

KGHM POLSKA MIEDŹ S.A.

FINANCIAL STATEMENTS FOR 2008

Lubin, March 2009

Table of contents to the financial statements

Note	Page
Balance sheet	3
Income statement	4
Statement of changes in equity	5
Cash flow statement	6
Accounting policies and other explanatory information	
1. General information	7
2. Main accounting policies	8
2.1 Basis of preparing financial statements	8
2.2 Accounting policies	12
3. Important estimates and assumptions	30
4. Property, plant and equipment	32
5. Intangible assets	36
6. Investments in subsidiaries and associates	38
7. Available-for-sale financial assets	41
8. Held-to-maturity investments	42
9. Derivative financial instruments	43
10. Trade and other receivables	46
11. Inventories	47
12. Cash and cash equivalents	47
13. Share capital	48
14. Other reserves	49
15. Retained earnings	50
16. Trade and other payables	51
17. Borrowings and finance lease liabilities	52
17.1 Loans	52
17.2 Finance lease liabilities	53
18. Deferred tax - changes	54
19. Employee benefits	57
20. Provisions for other liabilities and charges	59
21. Sales	62
22. Costs by type	63
23. Employee benefit costs	63
24. Other operating income	64
25. Other operating costs	64
26. Net finance costs	65
27. Financial instruments	66
27.1 Carrying amount	66
27.2 Fair values	68
27.3 Items of income, costs, gains and losses recognised in the income statement for the period by categories of financial instruments	69
27.4 Transfers not qualified for de-recognition	70
27.5 Situations concerning financial instruments which did not occur in the Company	70
28. Financial risk management	71
28.1 Market risk	71
28.2. Liquidity risk and capital management	79
28.3. Credit risk	80
29. Income tax	84
30. Earnings per share	84
31. Dividend paid and proposed for payment	85
32. Notes to the cash flow statement	85
33. Related party transactions	86
34. Remuneration of Auditor	92
35. Off-balance sheet liabilities due to operating leases	92
36. Contingent items and other off-balance sheet items	93
37. Government grants	94
38. Social assets and Social Fund liabilities	94
39. Employment structure	94
40. Subsequent events	95

KGHM Polska Miedź S.A.
Annual financial statements prepared in accordance with IFRS
as adopted by the European Union
for the financial year from 1 January 2008 to 31 December 2008
(amounts in tables in thousand PLN, unless otherwise stated)

Balance sheet

		At	
	Note	31 December 2008	31 December 2007
Assets			
Non-current assets			
Property, plant and equipment	4	5 515 028	4 832 630
Intangible assets	5	80 904	74 830
Shares in subsidiaries	6	1 795 013	1 803 390
Investments in associates	6	1 163 640	438 559
Deferred tax assets	18	-	160 781
Available-for-sale financial assets	7	21 034	32 935
Held-to-maturity investments	8	59 545	43 893
Derivative financial instruments	9	6 501	33 395
Trade and other receivables	10	61 900	11 012
		8 703 565	7 431 425
Current assets			
Inventories	11	1 446 802	1 603 487
Trade and other receivables	10	1 222 501	772 279
Derivative financial instruments	9	711 096	81 444
Cash and cash equivalents	12	1 793 580	2 534 995
		5 173 979	4 992 205
Non-current assets held for sale	4	23 020	-
TOTAL ASSETS		13 900 564	12 423 630
Equity and liabilities			
EQUITY			
Share capital	13	2 000 000	2 000 000
Other reserves	14	518 748	13 783
Retained earnings	15	8 072 544	6 952 166
TOTAL EQUITY		10 591 292	8 965 949
LIABILITIES			
Non-current liabilities			
Trade and other payables	16	24 962	6 305
Borrowings and finance lease liabilities	17	17 173	20 319
Derivative financial instruments	9	-	3 087
Deferred tax liabilities	18	31 516	-
Liabilities due to employee benefits	19	975 697	853 096
Provisions for other liabilities and charges	20	591 320	556 589
		1 640 668	1 439 396
Current liabilities			
Trade and other payables	16	1 476 088	1 510 841
Borrowings and finance lease liabilities	17	7 120	8 612
Current corporate tax liabilities		64 866	343 022
Derivative financial instruments	9	3 771	14 335
Liabilities due to employee benefits	19	73 289	66 199
Provisions for other liabilities and charges	20	43 470	75 276
		1 668 604	2 018 285
TOTAL LIABILITIES		3 309 272	3 457 681
TOTAL EQUITY AND LIABILITIES		13 900 564	12 423 630

The notes presented on pages 7 to 95 represent an integral part of these financial statements

Income statement

CONTINUED ACTIVITIES	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Sales	21	11 302 913	12 183 113
Cost of sales	22	(7 215 430)	(6 617 286)
Gross profit		4 087 483	5 565 827
Selling costs	22	(79 791)	(77 572)
Administrative expenses	22	(615 316)	(608 507)
Other operating income	24	1 224 792	1 516 362
Other operating costs	25	(1 020 804)	(1 714 076)
Operating profit		3 596 364	4 682 034
Finance costs - net	26	(42 735)	(26 504)
Profit before income tax		3 553 629	4 655 530
Income tax expense	29	(633 251)	(856 704)
Profit for the period		2 920 378	3 798 826
Earnings per share for the annual period			
(in PLN per share)	30		
- basic		14.60	18.99
- diluted		14.60	18.99

The notes presented on pages 7 to 95 represent an integral part of these financial statements

Statement of changes in equity

	Note	Share capital	Other reserves	Retained earnings	Total equity
At 1 January 2007		7 413 573	(431 526)	1 133 767	8 115 814
Impact of cash flow hedging valuation	28	-	567 423	-	567 423
Fair value losses on available-for-sale financial assets			(5 697)	-	(5 697)
Deferred tax	18	-	(116 417)	-	(116 417)
Total income/(expenses) recognised directly in equity		-	445 309	-	445 309
Profit for the period		-	-	3 798 826	3 798 826
Total recognised income/(expenses)		-	445 309	3 798 826	4 244 135
Dividend for 2006		-	-	(3 394 000)	(3 394 000)
Settlement of share capital revaluation due to hyperinflation		(5 413 573)	-	5 413 573	-
At 31 December 2007		2 000 000	13 783	6 952 166	8 965 949
At 1 January 2008		2 000 000	13 783	6 952 166	8 965 949
Impact of cash flow hedging valuation	28	-	617 862	-	617 862
Fair value gains on available-for-sale financial assets		-	8 099	-	8 099
Deferred tax	18	-	(120 996)	-	(120 996)
Total income/(expenses) recognised directly in equity		-	504 965	-	504 965
Profit for the period		-	-	2 920 378	2 920 378
Total recognised income/(expenses)		-	504 965	2 920 378	3 425 343
Dividend for 2007	31			(1 800 000)	(1 800 000)
At 31 December 2008		2 000 000	518 748	8 072 544	10 591 292

The notes presented on pages 7 to 95 represent an integral part of these financial statements

