

**Notes to the condensed financial statement of
KGHM Polska Miedź S.A. prepared for the third quarter of 2007**

I. General information

KGHM Polska Miedź S.A. is a joint stock company with its registered head office in Lubin, whose shares are traded on a regulated market, in the "metals industry" sector as defined by the Warsaw Stock Exchange.

The core business of the Company is the production of copper and silver. A detailed description of its activities may be found in the SA-R 2006 report published on 12 March 2007.

The following quarterly report includes condensed financial statements for the following periods:

- the current period from 1 July to 30 September 2007
- the comparable period from 1 July to 30 September 2006

II. Principles applied in preparing the financial statements

1. Basis for preparation

The following financial statements have been prepared in accordance with International Financial Reporting Standards approved by the European Union. Presentation of these statements is based on IAS 34, "Interim Financial Reporting", applying these same principles for the current and comparable periods which were published on 14 September 2007 in the P 2007 report.

2. Exchange rates applied

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

- for the calculation of turnover, financial results and cash flow for the current period, the rate of **3.8314 PLN/EUR**,
- for the calculation of assets, equity and liabilities at 30 September 2007, the rate of **3.7775 PLN/EUR**,
- for the calculation of turnover, financial results and cash flow for the comparative period, the rate of **3.9171 PLN/EUR**,
- for the calculation of assets, equity and liabilities at 31 December 2006, the rate of **3.8312 PLN/EUR**.

3. Important estimates and assumptions

Classification of financial instruments

In accordance with the provisions of IAS 39 respecting the classification of non-derivative financial instruments with fixed or determinable payments and fixed maturity, the Company classifies these assets as held-to-maturity investments. In making this judgement, the intended use and possibility of holding such investments to maturity are evaluated.

Should the Company fail to hold such instruments to maturity, apart from the situations 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.

Estimation of provisions

1. Provisions for future employee benefits – retirement or disability benefits, jubilee awards and post-employment coal equivalent payments are estimated using actuarial methods.
For purposes of re-measuring the provision at the end of the current period, the Management Board 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.

Parameters used to re-measure provisions at the end of the current period were set at the following levels:

- forecast inflation
 - for 2007 – 2.6%
 - for 2008 – 2.7%

- for 2009 and forward 3.0%,
- wage increase
 - to end 2007 - 0%,
 - in 2008 - 3.7%
 - in 2009 and forward - 4.0%,
- rate of increase of lowest wage
 - in 2007 - 0%
 - in 2008 - 20.30%*
 - in 2009 and forward - 4.0%,
- increase in coal prices
 - to end 2007 - 0%,
 - in 2008 - 2.7%
 - in 2009 and forward 3.0%,
- discount rate
 - 2007 - 5.1%
 - 2008 - 5.2%
 - 2009 - 5.3%
 - 2010 and forward - 5.0%

* assumed increase in the lowest wage in the first quarter of 2008 pursuant to the Decree of the Council of Ministers dated 11 September 2007 respecting the level of the minimum working wage in 2008

2. The provision for decommissioning costs of mines and other technological facilities.

This provision represents the equivalent of the estimated future decommissioning costs of mines and other technological facilities, discounted to present value. Re-measurement of this provision at the balance sheet date is affected by the following factors:

- a) the index of changes in prices in the construction-assembly sector published by GUS (the Polish statistical agency),
- b) the real discount rate calculated based on the nominal interest rate and the rate of inflation (a quotient of the nominal rate and inflation), where:
 - the nominal interest rate is based on WIBOR3M published by the Reuters news service on the last day of the month in which the provision is re-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 data published by GUS.

The following indices were used in re-measurement of provisions at the end of the current quarter:

- the index of price changes in the construction and assembly sector, 6.5%,
- the real discount rate, 3.49%

1. Deferred income tax assets/liabilities

Deferred income tax assets/liabilities are measured using 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 on the balance sheet date.

The probability of realising deferred income tax assets is set based on five-year financial plans and tax forecasts included therein prepared by the Management Board.

2. Other non-current provisions – they are estimated using parameters applied to the re-measurement of provisions for employee benefits.

Depreciation and amortisation rates

Depreciation and amortisation rates are set on the basis of the expected economic useful lives of items of property, plant and equipment and of intangible assets, which are in turn dependent on the estimated life of the mines and the estimated period of other activities carried out in the given geographical region or economic area.

III. Description of principles for the transition

1. IFRS 1 *First-time adoption of IFRS*

The financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2007 will be the first annual financial statements to comply with International Financial Reporting Standards ("IFRS") as adopted by the European Union. These interim financial statements were prepared under IFRS 1 *First-time adoption of IFRS*.

The transition date for KGHM Polska Miedź S.A. is 1 January 2006, and the opening balances were prepared for this date. The reporting date of these interim financial statements is 30 September 2007, whilst the IFRS adoption date is 1 January 2007.

In preparing these financial statements in accordance with IFRS 1, mandatory exemptions and some optional exemptions from full retrospective application of IFRS have been applied.

