

**KGHM** POLSKA MIEDŹ S.A.

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**REPORT ON THE COMPANY'S  
ACTIVITIES IN 2007**

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Lubin, March 2008

# KGHM POLSKA MIEDŹ 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	2001	2002	2003	2004	2005	2006	2007	Change 2006=100
<b>Income statement</b>													
Sales	m PLN	4 089.5	3 641.7	4 113.3	4 982.8	4 217.7	4 488.3	4 740.8	6 158.0	8 000.1	11 669.7	12 183.1	104.4
Profit on sales	m PLN	905.0	240.4	347.5	941.1	173.4	152.1	430.8	1 445.1	2 706.8	4 138.5	4 879.7	117.9
EBITDA*	m PLN	1 203.2	562.4	540.2	1 238.6	226.8	433.3	653.8	1 643.0	2 800.0	4 784.0	5 100.6	106.6
Profit before income tax	m PLN	914.0	310.0	(57.6)	795.1	(146.9)	310.1	569.3	1 445.9	2 634.6	4 380.0	4 655.5	106.3
Profit for the period	m PLN	501.8	178.8	(169.9)	618.0	(190.0)	254.5	411.6	1 397.2	2 289.4	3 605.0	3 798.8	105.4
<b>Balance sheet</b>													
Total assets	m PLN	4 936.7	4 974.9	4 883.7	5 756.9	7 556.8	8 155.1	8 695.3	8 948.4	10 977.3	12 251.4	12 379.7	101.0
Non-current assets	m PLN	3 558.2	3 697.9	3 579.3	4 176.5	4 735.5	6 439.8	6 621.1	6 551.5	7 078.7	7 017.1	7 387.5	105.3
Current assets	m PLN	1 363.9	1 242.5	1 250.4	1 380.7	2 656.6	1 715.2	2 074.3	2 396.9	3 898.6	5 234.3	4 992.2	95.4
Equity	m PLN	4 020.9	4 096.5	3 470.1	4 066.8	3 696.1	4 010.9	4 006.5	5 336.8	6 214.1	8 115.8	8 965.9	110.5
Liabilities and provisions	m PLN	845.8	774.9	1 186.8	1 380.4	3 634.0	4 144.1	4 688.8	3 611.6	4 763.2	4 135.6	3 413.8	82.5
<b>Financial ratios</b>													
Earnings per share (EPS)	PLN	2.51	0.89	( 0.85)	3.09	( 0.95)	1.27	2.06	6.99	11.45	18.02	18.99	105.4
Dividend per share (DPS) **	PLN	0.25	0.10	-	1.00	-	-	-	2.00	10.00	16.97	x	x
Price per share / Earnings per share (P/E)	x	5.4	14.0	(30.6)	8.3	(13.7)	10.6	12.7	4.5	5.5	4.9	5.6	112.8
Current liquidity	x	2.2	2.3	2.8	2.3	1.0	1.2	1.2	1.2	1.4	1.9	2.5	135.9
Quick liquidity	x	1.0	0.9	1.0	0.9	0.7	0.6	0.7	0.8	1.0	1.3	1.7	134.3
Return on assets (ROA)	%	10.2	3.6	(3.5)	10.7	(2.5)	3.1	4.7	15.6	20.9	29.4	30.7	104.3
Return on equity (ROE)	%	12.5	4.4	(4.9)	15.2	(5.1)	6.4	10.3	26.2	36.8	44.4	42.4	95.4
Debt ratio	%	14.2	13.5	14.3	15.9	38.2	34.2	38.8	24.0	28.2	33.8	27.6	81.7
Durability of financing structure	%	86.1	87.1	85.7	84.1	63.4	79.0	76.8	75.0	70.6	77.0	84.1	109.1
<b>Production results</b>													
Electrolytic copper production	000 t	440.6	446.8	470.5	486.0	498.5	508.7	529.6	550.1	560.3	556.6	533.0	95.8
Metallic silver production	t	1 029	1 098	1 093	1 119	1 163	1 192	1 358	1 344	1 244	1 242	1 215	97.8
<b>Macroeconomic data</b>													
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814	1 578	1 558	1 780	2 868	3 684	6 731	7 126	105.9
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	115.8
Exchange rate	PLN/USD	3.28	3.49	3.96	4.35	4.10	4.08	3.89	3.65	3.23	3.10	2.77	89.4
<b>Other</b>													
Market value of Company shares at end of period	PLN/share	13.50	12.50	26.20	25.80	13.00	13.50	26.20	31.30	62.50	89.00	105.80	118.9
Investments in property, plant and equipment	m PLN	648.6	487.5	379.0	584.1	432.8	360.0	423.8	616.4	650.8	709.3	828.1	116.8
Equity investments	m PLN	492.6	199.7	228.7	468.3	271.4	105.4	146.3	707.2	612.6	24.3	154.6	×6,4
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156	6 328	6 305	6 237	6 660	7 723	10 497	11 160	106.3
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417	1 544	1 545	1 603	1 825	2 388	3 381	4 031	119.2

\* operating profit + depreciation/amortisation

\*\* dividend for financial year

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*The financial data for 2007 were calculated in accordance with IFRS, which have been adopted beginning from 1 January 2007 – pursuant to a decision of the General Shareholders' Meeting of KGHM Polska Miedź S.A. dated 14 June 2006 (resolution no. 26/2006). Financial information for 2006 has been restated for comparability to 2007. Detailed information on IFRS transition policies are described in Note 39.*

## COMPANY PROFILE

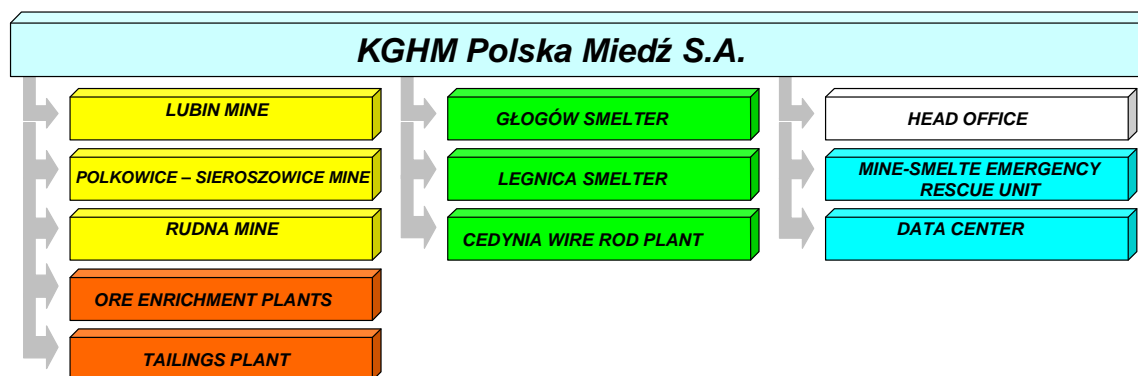
## 1. COMPANY PROFILE

### 1. 1. ORGANISATIONAL STRUCTURE

In 2007 the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions.

The organisational structure of KGHM Polska Miedź S.A. at 31 December 2007 is presented in the diagram below:

**Diagram 1. Organisational structure of the Company at 31 December 2007**



### Supervisory Board of the Company

At 1 January 2007, the 6th-term Supervisory Board of KGHM Polska Miedź S.A. was composed of the following persons:

- Adam Łaganowski                      Chairman
- Stanisław Andrzej Potycz            Deputy Chairman
- Jan Sulmicki
- Marcin Ślęzak
- Jerzy Żyżyński

as well as the following employee-elected members:

- Józef Czyczerski                      Secretary
- Leszek Hajdacki
- Ryszard Kurek

On 11 April 2007, the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. dismissed Jan Sulmicki from the Supervisory Board and appointed Adam Glapiński and Anna Mańk to the Supervisory Board.

On 24 April 2007, Adam Łaganowski submitted his resignation from the position of Chairman. The Supervisory Board on the same day appointed Adam Glapiński to hold the function of Chairman.

On 10 July 2007, Adam Glapiński submitted his resignation from the position of Member of the Supervisory Board.

The Extraordinary General Shareholders' Meeting on 18 October 2007 dismissed Adam Łaganowski from the Supervisory Board. Simultaneously Leszek Jakubów and Remigiusz Nowakowski were appointed to the Supervisory Board.

On 6 November 2007, the Supervisory Board appointed Leszek Jakubów as Chairman.

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At 31 December 2007, the composition of the Supervisory Board was as follows:

- Leszek Jakubów Chairman
- Stanisław Andrzej Potycz Deputy Chairman
- Anna Mańk
- Remigiusz Nowakowski
- Marcin Ślęzak
- Jerzy Żyżyński

as well as the following employee-elected members:

- Józef Czyczerski Secretary
- Leszek Hajdacki
- Ryszard Kurek

On 13 February 2008, Marcin Ślęzak submitted his resignation from membership on the Supervisory Board.

On 14 February 2008, the Extraordinary General Shareholders' Meeting dismissed the following people from the Supervisory Board: Leszek Jakubów, Anna Mańk, Remigiusz Nowakowski, Stanisław Andrzej Potycz and Jerzy Żyżyński, and appointed the following people to the Supervisory Board: Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Marek Trawiński and Marzenna Weresa.

At its meeting 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.

**Management Board of the Company**

During the period from 1 January 2007 to 13 March 2007, the composition of the Management Board, and the respective 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 (Metallurgy)  
temporarily acting Vice President of Mining Division
- 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 amongst the Members of the Management Board 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 Maksymilian Bylicki from the function of Member of the Management Board – I Vice President of the Management Board. Dariusz Kaśków was appointed to the Management Board. The Supervisory Board appointed Ireneusz Reszczyński to the function of I Vice President of the Management Board.

At 31 December 2007, the composition of the Management Board, and the respective segregation of duties, was 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)
- Dariusz Kaśków Vice President of the Management Board (Development)
- Stanisław Kot Vice President of the Management Board (Production)

At its meeting on 17 January 2008, the Supervisory Board dismissed Dariusz Kaśków from the function of Member of the Management Board and Krzysztof Skóra from the function of President of the Management Board. The Supervisory Board set the size of the Management Board of KGHM Polska Miedź S.A. at three members. In addition it appointed I Vice President of the Management

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Board Ireneusz Reszczyński to fill the function of President of the Management Board until the appointment of the President of the Management Board of KGHM Polska Miedź S.A.

