRENT LIABILITIES		
Trade and other payables	6 305	6 522
Borrowings and finance lease liabilities	20 319	29 552
Derivative financial instruments	3 087	1 486
Liabilities due to employee benefits	853 096	803 875
Provisions for other liabilities and charges	556 589	479 911
	1 439 396	1 321 346
CURRENT LIABILITIES		
Trade and other payables	1 466 948	1 457 647
Borrowings and finance lease liabilities	8 612	10 808
Current tax liabilities	343 022	400 846
Derivative financial instruments	14 335	837 093
Liabilities due to employee benefits	66 199	63 234
Provisions for other liabilities and charges	75 276	44 649
	1 974 392	2 814 277
TOTAL LIABILITIES	3 413 788	4 135 623
TOTAL EQUITY AND LIABILITIES	12 379 737	12 251 437

INCOME STATEMENT CONTINUED ACTIVITIES	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Sales	12 183 113	11 669 730
Cost of sales	(6 617 286)	(6 932 281)
GROSS PROFIT	5 565 827	4 737 449
Selling costs	(77 572)	(80 107)
Administrative expenses	(608 507)	(518 814)
Other operating income	037	607 767
Other operating costs	(655)	(343 699)
OPERATING PROFIT	4 682 034	4 402 596
Finance costs – net	(26 504)	(22 551)
PROFIT BEFORE INCOME TAX	4 655 530	4 380 045
Income tax expense	(856 704)	(775 057)
PROFIT FOR THE PERIOD	3 798 826	3 604 988
EARNINGS PER SHARE DURING THE PERIOD (in PLN per share)		
– basic	18,99	18,02
– diluted	18,99	18,02

STATEMENT OF CHANGES IN EQUITY	Share capital	Other reserves	Retained earnings	Total equity
AT 1 JANUARY 2006	7 413 573	(796 709)	(471 221)	6 145 643
Fair value losses on available-for-sale financial assets		(7 069)		(7 069)
Impact of cash flow hedging valuation		467 184		467 184
Deferred tax		(94 932)		(94 932)
TOTAL INCOME / (EXPENSES) RECOGNISED DIRECTLY IN EQUITY		365 183		365 183
Profit for the period			3 604 988	3 604 988
TOTAL RECOGNISED INCOME / (EXPENSES)		365 183	3 604 988	3 970 171
Dividend for 2005			(2 000 000)	(2 000 000)
AT 31 DECEMBER 2006	7 413 573	(431 526)	1 133 767	8 115 814
AT 1 JANUARY 2007	7 413 573	(431 526)	1 133 767	8 115 814
Fair value losses on available-for-sale financial assets		(5 697)		(5 697)
Impact of cash flow hedging valuation		567 423		567 423
Deferred tax		(116 417)		(116 417)
TOTAL INCOME / (EXPENSES) RECOGNISED DIRECTLY IN EQUITY		445 309		445 309
Profit for the period			3 798 826	3 798 826
TOTAL RECOGNISED INCOME / (EXPENSES)		445 309	3 798 826	4 244 135
Dividend for 2006			(3 394 000)	(3 394 000)
Settlement of share capital revaluation due to hyperinflation	(5 413 573)		5 413 573	
AT 31 DECEMBER 2007	2 000 000	13 783	6 952 166	8 965 949

CASH FLOW STATEMENT	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
CASH FLOW FROM OPERATING ACTIVITIES		
Cash generated from operating activities	5 358 051	3 339 358
Income tax paid	(901 729)	(779 311)
NET CASH GENERATED FROM OPERATING ACTIVITIES	4 456 322	2 560 047
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of shares in subsidiaries	(79 440)	(20 040)
Proceeds from sale of shares in subsidiaries	10 052	
Purchase of property, plant and equipment and intangible assets	(845 596)	(674 905)
Proceeds from sale of property, plant and equipment and intangible assets	8 378	3 219
Purchase of held-to-maturity investments	(41 846)	
Proceeds from sale of held-to-maturity investments	42 200	200 000
Purchase of available-for-sale financial assets	(200 003)	(50 000)
Proceeds from sale of available-for-sale financial assets	267 412	21 813
Loans granted	(2 268)	(4 430)
Repayments of loans	10 326	6 804
Interest received	496	5 809
Dividends received	270 363	469 598
Other investment expenses	(6 217)	(3 512)
NET CASH USED IN INVESTING ACTIVITIES	(566 143)	(45 644)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayments of loans and borrowings	(6 000)	(35 227)
Payments of liabilities due to finance leases	(4 795)	(7 028)
Interest paid	(755)	(2 282)
Dividends paid to shareholders	(3 394 000)	(2 000 000)
NET CASH USED IN FINANCING ACTIVITIES	(3 405 550)	(2 044 537)
TOTAL NET CASH FLOW	484 629	469 866
Exchange gains/(losses) on cash and cash equivalents	(43 070)	14 115
MOVEMENTS IN CASH AND CASH EQUIVALENTS	441 559	483 981
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	2 093 436	1 609 455
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	2 534 995	2 093 436
including restricted cash and cash equivalents	2 597	

Consolidated financial statements

Independent Auditor's Opinion to the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

On 15 April 2008 we issued an unqualified opinion on the consolidated financial statements
for the financial year ended 31 December 2007, as presented below:

1. We have audited the […]consolidated financial statements of Capital Group KGHM Polska Miedź S.A. ('the Group'), for which the holding company is KGHM Polska Miedź S.A. ('the Company') located in Lubin at M. Skłodowskiej-Curie 48, for the year ended 31 December 2007 containing:

- the consolidated balance sheet as at 31 December 2007 with total assets amounting to 13,459,505 thousand zlotys,
- the consolidated income statement for the year from 1 January 2007 to 31 December 2007 with a net profit amounting to 3,935,516 thousand zlotys,
- the consolidated statement of changes in equity for the year from 1 January 2007 to 31 December 2007 with a net increase in equity amounting to 1,239,207 thousand zlotys,
- the consolidated cash flow statement for the year from 1 January 2007 to 31 December 2007 with a net cash inflow amounting to 490,965 thousand zlotys and
- the summary of significant accounting policies and other explanatory notes
- („the […] consolidated financial statements”).

2. The truth and fairness of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair.

3. We conducted our audit of the […] consolidated financial statements in accordance with the following regulations being in force in Poland:

- chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
- the auditing standards issued by the National Chamber of Auditors, 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 consolidated 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 consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. The consolidated financial statements for the year ended 31 December 2006 were respectively audited by another certified auditor, acting on behalf of another entity. The certified auditor issued an unqualified audit opinion dated 13 April 2007.

5. In our opinion, the […]consolidated financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Group's operations for the year from 1 January 2007 to 31 December 2007, as well as its financial position3 as at 31 December 2007;
- have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

6. We have read the 'Directors' Report for the year from 1 January 2007 to 31 December 2007 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the […]consolidated financial statements reconciles with these consolidated financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance of 19 October 2005, on current and periodic information published by issuers of securities (Journal of Law No. 209, item 1744)."

In our opinion, the information presented in the published, condensed version of the financial statements on pages 107 to 190 of this annual report are in all significant aspects presented correctly with respect to the above-mentioned audited consolidated financial statements, based on which they were prepared. The consolidated financial statements which we audited contain notes which were not fully presented in the attached condensed financial statements. For a complete understanding of the material and financial condition of the Company at 31 December 2007 and its financial results for the financial period from 1 January to 31 December 2007, the complete consolidated financial statements must be read containing the disclosures required by International Financial Reporting Standards approved by the European Union.

Warsaw, 15 April 2008

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130
Marek Musiał
Certified Auditor No. 90036/7272
Jacek Hryniuk
Certified Auditor No. 9262/6958

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CONSOLIDATED BALANCE SHEET – ASSETS	Note	At 31 December 2007	At 31 December 2006
NON-CURRENT ASSETS			
Property, plant and equipment	7	6 614 352	6 052 286
Intangible assets	8	119 231	126 014
Investment property	9	16 517	18 853
Investments in associates	10	690 096	690 074
Deferred tax assets	23	320 506	388 468
Available-for-sale financial assets	11	47 155	92 932
Held-to-maturity investments	12	41	44
Derivative financial instruments	13	33 395	17 016
Trade and other receivables	14	47 071	17 175
		7 888 364	7 402 862
CURRENT ASSETS			
Inventories	15	1 744 495	1 768 750
Trade and other receivables	14	925 367	1 404 644
Current corporate tax receivables		7 377	4 860
Held-to-maturity investments	12		19 070
Derivative financial instruments	13	81 622	282 045
Cash and cash equivalents	16	2 812 096	2 321 131
		5 570 957	5 800 500
NON-CURRENT ASSETS HELD FOR SALE	26	184	24 507
TOTAL ASSETS		13 459 505	13 227 869

EQUITY AND LIABILITIES	Note	At 31 December 2007	At 31 December 2006
EQUITY			
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT ENTITY			
Share capital	17	2 000 000	2 000 000
Other reserves	18	13 118	(431 161)
Retained earnings		7 440 870	6 900 311
		9 453 988	8 469 150
MINORITY INTEREST		47 621	44 762
TOTAL EQUITY		9 501 609	8 513 912
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	20	24 762	16 739
Borrowings and finance lease liabilities	21	162 909	150 568
Derivative financial instruments	13	3 087	1 486
Deferred tax liabilities	23	29 804	26 538
Liabilities due to employee benefits	24	919 923	864 950
Provisions for other liabilities and charges	25	570 327	493 009
		1 710 812	1 553 290
CURRENT LIABILITIES			
Trade and other payables	20	1 602 513	1 711 160
Borrowings and finance lease liabilities	21	113 201	54 756
Current corporate tax liabilities		343 377	402 842
Derivative financial instruments	13	14 335	837 103
Liabilities due to employee benefits	24	77 402	72 603
Provisions for other liabilities and charges	25	96 256	78 901
		2 247 084	3 157 365
TOTAL LIABILITIES		3 957 896	4 710 655
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	26		3 302
TOTAL EQUITY AND LIABILITIES		13 459 505	13 227 869

CONSOLIDATED INCOME STATEMENT	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Sales	28	13 494 128	12 862 899
Cost of sales	29	(7 578 224)	(7 760 218)
GROSS PROFIT		5 915 904	5 102 681
Selling costs	29	(210 044)	(193 001)
Administrative expenses	29	(737 874)	(697 242)
Other operating income	31	243 460	173 956
Other operating costs	32	(684 493)	(363 459)
OPERATING PROFIT		4 526 953	4 022 935
Finance costs – net	33	(35 159)	(27 102)
Share of profits of associates accounted for using the equity method	36	265 093	220 780
PROFIT BEFORE INCOME TAX		4 756 887	4 216 613
Income tax expense	37	(821 371)	(737 233)
PROFIT FOR THE PERIOD		3 935 516	3 479 380
attributable to:			
shareholders of the Parent Entity		3 934 559	3 479 183
minority interest		957	197
		3 935 516	3 479 380
EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT ENTITY DURING THE PERIOD (PLN per share)	38		
– basic		19.67	17.40
– diluted		19.67	17.40

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	Note	Attributable to shareholders of the Parent Entity			Attributable to minority interest	Total equity
		Share capital	Other reserves	Retained earnings		
AT 1 JANUARY 2006 AS PREVIOUSLY STATED		2 000 000	(796 342)	5 139 032	14 631	6 357 321
PRIOR PERIOD ERRORS	3			282 096	37	282 133
AT 1 JANUARY 2006		2 000 000	(796 342)	5 421 128	14 668	6 639 454
Impact of cash flow hedging valuation	35.1.9		467 185			467 185
Fair value losses on available-for-sale financial assets			(7 071)			(7 071)
Deferred tax	23		(94 933)			(94 933)
TOTAL INCOME/(EXPENSES) RECOGNISED DIRECTLY IN EQUITY			365 181			365 181
Profit for the period				3 479 183	197	3 479 380
TOTAL RECOGNISED INCOME /(EXPENSES)			365 181	3 479 183	197	3 844 561
Dividend for 2005	39			(2 000 000)		(2 000 000)
Transactions with minority interest					29 897	29 897
AT 31 DECEMBER 2006		2 000 000	(431 161)	6 900 311	44 762	8 513 912
AT 1 JANUARY 2007 AS PREVIOUSLY STATED		2 000 000	(431 161)	6 648 838	44 725	8 262 402
PRIOR PERIOD ERRORS	3			251 473	37	251 510
AT 1 JANUARY 2007		2 000 000	(431 161)	6 900 311	44 762	8 513 912
Impact of cash flow hedging valuation	35.1.9		567 423			567 423
Fair value losses on available-for-sale financial assets			(6 727)			(6 727)
Deferred tax	23		(116 417)			(116 417)
TOTAL INCOME/(EXPENSES) RECOGNISED DIRECTLY IN EQUITY			444 279			444 279
Profit for the period				3 934 559	957	3 935 516
TOTAL RECOGNISED INCOME /(EXPENSES)			444 279	3 934 559	957	4 381 697
Dividend for 2006	39			(3 394 000)		(3 394 000)
Transactions with minority interest	19				1 902	1 902
AT 31 DECEMBER 2007		2 000 000	13 118	7 440 870	47 621	9 501 609

CONSOLIDATED CASH FLOW STATEMENT	Note	At 31 December 2007	At 31 December 2006
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operating activities	40	5 597 215	3 616 516
Income tax paid		(928 810)	(798 599)
NET CASH GENERATED FROM OPERATING ACTIVITIES		4 668 405	2 817 917
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of a subsidiary, less acquired cash and cash equivalents		(724)	(4 807)
Purchase of property, plant and equipment and intangible assets		(1 182 361)	(891 935)
Proceeds from sale of property, plant and equipment and intangible assets	40	20 001	5 527
Proceeds from sale of investment property		35 924	
Purchase of held-to-maturity investments		(278 024)	(82 670)
Proceeds from sale of held-to-maturity investments		297 875	63 873
Purchase of available-for-sale financial assets		(210 123)	(50 300)
Proceeds from sale of available-for-sale financial assets		267 412	21 813
Repayments of granted loans		305	
Interest received		867	1 348
Dividends received		265 468	462 209
Other investment (expenses)/proceeds		(16 004)	1 596
NET CASH USED IN INVESTING ACTIVITIES		(799 384)	(473 346)
CASH FLOW FROM FINANCING ACTIVITIES			
Expenses connected with transactions with minority interest		546	28 873
Proceeds from loans and borrowings		89 733	156 856
Repayments of loans and borrowings		(17 166)	(54 783)
Interest paid		(9 059)	(6 576)
Dividends paid		(3 394 000)	(2 000 000)
Payments of liabilities due to finance leases		(5 501)	(4 228)
Other finance expenses			(656)
NET CASH USED IN FINANCING ACTIVITIES		(3 335 447)	(1 880 514)
TOTAL NET CASH FLOW		533 574	464 057
Exchange gains/(losses) on cash and cash equivalents		(42 609)	15 093
Movements in cash and cash equivalents		490 965	479 150
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	16	2 321 131	1 841 981
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	16	2 812 096	2 321 131
including restricted cash and cash equivalents		2 808	1 043

The notes presented on pages 7 to 90 represent an integral part of these financial statements

Notes to the consolidated financial statements

1. General information
Company name, registered office, business activities

KGHM Polska Miedź S.A. (the “Parent Entity”) with its registered office in Lubin at ul. M.Skłodowskiej-Curie 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 Parent Entity was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764.
KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 Divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), Ore Enrichment Plant, Tailings Plant, Mine-Smelter Emergency Rescue Unit and Data Center.
The composition of the Group was presented in Note 5.
The shares of KGHM Polska Miedź S.A. are listed on the Stock Exchange in Warsaw and - in the form of GDRs (global depository receipts) – on the London Stock Exchange (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 Group comprise:
- mining of 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,
- professional rescue services,
- 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.

The business activities of the Group also include:
production of goods from copper and precious metals,
underground construction services,
production of machinery and mining equipment,
energy production,
telecommunication services,
transport services, and
activities in the areas of research, analysis and design.

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

Composition of the Management Board of the Parent Entity
During the period from 1 January 2007 to 13 March 2007, the composition of the Management Board of the Parent Entity and segregation of duties were as follows:

– Krzysztof Skóra	President of the Management Board
– Maksymilian Bylicki	I Vice President of the Management Board (Development)
– Marek Fusiński	Vice President of the Management Board (Finance)
– Stanisław Kot	Vice President of the Management Board (Metallurgy), also temporarily acting Vice President of Mining
– Ireneusz Reszczyński	Vice President of the Management Board (Sales).

On 13 March 2007, the Management Board of KGHM Polska Miedź S.A. resolved to change the organisational structure of the Head Office. As a result, the segregation of duties was as follows:

– Krzysztof Skóra	President of the Management Board
– Maksymilian Bylicki	I Vice President of the Management Board (Development)
– Marek Fusiński	Vice President of the Management Board (Finance)
– Stanisław Kot	Vice President of the Management Board (Production)
– Ireneusz Reszczyński	Vice President of the Management Board (Sales).

On 6 November 2007, the Supervisory Board dismissed Mr Maksymilian Bylicki as Vice President and appointed Mr Dariusz Kaśków as Vice President of the Management Board.
The Supervisory Board appointed Mr Ireneusz Reszczyński, until now a Vice President, for the position of I Vice President of the Management Board.

As at 31 December 2007, the composition of the Management Board and segregation of duties were as follows:

– Krzysztof Skóra	President of the Management Board
– Ireneusz Reszczyński	I Vice President of the Management Board (Sales)
– Marek Fusiński	Vice President of the Management Board (Finance)
– Stanisław Kot	Vice President of the Management Board (Production)
– Dariusz Kaśków	Vice President of the Management Board (Development).

On 17 January 2008, the Supervisory Board dismissed Mr Krzysztof Skóra as President and Mr Dariusz Kaśków as Vice President of the Management Board and decided that the Management Board of KGHM Polska Miedź S.A. would consist of three members. Following that, the Supervisory Board appointed Mr Ireneusz Reszczyński, the current I Vice President, to act as President of the Management Board until the new President is elected.

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:

– Ireneusz Reszczyński	I Vice President of the Management Board (Sales), acting President of the Management Board
– Marek Fusiński	Vice President of the Management Board (Finance)
– Stanisław Kot	Vice President of the Management Board (Production)

Authorisation of the financial statements
These financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 15 April 2008.

Going concern assumption
These financial statements were prepared under the assumption that Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, there are no circumstances that would indicate a threat to the going concern assumption by the Group companies.

2. Main accounting policies
2.1 Basis of preparing financial statements

These financial statements have been prepared in accordance with the International Financial Reporting Standards approved by the European Union using the same principles for the current and comparative periods. The presentation of comparable periods was adjusted for the effects of prior period errors and changes to presentation principles. The effects of these changes are presented in note 3.

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 and investment property, which have been measured at fair value.
The carrying amount of recognised hedged assets and liabilities is adjusted for the changes in fair value attributable to the hedged risk.

Standards and interpretations in force applied in the Group as of 2007

IAS 1 Presentation of Financial Statements – Capital Disclosures
The Group has applied the amended provisions of IAS 1. The newly-disclosed information is presented in Note 35, Financial risk management.

IFRS 7 Financial Instruments: Disclosures
The Group has applied IFRS 7. As a result of implementation of IFRS 7, issues related to financial instruments are mainly discussed in Note 34, Financial Instruments, and in Note 35, Financial Risk Management. The newly-introduced notes contain information which was previously available partly in the following notes: Note 11, Available-for-Sale Financial Assets; Note 12, Held to Maturity Investments; Note 13, Derivative Financial Instruments; Note 14, Trade and Other Receivables; Note 20, Trade and Other Payables; and Note 21, Borrowings and Finance Lease Liabilities. There was also a change in Note 2.2, Accounting Policies, in which information on financial instruments was rearranged.

IFRIC 7 Applying the Restatement Approach under IAS 29 „Financial Reporting in Hyperinflationary Economies"
Application of this interpretation has no effect on the financial statements of the Group.

IFRIC 8 Scope of IFRS 2
Application of this interpretation has no effect on the financial statements of the Group.

IFRIC 9 Reassessment of Embedded Derivatives.
The Group has applied IFRIC 9. This interpretation states that assessment of whether a given contract contains an embedded derivative is made when an entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract. Application of this interpretation has not caused any changes in the disclosure of embedded derivatives held by the Group.

IFRIC 10 Interim Financial Reporting and Impairment
The Group has applied IFRIC 10. This interpretation states that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in an equity instrument classified as available-for-sale. Application of this interpretation has not caused significant changes affecting these financial statements.

In these consolidated financial statements any standard or interpretation prior to their coming into force have not been applied.

Published Standards and Interpretations which have not come into force as at 1 January 2007 or have not been approved by the European Union by the publication date of these financial statements:

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"
IFRIC Interpretation 11 was issued on 2 November 2006. It addresses the scope of IFRS 2, Share-based Payment. IFRIC 11 provides guidance on whether transactions in which an entity issues equity instruments as payment for goods or services received by the entity, or when such payment takes the form of equity instruments issued by an entity of the same group, should be accounted for as equity-settled or as cash-settled. This Interpretation also provides guidance on how to approach a situation in which an entity settles liabilities using its own shares. This Interpretation is applicable to periods beginning on or after 1 March 2007, and will not affect the financial statements of the Group.

IFRIC 12 "Service Concession Arrangements"
IFRIC Interpretation 12 was issued on 30 November 2006. The Interpretation relates to arrangements whereby a government or other body grants contracts for the supply of public services to private operators. It provides general principles which operators of service concession contracts should follow in recognising and measuring assets and liabilities arising from service concession contracts. The Interpretation becomes effective for reporting periods beginning on or after 1 January 2008 and will not affect the financial statements of the Group.

IFRS 8 "Operating segments"
IFRS 8, Operating segments, was published by the International Accounting Standards Board on 30 November 2006, and replaces IAS 14, Segment Reporting and becomes effective for reporting periods beginning on and after 1 January 2009. This standard introduces a management approach to segment reporting, and underlines the necessity to disclose indicators and other measures used to monitor and evaluate activities to enable the users of the financial statements to evaluate the nature and financial results of various forms of activity carried out by the Group.
The Group is currently analysing if this Standard affects its financial statements.

IAS 23 "Borrowing costs"
The amended IAS 23 was published by the International Accounting Standards Board on 29 March 2007. This standard relates to the accounting treatment of borrowing costs incurred in connection with a qualifying asset. The amended IAS 23 removes the benchmark treatment that requires that borrowing costs are recognised in the profit or loss and are capitalised. Although this change will affect the Group, it is believed that its impact on the financial statements will be immaterial. The amended standard becomes operative for periods beginning on or after 1 January 2009; however, after evaluating the effects of any changes and following acceptance of this amended Standard by the European Union, the Group will consider its earlier application.

IFRIC 13 "Customer Loyalty Programmes"
On 28 June 2007, the International Accounting Standards Board published interpretation 13 Customer Loyalty Programmes. This interpretation addresses the method of accounting for payments related to the sale of goods or services included in customer loyalty programmes. This interpretation becomes effective for periods beginning on or after 1 July 2008 or later, although earlier application is recommended. The only company in the Group which has a customer loyalty programme is Telefonia Dialog S.A. This company will apply IFRIC 13 upon its acceptance by the European Union. Analysis of the impact of applying IFRIC 13 on the financial statements indicates that its impact will be insignificant. A basic change will respect the principle for recognising revenues, some of which will be recognised based on the number of loyalty points only at the moment of redemption of these points.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
IFRIC Interpretation 14 was published by the International Accounting Standards Board on 4 July 2007. It refers to IAS 19 Employee Benefits and provides guidance on how an entity should measure an asset which arises due to the participation of the entity in an employee defined benefit plan. This interpretation also explains what the impact on this asset may be from the minimum requirements for funding such plans. The purpose of introducing this interpretation is to standardise the approach to accounting for such assets as a result of the surplus which arises in defined benefit plans. This interpretation becomes effective for periods beginning on or after 1 January 2008, and will not affect the financial statements of the Group.

IAS 1 "Presentation of Financial Statements"
The amended IAS 1 was published by the International Accounting Standards Board in September 2007. It refers to the presentation of financial statements. The amended standard implements a new element of the financial statements called the statement of comprehensive income, where all items of income and expenses should be presented, including those, which so far have been recognised in equity. In addition, changes apply also to presentation of the statement of changes in equity, presentation of dividends and comparative information, if changes in accounting policies are applied retrospectively. The revisions include changes in the titles of some of the key items of the financial statements, however, companies will be entitled to retain their current terminology. The amended standard becomes effective for annual periods beginning on or after 1 January 2009; however, after evaluating the effects of any changes and following acceptance of this amended Standard by the European Union, the Group will consider its earlier application.

IFRS 3 "Business Combinations"
The amended IFRS 3 was published by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IFRS 3. The amended Standard is the result of the completion of the second stage of the convergence project concerning business combinations. The amended Standard gives a 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 shall 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 IASB on 10 January 2008 and replaces the currently binding, IAS 27. Implementation of this standard relates to the completion of the second stage of the convergence project concerning business combination. The objective of this standard is to ensure reliability and comparability of information presented by a parent entity (both in consolidated and separate financial statements) on controlled entities. The amended Standard becomes effective for annual periods beginning on or after 1 July 2009. This Standard requires retrospective application, although it includes exemptions from the requirement for retrospective application. The Group is currently analysing if this Standard affects its financial statements.