2. Exemptions from full application of IFRS chosen by KGHM Polska Miedź S.A.

At the transition date, KGHM Polska Miedź S.A. has chosen to apply the following optional exemptions from full retrospective application of IFRS:

- a) business combinations
KGHM Polska Miedź S.A. has applied the exemption set out in IFRS 1 for the business combinations that took place prior to the transition date to IFRS, i.e. 1 January 2006. It has not restated business combinations that took place prior to the transition date to IFRS.
- b) fair value or revaluation as deemed cost
KGHM Polska Miedź S.A. has applied this exemption to certain items of property, plant and equipment.
- c) employee benefits
This exemption is not applicable to the Company.
- d) cumulative translation differences
This exemption is not applicable to the Company.
- e) compound financial instruments
KGHM Polska Miedź S.A. has not issued any compound instruments, therefore this exemption is not applicable.
- f) assets and liabilities of subsidiaries, associates and joint ventures
KGHM Polska Miedź S.A. is a parent entity, therefore this exemption is not applicable.
- g) reclassification of financial instruments
This exemption was selected, and financial assets which under the previous accounting principles were classified as held-to-maturity investments were reclassified to financial assets available for sale.
- h) share-based payment transactions
As there are no share-based payment transactions in KGHM Polska Miedź S.A., this exemption is not applicable.
- i) insurance contracts
KGHM Polska Miedź S.A. does not issue (enter into) insurance-related contracts. This exclusion is therefore not applicable.
- j) decommissioning liabilities included in the cost of property, plant and equipment
KGHM Polska Miedź S.A. recognises dismantling and land restoration costs in the initial cost of property, plant and equipment, and simultaneously recognises a provision for such costs. This principle conforms to IFRS, and therefore it was not necessary to enter adjustments to the financial statements.
- k) leases
This exemption does not apply to the Company. KGHM Polska Miedź S.A. has not identified any contracts which would meet the criteria for lease and were not accounted for in the financial statements as lease contracts.
- l) fair value measurement of financial assets and financial liabilities
This exemption does not apply to the Company.

3. Mandatory exemptions from full retrospective application of IFRS

KGHM Polska Miedź S.A. has applied the following mandatory exemptions from retrospective application of IFRS:

- a) derecognition of financial assets and liabilities
Financial assets and liabilities derecognised before 1 January 2006 are not re-recognised under IFRS.
- b) hedge accounting
In accordance with the above exemption, an entity should not recognise in its opening balances prepared in accordance with IFRS hedging relationships which do not meet the hedge accounting requirements of IAS 39. This exemption is not, however, applicable as all hedging relationships designated prior to this date are in accordance with IAS 39.
- c) accounting estimates
Estimates made in accordance with IFRS at 1 January 2006 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error. As KGHM Polska Miedź S.A. did not acknowledge any errors in previously-made estimates, it therefore did not make any retrospective adjustments to these estimates.

4. Identification and description of differences between the financial statements prepared under Polish Accounting Standards and the financial statements prepared according to IFRS

At 1 January 2004, the KGHM Polska Miedź S.A. Group applied International Financial Reporting Standards for the first time, and prepared its first consolidated financial statements in conformance with IFRS for the period from 1 January 2005 to 31 March 2005, published in the QS I 2005 quarterly report. The KGHM Polska Miedź S.A. Group published a full description of its accounting principles in the RS 2006 consolidated annual report on 20 April 2007.

In the transition of the Company at 1 January 2006 from Polish Accounting Standards to IFRS, the same principles, and respectively for the Company the same restated figures, were applied based on which the consolidated financial statements were prepared at 1 January 2004 in conformance with IFRS 1 para. 25.

The differences between the financial statements prepared under International Financial Reporting Standards and those prepared under Polish Accounting Standards, as well as their impact on the balance sheet and on the financial results, result from the issues presented below.

	Equity at 01.01.2006	Profit or loss for the 9-month period ended 30.09.2006	Changes taken directly to equity for the 9-month period ended 30.09.2006	Equity at 30.09.2006	Profit or loss for the 12- month period ended 31.12.2006	Changes taken directly to equity for the 12-month period ended 31.12.2006	Equity at 31.12.2006
Equity and net profit or loss according to Polish Accounting Standards	6 214 077	2 821 120	(2 605 412)	6 429 785	3 395 130	(1 678 348)	7 930 859
Revaluation of property, plant and equipment to reflect hyperinflation	352 787			352 787			352 787
Adjustment to the cost of fully-depreciated property, plant and equipment	40 945			40 945			40 945
Adjustment to the cost of property, plant and equipment due to elimination of capitalised translation differences and interest	(1 118)			(1 118)			(1 118)
Adjustment the cost of property, plant and equipment due to capitalised costs of certified inspections	219			219			219
Adjustment to net carrying amount of property, plant and equipment due to depreciation which arose after restatement in accordance with IFRS 1	(31 672)	(24 309)		(55 981)	(37 616)	(470)	(69 758)*
Adjustment to the cost of property, plant and equipment due to separation of components	25 232	9 848		35 080	9 848		35 080
Adjustment to measurements of inventories due to changes in manufacturing costs	516	(280)		236	124		640
Adjustment to the carrying amount of share in AIG investment fund due to transition to IAS 32 and IAS 39 at 01.01.2005, gross	13 675	(647)	1 344	14 372	(13)	(7 405)	6 257
Adjustment to the carrying amount of shares in subordinated entities due to re-measurement to cost less impairment losses	(342 116)	283 802		(58 314)	237 517		(104 599)
Transfer of appropriation of prior year profit to Social Fund		(50 000)	50 000		(50 000)	50 000	
Deferred tax on adjustments	(176 155)	138 441	(256)	(37 970)	151 065	1 406	(23 684)
Equity and profit or loss according to IFRS	6 096 390	3 177 975	(2 554 324)	6 720 041	3 706 055	(1 634 817)	8 167 628