In accordance with §12 of the Statutes of KGHM Polska Miedź S.A., Members of the Management Board are appointed and dismissed by the Supervisory Board.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec.1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Shareholders Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of KGHM Polska Miedź S.A. in Lubin). The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Code of Commercial Companies.

The employment contracts which are signed with Members of the Management Board (for specified periods of time) state that, in case of the withdrawal (resignation) of a Member of the Management Board and the termination of their contract prior to the time stipulated in the contract, KGHM is due compensation for a period equal to the time remaining to complete the contract, in the amount of 1/12 of the wages for the previous year prior to termination of the contract, for each month, though in any case no longer than in an amount equalling 9 monthly wages for the previous year prior to termination of the contract. Should a Member of the Management Board be dismissed and his contract terminated prior to the contractually-specified time, the Member of the Management Board shall receive, in accordance with art. 471 of the Civil Code, compensation due to the loss of an existing source of income and to the premature termination of a contract in an amount equalling the 9 consecutive calendar months prior to termination of the contract.

In addition, employment contracts foresee compensation for Members of the Management Board due to the provision forbidding any activities which would be competitive towards KGHM, for a year's time from the date of termination of the employment contract, in an amount of 25% of the wages received by the Management Board Member under conditions prior to termination of the employment contract, payable in monthly instalments at the end of each month.

Detailed information on wages, bonuses or benefits for supervisory and management personnel can be found in Note 32 of the financial statements.

## **1.2. PRODUCTION RESULTS**

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
- optimisation 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,
- 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.

### **Mine production**

Ore extraction by dry weight in 2007 was lower by 1.0 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 Labour 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 t, i.e. by 10% and amounted to 505.9 thousand t.

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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 t to 1 199 t).

To increase extracted ore in future, actions were taken on the development and implementation of a new system of labour organisation in the mines, which is aimed at extending the operating time of the mines without infringing on the statutory time free from work.

**Table 1. Production results in mining**

	Unit	2005	2006	2007	Change 2006 =100
Copper ore (dry weight)*	'000 t	30 434.4	31 279.4	30 261.7	96.7
of which mineral exploited from deposit**	'000 t	25 662.4	25 903.4	23 940.4	92.4
Copper content in ore	%	1.89	1.79	1.67	93.3
Copper concentrate (dry weight)	'000 t	1 975.5	1 945.4	1 874.9	96.4
Copper content in concentrate	'000 t	511.5	497.2	451.9	90.9

\* As defined by the Ruling of the Council of Ministers dated 6 April 2004 regarding the Polish Classification of Goods and Services (known as PKWiU).

\*\* As defined by the Law on Mining and Geology dated 4 February 1994 with later changes and by executory provisions to the Law.

### **Smelter production**

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 in the form of 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 in 2007: 15 228 t).

**Table 2. Production results in smelting**

	Unit	2005	2006	2007	Change 2006 =100
<b>Copper products:</b>					
Electrolytic copper	'000 t	560.3	556.6	533.0	95.8
of which from external copper-bearing materials	'000 t	43.4	100.4	92.3	91.9
Wire rod (Contrirod)	'000 t	229.1	232.2	250.9	108.1
Oxygen-free copper rod (UPCAST)	'000 t	-	2.1	10.9	x5.2
Round billets	'000 t	14.0	18.7	19.0	101.6
Granular copper	'000 t	1.7	1.9	2.1	110.5
<b>Other metals:</b>					
Metallic silver	t	1 244	1 242	1 215	97.8
Metallic gold	kg	713	1 700	883	51.9
Crude lead	'000 t	21.1	21.0	21.1	100.5
Refined lead	'000 t	-	-	15.2	x

### **Main directions in production**

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

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

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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 Głęboki Przemysłowy deposit,
- the application of new drift preparation work technology using drift combines,
- the development and implementation of a new labour organisation system in the mines, which will enable an extension of working time in the mines without infringing on the statutory time free from work,
- exchanging floatation machinery in the Ore Enrichment Plants,
- optimisation 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.

### 1.3. PRODUCT SALES STRUCTURE

In comparison to the pre-2007 situation there was a decrease in the volume of sales of both copper and silver. 526.8 thousand t of copper were sold, i.e. 5% less (30.1 thousand t), while sales of copper wire rod increased by 10% (21.8 thousand t). Silver sales amounted to 1 177 t and were 5% lower (62 t) versus the comparable prior period. Simultaneously gold sales decreased by 54% (854 kg) and amounted to 738 kg. This decrease was caused by the relatively high level of sales in the prior year due to the processing of purchased copper-bearing materials with a high gold content during this period.

**Table 3. Sales volume for basic products**

	Unit	2005	2006	2007	Change 2006 =100
Copper and copper products	'000 t	552.3	556.9	526.8	94.6
of which export *	'000 t	378.1	378.8	335.2	88.5
Silver	t	1 250	1 239	1 177	95.0
of which export *	t	1 162	1 145	1 088	95.0
Gold	kg	630	1 592	738	46.4
of which export *	kg	153	1 203	-	x

\* including sales to European Union countries

**Table 4. Revenues from the sale of products\* (in '000 PLN)**

	2005	2006	2007	Change 2006 =100
<b>Total</b>	<b>7 924 195</b>	<b>11 264 794</b>	<b>12 103 511</b>	<b>107.4</b>
<b>of which export **</b>	<b>5 430 520</b>	<b>7 664 946</b>	<b>7 582 119</b>	<b>98.9</b>
Copper and copper products	6 749 792	9 612 166	10 328 748	107.5
of which export **	4 582 676	6 420 149	6 281 316	97.8
Silver	902 361	1 270 781	1 402 819	110.4
of which export **	836 224	1 166 451	1 296 542	111.2
Gold	30 360	95 710	45 527	47.6
of which export **	8 431	72 278	-	x
Other products and services	241 682	286 137	326 417	114.1
of which export **	3 190	6 068	4 261	70.2

\* Respecting impact on commodity hedging transactions

\*\* including sales to European Union countries

Revenues from the sale of KGHM Polska Miedź S.A. products amounted to PLN 12 103 511 thousand and were 7% higher than those achieved in 2006, mainly as a result of a lower adjustment to revenues due to hedging transactions, and to the increase in copper and silver prices alongside a less favourable exchange rate.

Revenues from the sale of products in 2007 reflect the negative result from the settlement of commodity hedging instruments in the amount of PLN (632 762) thousand (in 2006 PLN (2 453 727) thousand) and profit from the realisation of currency hedging instruments in the amount of PLN 146 234 thousand (in 2006 PLN 83 167 thousand). Sales revenues were also adjusted for the foreign exchange gains which arose from the hedging of a foreign currency loan



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and were recognised under revenues from cathode exports in the amount of PLN 50 995 thousand (in 2006 PLN 39 531 thousand).

**Geographical structure of product sales**

In 2007, the volume of domestic sales of copper and copper products represented 36% of total copper sales, with export and European Union sales accounting for 64%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, the Czech Republic and France.

During the twelve months of 2007, silver sales amounted to 1 177 t. 8% was sold on the domestic market, while export and European Union sales accounted for 92% of sales volume. The largest foreign customers for silver were Great Britain, Belgium and Germany.

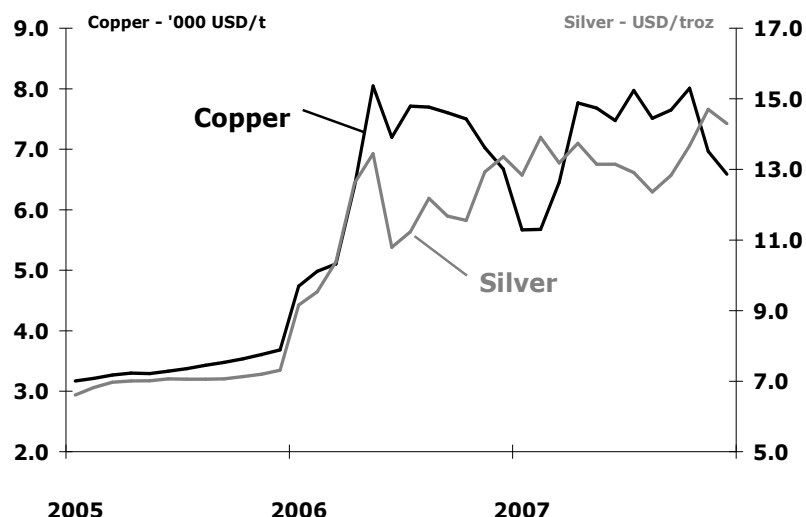
**Macroeconomic sales conditions**

In 2007, similarly as in the prior year, metals prices remained at high levels alongside relatively major price movements. The average electrolytic copper price on the London Metal Exchange (LME) amounted to 7 126 USD/t, meaning a 6% increase versus 2006, in which it amounted to 6 731 USD/t. The minimum average monthly copper price was recorded in January and amounted to 5 670 USD/t. The best month for copper producers was October, when prices varied around the average level of 8 008 USD/t.

Global average annual silver prices in 2007 reached the level of 13.38 USD/troz (430 USD/kg). The average annual silver price on the London Bullion Market Association (LBMA) was higher by 16% than in 2006, when it amounted to 11.55 USD/troz (371 USD/kg). The minimum average monthly silver price in August amounted to 12.36 USD/troz (397 USD/kg), while the highest price was observed in November – 14.70 USD/troz (473 USD/kg). This was simultaneously the highest average monthly silver price since January 1981.

Average monthly prices of copper on the LME and silver on the LBMA in the years 2005-2007 are shown in the chart below:

**Chart 1. Copper quotations per the LME and silver quotations per the LBMA**



In 2007 the Polish currency remained in a rising trend. During this period the average National Bank of Poland USD/PLN exchange rate was 2.77 and was 11% lower than in the comparable period of 2006 (3.10 USD/PLN). In 2007 the minimum PLN exchange rate versus the USD was recorded in mid-December at the level of 2.41 USD/PLN, while the maximum was recorded at the end of January – 3.06 USD/PLN.