Cash flow statement

For the period

	Note	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Cash flow from operating activities			
Profit for the period		2 920 378	3 798 826
Adjustments to profit for the period	32	668 899	1 570 949
Income tax paid		(840 106)	(901 729)
Net cash generated from operating activities		2 749 171	4 468 046
Cash flow from investing activities			
Purchase of shares in subsidiaries		(128 134)	(79 440)
Proceeds from sale of shares in subsidiaries		-	10 052
Purchase of shares in associates		(737 686)	-
Proceeds from sale of shares in associates		8 542	-
Purchase of property, plant and equipment and intangible assets		(1 080 603)	(845 596)
Proceeds from sale of property, plant and equipment and intangible assets	32	7 447	8 378
Purchase of held-to-maturity investments		-	(41 846)
Proceeds from sale of held-to-maturity investments		-	42 200
Purchase of available-for-sale financial assets		(202 123)	(200 003)
Proceeds from sale of available-for-sale financial assets		204 540	267 412
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(25 481)	(43 876)
Proceeds from sale of held-to-maturity investments financed from the resources of Mine Closure Fund		9 829	32 152
Loans granted		(7 866)	(2 268)
Proceeds from repayments of loans		53	10 326
Interest received		326	496
Dividends received		236 939	270 363
Other investment expenses		(7 561)	(6 217)
Net cash used in investing activities		(1 721 778)	(577 867)
Cash flow from financing activities			
Repayments of loans		(6 000)	(6 000)
Payments of liabilities due to finance leases		(2 568)	(4 795)
Interest paid		(453)	(755)
Dividends paid		(1 800 000)	(3 394 000)
Net cash used in financing activities		(1 809 021)	(3 405 550)
Total net cash flow		(781 628)	484 629
Exchange gains/(losses) on cash and cash equivalents		40 213	(43 070)
Movements in cash and cash equivalents		(741 415)	441 559
Cash and cash equivalents at beginning of the period	12	2 534 995	2 093 436
Cash and cash equivalents at end of the period	12	1 793 580	2 534 995
including restricted cash and cash equivalents		2 587	2 597

The notes presented on pages 7 to 95 represent an integral part of these financial statements

**Accounting policies and other explanatory information to the financial statements
of KGHM Polska Miedź S.A. (the "Company") prepared for 2008**

1. General information

Company name, registered office, business activities

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

The shares of KGHM Polska Miedź S.A. are listed on the Stock Exchange in Warsaw and - in the form of GDRs (global depository receipts) - on the London Stock Exchange (LSE). According to the classification of the Stock Exchange in Warsaw, KGHM Polska Miedź S.A. is classified under the "metals industry" sector.

The principal activities of the Company comprise:

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

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

Period of operation

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

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

Composition of the Management Board

During the period from 1 January 2008 to 17 January 2008, the composition of the Management Board and segregation of duties were as follows:

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

On 17 January 2008, the Supervisory Board recalled Krzysztof Skóra from the function of President of the Management Board and Dariusz Kaśków from the function of Vice President of the Management Board and decided that the Management Board of KGHM Polska Miedź S.A. shall be comprised of three Members. The Supervisory Board has appointed Ireneusz Reszczyński, I Vice President of the Management Board of KGHM Polska Miedź S.A. as the acting President of the Management Board of KGHM Polska Miedź S.A. until the President of the Management Board is appointed.

1. General information (continuation)

On 17 April 2008 the Supervisory Board of the Company appointed Mirosław Krutin to the position of President of the Management Board as of 23 April 2008.

On 23 April 2008 the Supervisory Board recalled from the position of Member of the Management Board - Vice President of the Management Board: Marek Fusiński, Stanisław Kot and Ireneusz Reszczyński. Simultaneously, the Supervisory Board of the Company has appointed Herbert Wirth to the position of Member of the Management Board - I Vice President of the Management Board (Development) and Maciej Tybura to the position of Member of the Management Board - Vice President of the Management Board (Finance).

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

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

Authorisation of the financial statements

These financial statements were authorised for issue and signed by the Management Board of the Company on 27 March 2009.

Going concern assumption

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

In order to fully understand the financial position and the results of the activities of KGHM Polska Miedź S.A. as the parent entity of the Group, these financial statements should be read jointly with the annual consolidated financial statements for the period ended 31 December 2008. These financial statements will be available on the website of the Company www.kghm.pl on dates consistent with the current report concerning dates of publication of the annual report and the consolidated annual report for the 2008.

2. Main accounting policies

2.1 Basis of preparing financial statements

The financial statements of KGHM Polska Miedź S.A. for the period ended 31 December 2008 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These financial statements were prepared using the same principles for the current and comparable periods.

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

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

Standards and interpretations in force applied in the Company as at 1 January 2008

IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"

Application of this interpretation has no effect on the financial statements of the Company.

IFRIC 12 "Service Concession Arrangements"

Application of this interpretation has no effect on the financial statements of the Company.

IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

Application of this interpretation has no effect on the financial statements of the Company.

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

Changes to IAS 39 „Financial instruments: recognition and measurement” and to IFRS 7 „Financial instruments: disclosures”

On 13 October 2008 the International Accounting Standards Board issued amendments to IAS 39 and to IFRS 7. These amendments permit reclassification of some financial instruments out of the fair-value-through-profit-or-loss category, if they meet certain criteria. The amendments are a reaction to the exceptional state of the global economy as a result of the crisis on the financial and capital markets, and were immediately approved for use in the European Union. These amendments were published on 31 October 2008 with a retroactive date of 1 July 2008. They are only applicable prospectively and are in effect for the preparation of financial statements for 2008, but they will not affect the financial statements of the Company for 2008.

In these financial statements any standard or interpretation prior to its coming into force and approval by the European Union has not been applied.

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

IFRS 3 “Business Combinations”

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

IAS 27 “Consolidated and Separate Financial Statements”

The amended IAS 27 was published by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IAS 27. Implementation of this standard relates to the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. IAS 27 requires the recognition of changes in the share held in a subsidiary as an equity transaction. For this reason such a change does not affect goodwill, and there is no recognition of gains or losses. The amended standard also changes the manner of recognising losses incurred by a subsidiary, exceeding the value of the investment, as well as the manner of recognising loss of control over the subsidiary. The amended Standard becomes effective for annual periods beginning on or after 1 July 2009. As these changes are to be applied prospectively, they will affect future acquisitions and transactions with minority interest.

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

On 12 March 2009, the International Accounting Standards Board published amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement under the name Embedded Derivatives. The amendments introduced explain that entities who reclassify particular financial instruments in accordance with the guidelines published in October 2008 (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 Financial Instruments: Disclosures) should, on the date when a financial asset is reclassified out of the 'fair value through profit or loss' category, assess the derivative instrument embedded in this asset, and account for it separately as a derivative instrument measured at fair value through profit or loss. If an entity is not able in such a situation to separately measure an embedded derivative instrument, then such reclassification cannot be performed, and the entire asset remains classified as a financial instrument measured at fair value through profit or loss.

The amendments introduced to the interpretation and standard are to be applied retrospectively and are in force for annual periods ending on or after 30 June 2009. The Company has not reclassified any financial instruments on the basis of the amendments introduced to IAS 39 Financial Instruments: Recognition and Measurement and to IFRS 7 Financial Instruments: Disclosures in October 2008, and therefore these amendments will not affect the financial statements of the Company.

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

IFRIC 15 "Agreements for the Construction of Real Estate"

On 3 July 2008 the International Accounting Standards Board issued interpretation 15 "Agreements for the Construction of Real Estate". This interpretation addresses the issue of units constructed by real estate developers (both directly and through sub-contractors) and standardises the accounting of revenues from the sale of real estate units (such as apartments or houses) prior to transfer of the risk and benefits associated with the construction of the given property.

This interpretation becomes effective for periods beginning on or after 1 January 2009, and will not affect the financial statements of the Company; this interpretation had not been approved by the European Union by the publication date of these financial statements.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

On 3 July 2008 the International Accounting Standards Board issued interpretation 16 "Hedges of a Net Investment in a Foreign Operation". This interpretation addresses the issue of entities which hedge their net investment in a foreign operation, and provides guidance and clarification on when, and in what manner, such hedges may be made. The main decision eliminates the possibility of applying hedge accounting to exchange differences between the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. This interpretation is in effect for periods beginning on or after 1 October 2008, and will not affect the financial statements of the Company; this interpretation had not been approved by the European Union by the publication date of these financial statements.

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

On 31 July 2008 the International Accounting Standards Board issued an amendment to IAS 39, "Eligible Hedged Items". This amendment clarifies the principles for qualification as well as the conditions which a financial position must meet to be qualified as hedged. The changes introduced clarify how the existing principles underlying hedge accounting should be applied in two particular situations, and in particular in a situation of

(1) a one-sided risk in a hedged item (i.e. changes in the cash flows or fair value of a hedged item above or below a specified price or other variable), and (2) changes in inflation representing a portion of the cash flow of a financial hedged item. The introduction of Application Guidance was necessary due to the diversity of solutions being practiced in this regard. This amendment, which requires retrospective application, will be in effect for periods beginning on or after 1 July 2009, and will not affect the financial statements of the Company.