Amended IFRS 2 "Share-based Payment"
The amended IFRS 2 was published by the IASB on 17 January 2008. Amendments to IFRS 2 relates to vesting conditions to cash and other assets or equity instruments of the entity as part of the share based payment transaction. Changes in this Standard become effective for periods beginning on 1 July 2009 or later and will not have any effect on the financial statements of the Group.

Amended IAS 32 „Financial Instruments: Presentation"
The amended IAS 32 was published by the International Accounting Standards Board (IASB) on 14 February 2008. The amendments related to the specific type of financial instruments, which are similar to ordinary shares, but allow their holder to present them for redemption by issuer if certain, indicated in the Standard, circumstances materialised. To date, in accordance with IAS 32, this type instruments were classified as financial liabilities. The amended IAS 32 requires that such instruments are not classified as liabilities but rather as equity. Standard amendments become effective for reporting periods beginning on 1 January 2009 or later and will not have any effect on the financial statements of the Group.

2.2 Accounting policies
2.2.1 Property, plant and equipment

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

– assets held by the entity for use in production, supply of goods and services or for administrative purposes,
– assets which are expected to be used during more than one year,
– assets which are expected to generate future economic benefits that will flow to the entity, and
– assets, the value of which 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 an item of property, plant and equipment are not recognised in the cost. 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, the anticipated costs of future assets' dismantling and removal and the 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 are included. In particular, in the initial cost of items of property, plant and equipment, 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 are included.

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 balance sheet date, items of property, plant and equipment are carried at cost or cost of production/ development, 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 or as separate item of property, plant and equipment (where appropriate) 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,
– Machines and equipment: 4-15 years,
– Motor vehicles: 3-14 years,
– Other – the useful life is set individually for specific items of property, plant and equipment.

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 residual value.

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

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

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

Specialised spare parts with a significant initial cost and an anticipated useful life of more than 1 year are recognised as an item of property, plant and equipment. Spare parts and servicing 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 the income statement at the moment they are used.

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

2.2.2 Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance, i.e.:

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

Goodwill

Goodwill represents the excess of the cost of acquisition of an entity over the fair value of the Group's interests in the identifiable net assets of the acquired subsidiary at the date of the acquisition, or of the acquired associate at the date of the acquisition of the investment. Goodwill on acquisitions of a subsidiary is recognised in intangible assets. Goodwill on acquisition of investments in associates is included in the carrying amount of such investment.

Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Testing for impairment is performed and any potential impairment loss is recognised in accordance with the policies described in note 2.2.10 "Impairment of non-financial assets".

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

Development costs

The entities of the Group carry out development projects which are primarily aimed at reducing copper production costs both through the direct reduction of production costs and by protecting the environment, as well as by the economic utilisation of by-products. Development projects are also carried out which are aimed at increasing the production capacity of individual metallurgical plants and mines, improving the technical parameters of manufactured products, improving and modernising copper production technology, and improving working conditions in those places where they are particularly difficult and have a direct adverse impact on productivity.

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

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

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

- the criteria described above in points a) to f),
- the probability exists of achieving economic benefits attributable to the given asset, and
- the cost of manufacturing this asset may be reliably measured.

This cost includes expenditures which are directly attributable to the development, manufacture and adaptation of the given asset in accordance with its planned use.

Costs incurred during the development of an intangible asset, from the moment when it meets the above criteria for capitalisation to the completion of development project and the decision is taken to implement it, are capitalised as an intangible asset not yet available for use. Capitalised development costs are not amortised until the moment when the given intangible asset is successfully completed and the decision has been taken to implement it. Such intangible assets are, however, tested annually for impairment in accordance with IAS 36, Impairment of Assets. If an impairment loss is determined to have occurred, an allowance is recognised in other operating costs, otherwise such expenditure is written off as an expenditure without economic effect, and is also charged to other operating costs.

After initial recognition, the cost of manufacturing an intangible asset (determined in accordance with the principles described in the above paragraph), is decreased by accumulated depreciation and by any impairment losses.

Internally generated intangible assets are amortised using the straight-line method over the period of their anticipated use, which on average is 5 years.

The cost of development project recognised as an intangible asset is tested for impairment in accordance with the principles described in the point „Impairment of property, plant and equipment and intangible assets (including goodwill)" and in IAS 36, Impairment of Assets.

Research expenditure is recognised as an expense as incurred.

Other intangible assets i.e. software, acquired concessions, patents, licenses, intangible assets not yet available for use (under construction) and other intangible assets are measured at cost at initial recognition.

Included in other intangible assets are the internally generated costs of development projects, representing total expenditures incurred from the date when an intangible asset arising from such development projects first meets the criteria for recognition in this category.

Capitalised development costs are recognised as intangible assets not yet available for use until as the projects have been completed and a decision has been made to give them over for use.

Any borrowing costs incurred for a qualifying intangible asset are recognised in the income statement in the period in which they are incurred. 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 balance sheet date intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

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

- Software – 2–8 years,
- Licenses for computer software – 2–5 years,
- Rights to geological information – 50 years,
- Acquired property rights – over a useful life set separately for individual property rights.

The amortisation method and the amortisation rate of intangible assets are subject to review at each balance sheet date.

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

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

2.2.3 Investment property

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

On subsequent balance sheet dates investment property is measured at fair value. Any gain or loss arising from a change in the fair value of the investment property affects net profit or loss for the period in which it arises.
Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

2.2.4 Investments in subsidiaries and associates

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

The purchase method is used to account for the acquisition of subsidiaries by the Group.
The carrying amount of investments held by the Parent Entity in each subsidiary is eliminated, along with the respective portion of equity of each subsidiary. The excess of the carrying amount of the investment over the fair value of the Group's interest in the identifiable net assets acquired is recognised as goodwill. The excess of the fair value of the Group's interest in the net assets acquired over the cost of acquisition is recognised directly in the income statement.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Inter–company transactions, balances, income, expenses and unrealised gains recognised in assets are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.
Minority interest in the net assets of consolidated subsidiaries are recognised as a separate item of equity.

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

The Group applies a policy of treating transactions with minority interest as transactions with third parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest give rise to goodwill, being the difference between any consideration paid and the Group's interest in the carrying amount of the net assets acquired.

b) Associates
Investments in associates, i.e. entities over which the Group has significant influence but does not control, and in which it participates in setting both the financial and operating policies of the entity, are accounted for using the equity method in the consolidated financial statements.
These investments are initially recognised at cost. The Group's net investment in an associate includes goodwill, as set at the date of acquisition, less any accumulated impairment losses.
The Group's share of post-acquisition profits or losses of associates is recognised in its profit or loss, and its share of post-acquisition movements in other equity is recognised in the respective item of the Group's equity. The cumulative post-acquisition movements in equity are adjusted against the carrying amount of the investment. When the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

2.2.5 Financial Instruments
2.2.5.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:
- financial assets measured at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments,
- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

Financial instruments are classified based on their characteristics and the purpose for which they were acquired. Classification is made upon initial recognition of the financial asset or liability. Classification of derivatives depends on their purpose and on whether they qualify for hedge accounting according to the requirements of IAS 39. Derivatives are classified as hedging instruments or as instruments measured at fair value through profit or loss.
Carrying value of cash flows with a maturity period of more than 12 months of the balance sheet date is classified as non-current asset or non-current liability. Carrying value of cash flows falling due within 12 months of the balance sheet date is classified as current asset or current liability.
The following principles for the classification of financial assets and liabilities to the above specified categories were adopted:

Financial assets and liabilities measured at fair value through profit or loss
This category includes financial assets and financial liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss at their initial recognition.
A financial asset is classified to this category if it is acquired principally for the purpose of selling in the near term or if it is designated by the Group upon initial recognition as at fair value through profit or loss. A financial asset or financial liability may be designated by the Group when initially recognised as 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.

Assets and liabilities in this category are classified as current (current liabilities), if they are expected to be realised within 12 months from the balance sheet date.

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 Group 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 balance sheet date. Loans and receivables with maturities greater than 12 months after the balance sheet date 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 position in the balance sheet.

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

Available-for-sale financial assets (AfS)
Available-for-sale financial assets are non-derivative financial assets that are either designated as 'available-for-sale' or not classified to any of the other categories. This category primarily includes financial assets which do not have a fixed maturity date and which do not meet the criteria for being included in 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 Group does not intend and is not able to hold until maturity.

Available-for-sale financial assets are included in non-current assets unless the Group intends to dispose of the investment within 12 months of the balance sheet date.

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 Group presents as „hedging instruments" the entire fair value of a transaction, even if the Group excludes part of change in fair value of the instrument from the effectiveness measurement.

2.2.5.2 Initial measurement and derecognition of financial instruments

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

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

2.2.5.3 Measurement at the balance sheet date

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 the income statement in the period in which they arise.

Gains and losses on financial assets which are classified as available-for-sale are recognised in equity, except for impairment losses and exchange gains/losses on monetary assets and 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 equity are recognised in the income statement as gains and losses on derecognition of investments in available-for-sale financial assets.

The disposal of investments of the same type but with a different cost basis is accounted for using the FIFO method.

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

Other financial liabilities
After initial recognition, the Group measures all financial liabilities, apart from those classified as at fair value through profit or loss, at amortised cost using the effective interest rate method except for:
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition (when the continuing involvement approach applies),
- If the transfer of financial assets does not qualify them for derecognition because the Group retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Group continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the Group recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;
- financial guarantee agreements, measured at the higher of:
  - the amount determined in accordance with note 2.2.15 Provisions, or
  - the amount initially recognised less, when appropriate, cumulative amortisation recognised according to International Accounting Standard No 18 Revenue.

2.2.5.4 Fair value

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

At the balance sheet date, the fair value of financial instruments, for which an active market exists, is established based on the current bid/ask prices. If the market for a financial instrument is not active (and in relation to non-quoted securities), the Group establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions between knowledgeable, willing parties, 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 balance sheet date. 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 LME closing prices and volatility estimates as at the balance sheet date are obtained from the Reuters news service. For silver and gold, the LBM fixing price at the balance sheet date is used. In the case of volatility and silver and gold forward rates, quotations given by Banks/Brokers are used. Currency interest rates and currency volatility ratios obtained from Reuters are used. Forwards and swaps on copper market are priced based on forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to Black-Scholes model is used for Asian options pricing on commodity markets, whereas standard German-Kohlhagen model is used for currency of European option pricing.

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

The fair value of participation units held in open-end cash investment funds is determined based on the valuations quoted by those funds. Fair value of participation units held 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 financial instruments held by the Group are determined based solely on market prices or on valuation techniques which use as input data only observable market variables from active markets.

At each balance sheet date 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 it's amortised cost.

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity – 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 equity and recognised in profit or loss. 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 each balance sheet date. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio).
An impairment allowance is reversed, if in subsequent periods the impairment is reduced, and this reduction may be attributed to events occurring after recognition of the impairment allowance. The reversal of an impairment allowance is recognised in profit or loss.

2.2.5.6 Embedded derivatives

Initial recognition of derivatives

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

- the hybrid (combined) instrument not measured at fair value, with changes in fair value recognised in other operating income or other operating costs,
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

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

2.2.5.7 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. The types of 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 Group 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 a recognised asset or liability, 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 a separate item of equity, to the extent to which the change in fair value represents an effective hedge of the associated hedged item. The portion which is ineffective is recognised in the income statement as other operating income or costs. Gains or losses arising from the hedging instrument in cash flow hedges are reclassified into profit or loss 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 balance sheet, 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.

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

When entering into hedging transactions, the Group documents the relationship between hedging instruments and the hedged items, as well as the objective of entering into a particular transaction. The Group also documents its assessment, both at the date of inception of the hedge as well as on an on-going basis, of whether the 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
Derivative instruments cease to be accounted for as hedging instruments when they expire or are sold, terminated or settled, or when the Group revokes its designation of a given instrument as a hedging instrument. The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in equity 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 equity is immediately transferred to the income statement.

2.2.6 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 – by way of valuating the difference between inventories closing balance and the value of any additions, and giving due regard to the opening balance.

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 opening balance.

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

2.2.7 Trade and other receivables

Trade receivables are recognised initially at fair value. After initial recognition, trade receivables are measured at amortised cost using the effective interest rate, less allowance for impairment, while trade receivables with the maturity period of up to 12 months from the receivable origination date are not discounted.
Impairment allowances on trade receivables are recognised when there is objective evidence that 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.
The amount of the impairment allowance is recognised in the income statement.

Receivables not representing financial assets are recognised initially at their nominal value and measured at the balance sheet date at the amount due.
Receivables with a maturity period of over 12 months from the balance sheet date are classified as non-current assets. Current assets include receivables with a maturity period of up to 12 months from the balance sheet date.

Recognised as receivables are:

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

2.2.8 Cash and cash equivalents

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

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

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

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

2.2.10 Impairment of non-financial assets

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

A depreciable asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. An impairment loss is recognised as the amount of the carrying value of the given asset which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

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

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.

2.2.11 Equity

Equity consists of:

1. Share capital at nominal value, reflecting the effects of hyperinflation.
2. Other reserves, which consist of:
   - revaluation reserve set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge, and adjusted by deferred tax, and
   - revaluation reserve for the re-measurement of financial assets classified as available-for-sale to fair value, adjusted by deferred tax.
3. Retained earnings, composed of:
   - undistributed profit or unabsorbed losses from previous years,
   - reserve capital created in accordance with the Code of Commercial Companies,
   - reserve capital created and used in accordance with the Statutes,
   - profit or loss for the period.

2.2.12 Liabilities

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

Liabilities comprise:
- liabilities arising from bank loans, other loans and finance leases,
- trade payables,
- other financial liabilities, and
- other non-financial liabilities.

Current trade payables are recognised in the balance sheet 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.

2.2.13 Accrued expenses

Accrued expenses are due and payable liabilities arising from goods received or services performed, for which the payment has not yet been made, an invoice has not been received or a formal agreement 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 costs of local fees and taxes,
- short-term accruals for unused annual leave.

2.2.14 Deferred income

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

The value of fixed assets, assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with this Policy, point 2.2.24 *Government grants*.

2.2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
Provisions are recognised, in particular, in respect of the following: future costs of mine decommissioning, i.e. after the conclusion of mining activities, costs of decommissioning of other technological facilities in the copper smelters and other facilities (jointly: decommissioning costs) 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 balance sheet date. 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 Parent Entity. Provisions are reviewed at the balance sheet date.

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 International Financial Reporting Standards". Beginning from 1 January 2004, all changes arising from changes in the amount of provisions are recognised in accordance with IFRIC 1.

In accordance with IAS 1, „Presentation of Financial Statements" provisions are presented in the balance sheet as either current or non-current.

2.2.16 Employee benefits

The Group pays retirement benefits due to one-off retirement-disability rights, coal equivalent payments and jubilee bonuses according to the Collective Labour Agreements.
The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the balance sheet date, and reflect actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the balance sheet date by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of future benefit payment, with maturities similar to those of the liabilities due to be paid. According to IAS 19, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk. Should there be no developed market for such bonds, and such a situation does exist in Poland, the interest rate on government bonds at the balance sheet date should be applied.

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

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

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

2.2.17 Income taxes (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 by the balance sheet date.

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.
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 to the extent that 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. Deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax is recognised in the income statement for a given period, unless the deferred tax:

- arises from transactions or events which are directly recognised in equity – in which case the deferred tax is also recognised in the appropriate equity 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 entities of the Group have 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.

2.2.18 Contingent items and other off-balance sheet items

Contingent liabilities are:

a) possible obligations that arise 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.

Other off-balance sheet liabilities include, among others:

- liabilities towards the State Treasury due to perpetual usufruct of land,
- liabilities towards local government entities due to payments in respect of 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.

2.2.19 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. 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 income statement 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 revenues are revenues arising from ordinary operating activities of the Group, 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 and gains, which are 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 Group's activities,
- reversal of impairment losses on held-to–maturity investments, financial assets available for sale, and loans,
- release of unused provisions, previously charged to other operating costs, and
- gains on disposal of property, plant and equipment and intangible assets,

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

Revenues from the sale of products, goods for resale and materials are recognised when:
- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods for resale, finished goods and materials,
- the Group 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 does no longer exercise effective control over those items,
- the amount of revenue can be measured in a reliable manner,
- it is probable that the economic benefits associated with the transaction will flow to the Group, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from the sale of services are recognised when:
- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Group,
- the stage of completion of the transaction at the balance sheet date 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 to receive payment is established.

2.2.20 Costs

The Group recognises as costs any probable decrease, in the reporting period, of economic benefits of a reliably-determined amount, in the form of a decrease in the value of assets, or an increase of provisions and liabilities, which lead to a decrease in equity or an increase in negative equity in a manner other than the withdrawal of funds by its shareholders or owners.
Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals.

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 (cost of sales) 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 and losses, 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 Group's activities,
- impairment losses on held-to–maturity investments, financial assets available for sale, loans and other investments,
- 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,

and also **finance costs** related to financing of the activities of the Group, including in particular:
- overdraft interest,
- interest on short- and long-term loans, credits and other sources of finance, including discounted liabilities,
- net foreign exchange losses arising on liabilities from sources of financing of the Group's activities,
- changes in the level of provisions arising from the approach of the time to settle the obligation (the so-called unwinding of the discount effect).

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

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the Group 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 Group.

Transactions and balances
At the moment of initial recognition, foreign currency transactions are translated into the functional currency:
- 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 each balance sheet date:
- 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 and translation 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 equity, in accordance with hedge accounting principles.
Foreign exchange gains or losses arising on non-monetary items, such as equity instruments measured at fair value through profit or loss, are recognised as an element of changes in fair value. Exchange differences arising on non-monetary items, such as equity instruments classified as financial assets available for sale, are recognised in revaluation reserve at fair value.

2.2.22 Borrowing costs

Borrowing costs (i.e. costs which include interest and other costs incurred by an entity due to the borrowing of monetary items) are recognised in the costs of the period in which they are incurred.

2.2.23 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, the lease contract is classified as an operating lease.

2.2.24 Government grants

Monetary government grants for financing assets are presented in the balance sheet as deferred income.

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

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

Non-monetary grants are recognised in the accounts in their nominal value, i.e. in the amount of the fee paid.
The principles of utilisation of CO2 are presented in note 2, point 2.2.26.

2.2.25 Segment reporting

The activities of the Group are arranged by business segment, i.e. a distinguishable component of the activities of the Group that is engaged in providing products or services, and that is subject to risks and returns that are different from those of other business segments.

Geographical segments are identified in the consolidated financial statements as a distinguishable component of the activities of the Group that is engaged in providing products or services within a particular economic environment, and that is subject to risks and returns that are different from those of components operating in other economic environments.

Three business segments have been identified for internal reporting purposes:
Segment I – copper, precious metals, other smelter products – extraction, the processing of copper and precious metals, the production of non-ferrous metals, copper trade and copper promotion;
Segment II – telecommunications and IT services – the provision of telecommunications services, telecommunications, IT services;
Segment III – other sectors, comprising the activities of Group subsidiaries which are not encompassed by segments I and II.

2.2.26 Emission rights

The entities of the Group participate in a programme to limit emissions of carbon dioxide based on the Kyoto protocols of 11 December 1997, which commit government bodies, including those in Poland, to control and reduce emission of greenhouse gases. Based on signed agreements the goal was established to reduce the emissions of carbon dioxide to a specified level. As a result, the Polish government allocates emission allowances in an amount covering the permitted carbon dioxide emission limit. Emission rights are granted for successive reporting periods (the first being the three-year period 2005-2007, and five-year periods thereafter) in exchange for the payment of fees in an amount representing a multiple of the rates for the emission of carbon dioxide and the amount of allowances granted.

The emission allowances received from the government and the related non-monetary government grants are measured at their nominal amount, i.e. at the amount of the fee paid. Allowances which are purchased on a secondary market are measured at cost. Over the time of emission of pollutants, the Group entities recognise a respective liability at the carrying amount of the allowances to be utilised to cover this liability. Should the amount of allowances be insufficient, the liability is measured at the fair value of the allowances at the balance sheet date plus any costs and potential penalties due to insufficient emission rights required to settle the respective liability. Utilisation of emission allowances is accounted for on a FIFO basis.

2.2.27 Earnings per share

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

2.2.28 Cash flow statement

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

2.2.29 Capital management

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

In accordance with a market practice, the effective use of capital is monitored, among others, based on:
1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
2. The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation and amortisation.

3. Adjustment of prior period errors, changes in accounting policies

In 2007 the following was carried out:
a) adjustments of prior periods errors, respect of:
- changes in the interpretation of IAS 12 §39 and §42 respecting the recognition of deferred tax liabilities on the measurement of investments in associated entities accounted for using the equity method. As a result of this change equity increased as at 1 January 2006 by PLN 93 597 thousand, and profit for 2006 decreased by PLN 45 809 thousand,
- adjustment to depreciation concerning differences in the measurement of fixed assets transferred as a contribution in kind from KGHM Polska Miedź S.A. as an increase in the share capital of the following subsidiaries: „Energetyka" sp. z o.o., POL-MIEDŹ TRANS Sp. z o.o. and „MIEDZIOWE CENTRUM ZDROWIA" S.A. As a result of this adjustment there was an increase in equity as at 1 January 2006 by PLN 17 226 thousand and in profit for 2006 by PLN 4 711 thousand,
- recognition of provisions for liabilities due to premiums to the Social Insurance Institution (ZUS) on the income of employees increased by the costs of their quatering and travel to a worksite whose distance from their residence prevents them from daily travel to and from work. As a result of this adjustment equity decreased as at 31 December 2006 by PLN 2 626 thousand,
- increase of provisions for liabilities due to social insurance premiums to ZUS on player contracts. As a result of this adjustment equity decreased as at 31 December 2006 by PLN 4 182 thousand,
- determining the expected extent of realisation of the deferred tax asset and recognition of the deferred tax asset on all temporary differences. As a result of this adjustment there was an increase in equity as at 1 January 2006 by PLN 154 753 thousand and in profit for 2006 by PLN 11 001 thousand,
- an adjustment to impairment of property, plant and equipment and of receivables. As a result of this adjustment equity increased as at 1 January 2006 by PLN 21 916 thousand, and profit for 2006 decreased by PLN 596 thousand,
- an adjustment in the depreciation period of perpetual usufruct of land in subsidiaries to depreciation principles in the Group. As a result of this adjustment there was an increase in equity as at 1 January 2006 by PLN 1 412 thousand and in profit for 2006 by PLN 70 thousand.

b) changes in policies of presentation of:
- commodity derivative instruments, whose settlement falls on the second working day after the balance sheet date, not as previously under derivative instruments but under receivables on unsettled derivative instruments,
- held-for-trade derivative instruments with a maturity of over 12 months, which are not subject to hedge accounting principles in accordance with IAS 39. In order to emphasise their long term nature, the Group presents them under non-current assets/liabilities due to derivative instruments, thereby decreasing as at 31 December 2006 current assets and liabilities due to derivative instruments, and simultaneously increasing non-current assets and liabilities due to derivative instruments.

AMOUNT OF ADJUSTMENTS IN THE STATEMENTS PRESENTED IN THE PRIOR PERIODS ITEM OF FINANCIAL STATEMENTS	Amount presented in the annual report RS 2006	Amount of adjustments due to prior periods errors and changes to presentation	Amount after application of changes
CONSOLIDATED BALANCE SHEET – ASSETS	12 993 687	234 182	13 227 869
NON-CURRENT ASSETS	7 169 607	233 255	7 402 862
Property, plant and equipment	6 005 298	46 988	6 052 286
Intangible assets	125 615	399	126 014
Investment property	18 853		18 853
Investments in associates	690 074		690 074
Deferred tax assets	174 730	213 738	388 468
Available-for-sale financial assets	92 932		92 932
Held-to-maturity investments	32 213	(32 169)	44
Derivative financial instruments	16 411	605	17 016
Trade and other receivables	13 481	3 694	17 175
CURRENT ASSETS	5 799 573	927	5 800 500
Inventories	1 768 750		1 768 750
Trade and other receivables	1 403 112	1 532	1 404 644
Current corporate tax receivables	4 860		4 860
Held-to-maturity investments	19 070		19 070
Derivative financial instruments	282 650	(605)	282 045
Cash and cash equivalents	2 321 131		2 321 131
NON-CURRENT ASSETS HELD FOR SALE	24 507		24 507
CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES	12 993 687	234 182	13 227 869
EQUITY	8 262 402	251 510	8 513 912
Share capital	2 000 000		2 000 000
Other reserves	(431 161)		(431 161)
Retained earnings	6 648 838	251 473	6 900 311
Minority interest	44 725	37	44 762
NON-CURRENT LIABILITIES	1 541 979	11 311	1 553 290
Trade and other payables	15 361	1 378	16 739
Borrowings and finance lease liabilities	150 568		150 568
Derivative financial instruments	881	605	1 486
Deferred tax liabilities	21 392	5 146	26 538
Liabilities due to employee benefits	864 950		864 950
Provisions for other liabilities and charges	488 827	4 182	493 009
CURRENT LIABILITIES	3 186 004	(28 639)	3 157 365
Trade and other payables	1 532 723	178 437	1 711 160
Borrowings and finance lease liabilities	54 756		54 756
Current corporate tax liabilities	402 842		402 842
Derivative financial instruments	1 047 123	(210 020)	837 103
Liabilities due to employee benefits	72 603		72 603
Provisions for other liabilities and charges	75 957	2 944	78 901
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	3 302		3 302

AMOUNT OF ADJUSTMENTS IN THE STATEMENTS PRESENTED IN THE PRIOR PERIODS *ITEM OF FINANCIAL STATEMENTS*	*Amount presented in the annual report RS 2006*	*Amount of adjustments due to prior periods errors and changes to presentation*	*Amount after application of changes*
CONSOLIDATED INCOME STATEMENT			
Sales	*12 862 861*	*38*	*12 862 899*
Costs of sales	*(7 763 980)*	*3 762*	*(7 760 218)*
Selling costs	*(193 001)*		*(193 001)*
Administrative expenses	*(697 769)*	*527*	*(697 242)*
Other operating income	*174 644*	*(688)*	*173 956*
Other operating costs	*(211 969)*	*(151 490)*	*(363 459)*
Finance costs - net	*(180 445)*	*153 343*	*(27 102)*
Share of profits of associates accounted for using the equity method	*220 780*		*220 780*
PROFIT BEFORE INCOME TAX	*4 211 121*	*5 492*	*4 216 613*
Income tax expense	*(701 118)*	*(36 115)*	*(737 233)*
PROFIT FOR THE PERIOD	*3 510 003*	*(30 623)*	*3 479 380*
EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT ENTITY DURING THE PERIOD (PLN per share)			
– basic / diluted	*17.55*	*(0.15)*	*17.40*

4. Important estimates
4.1 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 or determinable payments, 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 Group 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.