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**COMPANY PROFILE**

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**1.4. SIGNED CONTRACTS IMPACTING THE ACTIVITIES OF THE COMPANY**

In 2007 the Company entered into the following significant contracts:

**Trade contracts of the Company (value of contracts based on data current at the time contract signed):**

- contract for the sale of 8 mm copper wire rod and oxygen-free wire rod in 2007, signed on 8 January 2007 between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. The estimated value of this contract is from approx. 556.8 million USD (i.e. approx. PLN 1 658.5 million) to approx. 656.0 million USD (i.e. approx. PLN 1 954.2 million),
- contract for the sale of copper cathodes in 2007 signed on 18 January 2007 between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH. The estimated value of this contract is 317.4 million USD, i.e. approx. PLN 955.8 million,
- contract for the sale of copper cathodes in 2007 signed on 12 March 2007 between KGHM Polska Miedź S.A. and KGHM Polish Copper Ltd. in London. The estimated value of this contract is 265.9 million USD, i.e. approx. PLN 784.7 million. This contract meets the criteria to be considered a significant contract, together with other contracts entered into during the 12 months preceding its signing (the total estimated value of contracts in this period was PLN 1 334.6 million).

In 2007 as respects sources of supply for KGHM Polska Miedź S.A. in materials for production, goods and services, a significant change was the decrease by PLN 750 932 thousand in the value of purchased copper-bearing materials. In 2007, 93 thousand tonnes of copper in external charges were purchased in the total amount of PLN 1 754 117 thousand, versus 112 thousand tonnes of copper (PLN 2 505 049 thousand) in the prior year.

There was no instance of dependence on a single or multiple suppliers. The only customer whose share in sales revenues exceeds 10% is Tele-Fonika Kable S.A., with a share in sales revenues of 18%.

**Information on contracts for the review or auditing of the separate or consolidated financial statements**

The entity entitled to audit the separate and consolidated financial statements of the Company for 2007 is Ernst & Young Audit Sp. z o.o. with its registered head office in Warsaw. This contract for review of the half-year financial statements and for the audit of the annual financial statements, for both the separate and consolidated financial statements, for the years 2007, 2008, 2009, was entered into on 30 April 2007.

Total remuneration due or paid, due to the review and audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A. in respect of 2007, amounted to PLN 979 thousand. The remuneration of Ernst & Young Audit Sp. z o.o. due or paid for other purposes amounted in 2007 to PLN 635 thousand (in 2006, PLN 262 thousand).

The entity entitled to audit the separate and consolidated financial statements of the Company for 2006 was PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw. Total remuneration due or paid due to the review and audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A. in respect of 2006 amounted to PLN 1 231 thousand. Total remuneration due or paid to the entity entitled to PricewaterhouseCoopers Sp. z o.o. for other purposes amounted in 2006 to PLN 143 thousand.

**Related party transactions**

In 2007 the Company entered into transactions with related entities. Among these the most significant for KGHM Polska Miedź S.A. were transactions with KGHM Polish Copper Ltd and KGHM Kupferhandlesges m.b.H. comprising the sale of copper and copper products and of silver.

Also of significance were the transactions of KGHM Metraco sp z o.o. related to the sale of Company products and to supplying the Company, among others, with scrap and chemicals, and transactions related to supply realised by PHP „Mercus” sp. z o.o. and services of POL-MIEDŹ TRANS Sp. z o. o. and PeBeKa S.A.

## COMPANY PROFILE

Following is a list of significant related party transactions.

**Table 5. Related party transactions– sales ('000 PLN)**

Related entity	Subject of transaction	Value of transaction
KGHM Polish Copper Ltd.	cathode sales	810 742
KGHM Kupferhandelsges. m.b.H.	cathode and wire rod sales	473 841
KGHM Metraco S.A.	sulphuric acid, nickel and copper sulphate, package waste, steel and aluminium scrap, lead, salt, cathodes, silver, gold and wire rod	320 639
„Energetyka” sp. z o.o.	sales of electricity, coal, throat gas	37 686
Walcownia Metali Nieżelaznych Sp. z o.o.	cathodes	21 887
PeBeKa S.A.	rental sales, sales of materials, beverages, energy	17 777
KGHM Ecoren S.A.	granulate slag, providing access to industrial acid flows	8 574
ZANAM-LEGMET Spółka z o.o.	leasing of cloak rooms, baths, lamp rooms, other rooms	5 923
POL-MIEDŹ TRANS Sp. z o.o.	energy, telecom services, leasing and rental	2 442

**Table 6. Related party transactions – purchase ('000 PLN)**

Related entity	Subject of transaction	Value of transaction
KGHM Metraco S.A.	black liquor, chemicals, coal, coke, copper scrap, transport services	920 753
PHP „MERCUS” sp. z o.o.	purchase of goods	463 465
KGHM Polish Copper Ltd.	copper concentrate, anodes, cathodes	305 331
PeBeKa S.A.	services: shaft construction, mine drift work	262 758
POL-MIEDŹ TRANS Sp. z o.o.	vehicular and railway transport services; oil products	212 860
„Energetyka” sp. z o.o.	electrical and heating energy, water, throat gas incineration services	164 802
ZANAM-LEGMET Spółka z o.o.	machinery and machine parts, boilers, repairs and servicing, machinery leasing,	140 130
CBJ sp. z o.o.	research and analysis services	32 390
PHU „Lubinpex” Sp. z o.o.	purchase of prophylactic meals and gastronomic services	19 227
INOVA Spółka z o.o.	DOTRA communications system, operation of a lamp room, continuous seismic observations, seismic equipment repair and maintenance, attestation and certification of mining machinery and equipment, copper concentrate	12 195
MCZ S.A.	purchase of medical services based on contracts	11 198
KGHM CUPRUM sp. z o.o. -CBR	purchase of research and design work, opinions, expertise, geodesic measurement services, rental	8 526
KGHM Ecoren S.A.	copper concentrate produced by the Raw Materials Recovery Section of KGHM Ecoren S.A.	3 468
WM „ŁABĘDY” S.A.	grinders	2 759

## 1.5. EMPLOYMENT AND WAGES

### Employment

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.

## COMPANY PROFILE

**Table 7. End-of-period employment**

	2005	2006	2007	Change 2006=100
Mines	11 551	11 682	11 998	102.7
Smelters	3 976	4 052	4 044	99.8
Other Divisions	2 150	2 192	2 217	101.1
<b>Total</b>	<b>17 677</b>	<b>17 926</b>	<b>18 259</b>	<b>101.9</b>

**Average remuneration**

In 2007 there was a significant increase in the average remuneration in the Company. This increase was mainly the result of the payment of a high additional annual bonus. Since 2007 updated principles have been in force in KGHM Polska Miedź S.A. for the payment of this bonus, which require for it to be linked to the amount of net profit earned by the Company. The average annual bonus paid in 2007 for the year 2006, along with prepayments on the bonus for 2007, amounted to approx. PLN 17.5 thousand, while in 2006 this amount was PLN 6.2 thousand. The average monthly remuneration, excluding payment of the additional annual bonus, amounted to PLN 6 384 and was higher than the comparable average remuneration for 2006 by 6%.

**Table 8. Average monthly remuneration (in PLN)**

	2005	2006	2007	Change 2006=100
Mining divisions	7 036	7 348	8 341	113.5
Smelting divisions	5 232	5 504	6 303	114.5
<b>Total</b>	<b>6 584</b>	<b>6 883</b>	<b>7 842</b>	<b>113.9</b>

**Relations with the trade unions**

In 2007, 3 side protocols were signed to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.:

- Side Protocol No. 9 – new principles for payment of the additional annual bonus were introduced,
- Side Protocol No. 10 – the table of basic wages was increased by 6% from 1 January 2007, and
- Side Protocol No. 11 – an additional PLN 20 million was transferred to the Social Fund for 2007.

In addition, two agreements were concluded in 2007 with the trade unions:

- on 3 January 2007, respecting an increase in the additional annual bonus for 2006 from 8.5% to 14.0%,
- on 17 January 2007, respecting determination of the number of health-related holidays for 2007 for employees working in especially hazardous conditions.

In 2007 two trade unions initiated collective disputes:

- the Copper Industry Trade Union (Związek Zawodowy Pracowników Przemysłu Miedziowego) demanded, among others, changes in employee wages categories and an increase in the wages increase index to a minimum of 10%, an increase in contributions to the employee retirement plan to 7% and an additional transfer to the Social Fund of PLN 100 million.

Negotiations and mediation with the trade union ZZPPM did not conclude with the reaching of an agreement. The trade union organised a referendum and a protest picket, but did not decide to engage in other forms of protest.

- The Interdivisional Committee of the trade union NSZZ „Solidarność 80” demanded, among others, an increase in the wages of KGHM Polska Miedź S.A. employees by 20%, the transfer of PLN 100 million to the Social Fund and an increase in contributions to the Retirement Fund by 2%.

Following a meeting between the representatives of the trade union and the Management Board of KGHM Polska Miedź S.A., during which the sides presented and explained their positions respecting the demands put forth, the trade union NSZZ „Solidarność 80” did not continue its collective dispute.

## INVESTMENTS AND RESEARCH AND DEVELOPMENT

## 2. INVESTMENTS AND RESEARCH AND DEVELOPMENT

### 2.1. INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT (CAPITAL EXPENDITURES)

In 2007 investments were financed from internal funds.

**Table 9. Capital expenditures ('000 PLN)**

	2005	2006	2007	Change 2006=100
Mining	482 863	536 566	666 136	124.1
Smelting	131 299	150 185	128 841	85.8
Other activities	36 632	22 520	33 112	147.0
<b>Total</b>	<b>650 794</b>	<b>709 271</b>	<b>828 089</b>	<b>116.8</b>

Investment activities in 2007 were primarily aimed at the replacement of equipment and development projects. The structure of realised investments is presented in the table below:

**Table 10. Structure of realised investments ('000 PLN)**

	2005	2006	2007	Change 2006=100	Structure (%)
Development, of which:	271 787	326 266	334 815	102.6	40.4
<i>in mining</i>	219 624	230 509	286 309	124.2	34.6
<i>in smelting</i>	39 392	87 798	37 369	42.6	4.5
Replacement, of which:	282 748	285 744	412 109	144.2	49.8
<i>mining machinery</i>	124 269	139 027	190 303	136.9	23.0
Modernisation	51 762	45 895	36 403	79.3	4.4
Conformatory work	15 668	25 001	24 844	99.4	3.0
Other	28 829	26 365	19 918	75.5	2.4
<b>Total</b>	<b>650 794</b>	<b>709 271</b>	<b>828 089</b>	<b>116.8</b>	<b>100.0</b>
of which:					
<i>IT</i>	28 788	20 034	23 150	115.6	2.8
<i>Ecology</i>	48 731	31 670	40 014	126.3	4.8

Major projects and facilities realised in 2007:

- modernisation and replacement of machinery in the mines – 242 mining machines purchased,
- continuous outfitting of the mining divisions
- Głogów Głęboki Przemysłowy – in accordance with the planned timetable, in 2007, 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, terrain was purchased and work was realised on development of the project „Preliminary concept for the sitting of the GG-1 shaft”,
- construction of the SW-4 shaft – in 2007 work was continued on shaft construction. This included completion of temporary facilities for the digging of the shaft, the commencement of rock mass freezing, digging of the shaft and the construction of lifting equipment for drilling, and 70 % of the access tunnels to the SW-4 shaft were completed,
- power and communications facilities,
- smelter machinery and aggregates were replaced and modernised,
- facilities related to improving and maintaining the safe operation of the Żelazny Most tailings pond, and eliminating its impact on the environment,
- investments related to environmental protection – the pulsation filter at the Legnica smelter was exchanged and work was completed on the realisation of projects at the Głogów smelter related to construction of industrial tailings pond No. 2 in Biechów, construction of a dedusting installation for the smelting-refining furnace and renovation of the bag deduster of the slag crushing unit.