IFRIC 17 „Distributions of Non-cash Assets to Owners“

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

IFRIC 18 „Transfers of Assets from Customers“

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

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

IFRS 1 "First-time Adoption of International Financial Reporting Standards"

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

IFRS 7 "Financial Instruments: Disclosures"

Amendments to IFRS 7 "Financial Instruments: Disclosures" were issued by the International Accounting Standards Board on 5 March 2009 and are in effect from 1 January 2009. The amendments establish a three-level hierarchy for making fair value measurements and their disclosure, and the requirement for additional disclosures concerning the relative reliability of such fair value measurements. In addition the amendments clarify and expand existing previous requirements with respect to disclosures concerning liquidity risk. The Company will apply the amendments to IFRS 7 from 1 January 2009 and will provide disclosures in its financial statements in accordance with requirements. At the date of preparation of these financial statements the amendments to IFRS 7 had not yet been approved by the European Union.

Standards and Interpretations published by 31 December 2008 which had been adopted by the European Union by the publication date of these financial statements:

IFRS 8 "Operating segments"

IFRS 8, Operating segments, was published by the International Accounting Standards Board on 30 November 2006, and replaces IAS 14, Segment Reporting and becomes effective for annual periods beginning on or after 1 January 2009. This standard introduces a management approach to segment reporting, and underlines the necessity to disclose indicators and other measures used to monitor and evaluate activities to enable the users of the financial statements to evaluate the nature and financial results of various forms of activity carried out by the Company. KGHM Polska Miedź S.A. will apply IFRS 8 beginning with the financial statements published from 1 January 2009, and will include in them informational disclosures in accordance with the management approach of the Company, according to which the Company represents a single operational and reportable segment.

IAS 1 "Presentation of Financial Statements"

The amended IAS 1 was issued by the International Accounting Standards Board in September 2007. The amended standard implements a new element of the financial statements called the statement of comprehensive income, where all items of income and expenses should be presented, including those, which so far have been recognised in equity. In addition, changes apply also to presentation of the statement of changes in equity, presentation of dividends and comparative information, if changes in accounting policies are applied retrospectively. The revisions include changes in the titles of some of the key items of the financial statements. However, companies will be entitled to retain their current terminology. The amended standard becomes effective for annual periods beginning on or after 1 January 2009.

IAS 23 "Borrowing costs"

The amended IAS 23 was published by the International Accounting Standards Board on 29 March 2007. This standard relates to the accounting treatment of borrowing costs incurred in connection with a qualifying asset. The amended IAS 23 removes the benchmark treatment that requires that borrowing costs are recognised in the profit or loss and are capitalised. The amendment introduced will affect the Company, and its impact on the financial statements will depend on the financial strategy approved by the Company for the future financing of tangible investments. The amended standard becomes operative for annual periods beginning on or after 1 January 2009.

Amended IFRS 2 "Share-based Payment"

The amended IFRS 2 was published by the International Accounting Standards Board on 17 January 2008. Amendments to IFRS 2 relates to vesting conditions to cash, other assets or equity instruments of the Company as part of the share based payment transaction. Changes in this Standard become effective for annual periods beginning on or after 1 July 2009 and will not have any effect on the financial statements of the Company.

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

Amended IAS 32 „Financial Instruments: Disclosure and Presentation” and amended IAS 1 “Presentation of Financial Statements”

Financial instruments with put options and obligations arising on liquidation

The amended IAS 32 was published by the International Accounting Standards Board on 14 February 2008. The amendments related to the specific type of financial instruments, which are similar to ordinary equity instruments, but allow their holder to present them for redemption by the issuer if certain circumstances, as indicated in the Standard, had materialised. To date, in accordance with IAS 32, these types of instruments were classified as financial liabilities. The amended IAS 32 requires that such instruments not be classified as liabilities but as equity. The amended Standard becomes effective for annual periods beginning on or after 1 January 2009, and will not have any effect on the financial statements of the Company.

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

On 22 May 2008 the International Accounting Standards Board issued amendments to IFRS 1 and IAS 27 as the conclusion of an exposure draft titled „Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”. The amendments address the recognition of investments in a subsidiaries, jointly controlled entities or associates in the separate financial statements, and are applicable to specific (as described in the standard) types of group reorganisation, and change the definition of initial cost. The amendments to IFRS 1 and IAS 27 become effective for periods beginning on or after 1 January 2009. The amendments will be applicable for future equity investments.

IFRIC 13 “Customer Loyalty Programmes”

On 28 June 2007, the International Accounting Standards Board issued interpretation 13 *Customer Loyalty Programmes*. This interpretation addresses the method of accounting for payments related to the sale of goods or services included in customer loyalty programmes. This interpretation becomes effective for annual periods beginning on 1 July 2008, and will not affect the financial statements of the Company.

“Improvements to International Financial Reporting Standards”

On 22 May 2008 the International Accounting Standards Board issued the first Standard published under the IASB’s annual improvements process, Improvements to IFRS 2008. This is a collection of amendments and minor corrections which are needed, but which are not so urgent or important as to require a separate draft. Altogether they include 35 amendments, of which 15 may cause changes in presentation, recognition or measurement, while the remaining 20 are terminological or editorial changes which have no or minimal effect on accounting. Each change has an individual effective date, although most become effective for periods beginning on or after 1 January 2009. Adoption of the amended and improved Standards will not significantly affect the financial statements of the Company.

2.2 Accounting policies

2.2.1 Property, plant and equipment

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

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

Upon initial recognition, items of property, plant and equipment are measured at cost.

Borrowing costs incurred for the purchase or construction of an item of property, plant and equipment are not recognised in the cost. Foreign exchange differences arising from foreign currency liabilities, related to the purchase or construction of an item of property, plant and equipment, are recognised in profit or loss in the period in which they are incurred.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.1 Property, plant and equipment (continuation)

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

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

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

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

As at the balance sheet date, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.1 Property, plant and equipment (continuation)

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

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

2.2.2 Intangible assets

Intangible assets include:

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

On initial recognition, intangible assets are measured at cost.

Any borrowing costs incurred for a qualifying intangible asset are recognised in the profit or loss in the period in which they are incurred. Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.

At the balance sheet date intangible assets are measured at cost less accumulated amortisation and impairment losses.

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

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

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

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

Development costs

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

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

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

The cost of internally-generated development work recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.2 Intangible assets (continuation)

Capitalised development costs until the moment when the given intangible asset is successfully completed and the decision has been taken to implement it are recognised as an intangible asset not available for use and are not amortised. Such intangible assets are, however, tested annually for impairment. The amount of the impairment is recognised in the profit or loss.

Internally generated intangible assets are amortised using the straight-line method over the period of their anticipated use.

Research expenditure is recognised as an expense as incurred.

2.2.3 Equity investments

Subsidiaries

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

- fair value, and
- value in use.

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

Associates

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

In the financial statements of the Company, shares in associates which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, i.e. based on its direct interest in equity, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*.

2.2.4. Financial Instruments

2.2.4.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:

- financial assets measured at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments,
- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

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

Carrying value of cash flows with a maturity period of more than 12 months of the balance sheet date is classified as non-current asset or non-current liability. Carrying value of cash flows falling due within 12 months of the balance sheet date is classified as current asset or current liability.

The Company has adopted the following principles for the classification of financial assets and liabilities to the above specified categories:

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial Instruments (continuation)

2.2.4.1 Classification of financial instruments (continuation)

Financial assets and liabilities measured at fair value through profit or loss

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

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

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

Assets in this category are classified as current if they are available for sale and if the carrying amount is realised within a period of up to 12 months from the balance sheet date.

Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Company transfers monetary resources, delivers goods or services directly to the client, and does not intend to classify these receivables to financial assets measured at fair value through profit or loss.