4.2 Estimation of provisions

1. Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses 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 3 573 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 241 712 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 167 076 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 3 605 thousand.
2. Provisions for decommissioning costs of mines and other facilities. These provisions represent the equivalent of the estimated future decommissioning costs of mines and other facilities, discounted to present value. Revaluation of these provisions at the balance sheet date is affected by the following indicators:

a) the index of changes in prices in the construction-assembly sector published by Main Statistical Office (GUS),
b) the real discount rate calculated based on the nominal percentage rate and on the rate of inflation (a quotient of the nominal rate and inflation), where:
- the nominal percentage rate is based on 3M WIBOR published by the Reuters news service on the last day of the month in which the provision is measured, plus an average margin applied to bank loans drawn by KGHM Polska Miedź S.A.,
- the rate of inflation is determined for the last 12 months (current to base period), based on the data published by GUS.

If the real discount rate used to estimate the amount of the provisions for decommissioning costs of mines and other facilities decreased by 0.1%, the carrying amount of the provisions for decommissioning costs would be PLN 15 269 thousand higher.

4.3 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 balance sheet date.

The probability of realising deferred tax assets is considered certain.

4.4 Presentation

The Group recognises income and costs related to financial investments under other operating activities in the income statement on the grounds that these activities (in particular investments in the telecom sector) are connected with the operating activities of the Group. Detailed principles of recognition of income and costs have been described in Note 2 point 2.2.19 and 2.2.20.

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, fully consolidated 25 subsidiaries in the current period.

ENTITY	HEAD OFFICE	SCOPE OF ACTIVITIES	% of share capital held	% of voting rights held
KGHM CUPRUM SPÓŁKA Z O.O. – CBR	Wrocław	R&D activities	100.00	100.00
KGHM POLISH COPPER LTD.	Londyn	copper trading	100.00	100.00
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100.00	100.00
KGHM ECOREN S.A.	Lubin	production of other products from non-metallic mineral resources	100.00	100.00
"ENERGETYKA" SP. Z O.O.	Lubin	generation, distribution and sale of electricity and heat	100.00	100.00
CBJ SP. Z O.O.	Lubin	technical research and analyses	100.00	100.00
KGHM KUPFERHANDELSGES M.B.H.	Wiedeń	copper trading	100.00	100.00
POL-MIEDŹ-TRANS SP. Z O.O.	Lubin	transportation services	100.00	100.00
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100.00	100.00
KGHM CONGO S.P.R.L.	Lubumbashi	ore extraction services	99.98	99.98
KGHM METRACO S.A.	Legnica	trade, agency and representative services	100.00	100.00
"ZAGŁĘBIE" LUBIN SSA	Lubin	participation in and organisation of professional sporting events	100.00	100.00
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	65.67	65.67
PEBEKA S.A.	Lubin	underground and mining construction, construction of tunnels	100.00	100.00
DFM ZANAM-LEGMET SP. Z O.O.	Polkowice	repair and manufacture of machinery	100.00	100.00
INOVA SPÓŁKA Z O.O.	Lubin	inspections and control of machinery, R&D work	100.00	100.00
DKE SPÓŁKA Z O.O.	Oława	collection of municipal and industrial waste, processing, storage and utilisation of waste	50.33	50.33
WFP HEFRA S.A.	Warszawa	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics, finished and semi-finished products and services	97.52	97.52
WALCOWNIA METALI NIEŻELAZNYCH SPÓŁKA Z O.O.	Gliwice	production of sheeting	84.37	84.37
PHP "MERCUS" SP. Z O.O.	Polkowice	trade, production of bundled electrical cables	100.00	100.00
PHU "LUBINPEX" SP. Z O.O.	Lubin	retail trade in food items, catering services	100.00	100.00
WM "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	88.92	88.92
AVISTA MEDIA SP. Z O.O.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	100.00	100.00
VIVID.PL S.A.	Warszawa	internet shop	100.00	100.00
KGHM LETIA S.A.	Legnica	promotion of innovation	94.95	94.95

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

Removal from the National Court Register of „Energetyka Spółka Specjalnego Przeznaczenia" sp. z o.o.
On 29 June 2007 Energetyka Spółka Specjalnego Przeznaczenia sp. z o.o. in liquidation in Lubin was removed from the National Court Register. This entity, from the moment of its establishment in 2005 to the conclusion of the liquidation process, neither undertook nor pursued business activity.

Registration of increase in capital
On 26 June 2007 an increase in capital was registered for WM „ŁABĘDY" S.A. through the issuance of 3 093 612 shares with a face value of PLN 10 each.
All of the new shares were acquired by KGHM Ecoren S.A. through the transfer as a contribution in kind of the shares of Walcownia Metali Nieżelaznych spółka z o.o.
As a result of acquiring these new shares, the share of KGHM Ecoren S.A. in the share capital of WM „ŁABĘDY" S.A. increased by 14.42% and amounts to 88.92%. The effect of this acquisition in the amount of PLN (338) thousand was recognised in goodwill.
Following the transfer of ownership of the above-mentioned shares, KGHM Ecoren S.A. no longer owns any of the shares of Walcownia Metali Nieżelaznych spółka z o.o., while the share of WM „ŁABĘDY" S.A. in the share capital and in the number of votes at the general shareholders' meeting of Walcownia Metali Nieżelaznych spółka z o.o. amounts to 94.88%. The indirect share of the Group in the share capital of Walcownia Metali Nieżelaznych spółka z o.o. decreased as a result of this transaction by 1.65% in favour of the minority interest. The loss from the disposal of shares in the amount of PLN (872) thousand was recognised in other operating costs.

Registration of KGHM LETIA Legnicki Park Technologiczny spółka akcyjna
On 29 August 2007, the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register issued a decision on entering the following company into the Register of Entrepreneurs: KGHM LETIA Legnicki Park Technologiczny spółka akcyjna with its registered head office in Legnica.
The share capital of this newly-created entity amounts to PLN 20 000 thousand and is divided into 20 000 registered shares, series A, of PLN 1 000 each, and granting the same number of votes. KGHM Polska Miedź S.A. acquired 18 990 shares in this company with the total nominal amount of PLN 18 990 thousand, representing 94.95% of the share capital of this company and granting the same number of votes at the General Shareholders' Meeting. KGHM LETIA Legnicki Park Technologiczny spółka akcyjna was established on 2 July 2007.

Acquisition of shares of KGHM Metraco S.A.
On 26 September 2007, KGHM Polska Miedź S.A. acquired 53 shares of KGHM Metraco S.A. from minority shareholders having a nominal value of PLN 500 each. The nominal value of the shares acquired amounts to PLN 26.5 thousand and represents 1.04 % of the share capital of this company. Following this acquisition KGHM Polska Miedź S.A. owns 100 % of the share capital of KGHM Metraco S.A. The cost of these shares is PLN 610 thousand. The net value of acquired shares amounts to PLN 638 thousand. The excess of acquirer's interest over the cost in the amount of PLN 28 thousand was recognised in the financial result.

6. Information on business segments

INFORMATION ON BUSINESS SEGMENTS *for the period from 1 January to 31 December 2007*	*Copper and precious metals, other smelter products*	*Telecom and IT services*	*Other*	*Eliminations*	*Consolidated amount*
REVENUE					
External sales	*12 331 100*	*494 173*	*668 855*		*13 494 128*
Inter-segment sales	*123 803*	*3 943*	*1 481 453*	*(1 609 199)*	
TOTAL REVENUE	*12 454 903*	*498 116*	*2 150 308*	*(1 609 199)*	*13 494 128*
RESULT					
Segment result	*5 453 763*	*63 092*	*171 921*	*(424 340)*	*5 264 436*
Unallocated expenses of Group as a whole					*(737 483)*
OPERATING PROFIT					*4 526 953*
Finance cost net					*(35 159)*
Share of profit of associates		*264 191*	*902*		*265 093*
PROFIT BEFORE INCOME TAX					*4 756 887*
Income tax expense					*(821 371)*
PROFIT FOR THE PERIOD					*3 935 516*

OTHER INFORMATION	Copper and precious metals, other smelter products	Telecom and IT services	Other	Eliminations	Consolidated amount
Segment assets	9 878 652	1 215 920	1 471 053	(451 086)	12 114 539
Investments in entities accounted for using the equity method		687 665	2 431		690 096
Unallocated assets of Group as a whole					654 870
TOTAL CONSOLIDATED ASSETS					13 459 505
Segment liabilities	2 527 617	69 253	377 845	(222 174)	2 752 541
Unallocated liabilities of Group as a whole					1 205 355
TOTAL CONSOLIDATED LIABILITIES					3 957 896
Capital expenditures	828 556	108 454	197 917	(16 550)	1 118 377
Depreciation of property, plant and equipment	412 272	97 921	78 001	(11 912)	576 282
Amortisation of intangible assets	9 793	5 892	5 118	461	21 264
Impairment of property, plant and equipment and intangible assets recognised in income statement	3 710	5 204	(991)		7 923
Other non-cash expenses, of which:	74 367	6 389	18 008	(2 824)	95 940
– provisions recognised	49 019	98	13 388		62 505

INFORMATION ON BUSINESS SEGMENTS for the period from 1 January to 31 December 2006	Copper and precious metals, other smelter products	Telecom and IT services	Other	Eliminations	Consolidated amount
REVENUE					
External sales	11 826 783	497 713	538 403		12 862 899
Inter-segment sales	144 581	4 540	1 447 895	(1 597 016)	
TOTAL REVENUE	11 971 364	502 253	1 986 298	(1 597 016)	12 862 899
RESULT					
Segment result	4 609 420	70 433	393 461	(297 383)	4 775 931
Unallocated expenses of Group as a whole					(752 996)
OPERATING PROFIT					4 022 935
Finance cost - net					(27 102)
Share of profit of associates		219 928	852		220 780
PROFIT BEFORE INCOME TAX					4 216 613
Income tax expense					(737 233)
PROFIT FOR THE PERIOD					3 479 380

OTHER INFORMATION	Copper and precious metals, other smelter products	Telecom and IT services	Other	Eliminations	Consolidated amount
Segment assets	9 562 060	1 210 540	1 250 340	(439 433)	11 583 507
Investments in entities accounted for using the equity method		687 694	2 381		690 075
Unallocated assets of Group as a whole					954 287
TOTAL CONSOLIDATED ASSETS					13 227 869
Segment liabilities	2 589 874	122 075	429 166	(236 953)	2 904 162
Unallocated liabilities of Group as a whole					1 806 493
TOTAL CONSOLIDATED LIABILITIES					4 710 655
Capital expenditures	679 806	115 070	135 442		930 318
Depreciation of property, plant and equipment	375 988	85 171	67 313	(12 774)	515 698
Amortisation of intangible assets	10 167	4 856	4 547	165	19 735
Impairment of property, plant and equipment and intangible assets recognised in income statement	(281)	13 402	13 933		27 054
Other non-cash expenses, of which:	105 037	32 072	53 485	991	191 585
– provisions recognised	82 910	163	26 264		109 337

The principles of distinguishing of segments are described in note 2 point 2.2.25

Inter-segment transactions are entered into under normal market conditions which also apply in relations with parties external to the Group.

INFORMATION ON GEOGRAPHICAL SEGMENTS	Revenue for the period		Total assets at		Capital expenditures for the period	
	from 1 January to 31 December 2007	from 1 January to 31 December 2006	31 December 2007	31 December 2006	from 1 January to 31 December 2007	from 1 January to 31 December 2006
Poland	5 662 587	4 588 207	13 366 843	13 005 804	1 116 651	929 990
Germany	2 528 005	3 414 324				
France	82 016	465 774				
United Kingdom	722 365	636 427	68 925	167 930	12	12
Czech Republic	1 244 613	910 004				
Austria	295 088	398 696	16 379	47 941	6	316
Hungary	166 685	214 515				
China	852 220	940 255				
Other countries	1 940 549	1 294 697	7 358	6 194	1 708	
TOTAL:	13 494 128	12 862 899	13 459 505	13 227 869	1 118 377	930 318

The geographical breakdown of revenues from sales reflects the location of end clients. The breakdown of total assets reflects their geographical distribution. The breakdown of total capital expenditures reflects the distribution of assets.

7. Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT	At 31 December 2007	At 31 December 2006
Land	20 237	17 816
Buildings and constructions	3 208 274	3 085 369
Technical equipment and machinery	2 475 477	2 136 206
Motor vehicles	129 056	111 133
Other fixed assets	52 994	48 315
Assets under construction	728 314	653 447
TOTAL	6 614 352	6 052 286

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 1 JANUARY 2006 TO 31 DECEMBER 2007	Note	Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
AT 1 JANUARY 2006								
Gross carrying amount		14 942	6 438 775	5 298 490	290 117	144 144	701 083	12 887 551
Accumulated depreciation			(3 577 960)	(3 255 130)	(190 041)	(87 721)		(7 110 852)
Impairment losses			(121 480)	(45 789)	(469)	(14)	(11 640)	(179 392)
NET CARRYING AMOUNT		14 942	2 739 335	1 997 571	99 607	56 409	689 443	5 597 307
CHANGES IN THE 2006								
Settlement of assets under construction		820	427 983	454 224	31 160	3 090	(917 277)	
Settlement of assets under construction – other (leases, warehouse acceptance, without effect)							(14 078)	(14 078)
Direct purchases		1 317	3 240	26 353	3 146	4 577	914 048	952 681
Reclassification from non-current assets classified as held for sale or included in a disposal group		757	4 174	6 589	169	112		11 801
Disposal		(5)	(2 386)	(5 037)	(7 618)	(258)	(107)	(15 411)
Scrapping/decommissioning or write-off			(8 772)	(155 978)	(3 821)	(4 817)		(173 388)
Reclassification to non-current assets classified as held for sale or inclusion in a disposal group					(10 087)			(10 087)
Donations and no-cost transfers			(4 000)	(529)	(192)	(6)		(4 727)
Other changes		(15)	86	(5 029)	(1 143)	(4 657)	110	(10 648)
Change in amount of provisions for costs of decommissioning	25		79 218					79 218
Transfer between groups			(7 286)	7 315		(29)		
Depreciation	29		(162 836)	(321 625)	(21 382)	(9 855)		(515 698)
Decrease in accumulated depreciation due to scrapping, sale and other			12 008	141 591	20 944	3 749		178 292
Impairment losses	29		(57)	(9 563)	(24)		(20 883)	(30 702)
Reversal of impairment losses	29		2 499		21		1 665	4 185
Utilisation of impairment losses			2 163	324	353		526	3 366
AT 31 DECEMBER 2006								
Gross carrying amount		17 816	6 931 032	5 626 398	301 731	142 156	683 779	13 702 912
Accumulated depreciation			(3 728 788)	(3 435 164)	(190 479)	(93 827)		(7 448 258)
Impairment losses			(116 875)	(55 028)	(119)	(14)	(30 332)	(202 368)
Net carrying amount		17 816	3 085 369	2 136 206	111 133	48 315	653 447	6 052 286

CHANGES IN PROPERTY, PLANT AND EQUIPMENT IN THE PERIOD FROM 1 JANUARY 2006 TO 31 DECEMBER 2007	Note	Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
CHANGES IN 2007								
Settlement of assets under construction		3 446	219 845	715 568	34 576	10 953	(984 388)	
Settlement of assets under construction – other (leases, warehouse acceptance, without effect)							(17 618)	(17 618)
Direct purchases			13 499	15 313	3 781	6 961	1 051 991	1 091 545
Internally-produced							5 688	5 688
Reclassification from non-current assets classified as held for sale or included in a disposal group					454			454
Disposal		(981)	(5 226)	(17 931)	(5 311)	(3 504)		(32 953)
Donations and no-cost transfers			(179)	(2)	(176)	9	(5)	(353)
Scrapping/decommissioning or write-off		(44)	(15 245)	(192 637)	(3 599)	(5 170)	(9)	(216 704)
Reclassification to non-current assets classified as held for sale or inclusion in a disposal group			(4 125)	(63)		(27)		(4 215)
Other changes			6 751	(891)	4 047	(223)	9 835	19 519
Change in amount of provisions for costs of decommissioning	25		64 850					64 850
Transfer between groups			1 287	(1 287)				
Depreciation	29		(173 347)	(367 533)	(23 988)	(11 414)		(576 282)
Decrease in accumulated depreciation due to scrapping, sale and other			14 445	189 091	8 043	7 093		218 672
Impairment losses	29		(203)	(3 773)			(5 178)	(9 154)
Reversal of impairment losses				3			2 111	2 114
Utilisation of impairment losses			553	3 413	96	1	12 440	16 503
AT 31 DECEMBER 2007								
Gross carrying amount		20 237	7 212 489	6 144 468	335 503	151 155	749 273	14 613 125
Accumulated depreciation			(3 887 690)	(3 613 606)	(206 424)	(98 148)		(7 805 868)
Impairment losses			(116 525)	(55 385)	(23)	(13)	(20 959)	(192 905)
NET CARRYING AMOUNT		20 237	3 208 274	2 475 477	129 056	52 994	728 314	6 614 352

Impairment losses on property, plant and equipment are mainly in respect of the subsidiary Dialog S.A., in which KGHM Polska Miedź owns 100% of the shares. Impairment loss of PLN 180 400 thousand was recognised at 31 December 2005 based on a test for impairment. An impairment test carried out on 31 December 2006 did not indicate the necessity to recognise further impairment of non-current assets. However, write downs were recognised in the amount of PLN 9 004 thousand in connection with retirement of MGW and DECT radio equipment, and in the amount of PLN 6 034 thousand in respect of design documentation recorded for projects which realisation is uncertain.

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

GROUPS OF PROPERTY, PLANT AND EQUIPMENT	At 31 December 2007			At 31 December 2006		
	Initial cost – capitalised finance lease	Accumulated depreciation	Net carrying amount	Initial cost – capitalised finance lease	Accumulated depreciation	Net carrying amount
Technical equipment and machinery	11 987	10 895	1 092	10 057	6 542	3 515
Motor vehicles	4 737	629	4 108	1 375	575	800
TOTAL	16 724	11 524	5 200	11 432	7 117	4 315

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

	At 31 December 2007				At 31 December 2006			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	1 855			1 855	1 762			1 762
Buildings and constructions	31 093	678	17 893	13 200	36 223	813	20 943	15 280
Technical equipment and machinery	26 659	1 390	11 390	15 269	25 946	1 280	10 361	15 585
Motor vehicles	19		19		19		19	
Other property, plant and equipment	558	25	505	53	577	24	500	77
Total	60 184	2 093	29 807	30 377	64 527	2 117	31 823	32 704

Amount of collateral for the repayment of liabilities of the KGHM Polska Miedź S.A. Group established on property, plant and equipment was presented in note 22 Collateral for the repayment of liabilities.

Amount of compensation from parties external to the Group, recognised in profit or loss, with respect to property, plant and equipment which has been lost or impaired

FOR THE PERIOD	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Amount of compensation recognised in profit or loss	1 865	240

MAJOR INVESTMENT PROJECTS RECOGNISED UNDER ASSETS UNDER CONSTRUCTION	At 31 December 2007	At 31 December 2006
Construction of the SW-4 shaft	153 475	99 346
Głogów Głęboki-Przemysłowy	115 496	49 374
Mining region infrastructural development	77 701	51 243
Construction of office building	32 583	4 963
Pyrometallurgy modernisation	32 159	54 142
Conformatory work	27 128	10 658
Conveyor belt and pipeline transport investments	19 320	53 352
Modernisation of steam and water boilers	17 881	
Construction of the R-XI shaft	16 842	30 985
Shafts and primary equipment	14 023	34 917
Modernisation of a tailings hydrotransport installation including the direct pumping of tailings	13 393	41 951
Modernisation of a stadium	10 807	
TOTAL	530 808	430 931

CAPITAL COMMITMENTS AT THE BALANCE SHEET DATE BUT NOT RECOGNISED IN THE BALANCE SHEET	At 31 December 2007	At 31 December 2006
For the acquisition of property, plant and equipment	454 100	239 252
For the acquisition of intangible assets	10 835	10 735
TOTAL CAPITAL COMMITMENTS:	464 935	249 987

Perpetual usufruct of land

At 31 December 2007, the Group entities used land under perpetual usufruct rights comprising a total area of 6 053 ha, including:

KGHM Polska Miedź S.A.	5 741
Subsidiaries of the Group	312

Some Group entities received perpetual usufruct rights free of charge based on laws in force. The land held under perpetual usufruct comprises industrial terrain related to the principal activities of the Group, which also include protective zones in which environmental quality standards have been transgressed due to the activities carried out by the Group.

Due to the nature of the use of the above-mentioned land, the Parent Entity has not determined a fair value for these perpetual usufruct rights at 31 December 2007.
In 2007 there was no change in the total area of land used.

Off-balance sheet liabilities of the Group due to the perpetual usufruct of land estimated on the basis of annual fee rates and the useful life of the land subject to this right.

TOTAL VALUE OF FUTURE MINIMUM FEES DUE TO PERPETUAL USUFRUCT OF LAND	At 31 December 2007	At 31 December 2006
Under one year	7 130	7 658
From one to five years	28 535	33 417
Over five years	437 063	484 398
TOTAL	472 728	525 473

FEES DUE TO PERPETUAL USUFRUCT OF LAND RECOGNISED IN PROFIT OR LOSS	At 31 December 2007	At 31 December 2006
Value of fees due to perpetual usufruct of land	6 874	6 633

8. Intangible assets

DEVELOPMENT COSTS	At 31 December 2007	At 31 December 2006
Development working costs	1 354	4 544
Goodwill	2 918	2 579
Software	22 137	21 569
Acquired concessions, patents, licenses	16 657	17 746
Other intangible assets	42 195	41 765
Intangible assets not yet available for use	33 970	37 811
TOTAL	119 231	126 014

CHANGES IN INTANGIBLE ASSETS IN THE PERIOD from 1 January 2006 to 31 December 2007:	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use	Total
AT 1 JANUARY 2006								
Gross carrying amount		18 521	800	76 619	38 804	40 544	25 265	200 553
Accumulated amortisation		(10 661)		(48 868)	(20 026)	(2 572)		(82 127)
Impairment losses			(99)	(3 415)				(3 514)
NET CARRYING AMOUNT		7 860	701	24 336	18 778	37 972	25 265	114 912
CHANGES IN 2006								
Transfer from intangible assets not yet available for use		135		3 772	5 386	20	(9 313)	
Direct purchases		303	2 181	901	238	2 504	22 140	28 267
Disposals						(450)		(450)
Liquidation or write-off		(1 683)		(436)	(21)	(755)		(2 895)
Other changes				49	351	5 968	(281)	6 087
Amortisation	29	(3 345)		(7 426)	(6 688)	(2 276)		(19 735)
Decrease in accumulated amortisation due to liquidation, sale and other		1 274		373	(298)	(1 218)		131
Impairment losses	29	(409)	(303)					(712)
Utilisation of impairment losses		409						409
AT 31 DECEMBER 2006								
Gross carrying amount		17 276	2 981	80 905	44 758	47 831	37 811	231 562
Accumulated amortisation		(12 732)		(55 921)	(27 012)	(6 066)		(101 731)
Impairment losses			(402)	(3 415)				(3 817)
NET CARRYING AMOUNT		4 544	2 579	21 569	17 746	41 765	37 811	126 014
CHANGES IN 2007								
Transfer from intangible assets not yet available for use		44		6 972	6 242		(13 258)	
Direct purchases		95		1 134	301	4 569	20 733	26 832
Other changes			339	(4)		(37)	(10 500)	(10 202)
Disposals		(481)		13	(6)	(201)		(675)
Liquidation or write-off		(737)		(2 214)	(2 621)	(2 571)		(8 143)
Amortisation	29	(3 118)		(7 539)	(7 632)	(2 975)		(21 264)
Decrease in accumulated amortisation due to liquidation, sale and other		1 074		2 016	2 627	1 645		7 362
Impairment losses	29	(67)					(816)	(883)
Utilisation of impairment losses				190				190
AT 31 DECEMBER 2007								
Gross carrying amount		16 197	3 320	86 806	48 674	49 591	34 786	239 374
Accumulated amortisation		(14 776)		(61 444)	(32 017)	(7 396)		(115 633)
Impairment losses		(67)	(402)	(3 225)			(816)	(4 510)
NET CARRYING AMOUNT		1 354	2 918	22 137	16 657	42 195	33 970	119 231

At 31 December 2007, the most significant item of intangible assets of the KGHM Polska Miedź S.A. Group is the documentation of geological information on the "Głogów Głęboki" deposit, included under other intangible assets, with a carrying amount of PLN 30 029 thousand (at 31 December 2006: PLN 30 676 thousand) and the established mining rights for extracting copper ore from the "Głogów Głęboki" deposit with a carrying amount of PLN 4 080 thousand (at 31 December 2006: PLN 4 167 thousand). The remaining amortisation period of both items of intangible assets is 47 years.
By the Decree of the Council of Ministers dated 27 December 2005 (Journal of Laws no. 264/2005 item 2206) the Polish government allocated emission rights to the specific eligible business entities. In accordance with the National Emission Rights Distribution Plan, the Group has the right to emit 1 971 900 tonnes of carbon dioxide in the years 2005–2007, i.e. 657 300 tonnes annually. These emission rights are recognised in accordance with principles described in note 2, point 2.2.26. Utilisation of emission rights in the years 2005–2007 amounted to 1 753 326 tonnes. In neither accounting period was the annual emissions limit exceeded.