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Due to the implementation by the Company of International Financial Reporting Standards, the total amount of capital expenditures also includes expenditures on components (significant parts of an item of property, plant and equipment) and periodic repairs which had been recognised under operating costs until 2006.

In the course of implementation of the "Strategy of KGHM Polska Miedź S.A. and of the Group for the years 2007-2016", approved on 5 December 2006 by the Supervisory Board of the Company, decisions were also taken regarding the realisation of key projects for the Strategy:

- Approval of assumptions to the "Program for modernisation of pyrometallurgy in KGHM in the years 2007-2011"

On 30 March 2007, the Management Board of the Company approved a "Program for modernisation of pyrometallurgy in KGHM in the years 2007-2011". The option selected is characterised by flexibility (it allows for the final shaping of the project during the course of its implementation), the absence of social costs and the possibility of taking decisions regarding implementation of the individual phases of the project based on a detailed analysis of each subsequent phase of the project.

The approved version of the program for modernisation of pyrometallurgy in KGHM Polska Miedź S.A. provides for:

- a) An intensification of production at the flash furnace complex of the Głogów II smelter in 2009, to a production capacity of over 230 thousand tonnes of Cu blister annually,
  - b) The building of a flash furnace complex at the Głogów I smelter with a production capacity of 250 thousand tonnes of Cu blister annually, to be completed by 2012,
  - c) Modernisation of the Legnica smelter, enabling the selective smelting of concentrate from the Lubin mine in shaft furnaces (approx. 70 thousand tonnes of Cu in concentrate annually) and the building of an installation for the recovery of cobalt in the Legnica smelter, which will enable the recovery of associated metals (cobalt, lead), and
  - d) The potential implementation of hydrometallurgy for the Lubin concentrate or other effective technologies.
- Implementation of the investment project "Hydrotransport of concentrate from the Ore Enrichment Plants to the Głogów smelter"

On 25 April 2007, the Management Board of the Company decided to commence the investment project "Hydrotransport of concentrate from the Ore Enrichment Plants to the Głogów smelter" and approved a budget for this project of up to PLN 210 million. In July 2007, this investment project was approved by the Supervisory Board of the Company.

The concept of concentrate hydrotransport is based on replacing the railway transport of concentrate by the use of pipes, thereby ensuring continual and secure transport while simultaneously eliminating the need to load the concentrate onto railway wagons at the OEPs and its subsequent unloading at the Głogów smelter. The application of hydrotransport technology will enable a decrease in operating costs, and in particular a decrease in transport costs and in the costs of dewatering the concentrate (energy costs).

Work is currently underway to arrange all administrative and legal matters associated with gaining construction permits, and on signing agreements with the owners of terrain through which the pipe will pass. This work should be completed in the third quarter of 2008.

**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 the Company development strategy and comprise the following key activities:

**Development and increased effectiveness of the core business**

- 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 Głęboki Przemysłowy project, and
  - e) exploring the possibility of mining the Radwanice-Gaworzyce deposit (initiation of mining would commence about 2012),



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- 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.

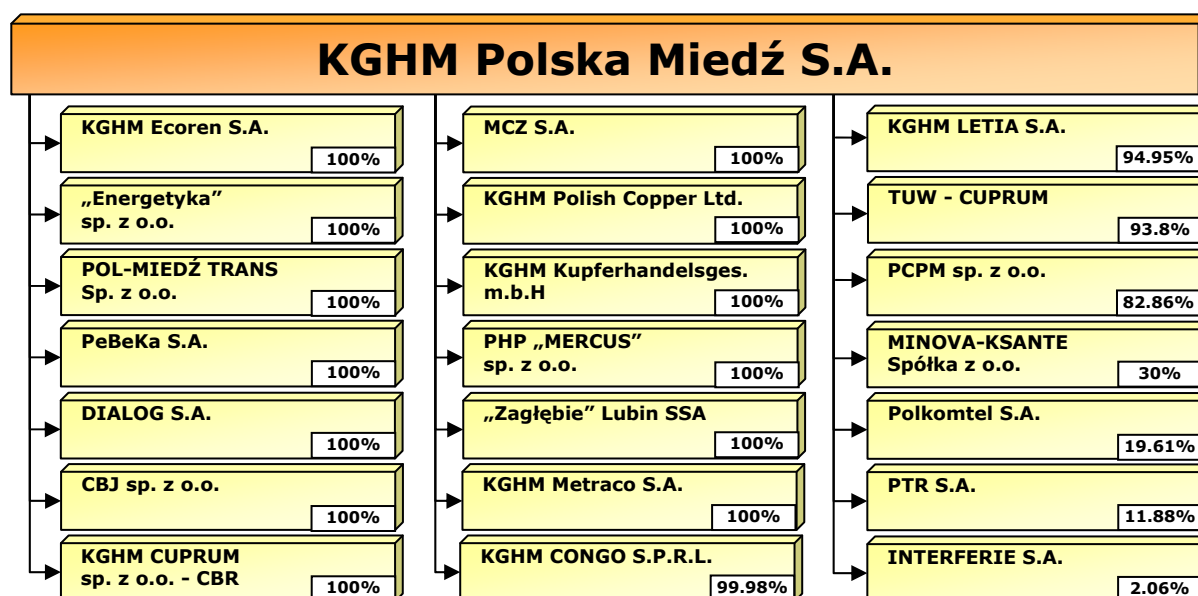
### Diversification of activities:

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

## 2.2. EQUITY INVESTMENTS

KGHM Polska Miedź S.A. directly owns shares in 21 entities. Three companies belonging to the KGHM Polska Miedź S.A. Group comprise their own capital groups. These are: KGHM Ecoren S.A., PHP „MERCUS” sp. z o.o. and DIALOG S.A. The equity investments of KGHM Polska Miedź S.A. in specific entities is shown in the diagram below.

**Diagram 2. Entities in which KGHM Polska Miedź S.A. had a direct ownership of shares at 31 December 2007**



The companies of the Group are diversified in terms of their activities. They offer products and services both related to the core business of KGHM Polska Miedź S.A. (including mine construction, the production of electrical power and heat, mining machinery and equipment and research and development) as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications and medicine.

### Acquisition of shares

The value of equity investments related to the purchase or acquisition of shares in 2007 amounted to PLN 154 590 thousand. The Company purchased and acquired shares in the following Group companies:

- „Energetyka” sp. z o.o.  
In March 2007 an increase in share capital was registered for „Energetyka” sp. z o.o. by PLN 30 426 thousand. KGHM Polska Miedź S.A. acquired and paid for in cash all of the shares in the increased share capital. This increase was aimed at ensuring funds for the company for modernisation work and preparatory work related to the expansion of power generation capacity, and for repaying a loan from KGHM Polska Miedź S.A. in the amount of PLN 9 000 thousand.

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The share capital of this company following the increase amounts to PLN 221 475 thousand. KGHM Polska Miedź S.A. owns 100 % of the company's shares.

– „MIEDZIOWE CENTRUM ZDROWIA” S.A.

In October 2007 an increase in share capital was registered for MCZ S.A. by PLN 4 300 thousand. KGHM Polska Miedź S.A. acquired and paid for in cash all of the shares in the new issuance. The company used the funds obtained from this increase for investments in medical equipment.

The share capital of this company following the increase amounts to PLN 51 118 thousand. KGHM Polska Miedź S.A. owns 100 % of the company's shares.

– „Zagłębie” Lubin SSA

In October 2007 an increase in share capital was registered for „Zagłębie” Lubin SSA by PLN 100 000 thousand. KGHM Polska Miedź S.A. acquired all of the shares in the new issuance. The company will use the funds obtained from this increase for construction of a sports stadium.

The shares will be paid for in cash in the following tranches:

- a) 1st tranche: PLN 25 000 thousand – to 30 September 2007 (paid),
- b) 2nd tranche: PLN 50 000 thousand – to 31 March 2008,
- c) 3rd tranche: PLN 25 000 thousand – to 30 June 2008.

The share capital of this company following the increase amounts to PLN 113 689 thousand. KGHM Polska Miedź S.A. owns 100 % of the company's shares.

– KGHM LETIA S.A.

In August 2007 the court issued a decision on entering KGHM LETIA Legnicki Park Technologiczny spółka akcyjna with its registered head office in Legnica into the Register of Entrepreneurs. The share capital of the company amounts to PLN 20 000 thousand. KGHM Polska Miedź S.A. acquired and paid for in cash 18 990 shares of the newly-created company with a total nominal value of PLN 18 990 thousand, representing 94.95% of the share capital.

### **Dividends received**

In 2007 KGHM Polska Miedź S.A. received dividends from the following entities:

- Polkomtel S.A. PLN 264 221 thousand  
(including interim dividend of PLN 61 905 thousand for 2007),
- CBJ sp. z o.o. PLN 2 000 thousand,
- Polskie Towarzystwo Reasekuracji S. A. PLN 396 thousand,
- MINOVA – KSANTE Spółka z o.o. PLN 852 thousand,
- KGHM Polish Copper Ltd. PLN 2 895 thousand  
(interim dividend for 2007).

### **Loans and additional payments to the capital of Group companies**

- In October 2007 KGHM Polska Miedź S.A. granted a non-returnable additional payment to the capital of KGHM Kupferhandelsges.mBh of EUR 3 800 thousand,
- In January 2007 „Energetyka” sp. z o.o. repaid a loan drawn from KGHM Polska Miedź S.A. in the amount of PLN 9 000 thousand. This loan was repaid using funds acquired from an increase in share capital,
- In November 2007 KGHM Polska Miedź S.A. granted a returnable additional payment to the capital of KGHM CUPRUM Sp. z o.o. – CBR of PLN 9 000 thousand to be used for completing construction of the office building CUPRUM II. The date for returning this payment was set at 31 December 2010.