* This item includes adjustments to depreciation caused by changes in the cost of property, plant and equipment at the date of transition to IFRS

Accounting for the effects of hyperinflation in prior years

In accordance with International Accounting Standard 29 "Financial Reporting in Hyperinflationary Economies", the cost of property, plant and equipment purchased during a hyperinflationary period in prior years was adjusted to that of the equivalent purchasing power on the balance sheet date. The carrying amount of these assets and of other non-monetary assets adjusted in this way became a cost in subsequent financial statements, being the basis for depreciation. This affected property, plant and equipment acquired prior to the second half of financial year 1996.

The difference due to the effects of hyperinflation also affects share capital. The effects of revaluation were recognised against retained earnings and have no impact on the value of equity.

Interest included in the carrying amount of property, plant and equipment

In accordance with the Accounting Act, the Company capitalised borrowing costs incurred in order to finance the purchase or construction of property, plant and equipment (decreased by the related income) during the period until the said assets were brought into use. In accordance with IAS 23, "*Borrowing costs*", such costs are recognised in the profit or loss for the period in which they were incurred.

Separate depreciation of significant parts of property, plant and equipment

IAS 16, "*Property, plant and equipment*", requires the separate depreciation of significant parts of an item of property, plant and equipment (components) with different useful lives, whereas the Accounting Act has no such requirement. As a result, the Company has separated such components and has applied separate depreciation rates reflecting their useful lives.

Capitalisation of costs of major inspections

According to IAS 16, "*Property, plant and equipment*", if a condition of continuing to operate an item of property, plant and equipment is performing regular major inspections for faults, the costs of such an inspection are recognised in the carrying amount of the asset, while any remaining carrying amount of the cost of the previous inspection is derecognised. The Accounting Act has no such requirement. At the moment of transition to IFRS the Company made an adjustment to the cost of property, plant and equipment, to capitalise the costs of such inspections.

Adjustment to the cost of finished goods held in inventories

Adjustments affecting the cost of property, plant and equipment, and consequently the amount of depreciation in production-related divisions of KGHM Polska Miedź S.A., lead to the need for appropriate adjustments to the cost of finished goods held in inventories.

Financial instruments

Based on IAS 32 and IAS 39, the Company changed the manner in which it recognises and measures its share in the investment fund AIG. These assets were reclassified from held-to-maturity investments to available-for-sale financial assets, while simultaneously changing the principles of measurement of these assets to fair value through equity. This reclassification caused an increase in the carrying amount of the share in the capital of investment fund AIG at 31 December 2006, from PLN 7 934 thousand to PLN 14 191 thousand.

Valuation of subsidiaries and associates

In accordance with the Accounting Act, KGHM Polska Miedź S.A. accounted for its shares in subsidiaries and associates using the equity method. According to IFRS, in the separate financial statements shares in subsidiaries were accounted for at cost less impairment losses, in accordance with IAS 36, "*Impairment of assets*".

Deferred income tax

The amount of deferred income tax was appropriately determined on the differences described in the above paragraphs, in accordance with IAS 12, "*Income taxes*".

Hyperinflationary revaluation of share capital

Hyperinflationary revaluation of share capital – in accordance with IAS 29, "*Financial reporting in hyperinflationary economies*", items of equity (with the exception of retained earnings and any surplus from revaluation of assets) were restated, beginning from the date on which such items were contributed or arose otherwise, by applying a general price index for the period in which the Polish economy was a hyperinflationary economy, i.e. for the period to the end of 1996. Application of the requirements of IAS 29 caused an increase in share capital by PLN 5 413 573 thousand and a simultaneous decrease in retained earnings by the same amount.

Consequently, this revaluation does not affect the amount of equity at 1 January 2006. The effect of revaluation is presented in the following table.

Equity item	Equity at 01.01.2006	Effect of revaluation of equity items to hyperinflationary conditions due to transition to IFRS	Equity after reflecting the effects of hyperinflationary revaluation at 01.01.2006
Share capital	2 000 000	5 413 573	7 413 573
Other reserves	(796 709)	-	(796 709)
Retained earnings	4 893 099	(5 413 573)	(520 474)
Total equity	6 096 390	-	6 096 390

Impairment losses

At the date of transition to IFRS the Company reversed the effects of the measurement of shares in subordinated entities performed in the period to 31 December 2005, i.e. prior to transition to IFRS. At the moment of transition, these shares were measured at cost, and, based on the results of tests for impairment carried out, their cost was decreased by impairment losses. The effects of this change in measurement caused a decrease in equity at 31 December 2006 of PLN 104 599 thousand.