Loans and receivables are classified as current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables with maturities greater than 12 months after the balance sheet date are classified as non-current assets. Loans and receivables are included in trade and other receivables.

Cash and cash equivalents are classified as loans and receivables. Cash and cash equivalents are a separate position in the balance sheet.

Held-to-maturity investments (HtM)

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

Available-for-sale financial assets (AfS)

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

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

Other financial liabilities

Financial liabilities included in this category are those that were not classified at their initial recognition as measured at fair value through profit or loss.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial Instruments (continuation)

2.2.4.1 Classification of financial instruments (continuation)

Hedging instruments (HI)

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

2.2.4.2. Initial measurement and derecognition of financial instruments

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

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

2.2.4.3. Measurement at the balance sheet date

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

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

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

Gains and losses on financial assets which are classified as available-for-sale are recognised in equity, except for impairment losses and exchange gains/losses on monetary assets and interest calculated using the effective interest rate method. When available-for-sale financial assets are derecognised, the total cumulative gains and losses which had been recognised in equity are recognised in the income statement. The disposal of investments of the same type but with a different cost basis is accounted for using the FIFO method, i.e the assets disposed of are valued successively at the prices of those assets which were acquired earlier.

Loans and receivables, held-to-maturity investments

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

Other financial liabilities

After initial recognition, the Company measures all financial liabilities, apart from those classified as at fair value through profit or loss, at amortised cost using the effective interest rate method except for:

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition,

If the transfer of financial assets does not qualify them for derecognition because the Company retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Company continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial Instruments (continuation)

2.2.4.3. Measurement at the balance sheet date (continuation)

Company recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;

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

2.2.4.4. Fair value

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

At the balance sheet date, the fair value of financial instruments, for which an active market exists, is established based on the current bid/ask prices. If the market for a financial instrument is not active (and in relation to non-quoted financial instruments), the Company establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques/models which are commonly used by market participants, adjusted to the characteristics and parameters of the fair valued financial instrument and the situation of the issuer.

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the balance sheet date. Where possible, transactions are fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In case of copper, the official London Metal Exchange closing prices and volatility estimates as at the balance sheet date are obtained from the Reuters news service. For silver and gold, the London Bullion Market Association fixing price at the balance sheet date is used. In the case of volatility and silver and gold forward rates, quotations given by Banks/Brokers are used. Currency interest rates and currency volatility ratios are obtained from Reuters are used. Forwards and swaps on copper market are priced based on forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to Black-Scholes model is used for Asian options pricing on commodity markets, whereas standard German-Kohlhagen model is used for currency of European option pricing.

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

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

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

2.2.4.5. Impairment of financial assets

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

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments recognised in profit

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial Instruments (continuation)

2.2.4.5. Impairment of financial assets (continuation)

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

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

Loans and receivables, as well as held-to-maturity investments which are measured at amortised cost, are individually tested for impairment at each balance sheet date. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio). However, due to the nature of the sales of KGHM Polska Miedź S.A. and the conduct of a restrictive policy towards credit risk, the Company analyses receivables primarily on an individual basis (regardless of their significance) in terms of the existence and recognition of impairment allowances. An impairment loss is reversed, if in subsequent periods the impairment is reduced, and this reduction may be attributed to events occurring after recognition of the impairment loss. The reversal of an impairment loss is recognised in the profit or loss.

2.2.4.6. Embedded derivatives

Initial recognition of derivatives

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

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

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

These criteria in particular are deemed as being met for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase. In such cases the Company accounts for the embedded derivative instrument separately from the host sale/purchase contract. From the moment of bifurcation, the embedded derivative instrument is measured at fair value at each balance sheet date. From the date of bifurcation, the embedded derivative instrument is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative instrument is accounted for as an adjustment respectively of revenues from sales or costs of sales.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial Instruments (continuation)

2.2.4.7 Hedge accounting

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

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

Derivatives used in cash flow hedges

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

- hedges the exposure to volatility of cash flows which is attributable to a particular type of risk associated with a recognised asset or liability, or a highly probable forecast transaction, and
- will affect reported net profit or loss.

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

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

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

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

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

Discontinuation of hedge accounting

The Company ceases to account for derivative instruments as hedging instruments when they expire, are sold, terminated or settled, or when the Company revokes its designation of a given instrument as a hedging instrument. The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk.

In such case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in equity until the hedged item affects profit or loss.

If the hedge of a firm commitment or forecast future transaction ceases to exist, because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecast transaction will not occur, then the net gain or loss recognised in equity is immediately transferred to the income statement.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Inventories

Inventories consist of the following items:

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

Inventory additions are measured in accordance with the following principles:

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

Inventory disposals are measured in accordance with the following principles:

- materials and goods for resale – at average cost based on the weighted average cost of a given item,
- finished goods and semi-products – by way of valuating the difference between inventories closing balance and the value of any additions, and giving due regard to the opening balance.

Inventories are measured in accordance with the following principles:

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

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

2.2.6 Trade and other receivables

Trade receivables are recognised initially at fair value. After initial recognition, trade receivables are measured at amortised cost using the effective interest rate, less allowance for impairment, while trade receivables with the maturity period of up to 12 months from the receivable origination date are not discounted.

Impairment allowances on trade receivables are recognised when there is objective evidence that an entity will not be able to collect all amounts due. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The amount of the impairment allowance is recognised in the income statement.

Receivables not representing financial assets are recognised initially at their nominal value and measured at the balance sheet date at the amount due.

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

Recognised as receivables are:

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.7 Cash and cash equivalents

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

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

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

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

2.2.9 Impairment of non-financial assets

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

A depreciable asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. Amongst the fundamental and most important external indications of possible impairment are the continuation over the long term of a situation in which the carrying amount of Company net assets exceeds their market value, as well as unfavorable technical, market and economic changes to the environment in which the Company operates, including on the destination markets for the Company's products. Another possible indication of impairment may be an increase in market interest rates and premiums for risk reflected in calculations of the discount rates used to calculate the value in use of Company assets. Internal factors taken into account in determining whether Company assets have been impaired primarily include the substantial decrease in actual net cash flow in relation to the net cash flow from operating activities assumed in the Budget, and, with respect to individual assets, any physical damage, loss of utility and the generation of lower economic benefits from expenditures incurred on their acquisition or construction, if a given asset independently generates cash flow.

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

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

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

If an impairment test indicates that the recoverable amount (i.e. the higher of the asset's fair value less costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit.

Any impairment loss is initially allocated to goodwill, if any. The remaining amount of the impairment is allocated to assets within the cash-generating units proportionally to their share of the carrying amount of the entire unit. If such allocation is made, the carrying amount of the asset may not be lower than the highest of the following amounts: fair value less costs to sell, value in use and zero.

Impairment losses are recognised in profit or loss.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.10 Equity

Equity in the financial statements of the Company consists of:

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

2.2.11 Liabilities

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

Liabilities comprise:

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

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

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

2.2.12 Accrued expenses

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

Accruals include:

- remuneration and the related surcharges paid on a one-off basis, relating to annual periods,
- accrued costs of local fees and taxes,
- short-term accruals for unused annual leave.

2.2.13 Deferred income

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.14 Provisions

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

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

- future costs of mine decommissioning, i.e. after the conclusion of mining activities, costs of decommissioning of technological facilities in the copper smelters and other facilities (jointly: decommissioning costs) in cases where the law provides for the obligation to dismantle and remove such assets after the conclusion of mining activities and to restore the sites to their original condition,
- the effects of court proceedings and of disputed issues,
- guarantees granted.

Provisions are recognised in an amount representing the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditure expected to be required to settle the obligation.

The provision for future decommissioning costs of mines and other facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore exploitation forecasts (for mining facilities), and technical-economic expertise prepared either by specialist external firms or within the Company. Provisions are reviewed at the balance sheet date.