### **Other equity investments**

In 2007, KGHM Polska Miedź S.A. continued to invest in the AIG Emerging Europe Infrastructure Fund. The fair value of the investment in this Fund in the accounts of KGHM Polska Miedź S.A. at 31 December 2007 is PLN 10 665 thousand.

In 2007, the Company received a total amount of PLN 10 730 thousand from the AIG Fund, of which due to: the redemption of shares, PLN 3 065 thousand, and gains realised from the redemption of acquired shares, PLN 7 665 thousand. Simultaneously, the Company also paid a management fee of PLN 133 thousand.



**INVESTMENTS AND RESEARCH AND DEVELOPMENT****Other significant events in the Group**

In March 2007 a decrease in share capital was registered for KGHM Ecoren S.A. of PLN 10 051 thousand, through a decrease in the existing face value of shares from PLN 10.00 to PLN 9.55 per share. KGHM Ecoren S.A. transferred the amount resulting from this decrease in share capital in October 2007 to KGHM Polska Miedź S.A. The share capital of the company following the decrease amounts to PLN 213 322 thousand. KGHM Polska Miedź S.A. owns 100% of the company's shares.

**Telecom assets****Polkomtel S.A.**

The carrying amount of the shares of Polkomtel S.A. at 31 December 2007 in the financial statements of the KGHM Polska Miedź S.A. is PLN 437 250 thousand.

The basic items of the company's income statement are presented below:

**Table 11. Financial results of Polkomtel S.A. ('000 PLN)**

	2006	2007	Change 2006=100
Sales	7 359 014	7 799 020	106.0
Operating profit	1 477 088	1 771 713	119.9
EBITDA	2 486 494	2 832 633	113.9
Profit for the period	1 123 121	1 358 676	121.0

In 2007 the company, in comparison to 2006, increased sales by 6%. This increase in sales is mainly due to an increase in its client base, which in 2007 increased by 1 446 thousand persons, to over 13 454 thousand. EBITDA in 2007 amounted to PLN 2 832 633 thousand, with profit for the period of PLN 1 358 676 thousand.

On 29 March 2007, the General Shareholders' Meeting of Polkomtel S.A. resolved to pay a total shareholders dividend of PLN 1 031 765 thousand. Of this amount, the company paid an interim dividend of PLN 253 380 thousand in March 2007 based on a resolution of the Supervisory Board of the company. The remaining amount of PLN 778 385 thousand was paid on 8 June 2007. KGHM Polska Miedź S.A. received a total amount proportional to its shares in the company, i.e. PLN 202 316 thousand.

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

In December 2005 a group of financial institutions announced a bid for the purchase of the shares in TDC. As a result of the settlement of this bid, there was a change of control over this entity. Consequently, based on the statutes of Polkomtel S.A., TDC Mobile International A/S offered to sell the shares it holds to the remaining shareholders.

As a result of the so-called Change of Ownership in relation to TDC Mobile International A/S, the other shareholders of Polkomtel S.A. obtained the right to acquire a total of 4 019 780 shares of Polkomtel S.A. held by TDC Mobile International A/S. On 10 March 2006, KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węgłokoks 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." This agreement was described in detail in a current report dated 10 March 2006 and in the annual report for 2005.

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 Węgłokoks S.A. as further Auxiliary Respondents. In the statement of its claims, Vodafone Americas Inc. has challenged, among

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others, the method of setting the price by TDC International A/S in the offer addressed to the other shareholders of Polkomtel S.A.

As at the date of this report, this dispute has not yet reached a conclusion. It is not possible to determine when these proceedings will conclude, nor their outcome.

**DIALOG S.A.**

In 2007 the company earned sales of PLN 496 736 thousand, i.e. 1% less than in the comparable period of 2006, with a profit for the period of PLN 71 458 thousand. Despite the general decrease in prices on the market and the strong competition from mobile phone operators, the company achieved EBITDA of PLN 123 758 thousand, i.e. 2% higher than in 2006.

Basic financial data for the years 2006-2007 are presented below:

**Table 12. Financial results of DIALOG S.A.\* ('000 PLN)**

	2006**	2007	Change 2006=100
Sales	500 959	496 736	99.2
Operating profit	29 835	21 602	72.4
EBITDA	121 496	123 758	101.9
Profit for the period	71 271	71 458	100.3

\* preliminary data, not verified by an Auditor

\*\* Financial data for 2006 in accordance with Polish Accounting Standards

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 and was 25% higher than the planned amount.

The Management Board expects that over the next several years the share of WLR services will become a significant item in the company's revenue structure.

The company is also expanding its broadband Internet access services. At the end of December 2007 the number of broadband Internet users amounted to PLN 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.

On 22 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

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Extraordinary General Shareholders' Meeting of Telefonía DIALOG S.A. resolved to decrease the share capital of the company from PLN 1 959 800 thousand to PLN 489 950 thousand, i.e. by PLN 1 469 850 thousand. The purpose of this operation was to improve the equity structure, i.e. to cover the accumulated losses incurred by the company in the amount of PLN 913 150 thousand, 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 operated by the Warsaw Stock Exchange. This decrease in capital was carried out without payout to the company's shareholders.

**Intentions as regards other equity investments**

The intentions of KGHM Polska Miedź S.A. as regards equity investments (apart from the telecom assets described above) 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 its 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 supplies, gas prices and way of its indexation were set. KGHM Polska Miedź S.A. and Energetyka” sp. z o.o. are waiting on a final PGNiG S.A. attitude towards 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-MIEDŹ 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

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stadium for „Zagłębie” 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.

**2.3. ENVIRONMENTAL PROTECTION**

In 2007 KGHM Polska Miedź S.A., as in prior years, carried out its production tasks while endeavouring to protect the natural environment. This adherence to strict environmental standards, as determined by law, is possible thanks to the systematic modernisation of existing environmental protection equipment, as well as to new investments in this area. In 2007 the Company spent PLN 40 014 thousand on the realisation of projects related to environmental protection, and PLN 7 022 thousand on investments qualified as of a development-type or for maintaining production, though of a significant ecological nature.

**Environmental fees**

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2007 amounted to PLN 96 366 thousand. The largest fees paid by the Company were for the following:

- waste storage – PLN 76 066 thousand, including PLN 72 619 thousand for the storage of floatation tailings, and
- discharge of waste water – PLN 15 413 thousand, including PLN 15 406 thousand for the drainoff of excess water from the Żelazny Most tailings pond.

**Legal aspect and intentions**

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:

- 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.

In 2007 the Legnica smelter underwent a certifying audit respecting the ISO 14001 standards, with positive results, and was granted a certificate for an integrated management system comprising: workplace safety and hygiene, quality and environmental protection, while the Głogów smelter was granted certificates with respect to quality – ISO 9001, and environmental protection – ISO 14001.

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The Company's Divisions have achieved a level of environmental protection which permits them to operate these installations in accordance with prevailing law. In future it will however be necessary to carry out regular maintenance on these installations, as well as modernisation due to increasingly stringent laws, as well as to adhere to changing requirements arising from BAT (Best Available Technology). 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,
- 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.

### 2.4. RESEARCH AND DEVELOPMENT

R&D work is financed by the Company's internal funds. In certain cases the Company makes use of public and EU funds.

Expenditures by KGHM Polska Miedź S.A. on R&D work in 2007 amounted to PLN 6 076 thousand and were at a similar level to those in 2006. The work carried out was connected to the Company's strategy. The work carried out in the Company in 2007 was concentrated on projects aimed at:

- intensifying production,
- optimal utilisation of resources,
- reducing costs, and
- minimising environmental impact by applying the best available technology.

**Table 13. R&D expenditures ('000 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
<b>Total</b>	<b>10 214</b>	<b>6 055</b>	<b>6 076</b>	<b>100.3</b>

In 2007, in order to increase research potential for realisation of R&D work, a contract was signed by KGHM Polska Miedź S.A. for the creation of a consortium encompassing a large number of research facilities throughout Poland. This task, developed in 2007 in the form of research programs, will be realised in 2008 and subsequent years.

## REVIEW OF FINANCIAL POSITION

## 3. REVIEW OF FINANCIAL POSITION

## 3.1. BALANCE SHEET: ASSETS

In comparison to the end of 2006, total assets increased by PLN 128 300 thousand, i.e. by 1%.

**Table 14. Assets ('000 PLN)**

	31.12.2006	31.12.2007	Change 2006=100	Structure (%)
<b>Non-current assets</b>	<b>7 017 104</b>	<b>7 387 532</b>	<b>105.3</b>	<b>59.7</b>
Property, plant and equipment	4 378 301	4 832 630	110.4	39.0
Intangible assets	75 424	74 830	99.2	0.6
Shares in subsidiaries	1 683 209	1 803 390	107.1	14.6
Investments in associates	438 559	438 559	100.0	3.5
Deferred tax asset	289 997	160 781	55.4	1.3
Available-for-sale financial assets	87 864	32 935	37.5	0.3
Derivative financial instruments	17 016	33 395	196.3	0.3
Trade and other receivables	46 734	11 012	23.6	0.1
<b>Current assets</b>	<b>5 234 333</b>	<b>4 992 205</b>	<b>95.4</b>	<b>40.3</b>
Inventories	1 638 271	1 603 487	97.9	13.0
Trade and other receivables	1 220 583	772 279	63.3	6.2
Derivative financial instruments	282 043	81 444	28.9	0.7
Cash and cash equivalents	2 093 436	2 534 995	121.1	20.5
<b>Total assets</b>	<b>12 251 437</b>	<b>12 379 737</b>	<b>101.0</b>	<b>100.0</b>

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 454 329 thousand. 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 (capital expenditures) amounted in 2007 to PLN 828 089 thousand, 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 190 303 thousand).

The total value of shares held amounted to PLN 2 241 949 thousand, of which PLN 438 559 thousand represented investments in associates. The increase in the value of shares held by PLN 120 181 thousand (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. The largest expenditures were for the development of companies:

- „Zagłębie” Lubin SSA – an increase in share capital was registered by PLN 100 000 thousand, of which in 2007 the first tranche was paid of PLN 25 000 thousand. These funds were allocated on the construction of a stadium,
- Energetyka Sp. z o.o. – an increase in share capital by PLN 30 426 thousand for the expansion of power generation capacity.