Presentation of assets and liabilities related to the Social Fund

The assets belonging to this Fund are not controlled by the entity, and therefore do not meet the definition of assets as described in the *IFRS Framework*. In addition, IAS 19, *Employee Benefits*, calls for the presentation of liabilities and assets related to employee benefits in a net amount. Compensation of the assets and liabilities of the Social Fund (together with the value of the Fund) led to a decrease in total assets by PLN 94 164 thousand at 31 December 2006.

Presentation of the monetary assets of the Mine Closure Fund

The Act on geology and mining dated 1 March 1996 (Journal of Laws no. 27 item 96, with subsequent amendments) calls for the creation of this Fund, and requires the entity to transfer cash to a separate Fund bank account for use based on plans for the decommissioning of mines and other technological facilities in future periods (within more than 12 months from the balance sheet date). Therefore, based on IAS 1 para. 57d), which states that a given asset shall be classified as current when "... it is cash or a cash equivalent (as defined in IAS 7 *Cash Flow Statements*), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date", the monetary assets of the Mine Closure Fund at 31 December 2006 were classified as non-current and presented in the item Other financial assets in the amount PLN 32 169 thousand.

Presentation of deferred tax assets and deferred tax liabilities

In accordance with IAS 12, the Company changed its principles of presenting deferred tax assets and deferred tax liabilities. Deferred tax assets and deferred tax liabilities in respect of income tax levied by the same taxation authority were offset. This change caused a decrease in total assets at 31 December 2006 by PLN 313 302 thousand.

IV. Information on seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

V. Items affecting assets, liabilities, equity, profit for the period or cash flow, which are unusual as respects their type, amount or degree of influence

1. List of significant achievements or failures during the period covered by this report, together with a list of the most important related events.

Proceedings in a dispute concerning the payment of damages to BOBMARK INTERNATIONAL

In April 2003 BOBMARK INTERNATIONAL Spółka z o.o. with its registered head office in Warsaw filed with the Regional Court in Legnica, Civil Section I a suit against the Company and PEW AQUAKONRAD S.A. for the payment of damages amounting to PLN 12 299 thousand due to deterioration of water from the AQ1 and AQ2 water supplies by the activities of KGHM Polska Miedź S.A. At present the value of the amount under dispute, considering restriction of the suit, amounts to PLN 11 839 thousand.

On 30 June 2006, the Company received the opinion of a specialist in marketing and market research, regarding the evaluation of lost opportunities of BOBMARK INTERNATIONAL. The opinion issued by Contract Consulting Kumela i Wspólnicy Spółka Jawna in Kraków is in favour of the Company. The plaintiff subsequently submitted further complaints against this opinion and has submitted a request for an expert opinion in this matter. KGHM Polska Miedź S.A. supports the conclusions reached in the abovesaid opinion. At the trial on 13 August 2007 the Regional Court in Legnica admitted evidence from the supplementary opinion by experts from Contract Consulting Kumela i Wspólnicy, in connection with claims of the plaintiff related to advertising costs and inappropriate water sale price in the *private labels* network (its own namebrand water in the network); the plaintiff's attorney was allowed a 14-day period to forward questions to the experts. The case was adjourned.

Proceedings with respect to mining fees

At 30 September 2007, and at the date of publication of this report, with respect to mining fees set by decisions of the Minister of the Environment for the extraction of mineral ores in the third and fourth quarters of 1998 and in the first quarter of 1999, 6 proceedings remain unresolved, which have been grouped for mutual resolution, in the total amount of PLN 3 720 thousand.

The Regional Prosecutor in Legnica submitted a cassation appeal dated 22 June 2006 to the Supreme Administrative Court in Warsaw in respect of a decision of the Regional Administrative Court in Warsaw dismissing the appeals of the Regional Prosecutor in respect of six decisions of the Minister of the Environment to discontinue appeal proceedings in the matter of setting mining fees. By a ruling dated 8 February 2007 the Supreme Administrative Court in Warsaw dismissed the decision of the Regional Administrative Court dated 29 March 2006 and ordered the matter to be reheard by the Regional Administrative Court.

The trial set for 17 May 2007 was adjourned. On 6 September 2007 the Regional Administrative Court issued a decision dismissing the disputed decisions and stating that the dismissed decisions cannot be carried out.

Receipt of ISO standards management system certificates in Company divisions

Following an audit by the Polish Inspection and Certification Center, the Legnica smelter on 16 July 2007 received an „Integrated Management System Certificate (quality, and workplace and environmental safety and hygiene) No. JBS – 144/1/2007 respecting the production of copper cathodes, round billets from melted copper cathodes, round billets from oxygen free melted copper cathodes using phosphorous, sulphuric acid, copper sulphate, nickel sulphate, and the monitoring and measurement of environmental impact and usage”.

The Głogów smelter, following an audit by BSI Management Systems on 26 July 2007, received Quality Management System Certificate No. FS 521782 and Environmental Management System Certificate No. EMS 521783 respecting „The production of electrolytic copper in the form of cathodes. The production of electronic silver in the form of bars and grains”.

Selection of other significant events covered by current reports

Company Bodies

On 10 July 2007, the Chairman of the Supervisory Board of the Company, Adam Glapiński, submitted his resignation from serving as a Member of the Supervisory Board of KGHM Polska Miedź S.A. The cause of his resignation was his being selected as president of Polkomtel S.A.

The Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. convened on 18 October 2007 recalled Adam Łaganowski from the Supervisory Board of the Company and simultaneously appointed Remigiusz Nowakowski and Leszek Jakubów to the Supervisory Board of the Company.

Budget adjustment

On 21 August 2007, the Management Board of KGHM Polska Miedź S.A. accepted an adjusted Budget for 2007. This document was approved by the Supervisory Board at its meeting on 30 August 2007. The adjusted Budget assumes the achievement of revenues from sales of PLN 11 854 million and net profit of PLN 3 682 million. This means an increase in the projected amounts by 11% and 24% respectively.

2. Measurement of financial assets and property, plant and equipment

Financial assets

Due to the measurement and settlement of future cash flow hedging transactions in an amount reflecting the effective portion of the hedge, after reflecting the results in deferred tax, other reserves were decreased in the current quarter by PLN 37 146 thousand.

(an accrued increase in other reserves by PLN 523 707 thousand since the beginning of the year)

Due to the measurement and settlement of available-for-sale financial assets at fair value, after reflecting the results in deferred tax, other reserves were decreased in the current quarter by PLN 3 560 thousand.

(an accrued decrease in other reserves by PLN 4 758 thousand since the beginning of the year)

Due to the re-measurement of derivative instruments to fair value there was a decrease in profit for the current quarter of PLN 61 263 thousand.

(an accrued decrease in profit by PLN 310 102 thousand since the beginning of the year)

Property, plant and equipment and receivables

Due to the depreciation of property, plant and equipment and amortisation of intangible assets, the financial result was decreased in the current quarter by PLN 105 917 thousand.

(an accrued decrease in profit by PLN 309 864 thousand since the beginning of the year)

Assets and the financial result in the current quarter were affected by the effects of provisions for receivables together with interest (an excess of provisions created over released), decreasing the result of the current quarter by PLN 5 652 thousand, of which PLN 5 613 thousand was in respect of provisions for receivables claimed from local authorities due to the payment of taxes on mining works.

The Company is pursuing an appeal procedure as respects taxation on underground mining works.

(an accrued decrease in profit due to provisions for receivables by PLN 14 418 thousand since the beginning of the year)

In addition, the financial result of the current quarter was decreased by the effects of impairment losses on property, plant and equipment in the amount of PLN 2 945 thousand.

VI. Type and amount of changes in estimates

Provisions

The effects of revaluation or recognition of estimates of future liabilities (provisions) were settled in the financial result of the current quarter, and in particular:

1. provision for costs of decommissioning (restoration) of Company's mines. This provision also includes the estimated costs of dismantling and removing technological facilities, for which the obligation for restoration is incurred upon the conclusion of activities as a result of prevailing law or standard practice. The result of this change in estimates is an increase in the provision and a decrease in profit in the amount of PLN 3 777 thousand (after reflecting the effects in deferred tax in the amount of PLN 3 856 thousand)

(an accrued decrease in profit for the period by PLN 27 103 thousand since the beginning of the year)

2. provisions for future employee benefits due to one-off retirement or disability payments, jubilee awards and post-employment coal equivalent payments paid after the period of employment. The result of this change in estimates is an increase in the provision and a decrease in profit in the amount of PLN 10 318 thousand (after reflecting the effects in deferred tax in the amount of PLN 9 334 thousand)

(an accrued decrease in profit by PLN 17 522 thousand since the beginning of the year)

3. in the current quarter profit was decreased by PLN 168 690 thousand due to the provision for future costs of wages together with charges, paid in the fourth quarter or after approval of the annual financial statements.

(The provision for wages remaining at 30.09.2007 amounts to PLN 323 780 thousand)

The revaluation or recognition of other provisions for liabilities did not significantly affect the financial result of the current period.

Deferred income tax

The result of differences between the carrying amount and tax base of balance sheet items is a change in the estimated value of the deferred income tax asset and the deferred income tax liabilities.

There was a decrease in the deferred income tax asset in the current quarter in the amount of PLN 24 901 thousand, which was settled as an increase of profit.

(An accrued decrease in the deferred income tax asset since the beginning of the year in the amount of PLN 125 550 thousand, of which the following was settled:

- as a decrease of profit PLN 7 931 thousand,
- as a decrease of the revaluation reserve on financial hedging instruments PLN 117 619 thousand)

There was a decrease in the deferred tax liability in the amount of PLN 29 319 thousand, of which the following was settled:

- as an increase of profit PLN 22 664 thousand
- as an increase of the revaluation reserve on financial hedging instruments and on available-for-sale financial assets PLN 6 655 thousand

(An accrued increase in the deferred tax liability since the beginning of the year in the amount of PLN 10 233 thousand, of which the following was settled:

- as an increase of profit PLN 2 945 thousand,
- as a decrease of the revaluation reserve on financial hedging instruments and on available-for-sale financial assets PLN 13 178 thousand).

After offsetting the deferred income tax asset and deferred income tax liabilities, the deferred income tax liabilities at the end of the financial period was set at PLN 5 632 thousand.

VII. Factors and events, in particular those of an unusual nature, having a significant impact on the financial results achieved.