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

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

2.2.15 Employee benefits

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.16 Income taxes (including deferred tax)

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

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

Deferred tax is determined using tax rates (and laws) that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

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

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

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

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

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

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

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

- arises from transactions or events which are directly recognised in equity – in which case the deferred tax is also recognised in the appropriate equity item, or
- arises from a business combination – in which case the deferred tax affects goodwill or the excess of interest in the fair value of net assets over the cost of acquisition.

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

2.2.17 Contingent items and other off-balance sheet items.

Contingent liabilities are:

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

The contingent liabilities of the Company include, among others:

- guarantees and promissory notes issued for the benefit of third-parties in connection with contracts,
- liabilities due to compensation for damages arising in the course of business activities, resulting from matters which remain unresolved,
- conditionally-suspended penalties for economic use of natural environment,
- liabilities arising from implementation contracts, calculated based on future outcome, and
- other contingent liabilities arising from the contracts.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.17 Contingent items and other off-balance sheet items (continuation)

Other off-balance sheet liabilities of the Company include, among others:

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

2.2.18 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from sales which are recognised at such an amount are adjusted at each balance sheet date by any change in the fair value of embedded derivative instruments, which are separated from the host sales contract in accordance with point 2.2.4.6. Sales revenues are adjusted for the gain or loss from the settlement of derivative instruments hedging future cash flows, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of income statement in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

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

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

- income and gains from investments,
- gains from the measurement and realisation of trading derivative instruments and the ineffective portion of gains from the realisation and re-measurement to fair value of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- reversal of impairment losses on held-to-maturity investments, available-for-sale financial assets, and loans and shares in subsidiaries and associates,
- release of unused provisions, previously charged to other operating costs, and
- gains on disposal of property, plant and equipment and intangible assets,

finance income, representing primarily income related to financing of the activities of the Company, including:

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

Moment of recognition of revenues

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

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods for resale, finished goods and materials,
- the Company has ceased to have a continued involvement in the management of goods for resale, finished goods and materials sold to the extent usually associated with inventory management function, and does no longer exercise effective control over those items,
- the amount of revenue can be measured in a reliable manner,
- it is probable that the economic benefits associated with the transaction will flow to the Company, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from the sale of services are recognised when:

- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Company,
- the stage of completion of the transaction at the balance sheet date can be measured reliably, and
- the costs connected with the transaction and the costs to complete the transaction can be measured reliably.

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

Income from dividends is recognised when the shareholder's right to receive payment is established.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.19 Costs

The Company recognises as costs any probable decrease, in the reporting period, of economic benefits of a reliably-determined amount, in the form of a decrease in the value of assets, or an increase of provisions and liabilities, which lead to a decrease in equity or an increase in negative equity in a manner other than the withdrawal of funds by its owners.

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals. In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the balance sheet date is adjusted at each balance sheet date by any change in the fair value of embedded derivative instruments, which are separated from the host purchase contract in accordance with point 2.2.4.6.

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

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

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

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

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

Functional and presentation currency

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

Transactions and balances

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

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

At each balance sheet date:

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

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

Foreign exchange gains or losses arising on non-monetary items, such as equity instruments measured at fair value through profit or loss, are recognised as an element of changes in fair value. Exchange differences arising on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are recognised in revaluation reserve at fair value.

2.2.21 Borrowing costs

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

2.2.22 Leases

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership of assets. The leased asset is capitalised at the inception of the lease at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term.

Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, lease contract is classified as an operating lease.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.23 Government grants

Non-monetary grants are accounted for at fair value.

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

Government grants are not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to them, and that the grants will be received.

Monetary government grants are recognised systematically as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They are not credited directly to equity.

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

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

2.2.24 Management of capital

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

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

1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
2. The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation.

2.2.25 Earnings per share

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

2.2.26 Cash flow statement

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

3. Important estimates and assumptions

3.1 Classification and measurement of financial instruments

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

At each balance sheet date the Company analyses significance of the impact of bifurcated embedded derivative instruments on the financial statements. Following this analysis, the Company determined that bifurcation of these instruments at 31 December 2008 will not have a significant impact on the financial statements.

3.2 Estimation of provisions

1. Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses and post-employment coal equivalent payments are estimated using actuarial methods. A change in the financial factors being the basis for estimation, i.e.

- an increase in the discount rate by 1% and an increase by 1 % in the coal price and wages increase rate would cause an increase in the provision by PLN 1 873 thousand,
- a decrease in the discount rate by 1% and an increase by 1 % in the coal price and wages increase rate would cause an increase in the provision by PLN 305 145 thousand,
- an increase in the discount rate by 1% and a decrease by 1 % in the coal price and wages increase rate would cause a decrease in the provision by PLN 199 640 thousand,
- a decrease in the discount rate by 1% and a decrease by 1 % in the coal price and wages increase rate would cause a decrease in the provision by PLN 1 901 thousand.

2. Provisions for decommissioning costs of mines and other facilities.

These provisions represent the equivalent of the estimated future decommissioning costs of mines and other facilities, discounted to present value. Revaluation of these provisions at the balance sheet date is affected by the following indicators:

- a) the index of changes in prices in the construction-assembly sector published by the Main Statistical Office (GUS),
- b) the real discount rate calculated based on the profitability of treasury bonds with the maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation.

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

A 1% increase in the real discount rate used to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision for decommissioning mines and other facilities by PLN 142 556 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 195 085 thousand.

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits (Note 19).

3.3 Deferred tax assets/liabilities

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

The probability of realising deferred tax assets is considered certain.

3. Important estimates and assumptions (continuation)

3.4 Impairment of property, plant and equipment

In accordance with IAS 36, at 31 December 2008 the Company performed an impairment test on property, plant and equipment.

For the purpose of determining value in use, an analysis of discounted cash flow was performed using an assumed average weighted cost of capital (WACC) of 11.24% and a 3% residual rate of growth. This test was performed for the Company as the sole cash generating unit (CGU) due to the inability to assign cash flow to individual Company units.

The analysis was performed for a 10-year period using projected cash flow based on the Supervisory Board-approved „Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018”.

Based on approved assumptions, the calculated value in use of property, plant and equipment amounts to PLN 8 258 505 thousand, and is higher than their carrying amount by PLN 3 118 979 thousand.

Sensitivity analysis of value in use

Residual growth rate	WACC				
	9%	10%	11%	12%	13%
-1%	8 707 224	7 293 846	6 151 677	5 215 431	4 438 704
0%	9 513 539	7 895 979	6 610 039	5 570 005	4 716 776
1%	10 521 434	8 631 920	7 160 074	5 989 048	5 041 193
2%	11 817 297	9 551 847	7 832 338	6 491 899	5 424 594
3%	13 545 116	10 734 609	8 672 669	7 106 495	5 884 676

3.5 Presentation

The Company recognises income and costs related to financial investments under other operating activities in the income statement on the grounds that these activities (in particular investments in the telecom sector) are connected with the operating activities of KGHM Polska Miedź S.A. Detailed principles of recognition of income and costs have been described in Note 2 point 2.2.18 and 2.2.19.