Savings under the allocated limits amount to:

For 2005	18 933 tonnes
For 2006	58 523 tonnes
For 2007	141 118 tonnes
Total	**218 574 tonnes**

At 31 December 2007 the emission of carbon dioxide amounted to 516 182 tonnes. At 31 December 2007, the market value of unutilised rights amounts to PLN 8 thousand. These unutilised rights of the Group are to be finally settled by reviewers appointed by the Minister of the Environment in 2008. (Limit in force until 31 March 2008).

The amortisation of intangible assets utilised in the production or in the providing of services was recognised under cost of sales in the income statement (PLN 15 976 thousand). The amortisation of other intangible assets was recognised in administrative expenses (PLN 3 074 thousand) and selling costs (PLN 2 214 thousand).

9. Investment property

INVESTMENT PROPERTY	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Beginning of financial period		18 853	28 250
Changes during the financial period		(2 336)	(9 397)
– re-measurement to fair value	31, 32	(2 336)	13 706
– reclassification to assets classified as held for sale according to IFRS 5	26		(23 103)
– capitalised expenditures			
END OF FINANCIAL PERIOD		16 517	18 853

Direct operating costs (including repair and maintenance costs) incurred for investment properties which did not generate rental income amounted during the period from 1 January to 31 December 2007 to PLN 385 thousand (for the period from 1 January to 31 December 2006: PLN 146 thousand).

At 31 December 2007, investment property with a value of PLN 16 517 thousand consists of land on the territory of Lubin.

The measurement of investment property located in Lubin was carried out by an independent, professionally-qualified valuer, holding valid authorisation to perform such valuation, and was estimated using a comparative approach, by the method of comparing pairs. Selection of the approach and method was based on principles set forth in the act on property management and the decree of the Council of Ministers regarding the principles of property valuation and the principles and manner of preparing a valuation survey. Market data was used by the valuer to perform this valuation.

10. Investments in associates

INVESTMENTS IN ASSOCIATES	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
BEGINNING OF FINANCIAL PERIOD	690 074	931 173
Share of profits of associates	265 093	220 780
Changes in equity due to payment of dividend for the prior and current financial year	(265 092)	(461 879)
Other changes	21	
END OF FINANCIAL PERIOD	690 096	690 074

INTERESTS HELD BY THE GROUP IN ASSOCIATES	Country of incorporation	Assets	Liabilities	Sales	Profit for the period	Interest held (%)
AT 31 DECEMBER 2006						
Polkomtel S.A.	Polska	7 680 956	4 174 103	7 359 014	1 121 670	19,61
MINOVA-KSANTE Spółka z o.o.	Polska	9 753	1 815	16 296	2 840	30,00
		7 690 709	4 175 918	7 375 310	1 124 510	
AT 31 DECEMBER 2007						
Polkomtel S.A.	Polska	8 453 373	4 946 435	7 799 020	1 358 676	19,61
MINOVA-KSANTE Spółka z o.o.	Polska	9 740	1 635	16 760	3 006	30,00
		8 463 113	4 948 070	7 815 780	1 361 682	

Polkomtel S.A., in which KGHM Polska Miedź S.A. owns a 19.61% interest, is an associate which is accounted for using the equity method. The determination of significant influence is based on the fact that, in accordance with the shareholders agreement and the statutes of Polkomtel S.A., KGHM Polska Miedź S.A., through its representative on the Supervisory Board, has influence on resolutions related to the operating strategy of Polkomtel S.A., which in turn affects its operating and financial policies. The question of a possible increase of the interest in Polkomtel S.A. was described in Note 43.

11. Available-for-sale financial assets

AVAILABLE-FOR-SALE FINANCIAL ASSETS	At 31 December 2007	At 31 December 2006
Non-current available-for-sale financial assets	47 155	92 932
– shares in unlisted companies	23 952	25 291
– shares in listed companies	9 455	
– treasury bonds	3 076	3 107
– share in the AIG investment fund	10 665	14 191
– participation units in DWS Polska Płynna Lokata Plus investment fund		50 336
– other	7	7
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS:	47 155	92 932

12. Held-to-maturity investments

HELD-TO-MATURITY INVESTMENTS	At 31 December 2007	At 31 December 2006
NON-CURRENT HELD-TO-MATURITY INVESTMENTS	41	44
– Other securities	41	44
CURRENT HELD-TO-MATURITY INVESTMENTS		19 070
– Commercial bonds		4 028
– Certificates of deposit		15 042
TOTAL HELD-TO-MATURITY INVESTMENTS:	41	19 114

13. Derivative financial instruments

DERIVATIVE FINANCIAL INSTRUMENTS	Note	At 31 December 2007	At 31 December 2006
NON-CURRENT ASSETS, OF WHICH:		33 395	17 016
hedging instruments		30 308	16 411
trade instruments		3 087	605
CURRENT ASSETS, OF WHICH:		81 622	282 045
hedging instruments		68 075	95 480
trade instruments		13 547	186 565
TOTAL ASSETS:	34	115 017	299 061
NON-CURRENT LIABILITIES, OF WHICH:		3 087	1 486
hedging instruments			881
trade instruments		3 087	605
CURRENT LIABILITIES, OF WHICH:		14 335	837 103
hedging instruments		964	650 530
trade instruments		13 371	186 573
TOTAL LIABILITIES:	34	17 422	838 589

Transactions involving derivative financial instruments made on the metals market are settled on the second working day of the month following the month in which the average settlement price was determined. This means that transactions involving derivatives made in December 2007 were settled on 3 January 2008. As at the balance sheet date, these transactions were re-measured to fair value and recognised under trade and other receivables as receivables due to unsettled derivatives, or under trade and other liabilities as liabilities arising from unsettled derivative financial instruments. For details, see Note 35.1.8.

TRADE DERIVATIVES Type of financial instrument	Volume/Notional Cu ['000 t], Ag ['000 troz], Currency ['000 USD]	Avg. weighted price/ex. rate[1]) Cu [USD/t], Ag [USD/troz] Currency [USD/PLN]	Financial assets Current
DERIVATIVES – COMMODITY CONTRACTS (METALS) - COPPER			
Swaps			
Options			
Purchased call options			
Written call options			
Purchased put options	60.50	5 200	13 369
Written put options	60.50	5 200	
Purchased put options	5.50	5 200	
Written put options	5.50	5 200	
TOTAL:			13 369
DERIVATIVES – COMMODITY CONTRACTS (METALS) – SILVER			
Swaps			
Options			
Purchased call options			
Written call options			
Purchased put options			
Written put options			
TOTAL:			
DERIVATIVES – CURRENCY CONTRACTS- PLN/EUR			
Forwards			178
Options			
Purchased call options			
Written call options			
Purchased put options			
Written put options			
TOTAL:			178
Embedded derivative instruments			
TOTAL TRADE DERIVATIVES			13 547

TRADE DERIVATIVES Type of financial instrument	Volume/Notional Cu ['000 t], Ag ['000 troz], Currency ['000 USD]	Avg. weighted price/ex. rate[1]) Cu [USD/t], Ag [USD/troz] Currency [USD/PLN]	Maturity date From	 Till
DERIVATIVES – COMMODITY CONTRACTS (METALS) – COPPER				
Swaps	1.35	6 980.18	IV 08	IX 08
Options				
Purchased put options	137.50	5 712.00	I 08	XI 08
Purchased put options	12.50	5 712.00	XII 08	XII 08
Collar contracts				
Synthetic put				
TOTAL:				
DERIVATIVES – COMMODITY CONTRACTS (METALS) – SILVER				
Swaps				
Options				
Purchased put options	11 000	11.80	I 08	XI 08
Purchased put options	10 600	11.98	XII 08	XII 09
Collar contracts				
TOTAL:				
DERIVATIVES – CURRENCY CONTRACTS – PLN/USD				
Forwards				
Options				
Collar contracts				
TOTAL:				
TOTAL HEDGING DERIVATIVES				

1) The weighted average hedge contract 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

31 DECEMBER 2007				31 DECEMBER 2006			
Financial assets		Financial liabilities		Financial assets		Financial liabilities	
Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
				97 035		(97 035)	
				85 900			
						(85 900)	
		(13 371)					
	3 087						
			(3 087)				
	3 087	(13 371)	(3 087)	182 935		(182 935)	
				3 628	605		
						(3 628)	(605)
				3 628	605	(3 628)	(605)
				2		(10)	
				2		(10)	
	3 087	(13 371)	(3 087)	186 565	605	(186 573)	(605)

Period of profit/loss impact		31 DECEMBER 2007				31 DECEMBER 2006			
		Financial assets		Financial liabilities		Financial assets		Financial liabilities	
From	Till	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
V 08	X08			(964)		6 982		(325 634)	
II 08	XII 08	63 140				22 538			
I 09	I 09		11 951				4 328		
								(294 927)	
						32 677	5 358	(14 554)	(881)
		63 140	11 951	(964)		62 197	9 686	(635 115)	(881)
II 08	XII 08	4 935				907			
I 09	I 10		18 357				6 725		
						1		(15 409)	
		4 935	18 357			908	6 725	(15 409)	
						13 047			
						19 328		(6)	
						32 375		(6)	
		68 075	30 308	(964)		95 480	16 411	(650 530)	(881)

amounts may generate one set of results when the average weighted exercise price/exchange rate is assumed and another set of results when the calculation is based on actual exercise prices/exchange rates of options entered into by the Parent Entity.

14. Trade and other receivables

TRADE AND OTHER RECEIVABLES	Note	At 31 December 2007	At 31 December 2006
Non-current trade and other receivables			
Trade receivables		11 767	3 007
Amount retained (collateral) due to long-term construction contracts		10 963	
Deposits		15 405	
Other financial receivables		1 692	1 604
Impairment allowances	35.3.6	(11 013)	(403)
TOTAL LOANS AND FINANCIAL RECEIVABLES, NET:	34	28 814	4 208
Other non-financial receivables		59	281
Prepayments, of which:		18 198	12 686
– perpetual usufruct		15 996	8 639
Impairment allowances			
TOTAL NON-FINANCIAL RECEIVABLES, NET		18 257	12 967
NON-CURRENT TRADE AND OTHER RECEIVABLES, NET:		47 071	17 175
Current trade and other receivables			
Trade receivables		738 067	1 237 494
Receivables due to unsettled derivative instruments	35.1.8	8 877	
Loans granted		307	596
Other financial receivables		45 570	18 427
Impairment allowances	35.3.6	(48 839)	(70 818)
TOTAL LOANS AND FINANCIAL RECEIVABLES, NET	34	743 982	1 185 699
Other non-financial receivables, including:		238 501	200 481
– taxes and other charge		201 895	162 204
Prepayments		17 114	50 353
Impairment allowances		(74 230)	(31 889)
TOTAL NON-FINANCIAL RECEIVABLES, NET		181 385	218 945
Current trade and other receivables, net:		925 367	1 404 644
TOTAL NON-CURRENT AND CURRENT TRADE AND OTHER RECEIVABLES, NET		972 438	1 421 819

IMPAIRMENT ALLOWANCES ON NON-FINANCIAL RECEIVABLES	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Impairment allowances at the beginning of the period	31 889	42 852
Impairment allowances recognised in profit/loss for the period	42 564	679
Impairment allowances reversed through profit or loss for the period	(129)	(4 656)
Impairment allowances utilised during the period	(96)	(7 076)
Impairment allowances charged to costs of legal proceedings	11	90
Reversal of impairment allowances charged to the costs of legal proceedings	(9)	
IMPAIRMENT ALLOWANCES AT THE END OF THE PERIOD	74 230	31 889

During the current reporting period, an impairment allowance was created for receivables from local councils (gminas) relating to payment of tax concerning underground mines in the amount of PLN 42 475 thousand. The Parent Entity is in the course of appeal proceedings concerning property tax on mines.
The change of allowances for impairment of loans and receivables is presented in note 35.3.6.

15. Inventories

INVENTORIES	At 31 December 2007	At 31 December 2006
Materials	189 292	196 816
Semi-finished products and work in progress	1 177 498	1 223 010
Finished products	335 226	299 729
Goods for resale	42 479	49 195
TOTAL CARRYING AMOUNT OF INVENTORIES	1 744 495	1 768 750

WRITE-DOWN OF INVENTORIES IN THE FINANCIAL PERIOD	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Write-down of inventories recognised in cost of sales	29	(4 230)	(7 613)
Reversal of write-down recognised in cost of sales	29	1 714	1 337

Reversal of the write-down was made due to the sale of goods for resale subject to revaluation at pre-revaluation prices.

16. Cash and cash equivalents

CASH AND CASH EQUIVALENTS	At 31 December 2007	At 31 December 2006
Cash in hand	577	674
Cash at bank	86 609	52 174
Other cash	474	416
Other financial assets with a maturity of up to 3 months from the date of acquisition	2 724 436	2 267 867
TOTAL CASH AND CASH EQUIVALENTS	2 812 096	2 321 131
Restricted cash and cash equivalents	2 808	1 043

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 2 638 137 thousand (as at 31 December 2006: PLN 2 265 899 thousand), debt securities in the amount of PLN 83 628 thousand (as at 31 December 2006 there were none) and interest accrued on financial assets in the amount of PLN 2 671 thousand (as at 31 December 2006: PLN 1 968 thousand).

Components of cash and cash equivalents presented in the cash flow statement are the same as those presented in the balance sheet.

17. Share capital

SHARE CAPITAL	Registered share capital	Total
At 31 December 2006	2 000 000	2 000 000
At 31 December 2007	2 000 000	2 000 000

Pursuant to resolution no. 31/2005 of the General Shareholders' Meeting of the Parent Entity dated 15 June 2005, in the consolidated financial statements of the Group the results of the revaluation of share capital in the amount of PLN 5 413 573 thousand have been transferred to retained earnings. As a result, as at 31 December 2006 the share capital presented in the consolidated financial statements amounted to PLN 2 000 000 thousand. As there is no such resolution in respect of the separate financial statements of KGHM Polska Miedź S.A., the share capital presented in the financial statements of the Parent Entity as at 31 December 2006 was different from the amount of the share capital of the Group presented in the consolidated financial statements.
On 18 October 2007, the Extraordinary General Shareholders' Meeting resolved to decrease the Parent Entity's share capital, reported in the separate financial statements prepared as at the date of implementation of International Financial Reporting Standards and as at the date of the preparation of the first half-year financial statements according to IFRS, i.e. 30 June 2007, which after hyperinflationary revaluation amounted to PLN 7 413 573 thousand by PLN 5 413 573 thousand, and to transfer this amount to the reserve capital (retained earnings) of the Parent Entity.

As at 31 December 2007, the Parent Entity's registered share capital amounted to PLN 2 000 000 000 and was divided into 200 000 000 shares ("A" series), fully paid, with a nominal value of PLN 10 each. All shares are bearer shares. The Parent Entity did not issue preference shares.
Each share gives the right to one vote at the General Shareholders' Meeting. The Parent Entity does not have treasury shares. Subsidiaries and associated companies do not own shares in KGHM Polska Miedź S.A.

Ownership structure

At 31 December 2007, the only shareholder of the Parent Entity with shares representing at least 5% of the share capital and giving the right to the same number of votes at the General Shareholders' Meeting, based on information dated 16 May 2007, was the State Treasury, which held 83 589 900 shares, with a total nominal value of PLN 835 899 000, which accounts for 41.79% of the Parent Entity's share capital.

Other shareholders (including Deutsche Bank Trust Company Americas, deposit bank in the depositary receipt program) held shares in an amount below 5% of the share capital i.e. a total of 116 410 100 shares with a total nominal value of PLN 1 164 101 000, which account for 58.21% of the share capital and give the same number of votes at the General Shareholders' Meeting.

Changes in significant blocks of shares

In 2007 the State Treasury reduced its interest in the share capital of the Parent Entity as a result of the transfer of ownership, on 15 May 2007, of 5 000 000 shares in KGHM Polska Miedź S.A. to Kompania Węglowa S.A. The above block of shares represents 2.5% of the share capital and of the total number of votes.

18. Other reserves

OTHER RESERVES	Note	Revaluation reserve on available-for-sale financial assets	Revaluation reserve on cash flow hedging financial instruments	Total other reserves
AT 1 JANUARY 2006		14 413	(810 755)	(796 342)
Fair value gains on available-for-sale financial assets		5 110		5 110
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(12 181)		(12 181)
Impact of effective cash flow hedging transactions entered into	35.1.9		(1 863 844)	(1 863 844)
Amount transferred to profit or loss due to the settlement of hedging instruments	35.1.9		2 331 029	2 331 029
Deferred tax	23	1 342	(96 275)	(94 933)
TOTAL INCOME/(EXPENSES) RECOGNISED DIRECTLY IN EQUITY		(5 729)	370 910	365 181
AT 31 DECEMBER 2006		8 684	(439 845)	(431 161)
AT 1 JANUARY 2007		8 684	(439 845)	(431 161)
Fair value gains on available-for-sale financial assets		13 167		13 167
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(19 894)		(19 894)
Impact of effective cash flow hedging transactions	35.1.9		131 890	131 890
Amount transferred to profit or loss due to the settlement of hedging instruments	35.1.9		435 533	435 533
Deferred tax	23	1 082	(117 499)	(116 417)
TOTAL INCOME/(EXPENSES) RECOGNISED DIRECTLY IN EQUITY		(5 645)	449 924	444 279
AT 31 DECEMBER 2007		3 039	10 079	13 118

19. Transactions with minority shareholders

In 2007, transactions were carried out with minority shareholders by:

- registration of liquidation of Energetyka Spółka Specjalnego Przeznaczenia sp. z o.o.,
- acquisition by KGHM Ecoren S.A. of issued shares of WM „ŁABĘDY" S.A. The share of the Group in the capital of WM „ŁABĘDY" S.A. increased by 14.42%,
- change of indirect shares in Walcownia Metali Nieżelaznych spółka z o.o. as a result of a transfer as a contribution in kind of the shares of the company from KGHM Ecoren S.A. to WM „ŁABĘDY" S.A. The share of the Group in the capital of Walcownia Metali Nieżelaznych spółka z o.o. decreased by 1.64%,
- acquisition by KGHM Polska Miedź S.A. of 1.04 % of the shares of KGHM Metraco S.A. Following this acquisition, 100% of the share capital of KGHM Metraco S.A. is owned by KGHM Polska Miedź S.A.,
- acquisition by KGHM Polska Miedź S.A. of 94.95% of the newly-created shares of KGHM Letia S.A.

In addition, an adjustment was made to minority interest capital in the amount of PLN 320 thousand, as at 31 December 2006. Due to the immaterial amount of the adjustment, it was charged to the current financial result.

TYPE OF TRANSACTION FOR THE PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007	Cost/income from disposal	Value of net assets acquired/(disposed)	Goodwill/(excess of the value of shares acquired over the cost of acquisition)	Loss from disposal/ other operating cost	Transactions with minority shareholders
Liquidation of Energetyka Spółka Specjalnego Przeznaczenia	50	(50)			
Acquisition of shares of WM Łabędy S.A.	30 936	30 598	338		338
Change of indirect shares in WMN Sp. z o.o.		(872)		(872)	872
Acquisition of shares of KGHM Metraco S.A.	610	638	(28)		(638)
Acquisition of shares of KGHM Letia S.A.	18 990	18 990			1 010
Adjustment to minority interest capital				(320)	320
TOTAL	50 586	49 304	310	(1 192)	1 902

TYPE OF TRANSACTION FOR THE PERIOD FROM 1 JANUARY 2006 TO 31 DECEMBER 2006	Cost/income from disposal	Value of net assets acquired/(disposed)	Goodwill/(excess of the value of shares acquired over the cost of acquisition)	Loss from disposal/other operating cost	Transactions with minority shareholders
Acquisition of shares of Zagłębie Lubin SSA and PHU Lubinpex Sp. z o.o.	1 327	1 073	254		(1 073)
Disposal of shares of Interferie S.A.	28 873	(30 970)		(2 097)	30 970
TOTAL	30 200	(29 897)	254	(2 097)	29 897

20. Trade and other payables

TRADE AND OTHER PAYABLES	Note	At 31 December 2007	At 31 December 2006
NON-CURRENT TRADE AND OTHER PAYABLES			
Trade payables		9 281	8 987
Other financial liabilities		144	
TOTAL NON-CURRENT FINANCIAL LIABILITIES	34	9 425	8 987
Other non-financial liabilities			577
Deferred income		15 337	7 175
TOTAL NON-CURRENT NON-FINANCIAL LIABILITIES		15 337	7 752
TOTAL NON-CURRENT TRADE AND OTHER PAYABLES		24 762	16 739
Current trade and other payables			
Trade payables		642 007	676 276
Payables due to unsettled derivative financial instruments	35.1.8	3 304	209 415
Other financial liabilities		204 586	130 944
TOTAL CURRENT FINANCIAL LIABILITIES	34	849 897	1 016 635
Liabilities due to taxes and social security		330 608	252 221
Other non-financial liabilities		79 267	89 910
Special funds		12 319	9 975
Deferred income		7 647	28 818
Accruals		322 775	313 601
Total current non-financial liabilities		752 616	694 525
TOTAL CURRENT TRADE AND OTHER PAYABLES		1 602 513	1 711 160
TOTAL NON-CURRENT AND CURRENT TRADE AND OTHER PAYABLES		1 627 275	1 727 899

21. Borrowings and finance lease liabilities

BORROWINGS AND FINANCE LEASE LIABILITIES	At 31 December 2007	At 31 December 2006
NON-CURRENT BORROWINGS AND FINANCE LEASE LIABILITIES		
Bank loans	132 440	111 691
Loans	13 781	21 481
Finance lease liabilities	16 688	17 396
TOTAL NON-CURRENT BORROWINGS AND FINANCE LEASE LIABILITIES	162 909	150 568
CURRENT BORROWINGS AND FINANCE LEASE LIABILITIES		
Bank loans	101 890	41 713
Loans	7 722	7 707
Finance lease liabilities	3 589	5 336
TOTAL CURRENT BORROWINGS AND FINANCE LEASE LIABILITIES	113 201	54 756
TOTAL BORROWINGS AND FINANCE LEASE LIABILITIES	276 110	205 324

21.1 Borrowings

Bank and other loans as at 31 December 2007

Bank loan currency	Interest rate	The value of the bank and other loans at balance sheet date (in '000)		Of which payable in:				
		in foreign currency	in PLN	2008 (current)	2009	2010	2011–2012	2013 and beyond
EUR	Variable	879	3 149	774	2 146	229		
PLN	Variable		237 842	100 996	107 811	5 976	7 042	16 017
PLN	Fixed		14 842	7 842	4 000	3 000		
TOTAL BANK AND OTHER LOANS			255 833	109 612	113 957	9 205	7 042	16 017

Bank and other loans as at 31 December 2006

Bank loan currency	Interest rate	The value of the bank and other loans at balance sheet date (in '000)		Of which payable in:				
		in foreign currency	in foreign currency	2007 (current)	2008	2009	2010-2011	2012 and beyond
EUR	Variable	1 240	4 847	1 814	1 627	1 161	245	
PLN	Variable		156 721	39 582	6 343	104 099	3 675	3 022
PLN	Fixed		21 024	8 024	6 000	4 000	3 000	
TOTAL BANK AND OTHER LOANS			182 592	49 420	13 970	109 260	6 920	3 022

Most of the bank loans drawn by Group companies are bank loans with variable interest rates. The majority of bank and other loans denominated in PLN are based on the WIBOR 1M reference rate, plus a bank loan margin, depending on the creditworthiness of the entity being financed, within a range of from 0.3% to 0.8%, with interest payable in monthly periods. Interest on bank loans denominated in EUR is mainly based on the EURIBOR 1M reference rate, plus a bank loan margin of from 0.65% to 1%.