Cash and cash equivalents was the largest item of current assets, in the amount of PLN 2 534 995 thousand. Their value increased during the year by PLN 441 559 thousand (21%). 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 was allocated for payment of the second tranche of the shareholder dividend.

The value of inventories at the end of 2007 amounted to PLN 1 603 487 thousand, i.e. PLN 34 784 thousand (2%) less than in 2006, of which:

- semi-products and work in progress – a decrease by PLN 50 693 thousand,
- products – an increase by PLN 34 036 thousand
- materials – a decrease by PLN 17 859 thousand, mainly due to purchased charge materials in transit to the Company.



## REVIEW OF FINANCIAL POSITION

A significant item in current assets at the end of 2007 was current receivables in the amount of PLN 772 279 thousand, which were mainly comprised of trade receivables, whose value decreased from PLN 1 077 842 thousand at the end of 2006 to PLN 557 875 thousand in 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 33 395 thousand in non-current assets, and PLN 81 444 thousand in current assets.

The financial condition of the Company is reflected by an increase in the assets effectiveness ratios.

**Table 15. Assets effectiveness ratios**

	2006	2007
Assets turnover ratio	1.0	1.0
Non-current assets turnover ratio	1.7	1.6
Current assets turnover ratio	2.2	2.4
Liquid assets turnover ratio	3.5	3.7

*Ratios calculated based on end-of-year balances, pursuant to methodology described in Annex A.*

### 3.2. 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).

**Table 16. Sources of financing assets ('000 PLN)**

	31.12.2006	31.12.2007	Change 2006=100	Structure (%)
<b>Equity</b>	<b>8 115 814</b>	<b>8 965 949</b>	<b>110.5</b>	<b>72.4</b>
Share capital	7 413 573	2 000 000	27.0	16.2
Other reserves	(431 526)	13 783	x	0.1
Retained earnings	1 133 767	6 952 166	x 6.1	56.2
<b>Non-current liabilities</b>	<b>1 321 346</b>	<b>1 439 396</b>	<b>108.9</b>	<b>11.6</b>
Trade and other payables	6 522	6 305	96.7	0.1
Borrowings and finance lease liabilities	29 552	20 319	68.8	0.2
Derivative financial instruments	1 486	3 087	x 2.1	0.0
Liabilities due to employee benefits	803 875	853 096	106.1	6.9
Provisions for other liabilities and charges	479 911	556 589	116.0	4.5
<b>Current liabilities</b>	<b>2 814 277</b>	<b>1 974 392</b>	<b>70.2</b>	<b>15.9</b>
Trade and other payables	1 457 647	1 466 948	100.6	11.8
Borrowings and finance lease liabilities	10 808	8 612	79.7	0.1
Current tax liabilities	400 846	343 022	85.6	2.8
Derivative financial instruments	837 093	14 335	1.7	0.1
Liabilities due to employee benefits	63 234	66 199	104.7	0.5
Provisions for other liabilities and charges	44 649	75 276	168.6	0.6
<b>Total equity and liabilities</b>	<b>12 251 437</b>	<b>12 379 737</b>	<b>101.0</b>	<b>100.0</b>

The increase in equity by PLN 850 135 thousand was comprised of:

- the change in the revaluation reserve on financial instruments and on available-for-sale financial assets (PLN 445 309 thousand), mainly due to the settlement of hedging transactions,
- the financial result for 2007, less the dividend for 2006 (PLN 404 826 thousand).

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 5 413 573 thousand was transferred to reserve capital.

## REVIEW OF FINANCIAL POSITION

Total non-current and current liabilities amounted to PLN 3 413 788 thousand, i.e. PLN 721 835 thousand 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%.

The largest item was trade and other payables, totalling PLN 1 473 253 thousand, of which ('000 PLN):

- trade payables 565 655,
  - other payables 907 598.
- of which: taxation and social security PLN 261 633 thousand; accruals, mainly respecting the annual bonus, PLN 280 843 thousand.

A significant item is the liability due to employee benefits in the total amount of PLN 919 295 thousand, of which ('000 PLN):

- the coal equivalent payment 507 077,
- jubilee bonuses 243 208,
- retirement and disability benefits 169 010.

Liabilities due to derivative transactions mainly respected trade instruments and amounted to PLN 17 422 thousand, i.e. far less than in 2006. The decrease in liabilities in this regard by PLN 821 157 thousand is mainly the result of a change in hedging strategy.

The prevailing part of provisions for liabilities (PLN 631 865 thousand – total non-current and current) is made up of a revalued provision for decommissioning costs of mines and other facilities (PLN 550 311 thousand).

Ratios illustrating the financing of assets did not change significantly with respect to 2006.

**Table 17. Assets financing ratios**

	2006	2007
Coverage of assets by equity	0.7	0.7
Coverage of non-current assets by equity	1.2	1.2
Coverage of non-current assets by long-term capital	1.3	1.4
Coverage of current assets by current liabilities	0.5	0.4

*Ratios calculated based on end-of-period balances, based on methodology described in Annex A.*

### **Contingent and off-balance sheet receivables and liabilities**

At 31 December 2007, contingent receivables of the Company amounted to PLN 122 972 thousand, most of which related to contested State budget issues, while off-balance sheet receivables amounted to PLN 25 195 thousand and related entirely to implementation of projects and inventions.

Contingent liabilities at the end of 2007 amounted to PLN 675 886 thousand, including due to:

- an agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A. (PLN 641 731 thousand)
- guarantees granted (PLN 12 811 thousand),
- preventive safety measures against mining damage (PLN 10 000 thousand), and
- contested issues (PLN 7 483 thousand).

Off-balance sheet liabilities in the amount of PLN 451 189 thousand primarily comprise:

- fees for the right of perpetual usufruct of land in the amount of PLN 373 099 thousand,
- liabilities due to implementation of projects and inventions (PLN 55 588 thousand),
- an operating lease in the amount of PLN 22 502 thousand.



## REVIEW OF FINANCIAL POSITION

**3.3. LIQUIDITY****Financial resources**

The structure of the Company's cash and cash equivalents is presented in the table below:

**Table 18. Structure of cash and cash equivalents at end of period ('000 PLN)**

	31.12.2005	31.12.2006	31.12.2007	Change 2006=100
Cash in hand and at bank	2 465	368	1 628	× 4.4
Other monetary assets, of which:	1 641 144	2 093 068	2 533 367	121.0
- monetary assets payable up to 3 months,	1 640 111	2 091 251	2 530 859	121.0
- interest on financial assets payable up to 3 months	1 033	1 817	2 508	138.0
<b>Total</b>	<b>1 643 609</b>	<b>2 093 436</b>	<b>2 534 995</b>	<b>121.1</b>

Financial income from the depositing of periodically unallocated cash resources and financial investments is shown below:

**Table 19. Financial income from the depositing of periodically unallocated cash and cash equivalents and short-term investments ('000 PLN)**

	31.12.2005	31.12.2006	31.12.2007	Change 2006=100
On-demand bank deposits	48	119	266	× 2.2
Securities	40 900	4 264	14 019	× 3.3
Fixed term bank deposits	20 130	60 495	99 944	165.2
<b>Total</b>	<b>61 077</b>	<b>64 877</b>	<b>114 229</b>	<b>176.1</b>

The increase in financial income was due to the high level of cash and cash equivalents. Periodically unallocated cash and cash equivalents deposited in fixed term bank deposits generated financial income in the amount of PLN 99 944 thousand.

From the investment of periodically unallocated cash and cash equivalents in securities and investment funds, the Company earned financial income of PLN 14 019 thousand.

**Credit servicing in 2007**

In 2007 the Company did not make use of external sources of financing, and at 31 December 2007 held no liabilities due to bank loans.

The Company has an overdraft facility with Bank Handlowy w Warszawie S.A. of up to USD 10 000 thousand. At 31 December 2007 the Company did not utilise the overdraft facility.

## REVIEW OF FINANCIAL POSITION

**3.4. INCOME STATEMENT**

Profit before income tax in 2007 amounted to PLN 4 655 530 thousand and was 6% higher than in the comparable prior period. Profit before income tax was impacted by ('000 PLN):

- profit on sales 4 879 748
- loss from other operating activities (197 714)
- loss from financing activities (26 504)

**Table 20. Income statement ('000 PLN)**

	2006	2007	Change 2006=100
Sales	11 669 730	12 183 113	104.4
Operating costs	7 531 202	7 303 365	97.0
<b>Profit on sales</b>	<b>4 138 528</b>	<b>4 879 748</b>	117.9
Result on other operating activities	264 068	(197 714)	x
<b>Operating profit</b>	<b>4 402 596</b>	<b>4 682 034</b>	106.3
Result on financing activities	(22 551)	(26 504)	117.5
<b>Profit before income tax</b>	<b>4 380 045</b>	<b>4 655 530</b>	106.3
<b>Profit for the period</b>	<b>3 604 988</b>	<b>3 798 826</b>	105.4
<i>EBITDA (EBIT + depreciation)</i>	<i>4 784 023</i>	<i>5 100 585</i>	106.6

In relation to 2006, the increase in profit on sales is mainly due to the decrease by PLN 1 895 496 thousand of the negative result from the measurement of hedging transactions (from PLN (2 331 029) thousand to PLN (435 533) thousand) and to the increase in sales revenues by PLN 1 009 514 thousand due to the increase in copper and silver prices (copper +6%; silver +16%).

Profit on sales was negatively impacted by the strengthening of the PLN versus the USD by 11% (which decreased sales by PLN 1 359 300 thousand) and the decrease in the volume of copper and silver by 5% (which decreased revenues from copper and silver sales by PLN 708 772 thousand).

**Table 21. Basic factors affecting the result on sales**

	Unit	2006	2007	Change 2006=100
Sale of copper and copper products	'000 t	556.9	526.8	94.6
Silver sales	t	1 239	1 177	95.0
Average copper price on the LME	USD/t	6 731	7 126	105.9
Average silver price on the LBM	USD/troz	11.55	13.38	115.8
Average USD/PLN exchange rate per NBP	PLN/USD	3.10	2.77	89.4
Unit cost of electrolytic copper production	PLN/t	10 497	11 160	106.3
	USD/t	3 381	4 031	119.2

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 838 717 thousand, i.e. by 7% versus the comparable period.