4. Property, plant and equipment

	At	
	31 December 2008	31 December 2007
Land	14 307	14 307
Buildings and constructions	2 359 313	2 248 789
Technical equipment and machinery	2 109 019	1 909 889
Motor vehicles	34 848	33 432
Other fixed assets	16 236	15 541
Assets under construction	981 305	610 672
Total	5 515 028	4 832 630

KGHM Polska Miedź S.A.
Annual financial statements prepared in accordance with IFRS
as adopted by the European Union
for the financial year from 1 January 2008 to 31 December 2008
(amounts in tables in thousand PLN, unless otherwise stated)

4. Property, plant and equipment (continuation)

Changes in property, plant and equipment in the period from 1 January 2007 to 31 December 2008

	Note	Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
At 1 January 2007								
Gross carrying amount		10 875	5 556 456	4 556 875	121 899	58 129	557 360	10 861 594
Accumulated depreciation		-	(3 411 518)	(2 937 744)	(91 177)	(42 597)	-	(6 483 036)
Impairment losses		-	-	(257)	-	-	-	(257)
Net carrying amount		10 875	2 144 938	1 618 874	30 722	15 532	557 360	4 378 301
Changes in 2007								
Settlement of assets under construction		3 432	163 459	576 715	9 759	3 948	(757 313)	-
Settlement of assets under construction – other (leases, warehouse acceptance, without effect)		-	-	-	-	-	(4 508)	(4 508)
Direct purchases		-	-	-	-	-	812 492	812 492
Disposal		-	(122)	(9 344)	(2 046)	(52)	-	(11 564)
Scrapping/decommissioning or write-off		-	(14 992)	(160 929)	(3 195)	(1 184)	-	(180 300)
Reclassification to non-current assets classified as held for sale or inclusion in a disposal group		-	(3 496)	-	-	-	-	(3 496)
Donations and no-cost acquisitions		-	-	-	-	4	-	4
Donations and no-cost transfers		-	-	-	(176)	-	-	(176)
Other changes		-	6 859	(781)	123	(220)	2 641	8 622
Change in amount of provisions for costs of decommissioning	20	-	64 850	-	-	-	-	64 850
Transfer between groups		-	1 247	(1 247)	-	-	-	-
Depreciation	22	-	(125 222)	(272 768)	(6 897)	(3 929)	-	(408 816)
Decrease in accumulated depreciation due to scrapping, sale and other		-	11 268	162 247	5 142	1 442	-	180 099
Impairment losses		-	-	(2 878)	-	-	-	(2 878)
At 31 December 2007								
Gross carrying amount		14 307	5 774 261	4 961 289	126 364	60 625	610 672	11 547 518
Accumulated depreciation		-	(3 525 472)	(3 048 265)	(92 932)	(45 084)	-	(6 711 753)
Impairment losses		-	-	(3 135)	-	-	-	(3 135)
Net carrying amount		14 307	2 248 789	1 909 889	33 432	15 541	610 672	4 832 630
Changes in 2008								
Settlement of assets under construction		-	197 933	542 623	11 578	4 887	(757 021)	-
Direct purchases		-	-	-	-	-	1 116 498	1 116 498
Disposal		-	(2 537)	(4 466)	(844)	(66)	-	(7 913)
Brought into use based on a finance lease agreement		-	-	-	463	-	-	463
Scrapping/decommissioning or write-off		-	(115 440)	(198 117)	(4 462)	(2 014)	(68)	(320 101)
Reclassification to non-current assets classified as held for sale or inclusion in a disposal group		-	-	-	(7 825)	-	-	(7 825)
Other changes		-	116	1 029	-	(702)	14 170	14 613
Change in amount of provisions for costs of decommissioning	20	-	37 850	-	-	-	-	37 850
Transfer between groups		-	10 739	(10 739)	-	-	-	-
Depreciation	22	-	(121 991)	(335 867)	(7 149)	(4 149)	-	(469 156)
Decrease in accumulated depreciation due to scrapping, sale and other		-	103 854	204 667	9 982	2 739	-	321 242
Impairment losses		-	-	-	(327)	-	(2 946)	(3 273)
At 31 December 2008								
Gross carrying amount		14 307	5 902 922	5 291 619	125 274	62 730	984 251	12 381 103
Accumulated depreciation		-	(3 543 609)	(3 179 465)	(90 099)	(46 494)	-	(6 859 667)
Impairment losses		-	-	(3 135)	(327)	-	(2 946)	(6 408)
Net carrying amount		14 307	2 359 313	2 109 019	34 848	16 236	981 305	5 515 028

Depreciation of property, plant and equipment used in production or in providing services was recognised in profit or loss as a cost of sales in the amount of PLN 454 273 thousand (for the period from 1 January to 31 December 2007, PLN 391 510 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 14 870 thousand (for the period from 1 January to 31 December 2007, PLN 17 293 thousand) and in selling costs in the amount of PLN 13 thousand (for the period from 1 January to 31 December 2007, PLN 13 thousand).

At 31 December 2008 KGHM Polska Miedź S.A. held motor vehicles based on a finance lease agreement in the gross amount of PLN 464 thousand and depreciation of PLN 39 thousand. At 31 December 2007 the Company did not hold property, plant and equipment based on a finance lease agreement.

4. Property, plant and equipment (continuation)

	At	
	31 December 2008	31 December 2007
Non-current assets held for sale	23 020	-
	23 020	-

At 31 December 2008, the balance sheet item non-current assets held for sale includes: shares in Polskie Towarzystwo Reasekuracyjne S.A. with carrying amount of PLN 20 000 thousand measured at fair value, 5 automobiles of PLN 563 thousand and a civil aircraft of PLN 2 484 thousand.

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

	At				At			
	31 December 2008				31 December 2007			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	2 358	-	-	2 358	1 864	-	-	1 864
Buildings and constructions	74 772	1 786	41 981	32 791	78 212	1 851	42 102	36 110
Technical equipment and machinery	4 860	213	3 966	894	7 187	219	6 080	1 107
Other property, plant and equipment	852	26	817	35	871	26	811	60
Total	82 842	2 025	46 764	36 078	88 134	2 096	48 993	39 141

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

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Amount of compensation recognised in profit or loss	1 754	1 776

Information about value of collateral established on property, plant and equipment for payables payment KGHM Polska Miedź S.A. is presented in note 17.1 Loans

4. Property, plant and equipment (continuation)

Perpetual usufruct of land

At 31 December 2008 the Divisions of the Company used land based on perpetual usufruct rights comprising a total area of 5 708 hectares (at 31 December 2007: 5 741 hectares).

	At	
	31 December 2008	31 December 2007
	(in hectares)	(in hectares)
Lubin Mine	53	56
Polkowice-Sieroszowice Mine	119	119
Rudna Mine	92	92
Ore Enrichment Plants	61	61
Głogów Smelter	2 046	2 047
Legnica Smelter	206	236
Cedynia Wire Rod Plant	48	48
Tailings Plant	3 072	3 071
Mine-smelter Emergency Rescue Unit	2	2
Data Center	3	3
Head Office	6	6

The Company received these rights free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the core business of the Company, which also includes protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company. Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights at 31 December 2008.

Off-balance sheet liabilities of the Company due to the perpetual usufruct of land estimated on the basis of annual fee rates resulting from the recent administrative decisions and the useful life of the land subject to this right.

	At	
	31 December 2008	31 December 2007
Total value of future minimum fees due to perpetual usufruct of land		
Under one year	6 173	5 929
From one to five years	24 472	23 644
Over five years	351 518	343 526
Total:	382 163	373 099

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Fees due to perpetual usufruct of land recognised in profit or loss	5 960	5 490

4. Property, plant and equipment (continuation)

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

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

Major investment projects recognised at 31 December 2007 under assets under construction

Construction of the SW-4 shaft	153 475
Construction of the Głogów Głęboki – Przemysłowy shaft	115 496
Mining region infrastructural development in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine	77 701
Pyrometallurgy modernisation in Głogów Smelter	32 159
Conformatory work in Rudna Mine, Legnica Smelter, Głogów Smelter	27 128
Conveyor belt and pipeline transport investment in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine	19 320
Total	425 279

Capital commitments at the balance sheet date but not recognised in the balance sheet

	At	
	31 December 2008	31 December 2007
For the purchase of property, plant and equipment	378 516	259 830
For the purchase of intangible assets	13 534	9 393
Total capital commitments:	392 050	269 223

5. Intangible assets

	At	
	31 December 2008	31 December 2007
Development costs	1 344	1 421
Software	2 250	2 305
Acquired concessions, patents, licenses	27 890	15 015
Other intangible assets	34 128	34 461
Intangible assets not yet available for use	15 292	21 628
Total	80 904	74 830

5. Intangible assets (continuation)

Changes in intangible assets in the period from 1 January 2007 to 31 December 2008:

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use	Total
At 1 January 2007							
Gross carrying amount		9 500	21 444	41 974	37 102	18 189	128 209
Accumulated amortisation		(6 858)	(18 725)	(25 315)	(1 887)	-	(52 785)
Impairment losses		-	-	-	-	-	-
Net carrying amount		2 642	2 719	16 659	35 215	18 189	75 424
Changes in 2007							
Transfer from intangible assets not yet available for use		-	467	5 302	-	(5 769)	-
Direct purchases		-	-	-	-	8 007	8 007
Liquidation or write-off		(737)	(1 239)	(2 568)	(14)	(737)	(5 295)
Other changes		-	-	-	-	2 703	2 703
Amortisation	22	(1 154)	(881)	(6 946)	(754)	-	(9 735)
Impairment losses		(67)	-	-	-	(765)	(832)
Decrease in accumulated amortisation due to liquidation, sale and other		737	1 239	2 568	14	-	4 558
At 31 December 2007							
Gross carrying amount		8 763	20 672	44 708	37 088	22 393	133 624
Accumulated amortisation		(7 275)	(18 367)	(29 693)	(2 627)	-	(57 962)
Impairment losses		(67)	-	-	-	(765)	(832)
Net carrying amount		1 421	2 305	15 015	34 461	21 628	74 830
Changes in 2008							
Transfer from intangible assets not yet available for use		358	939	10 698	-	(11 995)	-
Direct purchases		-	-	12 148	-	8 879	21 027
Liquidation or write-off		(570)	(2 877)	(4 044)	-	(76)	(7 567)
Other changes		-	-	-	421	(3 116)	(2 695)
Amortisation	22	(501)	(994)	(9 971)	(754)	-	(12 220)
Impairment losses		67	-	-	-	(28)	39
Decrease in accumulated amortisation due to liquidation, sale and other		569	2 877	4 044	-	-	7 490
At 31 December 2008							
Gross carrying amount		8 551	18 734	63 510	37 509	16 085	144 389
Accumulated amortisation		(7 207)	(16 484)	(35 620)	(3 381)	-	(62 692)
Impairment losses		-	-	-	-	(793)	(793)
Net carrying amount		1 344	2 250	27 890	34 128	15 292	80 904

At 31 December 2008, the most significant item of intangible assets of KGHM Polska Miedź S.A. is the documentation of geological information on the "Głogów Głęboki" deposit, included under other intangible assets, with a carrying amount of PLN 29 382 thousand (at 31 December 2007: PLN 30 029 thousand) and the established mining rights for extracting copper ore from the "Głogów Głęboki" deposit with a carrying amount of PLN 3 994 thousand (at 31 December 2007: PLN 4 080 thousand). The remaining amortisation period of both items of intangible assets is 46 years.

The amortisation of intangible assets utilised in the production or in the providing of services was recognised under cost of sales in the income statement in the amount of PLN 11 319 thousand (for the period from 1 January to 31 December 2007: PLN 8 771 thousand). The amortisation of other intangible assets was recognised in administrative expenses in the amount of PLN 901 thousand (for the period from 1 January to 31 December 2007: PLN 964 thousand).

6. Investments in subsidiaries and associates

	Investments in subsidiaries	Investments in associates
At 1 January 2007		
Amount at cost	2 854 763	438 559
Impairment losses	(1 171 554)	-
Net carrying amount at 1 January 2007	1 683 209	438 559
Changes in 2007		
- Acquisition of shares	19 714	-
- Taking up shares	134 726	-
- Decrease of share capital	(10 051)	-
- Impairment losses	(24 208)	-
At 31 December 2007		
Amount at cost	2 999 152	438 559
Impairment losses	(1 195 762)	-
Net carrying amount at 31 December 2007	1 803 390	438 559
At 1 January 2008		
Amount at cost	2 999 152	438 559
Impairment losses	(1 195 762)	-
Net carrying amount at 1 January 2008	1 803 390	438 559
Changes in 2008		
- Acquisition of shares	-	726 390
- Taking up shares	66 680	-
- Disposal of shares		(1 309)
- Impairment losses	(75 057)	
At 31 December 2008		
Amount at cost	3 065 832	1 163 640
Impairment losses	(1 270 819)	-
Net carrying amount at 31 December 2008	1 795 013	1 163 640

In accordance with IAS 36, at 31 December 2008 the Company performed an impairment test on the shares of subsidiaries, as a result of which an impairment loss was identified on the shares of Telefonía Dialog S.A. in the amount of PLN 75 057 thousand.

Due to the technological obsolescence and loss of utility of an asset, Dialog S.A. reviewed its financial projections, based on which KGHM Polska Miedź S.A. determined the value in use of the shares of Dialog S.A. A discounted cash flow analysis was performed, including a sensitivity analysis, based on these financial projections to the year 2015 approved by the Supervisory Board of the company, applying an average weighted cost of capital of 10.5%. This valuation was based on a 7-year projection period due to the investment realisation cycle assumed in the projection. Sensitivity testing on the amount of the discount rate applied (determined based on the WACC model) indicates that an average increase of 0.5 % in the rate would cause a decrease in the company's calculated value in use to PLN 757 581 thousand, while a decrease in the discount rate by 0.5% would cause an increase in the value in use to PLN 900 281 thousand.

6. Investments in subsidiaries and associates (continuation)

Investments in subsidiaries as at 31 December 2008

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

6. Investments in subsidiaries and associates (continuation)

Investments in subsidiaries as at 31 December 2007

Entity	Head office	Subject of activities	% of share capital held	% of voting rights held	Indirect share	Carrying amount of shares
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100	-	8 506
KGHM Polish Copper Ltd.	London	copper trading	100	100	-	6 903
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	-	33 686
KGHM Ecoren S.A.	Lubin	production of other products from non-metallic mineral resources	100	100	-	272 055
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	-	221 475
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	-	2 918
KGHM Kupferhandelsges m.b.H.	Vienna	copper trading	100	100	-	925
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	-	140 418
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100	-	899 983
KGHM Congo S.P.R.L.	Lubumbashi	ore production services	99.98	99.98	-	-
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	-	13 476
"Zagłębie" Lubin SSA	Lubin	participation in and organisation of professional sporting events	100	100	-	100 000
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	2.06	2.06	63.61	1 500
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	-	50 308
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	-	32 133
KGHM LETIA S.A	Legnica	promotion of innovation	94.95	94.95	-	19 104

6. Investments in subsidiaries and associates (continuation)

	At		
	31 December 2008	31 December 2007	
	POLKOMTEL S.A.	MINOVA-KSANTE Spółka z o.o.	POLKOMTEL S.A.
	Warsaw	Polkowice	Warsaw
Head office			
% of share capital held	24.39	30	19.61
% of voting rights held	24.39	30	19.61
Total assets	8 913 880	9 740	8 453 373
Non-current liabilities	1 293 456	-	1 170 048
Current liabilities	3 684 792	634	3 776 386
Sales	8 482 085	16 760	7 799 020
Profit for the period	1 361 239	3 006	1 358 676

On 26 August 2008 the KGHM Polska Miedź S.A. sold 13 500 shares of MINOVA-KSANTE Spółka z o.o. back to this company, representing 30% of the share capital of MINOVA-KSANTE Spółka z o.o. and granting the right to 30% of the votes at the General Shareholders' Meeting.

These shares were sold based on an agreement entered into between KGHM Polska Miedź S.A. and MINOVA-KSANTE Spółka z o.o. titled "Agreement for the buy-back of shares for the purpose of their retirement" dated 26 August 2008. The sale price for these 13 500 shares amounts to PLN 8 542 thousand (PLN 632.75 per share). Gains from disposal of MINOVA-KSANTE Spółka z o.o. amounts to PLN 7 233 thousand.

On 18 December 2008 KGHM Polska Miedź S.A. acquired from TDC Mobile International A/S 980 486 ordinary registered shares in Polkomtel S.A., with a nominal value of PLN 100 each, representing approx. 4.78% for EUR 176 978 thousand. The purchase price of the shares of Polkomtel S.A. in the accounts of KGHM Polska Miedź S.A. increased by PLN 726 390 thousand. As a result of settlement of this transaction, KGHM Polska Miedź S.A. holds 24.39% of the share capital of Polkomtel S.A.