The base interest rates applied in bank loan agreements entered into by entities of the Group at the balance sheet date were as follows:

Ratio (%)	At 31 December 2007	At 31 December 2006
WIBOR 1W	5.3200	4.1100
WIBOR 1M	5.5200	4.1200
WIBOR 3M	5.6800	4.2000
EURIBOR 1M	4.2900	3.6330
EURIBOR 3M	4.6800	3.7300

The major item in borrowings is the bank loan drawn by the subsidiary Telefonia Dialog S.A. in the amount of PLN 141 081 thousand at 31 December 2007 (PLN 100 243 thousand at 31 December 2006 respectively). The bank loan agreement sets out the additional covenants which must be met by the company over the term of the loan, including the following:

- ensuring maintenance of defined financial indicators at set levels during the period of loan term (Financial Debt to EBITDA Ratio not higher than 2.50: 1, EBITDA to Interest Ratio no lower than 3:1, Equity not lower than PLN 900 000 thousand)
- the obligation to ensure additional collateral on the bank loan, should the Financial Debt to EBITDA Ratio be higher than 2.0:1
- the obligation to make payments to open current accounts maintained by the lending bank throughout the loan term, so as to ensure that the annual inflow of funds to these accounts from those payments represents the equivalent of at least 50% of the revenues of the company during this period.

Based on the contracts signed, the total value of overdraft facilities at 31 December 2007 amounted to PLN 103 000 thousand and USD 10 000 thousand (at 31 December 2006 PLN 83 385 thousand and USD 10 000 thousand respectively), of which PLN 45 888 thousand was utilised at 31 December 2007 (at 31 December 2006 PLN 32 530 thousand). Repayment dates for the overdraft facilities used fall a half year after the balance sheet date.

21.2 Finance lease liabilities

As at 31 December 2007, the carrying amount of the finance lease liabilities amounted to PLN 20 277 thousand (at 31 December 2006: PLN 22 732 thousand, respectively).

The most significant item is the commitment resulting 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 of preparing 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, payable on 30 June of each year. The last instalment will be settled on 30 June 2014. Those non interest-bearing liabilities were recognised in the accounts of the Parent Entity 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 liabilities resulting from this agreement is PLN 15 909 thousand (EUR 4 441 thousand) (at 31 December 2006: PLN 19 333 thousand (EUR 5 046 thousand)), while the carrying amount of the related intangible assets at the balance sheet date amounts to PLN 30 029 thousand (at 31 December 2006: PLN 30 676 thousand).

FINANCE LEASE LIABILITIES AS AT 31 DECEMBER 2007	2008 (current)	2009	2010	2011–2012	2013 and beyond	TOTAL
NOMINAL VALUE OF MINIMUM LEASE PAYMENTS	3 868	3 634	3 583	6 861	5 638	23 584
Future finance costs due to finance leases	279	344	413	1 002	1 269	3 307
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	3 589	3 290	3 170	5 859	4 369	20 277

FINANCE LEASE LIABILITIES AS AT 31 DECEMBER 2006	2007 (current)	2008	2009	2010–2011	2012 and beyond	TOTAL
NOMINAL VALUE OF MINIMUM LEASE PAYMENTS	5 474	3 310	3 056	5 880	8 505	26 225
Future finance costs due to finance leases	138	199	296	867	1 993	3 493
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	5 336	3 111	2 760	5 013	6 512	22 732

22. Collateral for the repayment of liabilities

In order to guarantee repayment of bank and other loans drawn, the following collateral has been pledged:

- proxy rights to all present and future bank accounts of the borrowers,
- blockade of PLN 200 thousand in the bank account of KGHM Ecoren S.A.,
- ordinary mortgage on investment property up to PLN 41 500 thousand,
- maximum mortgages to the total amount of PLN 41 512 thousand,
- assignment of rights under insurance policy on investments,
- assignment of receivables from property rental contracts in a newly-constructed building,
- contractual mortgages, maximum mortgages and collective mortgage for land,
- blank promissory note with a declaration of rights thereunder,
- statement on submitting to the enforcement regime
- collaterals and letters of comfort of Group companies,
- registered pledge on gas dedusting installations for anode furnaces,
- registered pledge on receivables up to PLN 61 600 thousand,
- registered pledge on inventories of finished products, goods for resale and materials with a value representing 1.3-times the amount of loan actually drawn, representing PLN 15 600 thousand if the maximum amount is drawn,
- assignment of rights under property insurance agreement (assignment of rights under insurance policy against fire and other accidents for PLN 15 600 thousand and an insurance policy against theft with breaking, entering and robbery, PLN 150 thousand),
- registered pledge on inventories up to PLN 8 625 thousand,
- proxy rights for the Bank to discharge liabilities to the Bank from funds in the current account and other accounts kept by the Bank

All of the bank and other loans drawn by the Group are covered by one or more of the collaterals listed above.

At the balance sheet date collateral was established for the following assets to guarantee repayment of liabilities or contingent liabilities:

	At 31 December 2007	At 31 December 2006
Property, plant and equipment, including:	96 791	50 645
Assets under construction (incl. those under a mortgage)	35 409	5 466
Buildings and constructions	29 941	26 693
Motor vehicles[1)]	3 626	208
Technical equipment and machinery[1)]	27 815	18 278
Inventories	27 434	26 933
Trade receivables[2)]	20 363	16 730
Other financial and non-financial receivables		
Cash and cash equivalents	15 605	200
TOTAL CARRYING AMOUNT OF ASSETS FOR WHICH COLLATERAL WAS ESTABLISHED TO GUARANTEE REPAYMENT OF FINANCIAL LIABILITIES	160 193	94 508

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

23. Deferred tax

	Note	At 31 December 2007	At 31 December 2006
NET DEFERRED TAX ASSET AT THE BEGINNING OF THE PERIOD, OF WHICH:		361 930	391 188
Deferred tax assets at the beginning of the period		388 468	411 795
Deferred tax liabilities at the beginning of the period		26 538	20 607
Takeover of a subsidiary			(3)
Credited to profit or loss	37	45 189	65 678
Decrease in equity	18	(116 417)	(94 933)
NET DEFERRED TAX ASSET AT THE END OF THE PERIOD, OF WHICH:		290 702	361 930
Deferred tax assets at the end of the period		320 506	388 468
Deferred tax liabilities at the end of the period		29 804	26 538

Deferred tax assets prior to offsetting

	At 1 January 2006 based on the rate of 19%	Credited/(Charged) to profit or loss due to a change in the balance of temporary ifferences and tax loss	Increase/(Decrease) in equity due to change in the balance of temporary differences	At 31 December 2006 based on the rate of 19%
Exchange rate differences	25 423	(8 536)		16 887
Interest	40	(27)		13
Allowances for impairment of receivables	8 873	(192)		8 681
Short-term accruals for wages	38 462	13 696		52 158
Employee benefits (holidays)	3 972	841		4 813
Provision for decommissioning of mines and other facilities	71 957	15 288		87 245
Measurement of forward transactions	65 180	49 138		114 318
Re-measurement of hedging instruments	234 986	(12 848)	(96 275)	125 863
Depreciation and amortisation	19 169	45 102		64 271
Liabilities due to future employee benefits	163 617	11 820		175 437
Unpaid wages with surcharges	41 729	6 760		48 489
Other	150 784	(50 367)		100 417
TOTAL	824 192	70 675	(96 275)	798 592

	At 1 January 2007 based on the rate of 19%	Credited/(Charged) to profit or loss due to a change in the balance of temporary ifferences and tax loss	Increase/(Decrease) in equity due to change in the balance of temporary differences	At 31 December 2007 based on the rate of 19%
Exchange rate differences	16 887	(13 092)		3 795
Interest	13	219		232
Allowances for impairment of receivables	8 681	10 219		18 900
Short-term accruals for wages	52 158	5 903		58 061
Employee benefits (holidays)	4 813	(463)		4 350
Provision for decommissioning of mines and other facilities	87 245	17 385		104 630
Measurement of forward transactions	114 318	(52 936)		61 382
Re-measurement of hedging instruments	125 863	1 453	(117 499)	9 817
Depreciation and amortisation	64 271	40 323		104 594
Liabilities due to future employee benefits	175 437	12 857		188 294
Unpaid wages with surcharges	48 489	8 676		57 165
Other	100 417	(12 639)		87 778
TOTAL	798 592	17 905	(117 499)	698 998

The amount of deductible temporary differences and unused tax losses in respect of which the Group did not recognise deferred tax assets (due to the remote possibility of their being settled in future years) amounts to PLN 34 916 thousand (at 31 December 2006: PLN 375 571 thousand).

Tax losses which may be settled in future periods by reducing taxable profit amount to PLN 2 281 thousand (at 31 December 2006: PLN 13 729 thousand). These losses expire as follows: PLN 1 124 thousand in 2009 (in 2006: PLN 1 614 thousand); PLN 768 thousand in 2011 (in 2006: PLN 1 535 thousand) and PLN 389 thousand in 2012.

The Group created deferred tax assets whose realisation depends on the future generation of taxable profit in the amount exceeding gains arising from the reversal of taxable temporary differences in the amount of PLN 7 284 thousand (at 31 December 2006: PLN 55 341 thousand). The recognition of deferred tax assets was based on current, confirmed financial plans and on the current activities of the Group.

Deferred tax liabilities prior to offsetting

DEFERRED TAX LIABILITIES PRIOR TO OFFSETTING	At 1 January 2006 based on the rate of 19%	Takeover of a subsidiary	(Credited)/Charged to profit or loss due to a change in the balance of temporary differences	(Increase)/ Decrease in equity due to changein the balance of temporary differences	At 31 December 2006 based on the rate of 19%
Exchange rate differences	5 207		4 016		9 223
Interest	431		447		878
Measurement of forward transactions	50 587		(4 129)		46 458
Re-measurement of hedging instruments	1 571		(670)		901
Depreciation/amortisation	177 271		44 467		221 738
Available-for-sale financial assets	3 293			(1 342)	1 951
Other	194 644	3	(39 134)		155 513
TOTAL	433 004	3	4 997	(1 342)	436 662

DEFERRED TAX LIABILITIES PRIOR TO OFFSETTING	At 1 January 2007 based on the rate of 19%	Takeover of a subsidiary	(Credited)/Charged to profit or loss due to a change in the balance of temporary differences	(Increase)/ Decrease in equity due to changein the balance of temporary differences	At 31 December 2007 based on the rate of 19%
Exchange rate differences	9 223		(7 537)		1 686
Interest	878		2 345		3 223
Measurement of forward transactions	46 458		(36 902)		9 556
Re-measurement of hedging instruments	901		(867)		34
Depreciation/amortisation	221 738		110 441		332 179
Available-for-sale financial assets	1 951			(1 082)	869
Other	155 513		(94 764)		60 749
TOTAL	436 662		(27 284)	(1 082)	408 296

24. Employee benefits

A general description of the employee benefit plans is included in note 2, Main accounting policies, point 2.2.16.

CHANGE IN LIABILITIES DUE TO FUTURE EMPLOYEE BENEFITS	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other liabilities due to employee benefits
PRESENT VALUE OF OBLIGATIONS – AT 1 JANUARY 2006	899 148	265 807	179 927	452 469	945
Interest costs	42 685	12 564	8 466	21 655	
Current service cost	36 192	16 229	10 361	9 552	50
Past service cost	255	9	246		
Benefits paid	(71 944)	(31 136)	(18 341)	(21 742)	(725)
Actuarial gains	43 864	24 042	11 618	8 204	
PRESENT VALUE OF OBLIGATIONS – AT 31 DECEMBER 2006	950 200	287 515	192 277	470 138	270
Past service cost unrecognised at the balance sheet date	(12 647)		(12 647)		
CARRYING AMOUNT OF LIABILITIES – AT 31 DECEMBER 2006	937 553	287 515	179 630	470 138	270
of which:					
Carrying amount of non-current liabilities	864 950	255 986	163 383	445 581	
Carrying amount of current liabilities	72 603	31 529	16 247	24 557	270

CHANGE IN LIABILITIES DUE TO FUTURE EMPLOYEE BENEFITS	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other liabilities due to employee benefits
PRESENT VALUE OF OBLIGATIONS – AT 1 JANUARY 2007	950 200	287 515	192 277	470 138	270
Interest costs	44 191	13 249	8 935	22 007	
Current service cost	39 976	17 829	12 359	9 788	
Past service cost	2 888	2 052	836		
Benefits paid	(80 271)	(37 089)	(19 519)	(23 393)	(270)
Actuarial gains	51 302	13 814	8 952	28 536	
PRESENT VALUE OF OBLIGATIONS – AT 31 DECEMBER 2007	1 008 286	297 370	203 840	507 076	
Past service cost unrecognised at the balance sheet date	(10 961)		(10 961)		
CARRYING AMOUNT OF LIABILITIES – AT 31 DECEMBER 2007	997 325	297 370	192 879	507 076	
of which:					
Carrying amount of non-current liabilities	919 923	263 479	173 193	483 251	
Carrying amount of current liabilities	77 402	33 891	19 686	23 825	

PRESENT VALUE OF EMPLOYEE BENEFITS	
AT	
31 December 2007	1 008 286
31 December 2006	950 200
31 December 2005	899 148
31 December 2004	785 397
31 December 2003	743 092

TOTAL COSTS RECOGNISED IN THE INCOME STATEMENT DUE TO FUTURE EMPLOYEE BENEFITS	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Total costs recognised in the income statement	39 976	36 192
Current service cost	44 191	42 685
Interest costs	51 302	43 864
Actuarial gains	4 574	1 942
PAST SERVICE COST	140 043	124 683

The change in actuarial gains/losses is caused by a change in assumptions relating to the increase in 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 Group 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:	2008	2009	2010 and beyond
– discount rate	5.50%	5.60%	5.20%
– rate of increase in coal prices	6.50%	3.00%	3.00%
– rate of increase in the lowest wage	0.00%	4.00%	4.00%
– expected inflation	2.70%	3.00%	3.00%
– future expected increase in wages	6.00%	4.00%	4.00%

25. Provisions for other liabilities and charges

PROVISIONS FOR OTHER LIABILITIES AND CHARGES	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
PROVISIONS AT 1 JANUARY 2006		532 202	378 973	6 958	25 771	120 500
Provisions recognised		56 648	67	733	13 518	42 330
Changes arising from changes in provisions after updating of estimates		73 573	73 956			(383)
Changes in provisions arising from approach of execution date of liabilities (unwinding of the discount effect)	33	20 323	19 708			615
Utilisation of provisions		(53 666)	(3 337)	(2 334)	(12 960)	(35 035)
Release of provisions		(14 001)		(70)	(3 969)	(9 962)
Transfer to Mine Closure Fund		(9 833)	(9 833)			
Other		(33 336)			123	(33 459)
PROVISIONS AT 31 DECEMBER 2006		571 910	459 534	5 287	22 483	84 606
of which:						
Non-current provisions		493 009	452 335		22	40 652
Current provisions		78 901	7 199	5 287	22 461	43 954

PROVISIONS FOR OTHER LIABILITIES AND CHARGES	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
PROVISIONS AT 1 JANUARY 2007		571 910	459 534	5 287	22 483	84 606
Provisions recognised		41 926	67		1 142	40 717
Changes arising from changes in provisions after updating of estimates		81 383	82 848			(1 465)
Changes in provisions arising from approach of execution date of liabilities (unwinding of the discount effect)	33	26 303	24 922	226		1 155
Utilisation of provisions		(36 484)	(3 840)	(142)	(217)	(32 285)
Release of provisions		(8 097)	(226)	(561)	(3 765)	(3 545)
Transfer to Mine Closure Fund		(12 647)	(12 647)			
Other		2 289			(32)	2 321
PROVISIONS AT 31 DECEMBER 2007		666 583	550 658	4 810	19 611	91 504
of which:						
Non-current provisions		570 327	527 634	4 272		38 421
Current provisions		96 256	23 024	538	19 611	53 083

The Group recognises provisions for decommissioning costs of mines and other facilities based on principles described in note 2, point 2.2.15.

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 balance of PLN 550 658 thousand as at 31 December 2007), created in accordance with the methodology defined in the International Financial Reporting Standards.

The decommissioning schedule and estimates of decommissioning costs have been worked on since the beginning of 2001 by the 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 price index for the construction–assembly industry, which are published by the Main Statistical Office, taking into account movements in tangible fixed assets. The exception to the above are mine shafts. In 2006, costs of shafts liquidation were revalued due to completion of the document called "Study of the project of liquidation of the P-III and P-IV mine shafts in the Polkowice Wschodnie Region and the project of excavation of deposits located in the safety pillars of those shafts – Stage III. 1. The project of liquidation of the P-III shaft, 2. The project of liquidation of the P-IV shaft" prepared by Cuprum and securing positive opinions for those projects of the Commission for Water, Waste Management and Mine Closure- Related Threats operating by the Main Mine Office – Resolution No. 2/2007 dated 6 September 2007. Detailed information included in technical projects developed for the P-III and P-IV shafts in the Polkowice Wschodnie Region provided the basis for verification of forecasts concerning costs of liquidation of other shafts in KGHM Polska Miedź S.A.
Subsequent revaluations have been made if significant economic events have occurred which could have an impact on the amount of the provision. The 2007 revaluation related mainly to the decommissioning schedule and was due to adoption by the Ministry of Natural Environment in January 2007 certain of additions to the projects relating to copper ore deposits management at KGHM Polska Miedź S.A., which were underlying mining activities of the Parent Entity. These amended projects assume that ore excavation will continue until the year 2040.

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 hydrotechnical facility created by way of a circumferential embankment of lowered area. At the same time, it serves as the central water management facility. The area and type of this tailings pond requires, in addition to protection- restoration activities carried out on a regular basis in the form of shaping of the slope of the reservoir using 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 mines and enrichment plants. During the final stage of operating this tailings pond, transfer to the method of 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 liquidation and its partial restoration will commence in 2025 and will last until 2037. In 2038, the main stage of the tailings pond 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 and 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 possible and reasonable solution. It is planned that trees will be planted on the whole area of 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 fertilisation. The above site restoration method is comparable to those used in the EU countries. KGHM CUPRUM Sp. z o.o. CBR, in cooperation with the Natural Science University in Wrocław, are currently conducting research work in respect of this issue. The decommissioning project assumes a 10-year monitoring period for the facility.

The Parent Entity's method of estimating the required decommissioning provision is based on the prudence concept. The amount of the provision recognised in the balance sheet is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value. The amount of the provision is revalued by the Parent Entity at the end of each quarter by applying in the discounting model the ratios described in Note 4.2.
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 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 mines' fixed assets for each year. Cash transfers made to the Mine Closure Fund are invested by the Parent Entity in secure short-term securities or short-term deposits. Income from these investments increases the Fund's balance and the Parent Entity does not charge any fee for this cash management.

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 of 2.6%.

Facilities with the highest share in the provision for decommissioning costs of mines and other facilities

DIVISION	FACILITY	Provision at 31 December 2007	Provision at 31 December 2006
ZH	"Żelazny Most" tailings pond	90 692	61 111
ZWR	ZWR Rudna Ore Enrichment Plant	50 239	36 566
ZH	Other waste storage areas	43 758	38 193
ZWR	ZWR Polkowice Ore Enrichment Plant	41 517	28 995
ZGR	Central part of Rudna Mine (shafts: RI, RII, RV)	39 630	30 629
ZWR	ZWR Lubin Ore Enrichment Plant	32 641	34 103
ZH	Pipelines and technological facilities	26 146	18 793
ZGR	Western part of Rudna Mine (shafts: RIII, RIV, RX)	23 295	17 966
ZGPS	Eastern part of Polkowice Mine (shafts: PIII, PIV)	20 616	20 957
ZGL	R6 - Central (shafts: LI, LII)	18 262	20 257

Provisions for disputed issues and court proceedings represent a less significant item of provisions. They are mainly relating to:
- proceedings in a dispute concerning the payment of damages to BOBMARK INTERNATIONAL in the amount of PLN 11 839 thousand,
- asserting copyright in the amount of PLN 2 982 thousand for the use of an invention.

Other provisions relate mainly to:
- Metallurgist's Charter amounting to PLN 16 132 thousand,
- liabilities due to property tax on underground mining facilities in the amount of PLN 18 004 thousand (at 31 December 2006: PLN 10 373 thousand),
- expenditures due to agreements signed with local government bodies amounting to PLN 27 380 thousand (at 31 December 2006: PLN 30 458 thousand),
- questioning of the amount of social insurance premiums due to the control by ZUS for prior years in the amount of PLN 12 742 thousand,
- guarantee on the repayment of bank liabilities in the amount of PLN 7 786 thousand,
- identified losses due to realisation contracts in the amount of PLN 5 175 thousand.

26. Non-current assets held for sale

NON-CURRENT ASSETS HELD FOR SALE	At 31 December 2007	At 31 December 2006
Non-current assets held for sale	184	1 404
Property, plant and equipment		23 103
INVESTMENT PROPERTY	184	24 507

In 2007 subsidiaries of the Group sold property in the amount of PLN 23 103 thousand and tangible fixed assets in the amount of PLN 950 thousand. As a result of the disposal of property, liabilities were settled in relation to this property in the amount of PLN 3 302 thousand. Unsold assets held for sale in 2006 were reclassified as non-current assets.

Total non-current assets held for sale at 31 December 2007 in the amount of PLN 184 thousand represent property, plant and equipment classified as held for sale in 2007.

27. Impairment losses

IMPAIRMENT LOSSES BY ASSET CLASS DURING THE FINANCIAL PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings and constructions	203		553
Technical equipment and machinery	3 773	3	3 413
Motor vehicles			96
Other fixed assets			1
Assets under construction	5 178	2 111	12 440
Development costs	67		
Software			190
Intangible assets not yet available for use	816		
TOTAL	10 037	2 114	16 693

IMPAIRMENT LOSSES BY SEGMENT DURING THE FINANCIAL PERIOD FROM 1 JANUARY TO 31 DECEMBER 2007	Copper and precious metals, other smelter products	Telecom and IT services	Other	Total consolidated amount
Impairment loss recognised	3 710	5 207	1 120	10 037
Impairment loss reversed		3	2 111	2 114
Impairment loss used	693	2 981	13 019	16 693

IMPAIRMENT LOSSES BY ASSET CLASS DURING THE FINANCIAL PERIOD FROM 1 JANUARY TO 31 DECEMBER 2006	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings and constructions	57	2 499	2 163
Technical equipment and machinery	9 563		324
Motor vehicles	24	21	353
Assets under construction	20 883	1 665	526
Development costs	409		409
Goodwill	303		
TOTAL	31 239	4 185	3 775

IMPAIRMENT LOSSES BY SEGMENT DURING THE FINANCIAL PERIOD FROM 1 JANUARY TO 31 DECEMBER 2006	Copper and precious metals, other smelter products	Telecom and IT services	Other	Total consolidated amount
Impairment loss recognised	637	15 070	15 532	31 239
Impairment loss reversed	918	1 668	1 599	4 185
Impairment loss used	2 323	1 213	239	3 775

Impairment losses on property, plant and equipment used in the manufacture of products or in the providing of services were recognised in the income statement as costs of sales. For other property, plant and equipment impairment losses were recognised in administrative expenses. Details on the principles of accounting for impairment losses applied by the Group are described in point 2.2.10 of note 2.

Impairment losses recognised in 2007 relate to property, plant and equipment which will not bring expected economic benefits.