Production and financial results in the third quarter of 2007

In the third quarter of 2007, KGHM Polska Miedź S.A. produced 138 247 tonnes of electrolytic copper, including 26 580 tonnes from purchased copper-bearing materials (after the first 9 months of 2007 electrolytic copper production amounted to 399 313 tonnes, including 63 796 tonnes from purchased copper-bearing materials) and 308 tonnes of metallic silver (a total of 916 tonnes after the first 9 months of 2007).

The most significant factors impacting the value of sales in the third quarter of 2007 were macroeconomic factors:

- copper prices on the London Metal Exchange (LME) of 7 714 USD/t,
- average silver prices on the London Bullion Market (LBM) of 12.70 USD/troz (408 USD/kg),
- an average exchange rate of 2.76 PLN/USD

and the sales volume: 131 811 tonnes of copper and copper products, and 303 tonnes of silver.

The **revenues from sales** achieved of PLN 3 410 701 thousand were higher than those achieved in the third quarter of 2006 by PLN 71 525 thousand, i.e. by 2%. This increase in sales was due to:

- changes in results from the settlement of hedging transactions (an improvement in the result from PLN (772 496) thousand to PLN 69 711 thousand),
 - higher prices on the metals markets: copper (an increase from 7 670 USD/t to 7 714 USD/t) and silver (an increase from 11.70 USD/troz to 12.70 USD/troz),
- along with the following factors which decreased sales:
- strengthening of the PLN from 3.10 PLN/USD to 2.76 PLN/USD,

- the amount of goods for resale and materials sold was decreased by PLN 291 048 thousand due to an unusual event – the sale in 2006 of concentrate purchased from Escondida and silver in bars,
- a decrease in the volume of sales of copper products (from 135 524 thousand t to 131 811 thousand t), silver (from 343 t to 303 t) and gold (from 576 kg to 154 kg).

In the third quarter of 2007, revenues from the sale of copper and copper products represented 87%, and silver 10% (in the comparable period respectively: 84% and 12%) of total revenues from sales.

Operating costs in the third quarter of 2007 amounted to PLN 1 903 287 thousand and were lower versus the comparable prior period by PLN 183 454 thousand, i.e. by 9%, alongside a decrease in the volume of sales of copper products by 3%. The significantly lower level of operating costs is mainly related to the sale in the third quarter of 2006 of concentrate purchased from Escondida and silver in bars. This situation did not occur in 2007.

The total unit cost of electrolytic copper production in the third quarter of 2007 amounted to 11 978 PLN/t and was 2% higher (by 227 PLN/t) than that achieved in the comparable period of 2006 (11 751 PLN/t). The main causes of the increase in the unit cost were:

- an increase in provisions for an additional annual bonus from 8.5% in 2006 to 23% in 2007, and
- a decrease in the production of copper from internal concentrates by 12% alongside a lower value (while maintaining the volume of consumption) of external copper-bearing materials used in production.

The total unit cost of copper production from internal charges in the third quarter of 2007 amounted to 9 729 PLN/t, an increase versus the comparable prior period of 12%. The increase in the cost is mainly due to the increase in the provision for the additional annual bonus and to a decrease in the production of copper from internal concentrates due to a decrease in Cu content in extracted ore (from 1.78% to 1.64%).

Profit on sales (gross profit less administrative expenses and selling costs) in the third quarter of 2007 amounted to PLN 1 507 414 thousand and was higher by PLN 254 979 thousand, i.e. by 20%, than that achieved in the third quarter of 2006.

Other operating activities showed a negative result in the third quarter of 2007 in the amount of PLN (79 425) thousand, representing a loss from the measurement and realisation of derivative instruments and recognised provisions. In comparison to the result achieved in the comparable prior period the loss was higher by PLN 8 563 thousand.

As a result of the factors described above, **operating profit** in the third quarter of 2007 amounted to PLN 1 427 989 thousand and increased versus the comparable period by PLN 246 416 thousand, i.e. by 21%.

In the third quarter of 2007, KGHM Polska Miedź S.A. earned a **profit for the period** of PLN 1 162 901 thousand, which was higher by PLN 215 262 thousand, i.e. by 23%, than that achieved in the third quarter of 2006, based on comparative principles.

EBITDA in the reporting period amounted to PLN 1 533 907 thousand (including depreciation of PLN 105 918 thousand) and was higher by PLN 258 073 thousand than EBITDA in the comparable prior period.

Risk management

In the third quarter of 2007, strategies hedging the copper price represented approx. 14% of the volume of sales of electrolytic copper realised by the Company. With respect to silver sales this figure amounted to approx. 2%. In the case of the currency transactions, hedged revenues from sales represented approx. 14% of total revenues from sales realised by the Company.

Derivative transactions entered into on the metals market were settled with a negative result, while derivative currency hedging transactions were settled with a positive result. In the third quarter of 2007 the result on derivative instruments amounted to PLN (8 522) thousand, of which revenues from sales were adjusted by PLN 69 711 thousand, (the amount transferred from equity to profit or loss in the reporting period), PLN (16 970) thousand adjusted other operating costs and losses (loss from the realisation of derivative instruments), while PLN (61 263) thousand adjusted other operating costs and losses from the measurement of derivative transactions (loss from the measurement of derivative instruments). The adjustment of other operating costs and losses due to the measurement of derivative transactions is mainly due to the change in 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 the third quarter of 2007, the Company did not implement copper price hedging strategies. During this period the Company implemented adjustment hedge transactions in the total volume of 150 tonnes and a time horizon falling in September and October 2007.