The result on other operating activities of PLN (197 714) thousand was mainly due to the following (in '000 PLN):

- loss on measurement and realisation of derivative instruments (313 147)
- income from dividends 270 363
- exchange losses (165 451)
- interest income on financial instruments 14 434
- impairment allowances on other non-financial receivables (42 556)
- release and recognition of provisions (42 415)
- impairment losses on shares in a subsidiary (24 208)

## REVIEW OF FINANCIAL POSITION

The loss on financing activities of PLN (26 504) thousand was mainly due to the change in the level of provisions (unwinding of the discount effect) in the amount of PLN (26 302) thousand. Profit before tax was charged by income tax in the amount of PLN 856 704 thousand. Current income taxation in the amount of PLN 843 905 thousand was increased by PLN 12 799 thousand due to temporary differences.

In accordance with the requirements of the tax law, the basis for taxation (taxable base) was established by the adjustment to profit before income tax („+” being an increase, „-” being a decrease in the profit before taxation):

**Table 22. Adjustment to profit before income tax by the change in taxable base ('000 PLN)**

<b>Profit before income tax (gross)</b>	<b>4 655 530</b>
- Income tax calculated at tax rates in force	884 551
- Non-taxable income	(186 798)
- Expenses not deductible for tax purposes	151 687
- Adjustments to current income tax from prior periods	7 264
<b>Income tax expense</b>	<b>856 704</b>

### Financial ratios

The table below presents the basic ratios describing the economic activities of KGHM in the years 2006-2007:

**Table 23. Basic ratios describing the economic activities of the Company**

	<b>2006</b>	<b>2007</b>
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

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% (detailed information on page 21).

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%.

### Capital market ratios

The Company's activities are characterised by the following capital market ratios, significant from an investor's point of view:

**Table 24. Capital market ratios**

		<b>2006</b>	<b>2007</b>
EPS (PLN)	<i>Profit (loss) for the period / number of shares</i>	18.02	18.99
P/CE	<i>Price per share / financial surplus per share*</i>	4.5	5.0
P/E	<i>Price per share / earnings per share</i>	4.9	5.6
MC/S	<i>Market capitalisation**/ revenues from sales</i>	1.5	1.7
P/BV	<i>Price per share book value per share***</i>	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.

## REVIEW OF FINANCIAL POSITION

**3.5. OPERATING COSTS**

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

**Table 25. The unit cost of electrolytic copper production**

	Unit	2005	2006*	2007	Change 2006=100
Total unit cost of copper production	PLN/t	7 723	10 497	11 160	106.3
	USD/t	2 388	3 381	4 031	119.2
of which: from internal charges	PLN/t	7 421	8 185	9 313	113.8

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

The total unit cost of copper production increased by 663 PLN/t, i.e. by 6%, mainly due to:

- the increase in labour 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 labour costs and the decrease in copper production from internal concentrate.

The cost of copper production represents 94% of total costs by type. The structure of costs by type is shown in the table below:

**Table 26. Structure of costs by type (%)**

	2005	2006	2007
Depreciation/Amortisation	5	5	6
Materials and energy consumption	36	51	45
including external charges	9	32	23
External services	17	12	12
Labour costs	35	27	32
Taxes and charges	5	4	4
Other	2	1	1

In 2007 total costs by type decreased versus the prior year by PLN 587 694 thousand, i.e. by 7%. The main cause was the lower value of copper-bearing materials by PLN 822 249 thousand due to a lower volume (by 29 thousand t) and purchase price (by 2 373 PLN/t).

Costs by type, excluding the value of purchased copper-bearing materials, increased by PLN 234 556 thousand, i.e. by 4%, mainly due to:

- an increase in labour costs due to a higher additional annual bonus by PLN 164 052 thousand, and
- an increase in depreciation costs by PLN 37 124 thousand.

## REVIEW OF FINANCIAL POSITION

### 3.6. UNUSUAL EVENTS IMPACTING THE FINANCIAL RESULTS OF THE COMPANY

The results of the Company were impacted by decisions related to the recognition in the accounts of 2007 of the following events of an unusual character:

**Table 27. Major unusual events impacting the financial results of the Company ('000 PLN)**

<i>impact on profit before income tax</i>	
<b>Provisions recognised or increased for future expenses and liabilities, due to:</b>	
– revaluation of provisions for future employee benefits – retirement/disability rights, jubilee awards and coal equivalent payments	(52 186)
– revaluation of provisions for decommissioning costs of mines and other facilities	(42 693)
– annual remuneration due to Metallurgist's Charter	(16 132)
– property tax and interest on property tax	(10 623)
<b>Valuation of long and short term financial assets</b>	
– result of measurement of derivative instruments	(265 982)
– impairment loss on assets under construction and intangible assets not available for use	(5 165)
<b>Provisions for impairment losses (or their reversal) on receivables and impairment losses on property, plant and equipment:</b>	
– allowances for impairment of other receivables together with interest (excess of allowances recognised over reversed)	(42 571)
– impairment losses on shares in subsidiaries	(24 208)

### 3.7. RISK MANAGEMENT IN THE COMPANY IN 2007

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 (748 680) thousand (in 2006 PLN (2 481 500) thousand), of which:

- revenues from sales were adjusted by PLN (435 533) thousand (in 2006 PLN (2 331 029) thousand) – being the amount transferred from revaluation reserve to profit and loss in the financial period,
- PLN (47 165) thousand (in 2006 PLN (11 883) thousand) adjusted other operating costs - loss from the realisation of derivative instruments,
- PLN (265 982) thousand (in 2006 PLN (138 588) thousand) adjusted other operating costs - loss from the measurement of derivative instruments. The adjustment of other operating costs due to the measurement of derivative transactions results 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

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**REVIEW OF FINANCIAL POSITION**

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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 thousand, of which PLN 97 419 thousand 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 9 895 thousand, of which PLN (964) thousand respected the effective part of the amount from the measurement of transactions hedging the metals price risk, while PLN 10 859 thousand 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 (557 528) thousand.

During 2007 the change in the revaluation reserve (an increase) amounted to PLN 567 423 thousand. 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 131 890 thousand, 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 435 533 thousand (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.

### **3.8. CONTESTED ISSUES**

#### **List of proceedings being pursued in a court, an appropriate body for arbitration, or in a body of public administration**

At 31 December 2007, the total value of unresolved contested issues both by and against the Company amounted to PLN 180 333 thousand, including receivables of PLN 137 680 thousand and liabilities of PLN 42 653 thousand.

The largest proceedings being pursued by the Company with regard to debtors as at the end of 2007 relate to the following:

- **property tax on underground mining works for 2003-2007**

The total value of the claims is PLN 51 474 thousand. The mayor of Polkowice, by way of five decisions, set the amount of the property tax on underground mining works at PLN 10 411 thousand for 2003, PLN 10 439 thousand for 2004, PLN 10 244 thousand for 2005, PLN 10 239 thousand for 2006 and PLN 10 141 thousand for 2007.

The local board of appeal (Samorządowe Kolegium Odwoławcze) in Legnica upheld the decisions of the mayor of Polkowice. The Company filed an appeal with the Voivodeship Administrative Court in Wrocław against the decisions of the local board of appeal in Legnica.

On 15 March 2007, the Voivodeship Administrative Court issued judgments unfavourable for the Company respecting taxation for the years from 2003 to 2006, in respect of which the Company filed a cassation appeal with the Supreme Administrative Court. In the matter respecting determination of the amount of taxation on property for 2007, the Company filed an appeal with the Voivodeship Administrative Court in Wrocław.

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**REVIEW OF FINANCIAL POSITION**

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**– property tax for 2007**

The amount contested is PLN 7 765 thousand. The mayor of Polkowice, by a decision issued based on the law on taxation and local fees, set the amount of property tax for 2007 at PLN 7 765 thousand.

The local board of appeal in Legnica upheld the decision of the mayor of Polkowice. The Company filed an appeal with the Voivodeship Administrative Court in Wrocław against the decision of the local board of appeal in Legnica. On 14 December 2007, the Voivodeship Administrative Court dismissed the appeal. The Company requested a copy of the verdict with its justification.

The largest proceedings being pursued by the Company with regard to liabilities as at 31 December 2007 relate to the following:

**– Payment of damages due to deterioration of water from the AQ1 and AQ2 water supplies caused by the activities of the Lubin mine of KGHM Polska Miedź S.A. on the terrain of the municipality (Gmina) of Warta Bolesławiecka**

The amount contested is PLN 11 839 thousand. A statement of claim dated 24 March 2003 was filed with the Regional Court in Legnica, Civil Section I, by BOBMARK INTERNATIONAL Sp. z o. o. with its registered head office in Warsaw. On 30 June 2006, the Company received an opinion, issued to the order of the Court, of a company specialises 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. At the trial on 13 August 2007, in connection with claims of the plaintiff related to advertising costs and inappropriate water sale price, the Court admitted evidence from a supplementary opinion by experts and set a time period for the plaintiff's attorney to develop questions for the experts.

**– Fees for use of a patent for the period from 1 January 1997 to 31 December 2002**

Value of amount under dispute: PLN 10 602 thousand. The statement of claim of TKW Combustion Sp. z o.o. in Głowno was filed with the Regional Court in Świdnica, Economic Section VI, on 30 July 2003. In the opinion of KGHM Polska Miedź S.A., this claim is groundless due to the fact that the design is utilised based on a licensing agreement 1/91 dated 25 July 1991, which authorises the Company to make use of the project over an indefinite period of time, with a licensing fee payable only for the first five years of use of the project. The court, by a ruling dated 13 January 2004, adjourned the proceedings until the issue of the patent is heard. On 27 December 2007, the Voivodeship Administrative Court in Warsaw overturned the decision on annulment of the patent by the Polish Patent Office. The issue of the patent will be reconsidered by the Polish Patent Office.

**Contested tax issues**

The value of contested tax issues in 2007 decreased by PLN 37 086 thousand. The value of contested tax issues at 31 December 2007 was PLN 2 768 thousand.

The most important event which caused a decrease in the value of contested tax issues was the decision of the Constitutional Tribunal from 20 December 2007, regarding combined constitutional complaints by KGHM Polska Miedź S.A. on examining the constitutionality of the Act on payment from profit of one-man, State Treasury Companies. The Constitutional Tribunal dropped claims in the matter of payment from profit for 1996 and 1997 (the amounts contested respectively were PLN 23 729 thousand and PLN 5 292 thousand). The Tribunal decided that the Company can not cite the laws and liberties guaranteed by the Constitution. Which 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.