28. Sales

NET REVENUES FROM THE SALE OF PRODUCTS, GOODS FOR RESALE AND MATERIALS (BY TYPE OF ACTIVITY)	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
– copper, precious metals, smelter by-products	12 162 500	11 233 993
– energy	34 447	34 040
– services	874 285	786 798
– mining machinery, transport vehicles for mining and other	17 179	16 970
– goods for resale	307 818	671 131
– wastes and materials	10 106	9 824
– other goods	87 793	110 143
TOTAL	13 494 128	12 862 899

NET REVENUES FROM THE SALE OF PRODUCTS, GOODS FOR RESALE AND MATERIALS (BY DESTINATION)	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
DOMESTIC	5 662 587	4 588 207
– copper, precious metals, smelter by-products	4 403 062	3 477 208
– energy	34 447	34 040
– services	809 403	718 356
– mining machinery, transport vehicles for mining and other	16 118	14 290
– goods for resale	304 107	240 501
– wastes and materials	10 106	9 798
– other goods	85 344	94 014
EXPORT	7 831 541	8 274 692
– copper, precious metals, smelter by-products	7 759 438	7 756 785
– services	64 882	68 442
– mining machinery, transport vehicles for mining and other	1 061	2 680
– goods for resale and materials	3 711	430 656
– other goods	2 449	16 129
TOTAL	13 494 128	12 862 899

29. Costs by type

COSTS BY TYPE	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Depreciation of property, plant and equipment and amortisation of intangible assets	7, 8	597 546	535 433
Employee benefit costs	30	2 938 479	2 696 790
Materials and energy consumption		3 333 469	3 973 381
External services		1 357 858	1 375 951
Taxes and charges		325 764	338 281
Advertising costs and representation expenses		70 094	53 953
Property and personal insurance		15 135	15 633
Research and development costs not capitalised in intangible assets		4 256	7 310
Other costs, of which:		39 720	53 440
Impairment of property, plant and equipment, intangible assets	7, 8	4 043	10 356
Write-down of inventories	15	4 230	7 613
Allowance for impairment of trade receivables	14	14 771	11 060
Reversal of impairment of property, plant and equipment, intangible assets	7, 8	(3)	(2 520)
Reversal of write-down of inventories	15	(1 714)	(1 337)
Reversal of allowance for impairment of trade receivables	14	(18 363)	(14 402)
Other operating costs		36 756	42 670
TOTAL COSTS BY TYPE		8 682 321	9 050 172
Cost of goods for resale and materials sold (+), of which:		210 469	589 198
Allowance for impairment of receivables	14	789	
Reversal of allowance for impairment of receivables	14	(789)	
Change in inventories of finished goods and work in progress (+/–)		(1 448)	(646 364)
Cost of manufacturing products for internal use (–)		(365 200)	(342 545)
TOTAL COST OF SALES, SELLING AND ADMINISTRATIVE COSTS		8 526 142	8 650 461

30. Employee benefit costs

EMPLOYEE BENEFIT COSTS	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Remuneration	2 184 308	1 980 743
Costs of social security	694 399	663 308
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits	59 772	52 739
EMPLOYEE BENEFIT COSTS	2 938 479	2 696 790

31. Other operating income

OTHER OPERATING INCOME	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Income and gains from financial instruments classified under other operating activities, resulting from:	34, 3	145 914	108 224
income from interest on financial instruments		125 917	90 840
gains from the disposal of financial instruments		19 857	17 384
reversal of impairment losses on available-for-sale financial assets		100	
reversal of allowance for impairment of receivables		40	
Increase in the fair value of investment property			13 706
Gains from the disposal of investment property		16 122	
Gains from the disposal of perpetual usufruct of land		391	
Other interest		13 224	337
Dividends received		396	331
Reversal of impairment losses on assets under construction	7	2 111	1 665
Reversal of allowance for impairment of other non-financial receivables		129	4 656
Government grants and other donations received		3 334	1 717
Release of unused provisions		13 215	26 282
Write-off of prescribed and forgiven debts		108	
Surpluses identified in inventories and cash		7 965	
Penalties and compensation received		16 236	7 171
Capitalised prior year expenditures for the Terrain Information System (SIOT)		2 703	
Excess payments of property tax		11 210	
Other operating income/gains		10 402	9 867
TOTAL OTHER OPERATING INCOME		243 460	173 956

32. Other operating costs

OTHER OPERATING COSTS	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Costs and losses on financial instruments classified as other operating costs:	34.3	495 135	210 438
losses from the measurement and realisation of derivative instruments		309 588	148 187
interest on financial liabilities		2 046	
foreign exchange losses		182 996	62 251
impairment losses on available-for-sale financial assets		131	
allowances for impairment of loans and receivables		374	
Decrease in the fair value of investment property		2 336	
Losses from the sale of shares in subsidiaries		872	2 098
Allowances for impairment of other non-financial receivables		42 564	679
Losses from the disposal of intangible assets		1 502	2
Losses on the sale of property, plant and equipment		19 996	17 037
Impairment losses on assets under construction	7	5 178	20 883
Impairment losses on intangible assets not yet available for use	8	816	
Interest on overdue non-financial liabilities (including State Treasury liabilities)		5 699	13 806
Foreign exchange losses		193	154
Donations granted		9 990	7 777
Provisions for liabilities		62 505	58 268
Penalties and compensation paid		5 325	5 210
Maintenance costs of investment property		385	
Non-culpable shortages in inventories and cash and losses from fortuitous events		2 802	
Other operating costs/losses		29 195	27 107
TOTAL OTHER OPERATING COSTS		684 493	363 459
Losses from the measurement and realisation of derivative instruments prior to offsetting:			
income from the measurement and realisation of derivative instruments		1 061 917	2 501 844
costs from the measurement and realisation of derivative instruments		1 371 505	2 650 031

33. Net finance costs

NET FINANCE COSTS	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Interest expense:	34.3	10 481	6 742
on bank and other loans		9 640	6 316
due to finance leases		841	426
Net exchange gains on borrowings	34.3	(1 327)	
Changes in the value of provisions due to unwinding of discount	25	26 303	20 323
Other net finance costs		(298)	37
TOTAL NET FINANCE COSTS		35 159	27 102

34. Financial instruments

34.1 Carrying amount

AT 31 DECEMBER 2007 BALANCE SHEET ITEMS	Note	Available-for-sale financial assets	Held-to-maturity financial assets	Financial assets at fair value through profit or loss
CLASSES OF FINANCIAL INSTRUMENTS				
Debt securities	11	3 076		
Shares	11	33 407		
Shares and participation units in investment funds	11	10 665		
Trade receivables (net)	14			
Cash and cash equivalents	16			
Other financial assets (net)	11, 12, 14	7	41	
Derivatives – Currency	13			178
Derivatives – Commodity contracts (metals)	13			16 456
Trade payables	20			
Bank and other loans	21			
Other financial liabilities	20, 21			
TOTAL		47 155	41	16 634

AT 31 DECEMBER 2006 BALANCE SHEET ITEMS	Note	Available-for-sale financial assets	Held-to-maturity financial assets	Financial assets at fair value through profit or loss
CLASSES OF FINANCIAL INSTRUMENTS				
Debt securities	11	3 107	19 070	
Shares	11	25 291		
Shares and participation units in investment funds	11	64 527		
Trade receivables (net)	14			
Cash and cash equivalents	16			
Other financial assets (net)	11, 12, 14	7	44	
Derivatives – Currency	13			2
Derivatives – Commodity contracts (metals)	13			187 168
Trade payables	20			
Bank and other loans	21			
Other financial liabilities	20, 21			
TOTAL		92 932	19 114	187 170

Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
					3 076
					33 407
					10 665
693 667					693 667
2 812 096					2 812 096
79 129					79 177
					178
	(16 458)			97 419	97 417
		(651 288)			(651 288)
		(255 833)			(255 833)
		(178 424)	(49 887)		(228 311)
3 584 892	(16 458)	(1 085 545)	(49 887)	97 419	2 594 251

Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
					22 177
					25 291
					64 527
1 173 179					1 173 179
2 321 131					2 321 131
16 728					16 779
	(10)			32 369	32 361
	(187 168)			(571 889)	(571 889)
		(685 263)			(685 263)
		(182 592)			(182 592)
		(334 675)	(28 416)		(363 091)
3 511 038	(187 178)	(1 202 530)	(28 416)	(539 520)	1 852 610

34.2 Fair values of financial instruments

FAIR VALUES OF FINANCIAL INSTRUMENTS		At 31 December 2007		At 31 December 2006	
		Carrying amount	Fair Value	Carrying amount	Fair Value
CLASSES OF FINANCIAL INSTRUMENTS	Note	34.1		34.1	
Debt securities	11, 12	3 076	3 076	22 177	22 177
Shares	11	33 407	33 407	25 291	25 291
Shares and participation units in investment funds	11	10 665	10 665	64 527	64 527
Trade receivables (net)	14	693 667	693 667	1 173 179	1 173 179
Cash and cash equivalents	16	2 812 096	2 812 096	2 321 131	2 321 131
Other financial assets (net)	11, 12, 14	79 177	79 177	16 779	16 779
Derivatives – Currency, of which:	13	178	178	32 361	32 361
Assets		178	178	32 377	32 377
Liabilities				(16)	(16)
Derivatives – Commodity contracts (metals), of which:	13	97 417	97 417	(571 889)	(571 889)
Assets		114 839	114 839	266 683	266 683
Liabilities		(17 422)	(17 422)	(838 572)	(838 572)
Trade payables	20	(651 288)	(651 288)	(685 263)	(685 263)
Bank and other loans	21	(255 833)	(255 833)	(182 592)	(182 592)
Other financial liabilities	20, 21	(228 311)	(228 311)	(363 091)	(363 091)

The methods and assumptions used by the Group for measuring the fair values are presented in notes 2.2.5.4 Fair value, 4 Important estimates and assumptions.

The Group is unable to reliably measure the fair value of shares held in companies which are not listed on active markets, classified as available for sale financial assets. As a result they are disclosed in the balance sheet at cost less impairment.

34.3 Items of income, costs, profit and losses recognised in the income statement for the period by categories of financial instruments

FOR THE PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007	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)	31, 32, 33		154	569	125 194	(11 686)	(841)		113 390
Exchange gains/(losses)	32, 33		(892)	(3)	(130 964)	(51 091)	1 281		(181 669)
Impairment allowances	29, 32		(131)		(15 934)				(16 065)
Reversal of impairment allowances	29, 31		100		19 192				19 292
Gains/(losses) on revaluation	35	(309 588)							(309 588)
Adjustment to sales due to hedging transactions	35							(435 533)	(435 533)
Profit/ (loss) from disposal of financial instruments	31		18 802	1 055					19 857
TOTAL NET GAIN/(LOSS)		(309 588)	18 033	1 621	(2 512)	(62 777)	440	(435 533)	(790 316)

FOR THE PERIOD FROM 1 JANUARY 2006 TO 31 DECEMBER 2006	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)	31, 32, 33		179	5 656	84 963	(6 256)	(444)		84 098
Exchange gains/(losses)	32, 33		(1 439)		7 206	(68 036)	18		(62 251)
Impairment allowances	29, 32				(11 060)				(11 060)
Reversal of impairment allowances	29, 31				14 402				14 402
Gains/(losses) on revaluation	35	(148 187)							(148 187)
Adjustment to sales due to hedging transactions	35							(2 331 029)	(2 331 029)
Profit/ (loss) from disposal of financial instruments	31			17 384					17 384
TOTAL NET GAIN/(LOSS)		(148 187)	(1 260)	23 040	95 511	(74 292)	(426)	(2 331 029)	(2 436 643)

34.4 Transfers not qualified for de-recognition

The Parent Entity has transferred receivables in a way which does not qualify for derecognition as it has retained substantially all risks and rewards of ownership of these assets. This relates to trade receivables sold in a factoring with recourse transaction entered into between the Parent Entity and Bank Handlowy S.A. in Warsaw. In this type of factoring there is a risk that the debtor will fail to make payment of the liabilities to the factor (bank). Should the debtor fail to settle his liabilities, the Parent Entity is obliged to pay the outstanding balance to the bank (the factor) while the Parent Entity simultaneously has the right to demand payment of these liabilities from the debtor.

As a result, at the balance sheet date receivables are still recognised in the amount of PLN 29 610 thousand (at 31 December 2006: PLN 5 684 thousand). Accordingly, the corresponding entry of a related liability has been recognised in an amount equal to that of the retained receivables.

34.5 Situations concerning financial instruments which did not occur in the Group

The following business events and situations, which are required to be disclosed, did not occur in the Group in the periods ended 31 December 2007 and 31 December 2006:

- as at balance sheet date, Group companies did not designate a financial instrument to be measured at fair value through profit or loss (IFRS 7, par. 9, 10, 11),
- Group companies did not reclassify a financial asset in a way which would result in a change of the method of measurement (IFRS 7, par. 12),
- Group companies do not hold any collateral established on either category of assets which would improve crediting terms (IFRS 7, par. 15),
- Group companies have not issued an instrument that contains both a liability and an equity component (IFRS 7, par. 17),
- Group companies did not breach any contractual provisions (IFRS 7, par. 18),
- Group companies invest assets accumulated in a separate bank account kept for the Mine Closure Fund, but do not receive any fee due to those fiduciary activities (IFRS 7, par. 20.c.ii),
- Group companies did not recognise any interest income on impaired financial assets (IFRS 7, par. 20.d),
- Group companies did not identify any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur (IFRS 7, par. 23.b),
- Group companies did not make use of any hedging transactions which would subsequently result in the recognition of a non-financial asset or liability (IFRS 7, par. 23.e),
- Group companies did not use fair value hedges or hedges of net investments in foreign operations (IFRS 7, par. 24 a, 24.c),
- Group companies did not purchase any financial assets at a price different from their fair value (IFRS 7, par. 28),
- Group companies did not acquire any assets by taking possession of a collateral (IFRS 7, par. 38).

35. Financial risk management

Group companies are exposed to risk in each area of their activities. Understanding those risks and the principles of their management allows the Group to better meet its objectives.
Financial risk management includes the processes of risk identification, measurement and determination of appropriate methods to deal with those risks.

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

- 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.

35.1 Market risk
35.1.1 Principles of market risk management

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

- To limit fluctuations in profit before tax,
- To increase the probability of meeting budget assumptions,
- To maintain a healthy financial condition, and
- 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 and market conditions.
The Group applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. For example, hedging transactions on the commodity market are related to contracts entered into on the currency market, as hedging prices of metals directly impacts the probability of achieving planned revenues from sales, which in turn represent a hedged item for transactions dealt on the currency market. As a result, the Group has significantly greater flexibility in building hedging strategies.
The Group applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented, embracing an increasing share of production and sales revenues as well as an extended time horizon. Consequently, the Group is hedged 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 Group continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies. The Parent Entity applies hedge accounting to hedge the risk of changes of cash flows due to currency and commodity risk.

35.1.2 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 Group, suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivative instruments are primarily used. The Group transacts only these 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 Group relies on information obtained from particular market leading banks, brokers and information services.

It is permitted to use the following types of instruments:
- Swaps,
- Forwards and futures,
- Options,
- Structures combining the above instruments.

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

35.1.3 Hedge effectiveness requirement

According to the policy of Group companies hedging transactions can be entered into only if there is an appropriate instrument traded in a liquid market with a quoted reference price. Prior to the transaction the Group is required to confirm and document the existence of strong negative correlation between changes in the value of the reference instrument and changes in the value of actually-hedged exposure. Hedge effectiveness is subject to constant evaluation and monitoring.

35.1.4. Measurement of market risk

The Group 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 Group to market risk.
Since 2007 the Parent Entity has been using "Earnings at Risk" as one of the risk measures employed in market risk management. This measure indicates the lowest possible level of pre-tax profit for a selected level of confidence (for example, with 95% confidence the pre-tax profit for a given period will be not lower than…). The EaR methodology enables the calculation of pre-tax profit incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results.
However, due to the fact that no single risk measure possesses the ability to completely reflect reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting the decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

35.1.5 Restrictions on entering into hedging transactions

Due to the risk of unexpected production cutback (for example because of "force majeure") or failure to achieve planned foreign currency revenues, which could lead to overhedging of actual market risk exposure, the Group has set a limit for the volume of production or the amount of sales revenues for a given period that may be hedged, at a level of up to 80%. The maximum time horizon within which the Group makes decisions concerning hedging of market risk is set up in accordance with technical and economic planning process, and amounts to 5 years. However, it must be emphasised that regardless of the tool used to measure market risks, the results of such measurement for long time horizons (especially above 2 years) may be subject to significant uncertainty, and therefore are treated as estimates.

35.1.6 Market risk exposure
35.1.6.1 Commodity risk

The Group is exposed to the risk of changes in market prices of copper, silver and gold. The industry standard is that the price formulas used in physical delivery contracts are based on average monthly quotations from the London Metal Exchange for copper and from the London Bullion Market for silver and gold. The Group's commercial policy is to set the price base for physical delivery contracts as the average price of the month of dispatch (this is a typical price base, being in line with global industry standards). As a result the Group 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.

In a situation wherein a client expects that the price base in a contract is to be defined in a non-standard manner and this manner is subsequently accepted, the Group may enter into transactions (adjustment hedge transactions) which swap the base price requested by the customer for the average price from 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 Group 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 Group'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 Group to commodity risk is presented below:

FOR THE PERIOD	01.01.07– 31.12.07		01.01.06 – 31.12.06	
	Sales	Purchases	Sales	Purchases
Copper ['000 tonnes]	527	93	557	112
Silver [tonnes]	1 177	30	1 239	97

Sensitivity of the Group's financial instruments to commodity risk at the balance sheet date is presented in note
35.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

35.1.6.2 Currency risk

The Group 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. The base (functional) currency for the Group however is the PLN. As a result, the Group 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 and to a lesser degree GBP/PLN.

Moreover, the Group 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 Group's financial instruments to the currency risk at the balance sheet date is presented in note 35.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

35.1.6.3 Interest rate risk

The Group is exposed to interest rate risk due to:
- changes in the fair value of bank and other loans drawn, bonds purchased and bank accounts for which interest is calculated at fixed rates,
- changes in cash flow related to bank and other loans drawn, bonds purchased and bank accounts for which interest is calculated at variable rates.

As at 31 December 2007 the Group had floating and fixed interest rate loan liabilities amounting to PLN 256 million.
At the balance sheet date the Group was not a party to any transactions hedging interest rate risk.

35.1.7 Hedging exposure to market risk in the Parent Entity

In 2007 copper hedging strategies represented approx. 25% (in 2006: 34%) of the sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 6% (in 2006: 31%). In the case of currency market, hedged revenues from sales represented approx. 10% (in 2006: 13%) of total revenues from sales realised by the Parent Entity.

In 2007, the Parent Entity implemented copper price hedging strategies with a total volume of 150 thousand tonnes and a time horizon falling in 2008. The Parent Entity used options. In addition, during the period the Parent Entity implemented adjustment hedge strategies with a total volume of 5 390 tonnes and a time horizon falling in the following periods: January, from March to July, September and October 2007 as well as the period from April to September 2008. In the case of the silver market, during the analysed period strategies were implemented to hedge the price of this metal for a total volume of 19.2 million troz and a time horizon falling in 2008 and 2009. The Parent Entity used options. In 2007 no adjustment hedge transactions were entered into on the silver market.
In the case of the forward currency market, in 2007 the Parent Entity implemented hedging strategies to hedge the USD/PLN rate for USD 300 million and with a time horizon falling in the second half of 2007. The Parent Entity used forwards. During the analysed period no adjustment hedge transactions were entered into on the currency market.
The Parent Entity remains hedged for a portion of copper sales planned in 2008 (150 thousand t), for a portion of silver sales planned in 2008 (12 million troz) and in 2009 (9.6 million troz). As at 31 December 2007 the Parent Entity has no open hedging transactions designated to hedge revenues from sales.

35.1.8 Impact of derivatives on the Group's balance sheet

As at 31 December 2007, the fair value of open positions in derivative instruments amounted to PLN 97 595 thousand, of which PLN 115 017 thousand relate to financial assets (derivatives with positive fair value) and PLN 17 422 thousand relate to financial liabilities (derivatives with negative fair value).
These derivatives hedge cash flows arising from sales made in the months in which the settlement amounts of derivatives are fixed. This means that the effective portion of December derivatives contracted on the metals market in order to hedge future cash flows was transferred from equity to profit or loss on 31 December 2007, despite the fact that they were settled on 3 January 2008. These instruments were measured at fair value and recognised in trade and other receivables as receivables due to unsettled derivative instruments, or in trade and other payables as payables due to unsettled derivative instruments.

The fair value of these instruments is as follows:
- PLN 8 877 thousand presented as receivables due to unsettled derivative instruments (Note 14),
- PLN 3 304 thousand presented as payables due to unsettled derivative instruments (Note 20).

Other information concerning derivatives is presented in Note 13 Derivative instruments and in Note 34.2 Fair value.

35.1.9 Impact of derivatives on the Group's profit or loss and equity

In 2007, the result on derivative instruments amounted to PLN (745 121) thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from equity to sales for the period amounted to PLN (435 533) thousand. Other operating income and costs arising from derivative instruments amounted to PLN (309 588) thousand. Adjustment to other operating income and 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. Due to the hedge accounting principles applied, the change in the time value of options is not recognised in the revaluation reserve.

The impact of derivative instruments on profit or loss is presented below:

THE IMPACT OF DERIVATIVE INSTRUMENTS ON PROFIT OR LOSS IS PRESENTED BELOW:	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
IMPACT ON SALES	(435 533)	(2 331 029)
IMPACT ON OTHER OPERATING COSTS, OF WHICH:	(309 588)	(148 187)
Gains/ (losses) from settlement of derivative instruments	(43 792)	(9 591)
Gains/ (losses) from measurement of derivative instruments	(265 796)	(138 596)
TOTAL IMPACT OF DERIVATIVE INSTRUMENTS ON PROFIT OR LOSS:	(745 121)	(2 479 216)

The value recognised in other operating income and costs for the year 2007 due to the ineffective portion of cash flow hedges amounted to PLN (179 995) thousand (of which PLN (154 964) thousand is a loss on the measurement of hedging instruments [in 2006: PLN (140 263) thousand], and PLN (25 031) thousand is a loss on the settlement of the ineffective portion of hedging instruments [in 2006: PLN (13 080) thousand]).

The Company accounts for cash flow hedging instruments according to the principles presented in note 2.2.5.7 "Main accounting policies". Those principles require recognition in equity 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 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 the changes in the intrinsic value of options, as appropriate.

The tables below present the balances and movements in equity resulting from the transfer of 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 2007	At 31 December 2006
REVALUATION RESERVE – commodity price risk hedging transactions (copper and silver) – derivatives	(964)	(649 350)
REVALUATION RESERVE – currency risk hedging transactions – derivatives		29 968
REVALUATION RESERVE – currency risk hedging transactions – foreign currency loans	10 859	61 854
TOTAL REVALUATION RESERVE FROM HEDGING INSTRUMENTS IN CASH FLOW HEDGES (EXCLUDING THE DEFERRED TAX EFFECT)	9 895	(557 528)

GAINS OR (LOSSES) ON HEDGING INSTRUMENTS IN CASH FLOW HEDGES RECOGNISED DIRECTLY IN EQUITY	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Cumulative gain or loss arising from changes in the fair value of hedging instruments in cash flow hedges at the beginning of the period	(557 528)	(1 024 713)
Amounts recognised in equity in the reporting period in respect of hedging transactions	131 890	(1 863 844)
Amounts transferred from equity to the income statement	435 533	2 331 029
CUMULATIVE GAIN OR LOSS ARISING FROM CHANGES IN THE FAIR VALUE OF HEDGING INSTRUMENTS IN CASH FLOW HEDGES AT THE END OF THE PERIOD (EXCLUDING THE DEFERRED TAX EFFECT)	9 895	(557 528)

35.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk

The Group identifies the following major market risks to which it is exposed:

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

Currently the Group 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.

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 Brown 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.

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2007		31.12.2007 r.	CURRENCY RISK				
			USD / PLN				
			2.91 +19%		2.06 – 15%		3.96 +11%
FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	CARRYING AMOUNT	P&L	Equity	P&L	Equity	P&L
Shares and participation units in investment funds	10 665	10 665	1 680		(1 327)		
Trade receivables (net)	246 715	693 667	21 601		(17 063)		9 363
Cash and cash equivalents	1 183 443	2 812 096	68 735		(54 294)		63 831
Other financial assets (net)	10 840	79 177	1 417		(1 119)		158
Derivatives – Currency	178	178					15
Derivatives – Commodity contracts (metals)	97 417	97 417	15 499	(152)	(12 243)	120	
Trade payables	(29 600)	(651 288)	(2 271)		1 794		(1 298)
Bank and other loans	(3 149)	(255 833)					(269)
Other financial liabilities	(22 412)	(228 311)	(815)		644		(1 473)
IMPACT ON PROFIT & LOSS ACCOUNT			105 846		(83 608)		70 327
IMPACT ON EQUITY				(152)		120	

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2006		31.12.2006 r.	CURRENCY RISK				
			USD / PLN				
			3.30 +13%		2.53 – 13%		4.25 +11%
FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	CARRYING AMOUNT	P&L	Equity	P&L	Equity	P&L
Shares and participation units in investment funds	14 191	64 527	1 526		(1 500)		
Trade receivables (net)	325 103	1 173 179	26 374		(25 924)		7 047
Cash and cash equivalents	1 591 284	2 321 131	62 823		(61 750)		88 944
Other financial assets (net)	151	16 779	4		(4)		10
Derivatives – Currency	32 361	32 361	(783)	(23 056)	(2 772)	41 343	
Derivatives – Commodity contracts (metals)	(571 889)	(571 889)	8 323	(69 806)	(8 181)	68 613	
Trade payables	(40 378)	(685 263)	(2 118)		2 082		(1 827)
Bank and other loans	(3 861)	(182 592)					(341)
Other financial liabilities	(235 572)	(363 091)	(22 910)		22 519		(1 985)
IMPACT ON PROFIT & LOSS ACCOUNT			73 239		(75 530)		91 848
IMPACT ON EQUITY				(92 862)		109 956	

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 balance sheet date. Following is a sensitivity analysis for each significant type of market risk to which the Group was exposed at the balance sheet date, 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.

In analysing the sensitivity of the item "Derivatives–Currency" and "Derivatives–Commodity contracts" it should be noted that the Parent Entity holds a position in derivative instruments hedging future cash flows from the sale of copper and silver. It should also be noted that the Parent Entity is exposed to risk in respect of the planned volume of copper and silver sales from its own production, adjusted by its position in hedging instruments.

			COMMODITY RISK							
EUR / PLN			COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
	3.31		9 376		3 748		18.57		8.54	
	– 8%		+41%		– 44%		+26%		– 42%	
Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
	(6 823)									
	(46 513)									
	(115)									
	(11)									
			(55 188)	7 331	(66 735)	567 002	(12 789)		(11 055)	128 457
	945									
	196									
	1 073									
	(51 248)		(55 188)		(66 735)		(12 789)		(11 055)	
				7 331		567 002				128 457

			COMMODITY RISK							
EUR / PLN			COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
	3.49		7 534		3 840		15.93		6.93	
	– 9%		+19%		– 39%		+24%		– 46%	
Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
	(5 819)									
	(73 446)									
	(8)									
			(6 555)	(249 306)	(55 216)	775 915	(3 167)	(10 853)	(4 894)	40 363
	1 508									
	282									
	1 639									
	(75 844)		(6 555)		(55 216)		(3 167)		(4 894)	
				(249 306)		775 915		(10 853)		40 363

35.2 Liquidity risk and capital management

The Group is exposed to financial liquidity risk, where financial liquidity is understood as the ability to settle its liabilities within given timeframes. The fact that the activities are financed using external sources (loans, borrowings, buyer's credit) increases the risk of losing liquidity in the future.
The Group must have permanent access to financial markets, and is therefore exposed to the risk of losing the ability to acquire new financing, as well as to refinance its current debt. This risk is primarily dependent on market conditions and on the evaluation of the creditworthiness of the Group.
The Group decides about the choice of investments and maturities of those investments, taking into account the maturities of its liabilities. Due to positive cash flows from operating activities in 2007 and the significant amount of cash balances at 31 December 2007, similar to 2006, the Group barely used external sources of financing.