In the case of the silver market, during the analysed period strategies were likewise not implemented hedging the price of this metal. In the third quarter of 2007, adjustment hedge transactions were not implemented on the silver market.

In the case of the forward currency market in the third quarter of 2007, the Company did not implement strategies hedging the USD/PLN exchange rate. During the analysed period no adjustment hedge transactions were implemented on the currency market.

The Company remains hedged for a portion of copper sales planned for the fourth quarter of 2007 (18 thousand t) and in 2008 (150 thousand t), for a portion of silver sales planned for the fourth quarter of 2007 (0.15 million troz), in 2008 (12.0 million troz) and in 2009 (9.6 million troz), as well as for a portion of sales revenues (currency market) planned to be achieved in the fourth quarter of 2007 (USD 168.75 million).

At 30 September 2007, the fair value of open positions in derivative instruments amounted to PLN 157 103 thousand, of which PLN 132 805 thousand related to the fair value of hedging instruments, while PLN 24 298 thousand related to the fair value of trade instruments. The fair value of open positions in derivative instruments varies, depending on changes in market conditions, and the final result on these transactions may vary significantly from the measurements described above.

At 30 September 2007, the revaluation reserve amounted to PLN 98 093 thousand, of which PLN 20 523 thousand related to the effective portion of the result from the measurement of transactions hedging metals price risk, while PLN 77 570 thousand related to the effective portion of the result from the measurement of transactions hedging currency risk.

At 30 June 2007, the revaluation reserve from measurement of the effective portion of the fair value of hedging instruments amounted to PLN 141 058 thousand.

During the third quarter of 2007 the change in the reserve (a decrease) amounted to PLN (42 965) thousand. This amount is comprised of changes in fair value during the period transferred to equity due to the effective portion of hedging transactions entered into, and the amount transferred from equity to profit and loss due to the settlement of hedging transactions (being an adjustment *in plus* of revenues from sales for the third quarter of 2007 in the amount of PLN 69 711 thousand).

VIII. Information on the issuance of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities during the period presented, in the Company.

IX. Information related to a paid (or declared) dividend

Pursuant to resolution no. 39/2007 of the Ordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. dated 30 May 2007 respecting the distribution of profit for financial year 2006 and setting of the right to dividend date 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 resolution no. 39/2007 of the Ordinary General Shareholders' Meeting dated 30 May 2007, the amount of PLN 3 394 000 thousand, representing PLN 16.97 per share, was allocated as a shareholders' dividend from profit for financial year 2006.

The right to dividend date was set at 25 June 2007. The dividend payment dates were set as follows: on 10 July 2007 - the amount of PLN 1 698 000 thousand, i.e. PLN 8.49 per share, and on 10 September 2007 - the amount of PLN 1 696 000 thousand, i.e. PLN 8.48 per share.

All of the Company's shares are ordinary shares.

The amount of PLN 1 698 000 thousand, i.e. PLN 8.49 per share, was paid on 10 July 2007.

In connection with a suit filed by a shareholder requesting the Court either to invalidate or to annul 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 suit by issuing a court injunction prohibiting

the Company from paying the second tranche of the dividend 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 suit by prohibiting the defendant from paying the second tranche of the dividend in the amount of PLN 1 696 000 thousand, which was to be paid on 10 September 2007. The Company submitted an appeal against the abovesaid ruling. On 6 September 2007, the Court of Appeal in Wrocław dismissed the appeal of the Company against a decision issued by the Regional Court in Legnica dated 1 August 2007 regarding prohibiting payment of the second tranche of the dividend.

On 18 September 2007, the Regional Court in Legnica, Section VI (Economic) issued a decision in which the Court ascertained the invalidity of resolution no. 3/2007 of the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. dated 9 July 2007. This decision is not final and binding.

On 10 October 2007, the law office of Sołtysiński & Szlęzak Kancelaria Radców Prawnych i Adwokatów Spółka Komandytowa in Warsaw acting as counsel to the Company submitted to the Court of Appeal in Wrocław an appeal against the decision issued by the Regional Court in Legnica, Section VI (Economic) dated 18 September 2007 concerning the invalidity of resolution no. 3/2007 of the Extraordinary General Shareholders' Meeting dated 9 July 2007. Therefore, remaining in force is the decision of the Court dated 1 August 2007 on safeguarding the suit by prohibiting payment of the second tranche of the dividend in the amount of PLN 1 696 000 thousand.

X. Subsequent events

Registration of an increase in the share capital of MCZ S.A.

On 3 October 2007, a change in share capital was registered at the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register for MIEDZIOWE CENTRUM ZDROWIA Spółka Akcyjna with its registered head office in Lubin (a subsidiary of KGHM Polska Miedź S.A.).

The share capital of MIEDZIOWE CENTRUM ZDROWIA Spółka Akcyjna was increased by PLN 4 300 thousand through the issuance of 60 560 shares with a face value of PLN 71 each and after the increase amounts to PLN 51 118 thousand. All of the new shares were acquired by KGHM Polska Miedź S.A. and paid for in cash.