The contested tax issues which have been concluded or remain unresolved do not represent liabilities for KGHM Polska Miedź S.A., as the Company has already paid the taxes due arising from decisions of the tax authorities. Any eventual favourable resolution of those matters remaining unresolved would result in a refund to the Company of the payments made, together with interest.



## 4. REALISATION OF COMPANY DEVELOPMENT ASSUMPTIONS

### 4.1. REALISATION OF 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:

- development and increased effectiveness of the core business,
- diversification, and
- support of the development of KGHM.

#### **Realisation of the 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 Głęboki 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 accordance with a resolution of the Management Board of KGHM Polska Miedź S.A. passed on 4 September 2007, the Strategy of the Company is being carried out through the following areas of the business - Strategic Business Units (SBU):

- mining,
- smelting,
- telecoms,
- diversification,
- Group,
- and a Strategic Supporting Unit (SSU) – Corporate Center.

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.

#### **Actions planned for 2008**

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

- 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.

- 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.



## REALISATION OF COMPANY DEVELOPMENT ASSUMPTIONS

- Power assets – an increase in the share capital of Energetyka Sp. z o.o., in order to:
  - a) modernise and expand existing power generation capacity based on steam-gas units, which will lead to a decrease in energy costs incurred by KGHM, and
  - b) purchase shares of the local energy producer.
- Equity investments – whose main goal is to increase equity inflow (dividends) and to increase the value of these assets over the long term.

### 4.2. REALISATION OF FINANCIAL FORECASTS FOR 2007

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.

Details of the basic assumptions, forecast results and their realisation are presented below:

**Table 28. 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	PLN/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

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.

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).

The level of costs was affected by:

- the higher amount and value of purchased copper-bearing materials,
- the lower production of copper from internal concentrates, and
- the higher valuation of stored internal semi-products used.

The decrease in production using internal charges and the use of relatively more expensive stored internal semi-products led to an exceeding of the planned cost of production from internal charges by 8% (plan – 8 655 PLN/t, execution – 9 313 PLN/t).

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**REALISATION OF COMPANY DEVELOPMENT ASSUMPTIONS**

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**4.3. PROJECTED COMPANY FINANCIAL SITUATION**

The Company is currently developing its Budget for 2008 and the Technical-Economic Plan for the years 2008-2012. The production plan and investment program are currently being reviewed.

It is expected that there will be a decrease in electrolytic copper production from internal charges, mainly due to a curtailment in ore extraction on „work-free” days and to the decrease in copper content in ore caused by mining operations moving into areas of lower Cu content, as well as to pursuing a policy of rational deposit management. Analysis of resources remaining to be exploited indicates a trend of deterioration in the parameters of this ore.

The planned projections will also reflect current forecasts of macroeconomic conditions as well as the audited results of the Company in 2007 .

Based on market analyses and forecasts presented by banks and financial institutions, and reflecting the principle of prudent valuation, the Company assumes the following basic macroeconomic parameters in 2008:

- copper prices            7 100 USD/t
- silver prices            15.00 USD/troz
- exchange rate           2.50 USD/PLN

The preliminary financial projection, developed on the basis of the above assumptions, projects that the financial results of the Company in 2008 will be at a level lower than in 2007.

In accordance with accepted Company practice, the projected financial results of the Company will be published immediately after approval of the Budget by the Supervisory Board.

## 5. THE COMPANY ON THE SECURITIES MARKETS

### 5.1. COMPANY QUOTATIONS 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 - 28 December 2007, and on 15 October 2007 the closing price reached its highest level in history – PLN 143.00. During this same period the WIG index increased by 10%, and the WIG20 index by 5%. The share price of the Company in 2007 compared to the WIG index is shown in the chart below:

**Chart 2. Share price of KGHM Polska Miedź S.A. versus the WIG index**



In 2007 the share prices of the Company on both exchanges – Polish and British – were similar.

**Table 29. Key share price data of the Company on the Warsaw Stock Exchange**

	Unit	2005	2006	2007
Number of shares issued	million	200 000	200 000	200 000
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 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

### 5.2. INFORMATION ON THE OWNERSHIP STRUCTURE AND ON THE ISSUED SHARES OF THE COMPANY

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

There is no limitation to the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights attached to the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special proprietary rights in respect of the Company. The State Treasury, as a shareholder of the

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**THE COMPANY ON THE SECURITIES MARKETS**

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Company, may take advantage of special privileges arising from the act dated 3 June 2005 on the specific entitlements of the State Treasury and their execution in joint stock companies of significant importance for public order or public security.

At 31 December 2007, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Shareholders' Meeting was the Polish State Treasury, which - based on an announcement dated 16 May 2007 - held 83 589 900 shares, representing 41.79% of the share capital of the Company and the same number of votes at the General Shareholders' Meeting.

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

In 2007 the State Treasury reduced its shareholding in the Company due to the transfer of ownership to 5 million shares to Kompania Węglowa S.A. on 15 May 2007. This block of shares represents 2.5% of the share capital and of the total number of votes.

The Management Board of the Company is unaware of any agreements signed in 2007 which could result in changes in the proportion of shares held by present shareholders in the future.

At 31 December 2007, based on information held by the Company, among management and supervisory personnel only Ryszard Kurek - a member of the Supervisory Board - owned shares of KGHM Polska Miedź S.A. (10 shares with a total nominal value of PLN 100). At 31 December 2007, the members of the Management Board and Supervisory Board of the Company did not own shares of the remaining related entities of the Company.

In 2007 the Company did not buy back any of its shares.

The Company does not have an employee share incentive program.

**5.3. CORPORATE GOVERNANCE**

At the beginning of 2007, the Company again approved application of all of the corporate governance principles described in the document „Best practices in public companies in 2005” (with stipulations to principle no. 20 relating to the independence of Supervisory Board members).

A report on the application of corporate governance principles, in accordance with the Warsaw Stock Exchange Rules, will be published together with this annual report.

**ANNEX A: METHODOLOGY OF CALCULATING OF RATIOS USED IN THE REPORT****ANNEX A: METHODOLOGY OF CALCULATING OF RATIOS USED IN THE REPORT****Assets effectiveness ratios**

$$\text{Assets turnover ratio} = \frac{\text{sales}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{sales}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{sales}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{sales}}{\text{short term receivables} + \text{cash and cash equivalents}}$$

**Assets financing ratios**

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity} + \text{non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

**Economic activity ratios**

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$$

$$\text{ROA (return on assets)} = \frac{\text{profit for the period}}{\text{total assets}} \times 100$$

$$\text{ROE (return on equity)} = \frac{\text{profit for the period}}{\text{equity}} \times 100$$

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity} + \text{non-current liabilities}}{\text{equity and liabilities}} \times 100$$

**ANNEX B: CURRENT REPORTS OF THE COMPANY PUBLISHED IN 2008****ANNEX B: CURRENT REPORTS OF THE COMPANY PUBLISHED IN 2008 – TO THE DATE OF PREPARATION OF THE ANNUAL REPORT FOR 2007**

After the balance sheet date the Company published the following current reports:

**Statement on the intention to publish consolidated quarterly reports, containing quarterly financial information. Publication dates for periodic reports in 2008 (3 January 2008)**

The Management Board of KGHM Polska Miedź S.A. announced that, starting from the report for Q1 2008, the Company will publish consolidated quarterly reports which contain quarterly financial information as described in § 87 sec. 1 of the Decree of the Minister of Finance dated 19 October 2005 regarding current and periodic information published by issuers of securities (Journal of Laws from 2005 Nr 209, item 1744), instead of the separate quarterly reports and consolidated quarterly reports published thus far. The Management Board of KGHM Polska Miedź S.A. provided the dates of publication of the periodic reports in 2008.

**Significant contract with Tele-Fonika Kable S.A. (30 January 2008)**

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 continuous-cast 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).

**Declaration of the Management Board of KGHM Polska Miedź S.A. (11 February 2008)**

Due to uncertainty amongst investors and analysts caused by information on the future financial results of the Company cited in an article titled „Będą spięcia o prywatyzację w koalicji PO-PSL? (Conflicts on privatisation in the PO-PSL coalition?)” (Gazeta Wyborcza, 11 February 2008) The Management Board of the Company provided the following declaration:

The Management Board has accepted, and provided to the Supervisory Board for its approval, the Budget for 2008, assuming the achievement of a high net profit. The financial projection prepared by the Management Board of the Company for future years likewise forecasts the continuation of positive financial results.

The Company, in accordance with current practice, will publish significant assumptions and planned financial results for 2008 after approval of the Budget by the Supervisory Board of the Company.

**Shareholders holding at least 5% of the number of shares at the EGM on 14 February 2008 (15 February 2008)**

At the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. which was held on 14 February 2008, at least 5% of the number of votes at the meeting were owned by the Polish State Treasury – number of votes 83 567 521, representing 92.63% of the number of votes participating in the Extraordinary General Shareholders' Meeting and 41.78% of the total number of votes.

**Conclusion of the bankruptcy process of Przedsiębiorstwo Eksploatacji Wód AQUAKONRAD S.A. (15 February 2008)**

On 1 October 2007 by the Regional Court in Jelenia Góra, Section VIII (Economic) on bankruptcies and amelioration proceedings issued a decision on the conclusion of bankruptcy proceedings for Przedsiębiorstwo Eksploatacji Wód AQUAKONRAD S.A. This decision by the court concluded the bankruptcy process of the company, begun on 12 April 2006.

**Other information published:**

- list of information published in 2007 (16 January 2008),
- changes in the composition of the Supervisory Board (13 and 14 February 2008) and of the Management Board (17 January 2008),
- the date and agenda of an Extraordinary General Shareholders' Meeting (11 January 2008), the proposed resolutions (14 January 2008)
- the resolutions passed by the Extraordinary General Shareholders' Meeting (14 February 2008),
- an explanation of the reasons why the Company has not published on its corporate website data on the candidacy of those proposed for membership on the Supervisory Board (a principle arising from the " Code of Best Practice for WSE Listed Companies", 14 February 2008),

**ANNEX B: CURRENT REPORTS OF THE COMPANY PUBLISHED IN 2008**

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- information on Members of the Supervisory Board appointed to the Supervisory Board of the Company by the Extraordinary General Shareholders' Meeting on 14 February 2008 (19 February 2008, 29 February 2008).

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Signatures of all Members of the Management Board			
Date	First name, surname	Position/Function	Signature
4 March 2008	Ireneusz Reszczyński	Acting President of the Management Board 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	