Liquidity analysis for financial liabilities as at 31 December 2007

LIQUIDITY ANALYSIS FOR FINANCIAL LIABILITIES AS AT 31 DECEMBER 2007	Contractual maturities from the balance sheet date					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
FINANCIAL LIABILITIES							
Trade payables	641 814	198	7 814	981	883	651 690	651 288
Other financial liabilities	206 854	1 036	127	17		208 034	208 034
Bank loans	72 273	29 617	112 763	3 661	16 016	234 330	234 330
Loans	22	7 700	12 100	1 681		21 503	21 503
Finance lease liabilities	267	3 383	6 718	6 954	5 632	22 954	20 277
Derivatives – Commodity contracts (metals)		964				964	17 422
TOTAL FINANCIAL LIABILITIES BY MATURITY	921 230	42 898	139 522	13 294	22 531	1 139 475	

LIQUIDITY ANALYSIS FOR FINANCIAL LIABILITIES AS AT 31 DECEMBER 2006	Contractual maturities from the balance sheet date					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
FINANCIAL LIABILITIES	675 051	1 729	7 483	925	1 388	686 576	685 263
Trade payables	363 560		124	135	18	363 837	340 359
Other financial liabilities	22 314	19 399	111 691			153 404	153 404
Bank loans		7 707	15 100	4 700	1 681	29 188	29 188
Loans	884	4 594	6 300	5 851	8 505	26 134	22 732
Finance lease liabilities	276 481	563 252	880			840 613	838 572
Derivatives – Commodity contracts (metals)	10					10	10
TOTAL FINANCIAL LIABILITIES BY MATURITY	1 338 300	596 681	141 578	11 611	11 592	2 099 762	

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

In 2007 the Group had overdraft facilities in the amount of PLN 103 000 thousand and USD 10 000 thousand. At the end of 2007 unused overdraft facilities amounted to PLN 57 112 thousand and USD 10 000 thousand.

In 2006 the Group had overdraft facilities in the amount of PLN 56 500 thousand and USD 10 000 thousand. At the end of 2006 unused overdraft facilities amounted to PLN 34 335 thousand and USD 10 000 thousand.

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

In accordance with market practice, the Group monitors its capital, among others based on the equity ratio and the ratio of Debt/EBITDA. The equity ratio is calculated as the relation of net tangible assets (equity less intangible assets) to total assets.

The ratio of Debt/EBITDA is calculated as the relation of borrowings and finance lease liabilities to EBITDA (operating profit plus depreciation/amortisation).

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

The above ratios at 31 December 2006 and 31 December 2007 are presented below:

EQUITY	*At 31 December 2007*	*At 31 December 2006*
Less: intangible assets	*9 501 609*	*8 513 912*
Net tangible assets	*119 231*	*126 014*
Total assets	*9 382 378*	*8 387 897*
Equity ratio	*13 459 505*	*13 227 869*
	0.70	*0.63*
Operating profit		
Plus: depreciation/amortisation	*4 526 953*	*4 022 935*
EBITDA	*597 546*	*535 433*
Borrowings and finance lease liabilities	*5 124 499*	*4 558 368*
Ratio of DEBT/EBITDA	*276 110*	*205 324*
WSKAŹNIK: DŁUG / EBITDA	*0.054*	*0.045*

Due to the low level of financial debt of the Group as at 31 December 2007, the ratio of Debt/EBITDA was at a safe level and amounted to 0.054.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.70 at 31 December 2007. The increase in this ratio at 31 December 2007 versus the level at 31 December 2006 results from the fact that net tangible assets increased by 11%, with the relatively small change in the total assets value.

In 2007 and 2006 there were no external capital requirements imposed on the Parent Entity.

35.3 Credit risk

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

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

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

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

35.3.1 Credit risk related to cash and cash equivalents

All entities with which deposit transactions are entered into operate in the financial sector. These are mainly banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with high credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of the Group to a single bank in respect of cash and cash equivalents amounts to 29% as at 31 December 2007. Given the above as well as the short-term nature of those investments, the credit risk associated with cash and cash equivalents is estimated as low.

35.3.2 Credit risk related to derivative instruments

All entities with which derivative transactions are entered into operate in the financial sector. These are Polish and foreign financial institutions (mainly banks), with high or medium credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of the Group to a single entity in respect of derivative instruments amounts to 16.9%.

Fair value of derivative instruments hedging metal prices and foreign exchange rates at 31 December 2007 amounted to:

PLN 97 595 thousand (positive balance on the valuation of derivative instruments), of which:
PLN 17 422 thousand represent financial liabilities,
PLN 115 017 thousand represent financial assets.

Due to geographical and institutional diversification of creditors and cooperation with financial institutions having a high credit rating, the Group is not materially exposed to credit risk due to derivatives.

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

35.3.3 Credit risk related to trade and other financial receivables

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

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

	At 31 December 2007			At 31 December 2006		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Trade receivables from sales of copper and silver	55.6%	30.4%	14.0%	68.1%	25.2%	6.7%

The Parent Entity makes the majority of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always 100% secured. The Parent Entity has secured the majority of its receivables by promissory notes[1], frozen funds on bank accounts, bank guarantees 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[2].

The total value of the Group's trade receivables as at 31 December 2007 excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 749 834 thousand (at 31 December 2006: PLN 1 240 501 thousand respectively). The significant decrease in the level of receivables compared to 2006 results from sales of debt to financial institutions. The utilisation and the limits of factoring without recourse have been increased in 2007. The concentration of credit risk in the Parent Entity results from the fact that key clients are allowed extended terms of payment. Consequently, at 31 December 2007 the balance of receivables of the Group from 7 of the Parent Entity's largest clients, calculated as a percentage of trade receivables at the balance sheet date, represents 48% of the balance of trade receivables (at 31 December 2006: 67.8%). Despite this concentration of receivables from key clients (most of whom operate in the European Union), the Parent Entity believes that, given the available historical data as well as long-lasting history of cooperation, the level of credit risk is low.

The following Group companies have significant trade receivables: DIALOG S.A. PLN 102 700 thousand, KGHM Polish Copper Ltd. PLN 48 619 thousand, KGHM Metraco S.A. PLN 45 158 thousand, KGHM Kupferhandelsges. m.b.H. PLN 28 094 thousand, POL-MIEDŹ TRANS Sp. z o.o. PLN 18 441 thousand, PeBeKa S.A. PLN 15 664 thousand, Walcownia Metali Nieżelaznych spółka z o.o. PLN 11 887 thousand, PHP "MERCUS" sp. z o.o. PLN 10 354 thousand.

These Group companies operate in various economic sectors, such as transport, construction, trade, industrial production and telecom services, and consequently there is no concentration of credit risk in any sector. The companies of the Group, with the exception of the Parent Entity, do not enter into framework agreements of a net settlement in order to reduce exposure to credit risk, although in situations where the given entity recognises both receivables and liabilities with the same client, in practice net settlement is applied, as long as both parties accept such settlement. Due to the extensive volatility in the level of net settlement on particular balance sheet days, it is difficult in practice to determine a representative amount of such compensation.

The KGHM Polska Miedź S.A. Group believes that the maximum amount of exposure of the Group to credit risk at the balance sheet date approximates the amount of the balance of trade receivables, without taking into account the fair value of any collateral. Nevertheless, the real risk that there will be no cash inflow to the Group due to trade receivables is low.

35.3.4 Credit risk related to loans granted

At 31 December 2007, in accordance with data presented in note 14, Trade and other receivables, the total amount of loans granted by Group companies does not exceed 0.04 % of total loans and receivables (at 31 December 2006: 0.05%) and is the maximum level of losses to which the Group is exposed should a borrower fail to execute his liabilities (excluding the fair value of liabilities assumed). Due to the fact that the financial condition and financial results of Group entities are continuously monitored, the Group believes that the level of credit risk is insignificant.

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

The Group invested its free cash resources in the State Treasury and corporate bonds issued or guaranteed by entities granted an investment rating by the respectable international rating agencies (Standard&Poor's, Moody's, Fitch). The Group has also purchased participation units in money market investment funds during the year.

[1] In order to speed up any potential collection of receivables, each promissory note is accompanied by a notarial enforcement declaration.
[2] 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. During this time the buyer has free use of the goods.

Given the above as well as the short-term nature of the investments, the Group estimates that the level of credit risk for the above investments is low.

35.3.6 Other information related to credit risk

Aging analysis of financial assets overdue as at balance sheet date, for which no impairment loss has been recognised

AGING ANALYSIS OF FINANCIAL ASSETS OVERDUE AS AT BALANCE SHEET DATE, FOR WHICH NO IMPAIRMENT LOSS HAS BEEN RECOGNISED	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
AT 31 DECEMBER 2007						
Trade receivables	41 818	38 045	2 949	481	46	297
Other receivables	231	132	70	21	3	5
AT 31 DECEMBER 2006						
Trade receivables	88 703	77 089	7 216	3 033	1 067	298
Other receivables	1 096	211	614	24	152	95

The Group analyses receivables primarily on an individual basis in terms of the indication and recognition of impairment allowance. Significant indicators are described in note 2.2.5.5.

Changes in allowances for impairment of financial assets by asset classes are presented in the table below:

A) TRADE RECEIVABLES (CATEGORY: LOANS AND FINANCIAL RECEIVABLES)	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
IMPAIRMENT ALLOWANCE AT THE BEGINNING OF THE PERIOD	67 322	69 563
Impairment allowance recognised in profit or loss	15 498	10 991
Impairment allowance reversed through profit or loss	(18 663)	(14 246)
Impairment allowance on foreign exchange differences	333	(20)
Impairment allowance utilised during the period	(8 320)	(2 077)
Impairment allowance on costs of legal proceedings	(3)	3 049
Impairment allowance at the acquisition date		62
IMPAIRMENT ALLOWANCE AT THE END OF THE PERIOD	56 167	67 322

XB) OTHER FINANCIAL ASSETS (CATEGORY: LOANS AND FINANCIAL RECEIVABLES)	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
IMPAIRMENT ALLOWANCE AT THE BEGINNING OF THE PERIOD	3 899	14 184
Impairment allowance recognised in profit or loss	436	69
Impairment allowance reversed through profit or loss	(529)	(156)
Impairment allowance on foreign exchange differences	(3)	
Impairment allowance utilised during the period	(132)	(10 186)
Impairment allowance on costs of legal proceedings	14	(12)
Impairment allowance at the acquisition date		
IMPAIRMENT ALLOWANCE AT THE END OF THE PERIOD	3 685	3 899

C) DEBT SECURITIES (CATEGORY: AVAILABLE-FOR-SALE FINANCIAL ASSETS)	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
IMPAIRMENT ALLOWANCE AT THE BEGINNING OF THE PERIOD	268	268
Impairment allowance recognised in profit or loss for the period	131	
Impairment allowance reversed through profit or loss for the period	(100)	
IMPAIRMENT ALLOWANCE AT THE END OF THE PERIOD	299	268

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

SHARE OF PROFITS/LOSSES OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Share of profits of associates	265 093	220 780
TOTAL	265 093	220 780

37. Income tax

INCOME TAX	Note	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Current income tax		859 303	802 345
Adjustments to current income tax from prior periods		7 257	566
Deferred income tax	23	(45 189)	(65 678)
TOTAL		821 371	737 233

The tax on the Group's profit before tax differs in the following manner from the theoretical amount that would arise if the theoretical tax rate was applied, as a sum of profits before tax, multiplied by the income tax rate of the home country of each company and then divided by profit before tax.

INCOME TAX	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Profit before tax	4 756 887	4 216 613
Tax calculated using the domestic rates applicable to incomes in individual countries is 19.08% (year 2006: 19.29%)	907 670	813 276
Non-taxable income	(199 196)	(814 340)
Expenses not deductible for tax purposes	162 028	756 529
Utilisation of previously-unrecognised tax losses	(55 874)	(21 456)
Tax losses on which deferred tax assets were not recognised	349	2 841
Deductible temporary differences on which deferred tax assets were not recognised	(863)	(183)
Adjustments to current income tax from prior periods	7 256	566
INCOME TAX EXPENSE the average income tax rate applied was 17.27% (year 2006: 17.48%)	821 371	737 233

38. Earnings per share

BASIC EARNINGS/DILUTED EARNINGS	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Profit attributable to shareholders of the Parent Entity	3 934 559	3 479 183
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	19.67	17.40
There are no dilutive potential ordinary shares.		

39. Dividend paid and proposed for payment

In accordance with the statutes of the Parent Entity, distributable profit is the profit from the separate financial statements of KGHM Polska Miedź S.A.

The dividend for 2005, in the amount of PLN 2 000 000 thousand i.e. PLN 10.00 per share, was paid on 2 August 2006, based on resolution no. 6/2006 of the General Shareholders' Meeting of KGHM Polska Miedź S.A. dated 14 June 2006.

In accordance with resolution no. 39/2007 of the Ordinary General Shareholders Meeting of KGHM Polska Miedź S.A. dated 30 May 2007 on appropriation of profit for the year 2006 and setting of the right to dividend and dividend payment dates, corrected by resolution no. 3/2007 of the Extraordinary General Shareholders Meeting of KGHM Polska Miedź S.A. dated 9 July 2007 respecting the correction of a resolution no. 39/2007 of the Ordinary General Shareholders' Meeting dated 30 May 2007, the amount of profit appropriated for the dividend is PLN 3 394 000 thousand, i.e. PLN 16.97 per share.
The rights to dividend date (record date) was set at 25 June 2007 and the dividend payment dates at 10 July 2007 for the amount of PLN 1 698 000 thousand, i.e. PLN 8.49 per share, and 10 September 2007 for the amount of PLN 1 696 000 thousand, i.e. PLN 8.48 per share.

The amount of PLN 1 698 000 thousand, i.e. PLN 8.49 per share, was paid on 10 July 2007.

Due to a suit submitted by a shareholder regarding invalidity or annulment of resolution no. 3/2007 of the Extraordinary General Shareholders Meeting of KGHM Polska Miedź S.A. dated 9 July 2007, along with a request to safeguard the claim by issuing a court injunction prohibiting the Company from executing the second tranche of the dividend payout in the amount of PLN 1 696 000 thousand, the Regional Court in Legnica Section VI (Economic), by a ruling dated 1 August 2007, agreed to safeguard the claim by prohibiting the defendant from paying the second tranche of the dividend in the amount of PLN 1 696 000 thousand, which was scheduled for 10 September 2007. The Company filed an appeal against this ruling. On 6 September 2007 the Court of Appeals in Wrocław dismissed the Company's appeal against the decision issued by the Regional Court in Legnica dated 1 August 2007 regarding prohibition of the payout of the second tranche of the dividend.

On 18 September 2007, the Regional Court in Legnica, Section VI (Economic), passed the verdict which stated the invalidity of resolution no. 3/2007 of the Extraordinary General Shareholders Meeting of KGHM Polska Miedź S.A. dated 9 July 2007.

On 10 October 2007, the Sołtysiński & Szlęzak Office of Legal advisors and Attorneys limited partnership in Warsaw representing the Company, filed an appeal with the Court of Appeals in Wrocław against the verdict of the Regional Court in Legnica dated 18 September 2007, which stated invalidity of resolution no. 3/2007 of the Extraordinary General Shareholders Meeting of KGHM Polska Miedź S.A. dated 9 July 2007.

In the verdict issued on 28 November 2007 the Court of Appeals in Wrocław allowed the Company's appeal and changed the verdict of the Regional Court in Legnica dated 18 September 2007 in such a manner that it dismissed the shareholder's claim regarding invalidity of resolution no. 3/2007 of the Extraordinary General Shareholders Meeting of KGHM Polska Miedź S.A. dated 9 July 2007.
Following the verdict of the Court of Appeals in Wrocław dated 28 November 2007, the Company's Management Board, by way of resolution dated 30 November 2007, set the date for the payment of the second tranche of the dividend for the year 2006 amounting to PLN 1 696 000 thousand, i.e. PLN 8.48 per share, at 12 December 2007.

The amount of PLN 1 696 000 thousand, i.e. PLN 8.48 per share, was paid on 12 December 2007.

On 4 March 2008, the Management Board of KGHM Polska Miedź S.A. resolved to submit a proposal for the General Shareholders' Meeting of KGHM Polska Miedź S.A. to pay out a dividend for 2007 of PLN 1 100 000 thousand, i.e. PLN 5.50 per share.

The above proposal of the Management Board must be evaluated by the Supervisory Board of the Company before it is submitted to the General Shareholders Meeting. A final decision respecting the appropriation of profit of KGHM Polska Miedź S.A. for financial year 2007 will be made by the General Shareholders' Meeting of KGHM Polska Miedź S.A.

All shares of the Company are ordinary shares.

40. Cash generated from operating activities

CASH GENERATED FROM OPERATING ACTIVITIES	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
PROFIT FOR THE PERIOD	3 935 516	3 479 380
ADJUSTMENTS:		
Income tax from the income statement	821 371	737 233
Depreciation/amortisation	597 546	535 433
Losses on sales of property, plant and equipment and intangible assets	21 498	17 039
Gains on sales of financial assets	(18 985)	(15 286)
Gains on sales and change in the fair value of investment property	(13 786)	(13 706)
Recognition and reversal of impairment losses	8 261	27 054
Share of profits of associates accounted for using the equity method	(265 093)	(220 780)
Interest and share in profits (dividends)	9 674	4 779
Exchange gains/(losses)	41 858	(13 573)
Change in provisions	89 595	25 770
Change in derivative instruments	(69 699)	(77 738)
Other adjustments	(5 121)	14 463
CHANGES IN WORKING CAPITAL:		
Inventories	24 268	(524 227)
Trade and other receivables	459 269	(554 131)
Trade and other payables	(38 957)	194 806
CASH GENERATED FROM OPERATING ACTIVITIES	5 597 215	3 616 516

PROCEEDS FROM SALES OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	42 183	22 820
Losses on sales of property, plant and equipment and intangible assets	(21 498)	(17 039)
Change in receivables due to sales	(646)	(254)
Capitalised gains from the disposal of property, plant and equipment and intangible assets	(38)	
PROCEEDS FROM SALES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	20 001	5 527

41. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A. and is presumed to be de facto the "parent entity" of the Company, the State Treasury Companies (see the list of Companies at 30 June 2007) meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

SALES TO RELATED ENTITIES FOR THE PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007	Sales of products	Sales of goods for resale and materials
– to associates	2 532	217
– to key management and supervisory personnel	25	
– to other related entities*	56 536	20 412
TOTAL SALES TO RELATED ENTITIES	59 093	20 629

During the period from 1 January to 31 December 2007, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group earned revenues (5 largest items) during the period from 1 January to 31 December 2007:

1.	Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej w Legnicy S.A.	24 907
2.	Fabryka Przewodów Energetycznych S.A.	11 252
3.	Zakłady Chemiczne "POLICE" S.A.	8 168
4.	CENTROZŁOM WROCŁAW S.A.	8 119
5.	Huta Będzin S.A.	7 411

Sales to the above-mentioned entities represent around 80% of sales to the State Treasury subsidiaries. The remaining 20% represent revenues earned from 101 entities – the remaining clients of the Group related to the State Treasury.

SALES TO RELATED ENTITIES FOR THE PERIOD FROM 1 JANUARY 2006 TO 31 DECEMBER 2006	Sales of products	Sales of goods for resale and materials	Sales of property, plant and equipment, intangible assets, investment property
– to associates	2 610	385	
– to key management, supervisory personnel	22	1	
– to other related entities	75 265	8 128	58
TOTAL SALES TO RELATED ENTITIES	77 897	8 514	58

PURCHASES FROM RELATED ENTITIES FOR THE PERIOD FROM 1 JANUARY 2007 TO 31 DECEMBER 2007	Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property
– from associates	38 738	15 592	6
– from other related entities*	566 755	73 112	9 417
TOTAL PURCHASES FROM RELATED ENTITIES	605 493	88 704	9 423

* State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group made purchases (5 largest items) during the period from 1 January to 31 December 2007:

1.	EnergiaPro Koncern Energetyczny S.A.	483 846
2.	Polskie Górnictwo Naftowe i Gazownictwo S.A.	87 134
3.	"Stomil-Poznań" S.A.	18 647
4.	NITROERG S.A.	9 444
5.	PPUP Poczta Polska	6 806

Purchases from the above-mentioned entities represent around 96% of purchases from the State Treasury subsidiaries. The remaining 4% represent purchases from 108 entities – the remaining clients of the Group related to the State Treasury.

PURCHASES FROM RELATED ENTITIES For the period from 1 January 2006 to 31 December 2006	Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property
– from associates	37 651	15 248	2
– from other related entities	613 178	146 639	6 305
TOTAL PURCHASES FROM RELATED ENTITIES	650 829	161 887	6 307

REMUNERATION OF THE MANAGEMENT BOARD IN 2007	Wages and other current employee benefits	Benefits due to termination of employment relationship	Post-employment benefits	Total earnings in 2007
Krzysztof Skóra	949			949
Maksymilian Bylicki	949			949
Marek Fusiński	775			775
Stanisław Kot	597			597
Ireneusz Reszczyński	752			752
Dariusz Kaśków	98			98
Wiktor Błądek		83	10	93
Mirosław Biliński			37	37
Andrzej Krug		75		75
Robert Nowak		65	23	88
Sławomir Pakulski		55		55
Jarosław Andrzej Szczepek		75		75
Marek Szczerbiak		88		88
TOTAL	4 120	441	70	4 631

REMUNERATION OF THE MANAGEMENT BOARD IN 2006	Wages and other current employee benefits	Benefits due to termination of employment relationship	Post-employment benefits	Total earnings in 2006
Krzysztof Skóra	668			668
Maksymilian Bylicki	685			685
Marek Fusiński	561			561
Stanisław Kot	255			255
Ireneusz Reszczyński	558			558
Marian Krzemiński			51	51
Mirosław Biliński	212	16		228
Wiktor Błądek	427	268		695
Andrzej Krug	251	101		352
Robert Nowak	251	73		324
Sławomir Pakulski	2 857	70		2 927
Jarosław Andrzej Szczepek	329	131		460
Marek Szczerbiak	296	82		378
TOTAL	7 350	741	51	8 142

REMUNERATION OF THE SUPERVISORY BOARD IN 2007	Remuneration due to service in the Supervisory Board, wages and other current employee benefits
Adam Glapiński	21
Adam Łaganowski	61
Anna Mańk	49
Stanisław Potycz	76
Jan Sulmicki	20
Marcin Ślęzak	69
Jerzy Żyżyński	69
Leszek Jakubów	17
Remigiusz Nowakowski	14
Józef Czyczerski	140
Leszek Hajdacki	236
Ryszard Kurek	238
TOTAL	1 010

REMUNERATION OF THE SUPERVISORY BOARD IN 2006	Remuneration due to service in the Supervisory Board, wages and other current employee benefits
Adam Łaganowski	14
Stanisław Potycz	13
Jan Sulmicki	12
Jerzy Żyżyński	12
Antoni Dynowski	58
Marcin Ślęzak	58
Ryszard Wojnowski	47
Czesław Cichoń	34
Krzysztof Skóra	20
Maciej Kruk	57
Józef Czyczerski	152
Leszek Hajdacki	201
Ryszard Kurek	212
Jan Rymarczyk	6
Tadeusz Janusz	6
Elżbieta Niebisz	7
Krzysztof Szamałek	6
Marek Wierzbowski	5
TOTAL	920

TRADE RECEIVABLES FROM RELATED ENTITIES	At 31 December 2007	At 31 December 2006
- from associates	505	271
- from other related entities *	16 538	7 642
TOTAL RECEIVABLES FROM RELATED ENTITIES	17 043	7 913

* State Treasury subsidiaries from whom the KGHM Polska Miedź S.A. Group at 31 December 2007 recognised receivables due to sales (5 largest items):

1. Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej w Legnicy S.A.	3 626
2. Fabryka Przewodów Energetycznych S.A.	1 061
3. Zakłady Chemiczne ”POLICE” S.A.	1 010
4. CENTROZŁOM WROCŁAW S.A.	798
5. Zakłady Górniczo-Hutnicze "BOLESŁAW" S.A.	542

Receivables from the above-mentioned entities represent around 85% of receivables from sales to the State Treasury subsidiaries. The remaining 15% represent receivables from sales earned from 64 entities – the remaining clients of the Group related to the State Treasury.

The amount of the allowance for impairment of receivables from related entities at the balance sheet date and the amount of the allowance concerning related entities taken to profit or loss during the period is insignificant from the point of view of the consolidated financial statements.