Annulment of a resolution regarding settlement of the effects of a hyperinflationary revaluation of share capital to be presented in the consolidated financial statements of the KGHM Polska Miedź S.A Group

On 18 October 2007, the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. annulled Resolution no. 31/2005 dated 15 June 2005 regarding settlement of the effects of a hyperinflationary revaluation of share capital to be presented in the consolidated financial statements of the KGHM Polska Miedź S.A. Group, prepared in accordance with International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS).

Decrease in the share capital of KGHM Polska Miedź S.A.

On 18 October 2007, the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. decreased the share capital of KGHM Polska Miedź S.A. presented in the separate financial statements of the Company and transferred the funds accumulated in share capital to supplementary capital.

The General Shareholders' Meeting of KGHM Polska Miedź S.A. decreased the share capital of the Company - presented in the separate financial statements at the date of application of International Financial Reporting Standards and at the date of preparation of the first half-year financial statements in accordance with IFRS, i.e. at 30 June 2007, in the amount of PLN 7 413 573 thousand after hyperinflationary revaluation - by the amount of PLN 5 413 573 thousand. Following this decrease, the amount of share capital remains at PLN 2 000 000 thousand. The General Shareholders' Meeting transferred the amount of PLN 5 413 573 thousand, being the amount by which the share capital was decreased, to supplementary capital.

XI. Effects of changes in the structure of the economic entity during the third quarter of 2007, including the combination of economic entities, the takeover or sale of subsidiaries of the Group and long term investments, restructurisation or discontinuation of activities.

On 2 July 2007, KGHM Polska Miedz S.A. founded a company called KGHM LETIA Legnicki Park Technologiczny spółka akcyjna. The share capital of this newly-created entity amounts to PLN 20 000 thousand and is divided into 20 000 shares of PLN 1 000 each. KGHM Polska Miedz S.A. acquired 18 990 shares in the newly-created company with the total nominal amount of PLN 18 990 thousand, representing 94.95% of the share capital of this company. On 29 August 2007, the court issued a decision on entering the following company into the National Court Register - Register of Entrepreneurs: KGHM LETIA Legnicki Park Technologiczny spółka akcyjna with its registered head office in Legnica. KGHM LETIA Legnicki Park Technologiczny spółka akcyjna was founded to ensure regional growth through new investments, diversification of activities and through the transfer of technology.

On 13 July 2007, a change in share capital was registered by the company Avista Media Sp.z o.o. with its registered head office in Wrocław (formerly Tele Video Media Sp. z o.o. with its registered head office in Bielany Wrocławskie). The share capital of Avista Media Sp. z o.o. was increased by PLN 4 000 thousand through the creation of 8 000 shares with a face value of PLN 500 each. All of the new shares were acquired by DIALOG S.A. Currently the share capital of Avista Media Sp. z o.o. amounts to PLN 10 000 thousand. DIALOG S.A. owns 100 % of the shares of this company.

On 30 July 2007, KGHM Polska Miedź S.A. and „Zagłębie” Lubin SSA signed an Agreement for the Acquisition of Shares of „Zagłębie” Lubin SSA. KGHM Polska Miedź S.A. acquired 100 000 registered ordinary shares of the new issue, having an issue price equal to the face value of PLN 1 000 per share. The total increase in the share capital amounts to PLN 100 000 thousand. After this increase, the share capital of „Zagłębie” Lubin SSA amounts to PLN 113 689 thousand. KGHM Polska Miedz S.A. owns 100% of the shares. This change in the share capital of „Zagłębie” Lubin SSA was registered on 5 October 2007. The funds obtained from this increase are to be used for the construction of a sport stadium.

On 24 September 2007, KGHM Polska Miedź S.A. entered into four contracts, based on which it acquired shares of Polskie Centrum Promocji Miedzi spółka z o.o. from entities of the KGHM Polska Miedz S.A. Group:

- KGHM Ecoren S.A. (26 shares for the total amount of PLN 239 thousand),
- KGHM Metraco S.A., KGHM Cuprum sp. z o.o. – CBR and Walcownia Metali „Łabędy” S.A. – (1 share each for PLN 9 thousand per share).

The shares acquired represent 82.857% of the share capital of PCPM sp. z o.o.

XII. Contingent and other off-balance sheet items

		At 30.09.2007	Increase/(decrease) since the end of the last financial year
1.	Contingent receivables	161 326	3 693
	due to		
-	guarantees received	777	777
-	disputed State budget issues	160 549	2 916
2.	Contingent liabilities	705 356	(30 987)
	due to		
-	guarantees granted	10 421	3 202
-	issues under litigation	8 117	1 805
-	contingent penalties	2 894	(1 349)
-	agreement on the acceptance of the offer and conditional transfer of the shares in Polkomtel S.A.	683 904	(34 665)
-	other	20	20
3.	Off-balance sheet liabilities	410 557	(25 809)
	due to		
-	implementation rights, invention projects	10 568	(20 080)
-	operating leases	28 552	2 653
-	payments due to perpetual usufruct of land	371 437	(8 382)