TRADE PAYABLES TOWARDS RELATED ENTITIES	At 31 December 2007	At 31 December 2006
- towards associates	10 463	7 705
- towards other related entities *	68 393	57 895
TOTAL LIABILITIES TOWARDS RELATED ENTITIES	78 856	65 600

* State Treasury subsidiaries towards which the KGHM Polska Miedź S.A. Group at 31 December 2007 recognised purchase liabilities (5 largest items):

1. EnergiaPro Koncern Energetyczny S.A.	52 349
2. “Stomil-Poznań” S.A.	2 495
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	1 817
4. NITROERG S.A.	1 349
5. Huta Cynku “Miasteczko Śląskie” Spółka Akcyjna	369

Liabilities towards the above-mentioned entities represent around 96% of liabilities due to purchases from the State Treasury subsidiaries. The remaining 4% represent liabilities towards 49 entities – the remaining clients of the Group related to the State Treasury.

In addition, entities of the KGHM Polska Miedź S.A Group make with the State Treasury settlements in respect of various types of taxes and charges. These transactions have been described in other notes of the financial statements.

	At 31 December 2007	At 31 December 2006
GUARANTEES RECEIVED:	4	
– from other related entities	4	
GUARANTEES GRANTED TO:	270	280
– other related entities	270	280

42. Off-balance sheet liabilities due to operating leases

Entities of the Group have entered into operating leases agreements related to the rental of office space, space serving radio and cable networks, mining machinery, vehicles and medical and IT equipment.

TOTAL VALUE OF FUTURE MINIMUM PAYMENTS	At 31 December 2007	At 31 December 2006
Up to one year	17 056	24 216
From one to five years	34 891	81 856
Over five years	16 213	12 524
TOTAL:	68 160	118 596

LEASE PAYMENTS RECOGNISED IN PROFIT OR LOSS	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
Value of minimum lease payments	27 133	22 813

43. Contingent items and other off-balance sheet items

CONTINGENT ITEMS AND OTHER OFF-BALANCE SHEET ITEMS	At 31 December 2007	At 31 December 2006
CONTINGENT RECEIVABLES	158 816	167 792
– contested State Budget issues	146 054	157 633
– guarantees received	12 762	10 154
– disputed issues, pending court proceedings		5
OFF-BALANCE SHEET RECEIVABLES	25 195	
– inventions, implementation of projects	25 195	
CONTINGENT LIABILITIES	698 660	780 941
– guarantees granted	30 002	27 639
– promissory note liabilities	15 501	12 881
– disputed issues, pending court proceedings	7 533	17 609
– contingent penalties	3 893	4 243
– agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A	641 731	718 569
OFF-BALANCE SHEET LIABILITIES DUE TO IMPLEMENTATION RIGHTS, INVENTION PROJECTS AND OTHER UNREALISED AGREEMENTS	55 588	30 537

The value of contingent assets was determined based on estimates.

Information on execution of an agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A.

On 10 March 2006, KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węglokoks S.A. as the purchasers, and TDC Mobile International A/S as the seller, executed an "Agreement on the Acceptance of the Offer and Conditional Transfer of Shares in Polkomtel S.A." (the "Agreement"). The signing of the Agreement was preceded by signing the "Shareholders Agreement on the Purchase of Shares in Polkomtel S.A. from TDC Mobile International A/S and Taking Joint Actions Aimed at Disposing of All Shares Held in Polkomtel S.A." between KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węglokoks S.A., as shareholders in Polkomtel S.A.

As a result of a so-called Change of Ownership in relation to TDC Mobile International A/S, the other shareholders of Polkomtel S.A. (including Vodafone Americas Inc.) have obtained, in accordance with §12.14 of the Statute of Polkomtel S.A., the right to acquire a total of 4 019 780 shares held by TDC Mobile International A/S in Polkomtel S.A., in a proportion equal to the percentage of the shares held by each shareholder in Polkomtel S.A., other than the shares held by TDC Mobile International A/S. The purchase offer was delivered by TDC Mobile International A/S to the remaining shareholders on 8 February 2006. The Agreement has been executed in result of the execution of the acquisition right of KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węglokoks S.A. with respect to the shares referred to in the offer by TDC Mobile International A/S. There is a dispute between Vodafone Americas Inc. and TDC Mobile International A/S connected with this offer and in connection with such dispute the injunction of 24 February 2006 as described below has been instituted.

Pursuant to the Agreement, KGHM Polska Miedź S.A. may acquire 980 486 shares in Polkomtel S.A., representing approximately 4.78% of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share (the equivalent of PLN 832.72 pursuant to fixing rates list No 50/A/NBP/2006 of 10 March 2006), and an aggregate purchase price not exceeding EUR 209 863 223.44 (the equivalent of PLN 816 472 870.79). Upon KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węglokoks S.A. acquiring the shares pursuant to the Agreement, together with already-held shares, the said entities will hold in aggregate more than 75% of the total number of shares of Polkomtel S.A.

The parties agreed to vote at any General Meeting of the Polkomtel S.A. in favour of dividends distributed to the shareholders as allowed under the applicable laws from the retained net profits for years preceding 2005, 100% of the net profit of Polkomtel S.A. generated for years 2005 and 2006 and at least 50% of the net profit generated for any subsequent financial year. The amount of dividend paid out to the seller reduced by the interest on the maximum purchase price may result in the reduction of effective purchase price of shares.

The Agreement has been executed subject to the following condition precedent: the expiry or cancellation with respect to the shares covered by the Agreement of the injunction instituted by the District Court in Warsaw on 24 February 2006 or absence of any other injunction instituted by any other judiciary authority (or any other measure of a similar nature) prohibiting a transfer of shares in Polkomtel S.A. covered by the Agreement by TDC Mobile International A/S.

Pursuant to the Agreement, KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węglokoks S.A. as the purchasers have the right not to purchase the shares of Polkomtel S.A. if by 10 March 2009 (or such other date as the parties may agree) the abovementioned condition precedent is not fulfilled, or until that date other circumstances exist related to the disputes between Vodafone Americas Inc. and TDC Mobile International A/S that may constitute an obstacle for the purchase from TDC Mobile International A/S of the shares covered by the Agreement, as a result of which the Agreement shall terminate as of that date.

On 10 March 2006, Vodafone Americas Inc. filed a claim with the International Court of Arbitration of the Federal Chamber of Commerce in Vienna against six entities, naming TDC Mobile International A/S as the Principal Respondent, Polkomtel S.A. as the First Auxiliary Respondent and KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as further Auxiliary Respondents. In the statement of its claims, Vodafone Americas Inc. has challenged, among others, the method of setting the price by TDC International A/S in the offer addressed to the other shareholders of Polkomtel S.A.

On 28 March 2008 attorneys ad litem of the Parent Entity received a copy of the partial verdict of the Court of Arbitration in Vienna on the claim of Vodafone Americas Inc. against Polkomtel S.A. and the other shareholders of Polkomtel S.A.

The Court ruled that the agreement dated 10 March 2006 on purchasing the remaining shares of Polkomtel S.A. (belonging to TDC Mobile International A/S) by the Polish shareholders of Polkomtel S.A. is valid, and does not infringe either on the statutes of Polkomtel S.A. or on the shareholder agreements. The legal consequences of this verdict are currently being analysed, and based on this analysis further steps may be taken in this matter.

Contested State Budget issues

Legal regulations related to VAT and corporate income tax for 2007 – apart from the manner used by the Parent Entity to settle exchange rate differences using the balance sheet method – have not been significantly changed as compared to the prior year, these changes may have resulted in significant changes in the Parent Entity's tax policy.

Despite some stabilisation of court and administrative tax judgments, tax interpretations issued by the tax office – through implemented duty of issuing individual interpretations regarding tax law problems by the Ministry of Finance, there are still areas of uncertainty and disputes. Issues regarding qualification of tax costs and the determination of tax base are and still may have caused the tax risk for entities pursuing economic activity.

Tax bodies, operating within their assigned spheres of competence, are authorised to conduct controls and to examine records relating to business transactions accounted for in financial accounts within a period of 5 years from the end of the fiscal year for which a tax return was made and a financial result was calculated. This means in turn that, given the lack of consistent interpretation, tax bodies may charge KGHM Polska Miedź S.A. with additional taxation as well as interest and penalties.

In the opinion of the Management Board of the Parent Entity, there are no existing circumstances which would indicate the possibility of the arising of significant tax liabilities.

Contingent receivables due to contested State Budget issues regarding income taxes and VAT amounted at the balance sheet date to PLN 2 767 thousand, of which:

– Corporate income tax for 2000	360
– Corporate income tax for 2001	2 117
– Personal income tax for 2001	290

Contingent receivables regarding contested issues on property tax amounts to PLN 119 628 thousand.

In December 2007 a legal dispute respecting taxation of profit payment ended. The Constitutional Tribunal considered the complaint made by KGHM Polska Miedź S.A. regarding compliance of Act on payment from net profit made by State-owned companies with the Polish Constitution.
The Constitutional Tribunal dropped claims regarding payment from profit for the years 1996 and 1997. The value of the dispute amounted to PLN 23 729 thousand and PLN 5 292 thousand, respectively.
The Tribunal recognised, that the Parent Entity, being in the years 1996–1997 a public economic entity, can not cite the laws and liberties guarantied by the constitution. This means, that the Tribunal rejected to analyse the compliance of laws pointed in a constitutional complaints with the Polish Constitution, and thereby ended proceedings. The Constitutional Tribunal verdict is final and binding.

Legal disputes regarding property tax remain in the course of court proceedings, as well as the constitutional complaint submitted by the Parent Entity regarding compliance of the law on tax and local charges with the Polish Constitution. The subject of the above-mentioned dispute is the property tax on underground mining facilities. The decision of the Tribunal will represent the final resolution of the matter of taxation of underground mining facilities.

Due to contested State budget issues, contingent receivables in the subsidiary POL-MIEDŹ TRANS Sp. z o.o. amount to PLN 23 658 thousand, of which:

– Excise tax	22 579
– Fee for the right of perpetual usufruct	1 079

Tax controls
At 31 December 2007 two tax proceedings are being conducted, resulting from tax controls of the tax on goods and services (VAT) for the months of December 2005 and December 2006. At 31 December 2007 the Head of the Lower Silesia Tax Office had not yet issued a decision in either matter.

As a result of controls carried out in the period 2006–2007 by the Head of the Wroclaw Tax Control Office D/C in Legnica, with respect to „Accuracy of the declared tax bases and the correctness of the calculation and payment of taxation representing State budget income, as well as other receivables due to the State Budget or State special funds for 2003.", the Parent Entity was assessed with tax liabilities in arrears in the total amount of PLN 9 566 thousand, of which:

– VAT tax with additional tax liabilities	91
– Corporate income tax	7 084
– Lump-sum income tax	2 392

KGHM Polska Miedź S.A has paid the liabilities arising from the issued decisions with total accrued interest of PLN 13 782 thousand. KGHM Polska Miedź S.A has submitted appeals from all decisions issued by the Head of the Tax Control Office. On 24 December 2007 the decision regarding corporate income tax was reversed and submitted to the Head of the Tax Control Office for re-examination. On 2 January 2008 an organ of second resort issued a final decision which decreased the amount of liability resulting from lump-sum income tax to PLN 1 914 thousand (in respect of which the above decision will be appealed to the Voivodeship Administrative Court).
No final decision was issued regarding the tax on goods and services.
In 2007 the subsidiary „Zagłębie" Lubin SSA underwent the control by ZUS respecting the correctness of the manner of calculating, deducting and the payment of premiums. As a result of this control, ZUS questioned the manner of calculation of the premium to ZUS on player contracts for the period from 1 January 1999 to 30 June 2007. The amount of questioned premiums together with interest amounts to PLN 12 742 thousand.

The company created a provision for the above liabilities against the result of prior years, and appealed in whole the above decision to the Regional Court in Legnica, Section V (Labour and Social Insurance) through the Legnica Branch of ZUS.

In 2007 the Legnica Branch of the Tax Office in Wrocław conducted a tax control in the subsidiary POL-MIEDŹ TRANS Sp. z o.o. respecting the payment of taxes in 2004. These proceedings concluded with the issuance of two decisions respecting the levying of additional excise tax in the total amount of PLN 7 709 thousand.
The main complaints involve the acceptance of declarations from customers respecting the use of heating oil containing fictional personal data, and sales of heating oil in wholesale amounts, suggesting they were to be used for commercial purposes.
On 20 December 2007 the company submitted an appeal of these decisions to the Customs Office in Wrocław. A decision by a body of the second instance is expected to be issued in March 2008.

Realisation of a contract with PGNiG
On 1 December 2003 contracts no. 33/K/2003 and no. 34/K/2003 were signed between Energetyka Sp. z o.o. as the buyer and Polskie Górnictwo Naftowe i Gazownictwo S.A. („PGNiG") as the seller. The subject of each of these contracts is the supply of gas under specific parameters to meet the need for future generation of electricity and heating energy produced by Energetyka Sp. z o.o. Based on subsequent annexes to these contracts, the dates of commencing these supplies was to be respectively 1 February 2008 and 1 March 2008.
In 2006 the Management Board of the company reviewed the prior concept of realisation of gas supplies, declaring that they were not economically justified due to the fact that the demand for heating energy by the Parent Entity is much lower than assumed in the prior concept. As a result, actions were taken aimed at adjusting both of these contracts.

The Management Board of the company is of the opinion that the level of realisation of contracts no. 33/K/2003 and no. 34/K/2003 for the supply of gas entered into with PGNiG S.A. in 2003 both by the supplier and the buyer of the gas, as well as the continuing negotiations between the Parties respecting changes in the conditions, amounts and dates for supplying gas, enable the declaration that the risk that PGNiG will make claims against „Energetyka" respecting any contractual penalties arising from these contracts is at the present time minimal.
Based on the actions undertaken, the company reviewed those capital expenditures incurred so far related with the initially-planned concept for these contracts. As a result of this analysis, at 31 December 2006 the company recognised an impairment loss in the amount of 100% of incurred expenditures in the total amount of PLN 14 550 thousand.

44. Employment structure

Average employment in the Group was as follows:

EMPLOYMENT STRUCTURE	For the period from 1 January 2007 to 31 December 2007	For the period from 1 January 2006 to 31 December 2006
White-collar workers	8 428	8 385
Blue-collar workers	19 264	18 544
TOTAL:	27 692	26 929

45. Social assets and Social Fund liabilities

The Group has netted the assets of the Fund with the liabilities towards the Fund, as these are not separate assets of the Group. Accordingly, the net balance (Social Fund liability) at 31 December 2007 amounts to PLN 3 643 thousand, and the net balance (Social Funds liability) at 31 December 2006 amounted to PLN 6 689 thousand.

The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the table below.

SOCIAL ASSETS AND SOCIAL FUND LIABILITIES	At 31 December 2007	At 31 December 2006
Loans granted to employees	85 762	80 150
Other receivables	113	124
Cash and cash equivalents	44 931	22 138
Social Fund liabilities	(134 449)	(109 101)
NET BALANCE	(3 643)	(6 689)

46. Government grants

The balance of government grants recognised in deferred income at 31 December 2007 is PLN 1 877 thousand (at 31 December 2006: PLN 2 115 thousand). The funds are from the European Union funds, as well as from other funds. These are cash grants received for the acquisition of property, plant and equipment, for the performance of development work, which result in capitalised intangible assets and for the subsidising of employee training.
The companies of the Group also receive government grants from the Voivodeship Fund for Environmental Protection and Water Management (Fundusz Ochrony Środowiska i Gospodarki Wodnej) in the form of preferential interest rates on loans, as well as annulment of loans.
The Group company - KGHM Cuprum Sp. z o.o CBR as an R&D facility receives annual cash grants to finance its core business. The grant for 2007 amounts to PLN 890 thousand (in 2006: PLN 850 thousand).

47. Subsequent events

Changes in the Management Board of the Parent Entity
On 17 January 2008, the Supervisory Board dismissed Mr Krzysztof Skóra as President of the Management Board of KGHM Polska Miedź S.A. and Mr Dariusz Kaśków as Vice President of the Management Board of KGHM Polska Miedź S.A.
The Supervisory Board of the Company decided that the Management Board would consist of three members.
The Supervisory Board appointed Mr Ireneusz Reszczyński, the current I Vice President of the Management Board of KGHM Polska Miedź S.A., to act as President of the Management Board of KGHM Polska Miedź S.A. until the new President is elected.

Contract
On 30 January 2008 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. for the sale of 8 mm copper wire rod and oxygen-free copper rod. The estimated value of this contract is from approx. USD 658 461 thousand (PLN 1 613 296 thousand) to approx. USD 844 362 thousand (PLN 2 068 771 thousand).

Resignation of a Member of Supervisory Board
Mr Marcin Ślęzak Supervisory Board Member of KGHM Polska Miedź S.A., submitted his resignation as of 13 February 2008 from membership on the Supervisory Board of KGHM Polska Miedź S.A.

Changes in the Supervisory Board
On 14 February 2008, the Extraordinary General Shareholders Meeting of KGHM Polska Miedź S.A dismissed the following persons as Members of the Supervisory Board :
1. Leszek Jakubów
2. Anna Mańk
3. Remigiusz Nowakowski
4. Stanisław Andrzej Potycz
5. Jerzy Żyżyński

At the same time, on 14 February 2008 the following persons were appointed as Members of the Supervisory Board:
1. Marcin Dyl
2. Arkadiusz Kawecki
3. Jacek Kuciński
4. Marek Panfil
5. Marek Trawiński
6. Marzenna Weresa

On 25 February 2008, the Supervisory Board appointed Marek Trawiński as Chairman of the Supervisory Board, Jacek Kuciński as Vice Chairman, and Marek Panfil as Secretary.

Announcement on the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A.
The Supervisory Board of the Parent entity, at its meeting on 12 March 2008, resolved to commence the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A.
The press announcement on the recruitment process was published on 14 March 2008 in the Polish dailies "Rzeczpospolita" and "Gazeta Wyborcza" as well as on the internet website of KGHM Polska Miedź S.A.
On 27 March 2008, the Supervisory Board, decided to continue the recruitment process for the position of President of the Manage-

ment Board of KGHM Polska Miedź S.A. through additional publishing of the press announcement as well as on the internet website on 28 March 2008.
This recruitment process will be carried out in accordance with the Regulations on the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. as approved by the Supervisory Board on 12 March 2008.

Significant contract with Glencore International AG
On 19 March 2008 a contract was entered into between the Parent Entity and Glencore International AG for the sale of copper cathodes in years 2008–2009.
The estimated value of this contract is from USD 413 201 thousand to USD 557 417 thousand, i.e. from PLN 927 223 thousand to PLN 1 250 844 thousand, depending on the amount of tonnage under option.
This amount was estimated based on the forecast copper price (using a forward curve) and the National Bank of Poland exchange rate from 18 March 2008.
This contract foresees contractual penalties for failure to execute payments on time.
The total estimated value of contracts entered into between KGHM Polska Miedź S.A. and Glencore International AG over the last 12 months is from PLN 991 187 thousand to PLN 1 314 807 thousand. The highest-value contract signed during this period is the above-mentioned contract.

Approval by the Supervisory Board of the Budget for 2008
On 27 March 2008, the Supervisory Board of the Parent Entity approved the Budget of KGHM Polska Miedź S.A. for 2008 as presented by the Management Board.
The basis for preparation of the Budget for 2008 were the results for 2007 and the assumptions contained in specific operating plans, reflecting the initiatives and projects arising from the Parent Entity Strategy.
The accepted Budget assumes the achievement in 2008 of revenues from sales in the amount of PLN 11 193 million and net profit of PLN 2 904 million.

Dividend from Polkomtel S.A. from 2007 profit
On 28 March 2008 the Ordinary General Shareholders Meeting of the associate Polkomtel S.A. passed a resolution on the appropriation of profit for 2007. In accordance with this decision the shareholders the company allocated PLN 1 248 245 thousand to be paid as a dividend from profit for 2007. Due to the fact that in December 2007 an interim dividend of PLN 315 700 thousand was paid, the amount of PLN 932 545 thousand remained outstanding. This amount will be paid in two instalments: PLN 466 170 thousand by 28 May 2008 and PLN 466 375 thousand by 27 November 2008.
The total amount of the dividend from profit for 2007 attributable to the Parent Entity, KGHM Polska Miedź S.A., is PLN 244 764 thousand, of which PLN 61 905 thousand was paid to KGHM Polska Miedź S.A. as an interim dividend in December 2007, PLN 91 409 thousand will be paid by 28 May 2008, and the remainder of PLN 91 450 thousand will be paid by 27 November 2008.

Registration of a change in the share capital of Telefonia DIALOG S.A.
On 4 April 2008 a change in share capital was registered at the Regional Court for Wrocław-Fabryczna in Wrocław, Section VI (Economic) of the National Court Register for the subsidiary Telefonia DIALOG S.A., from PLN 1 959 800 thousand to PLN 489 950 thousand, through the decrease in the face value of all existing shares of the company from PLN 100.00 to PLN 25.00 per share.
PLN 913 150 thousand of the amount obtained from the decrease in share capital was used to cover the loss from prior years, while PLN 556 700 thousand will be transferred to reserve capital.
The share capital of Telefonia DIALOG S.A. after registration amounts to PLN 489 950 thousand and is divided into 19 598 000 shares of PLN 25.00 each. The total number of votes attached to all issued shares after registration is 19 598 000.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD		POSITION	SIGNATURE
15 April 2008	*Ireneusz Reszczyński*	*Acting President of the Management Board* *I Vice President of the Management Board*	
15 April 2008	*Marek Fusiński*	*Vice President of the Management Board*	
15 April 2008	*Stanisław Kot*	*Vice President of the Management Board*	

SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING		POSITION	SIGNATURE
15 April 2008	*Ludmiła Mordylak*	*Chief Accountant of KGHM Executive* *Director of Accounting Services Center*	

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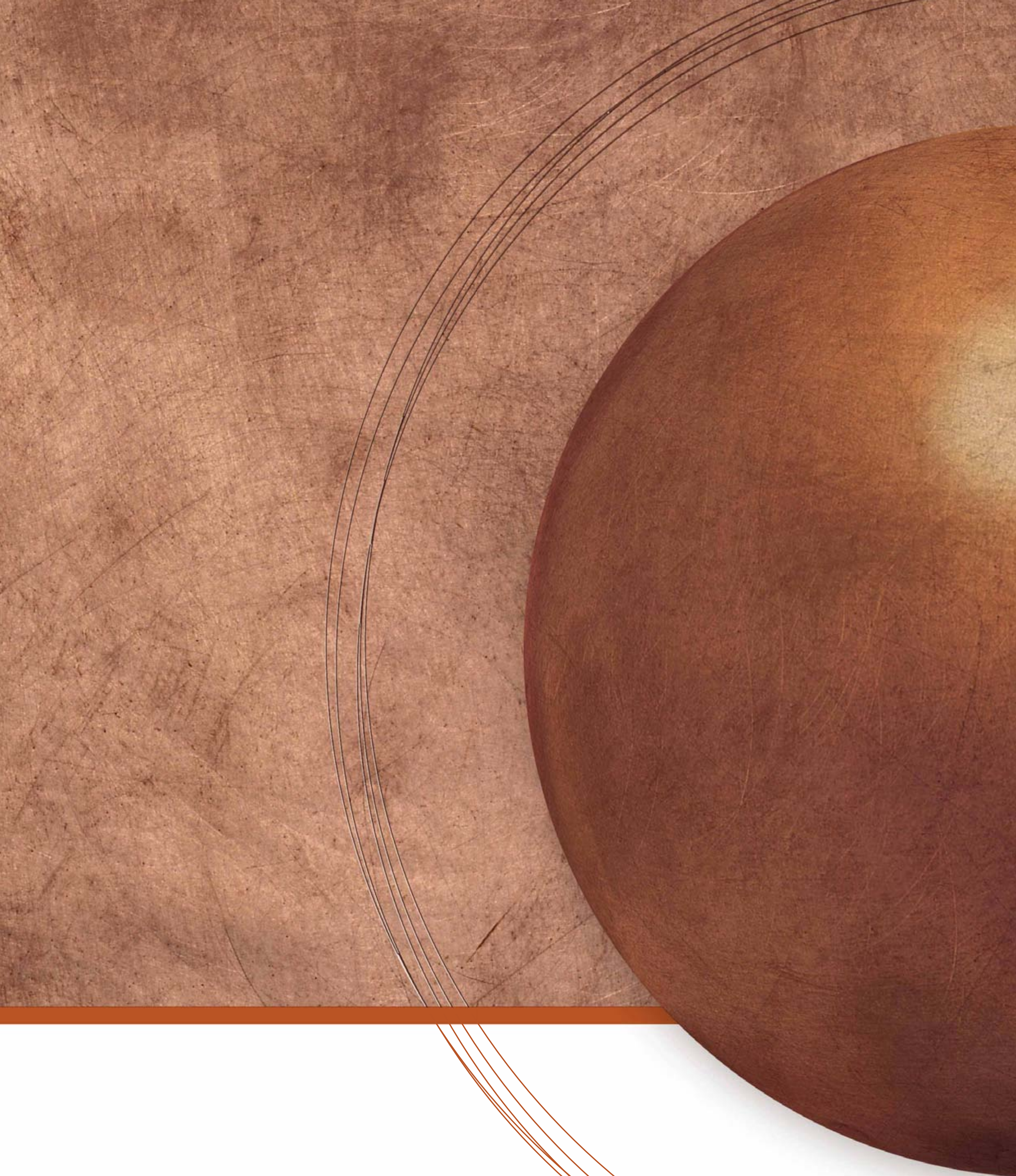

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