7. Available-for-sale financial assets

	Note	At	
		31 December 2008	31 December 2007
Shares in unlisted companies	27	9 770	22 270
Share in the AIG investment fund	27	11 264	10 665
Non-current available-for-sale financial assets	27	21 034	32 935

8. Held-to-maturity investments

	Note	At	
		31 December 2008	31 December 2007
Monetary resources of Mine Closure Fund		59 545	43 893
Non-current held-to-maturity investments	27	59 545	43 893

The Company is required by the Law on Geology and Mining, dated 4 February 1994 (Journal of Laws No. 228 item 1947 dated 14 November 2005) and the Ruling of the Minister of the Economy of 24 June 2002 regarding the specific principles for the creation and functioning of mine closure funds (Journal of Laws No. 108, item 951) to accumulate monetary resources in a separate bank account called the Mine Closure Fund (MCF) to cover future decommissioning costs of mines and other facilities. As these funds will only be utilised in future periods, the Company has determined that, despite the fact that they are not invested in long-term financial instruments, they are in fact restricted from being used to settle liabilities within at least twelve months from the balance sheet date (IAS 1 para. 57 d.) and therefore it is more appropriate to present them under non-current assets.

Management of the MCF assets primarily involves their investment in short-term bank deposits or debt securities with a maturity of up to 1 year from the date of acquisition. MCF assets at the balance sheet date were mainly invested in short-term deposit of PLN 59 540 thousand.

Information on the fair value of held-to-maturity investments was presented in Note 27.2.

9. Derivative financial instruments

		At	
	Note	31 December 2008	31 December 2007
Non-current assets, of which:			
hedging instruments		6 501	30 308
trade instruments		-	3 087
Non-current assets due to derivative financial instruments		6 501	33 395
Current assets, of which:			
hedging instruments		711 096	68 075
trade instruments		-	13 369
Current assets due to derivative financial instruments		711 096	81 444
Total assets arising from derivative instruments	27	717 597	114 839
Non-current liabilities, of which:			
trade instruments		-	3 087
Non-current liabilities due to derivative financial instruments		-	3 087
Current liabilities, of which:			
hedging instruments		-	964
trade instruments		3 771	13 371
Current liabilities due to derivative financial instruments		3 771	14 335
Total liabilities arising from derivative instruments	27	3 771	17 422

9. Derivative financial instruments (continuation)

TRADE DERIVATIVES	Type of financial instrument	Volume/ Notional	Avg. weighted price/ex. rate	At 31 December 2008		At 31 December 2007	
				Financial assets		Financial liabilities	
				Current		Non-current	
				Current		Non-current	
		Cu ['000 t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]				
Derivatives – Commodity contracts – Metals – Copper							
Swaps		1.35	4 039.92		(3 771)		
Options							
Purchased put options						13 369	3 087
Written put options							(13 371)
TOTAL:					(3 771)	13 369	3 087
Total trade derivatives					(3 771)	13 369	3 087

KGHM Polska Miedź S.A.
Annual financial statements prepared in accordance with IFRS
as adopted by the European Union
for the financial year from 1 January 2008 to 31 December 2008
(amounts in tables in thousand PLN, unless otherwise stated)

9. Derivative financial instruments (continuation)

HEDGING DERIVATIVES		Avg. weighted price/ ex. rate	Maturity date		Period of profit/loss impact		At 31 December 2008		At 31 December 2007	
							Financial assets	Financial liabilities	Financial assets	Financial liabilities
Type of financial instrument	Volume/ Notional									
	Cu ['000 t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	From	Till	From	Till	Current	Non- current	Current	Non- current
Derivatives – Commodity contracts – Metals – Copper										
Swaps										(964)
Options										
Collar – purchased put options	3	7 300.00	Jan 09	Mar 09	Feb 09	Apr 09	37 604			
Collar – written call options	3	9 000.00	Jan 09	Mar 09	Feb 09	Apr 09				
Purchased put options	60	6 200.00	Jan 09	June 09	Feb 09	July 09	554 031		63 140	11 951
Synthetic put										
TOTAL:							591 635		63 140	11 951 (964)
Derivatives – Commodity contracts – Metals – Silver										
Swaps										
Options										
Purchased put options	8 800	12.00	Jan 09	Nov 09	Feb 09	Dec 09	57 135		4 935	18 357
Purchased put options	800	12.00	Dec 09	Dec 09	Jan 10	Jan 10		6 501		
Collars										
TOTAL:							57 135	6 501	4 935	18 357
Derivatives – Currency contracts – PLN/USD										
Forwards										
Options										
Purchased put options	924 000	2.4334	Jan 09	Dec 09	Jan 09	Dec 09	62 326			
TOTAL:							62 326			
TOTAL hedging derivatives							711 096	6 501	68 075	30 308 (964)

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

10. Trade and other receivables

		At	
	Note	31 December 2008	31 December 2007
Non-current trade and other receivables			
Additional payment to capital		53 512	9 000
Other financial receivables		1 349	1 480
Loans granted		7 000	
Impairment allowances		-	-
Total loans and financial receivables, net	27	61 861	10 480
Other non-financial receivables		14	44
Prepayments		25	488
Impairment allowances		-	-
Total non-financial receivables, net		39	532
Non-current trade and other receivables, net		61 900	11 012
Current trade and other receivables			
Trade receivables		520 436	557 875
Receivables due to unsettled derivative instruments	28.1.8	287 146	8 877
Loans granted		2 323	1 218
Additional payment to capital		1 500	44 512
Other financial receivables		78 548	47 377
Impairment allowances	28.3.6	(24 408)	(20 839)
Total loans and financial receivables, net	27	865 545	639 020
Other non-financial receivables, including:		378 049	184 462
Taxes, social security and other charge		374 435	178 752
Prepayments		2 766	2 351
Impairment allowances		(23 859)	(53 554)
Total non-financial receivables, net		356 956	133 259
Current trade and other receivables, net		1 222 501	772 279
Total non-current and current trade and other receivables, net		1 284 401	783 291

Receivables due to unsettled derivative instruments represent the amount of derivative instruments whose date of settlement is 5 January 2009 for the balance at 31 December 2008, and 3 January 2008 for the balance at 31 December 2007. These instruments were measured to fair value at the average settlement price for the month of December 2008 and of December 2007. For details see note 28.1.8.

Impairment allowances on non-financial receivables

		For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Impairment allowances at the beginning of the period		53 554	11 007
Impairment allowances recognised in profit/loss for the period	25	170	42 556
Impairment allowances reversed through profit or loss for the period	24	(5 250)	-
Impairment allowances on costs of legal proceedings		6	1
Impairment allowances utilised during the period		(24 617)	(1)
Reversal of impairment allowances on costs of legal proceedings		(4)	(9)
Impairment allowances at the end of the period		23 859	53 554

11. Inventories

	At	
	31 December 2008	31 December 2007
Materials	143 597	127 676
Semi-finished products and work in progress	1 061 660	1 148 588
Finished products	238 755	327 223
Goods for resale	2 790	-
Total carrying amount of inventories	1 446 802	1 603 487

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Write-down of inventories in the financial period		
Write-down of inventories recognised in cost of sales	62 172	1 388
Reversal of write-down recognised in cost of sales	(1 077)	(602)

At 31 December 2008, the most significant item in inventories were copper inventories. In accordance with accounting principles, these copper inventories were valued at net sale price based on the LME forward curve set for the months in which a given copper sale occurs. Amount of write-down: PLN 58 381 thousand.

12. Cash and cash equivalents

	Note	At	
		31 December 2008	31 December 2007
Cash in hand		77	58
Cash at bank		110 827	1 570
Other financial assets with a maturity of up to 3 months from the date of acquisition		1 682 676	2 533 367
Total cash and cash equivalents	27.1	1 793 580	2 534 995

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 1 678 914 thousand (as at 31 December 2007: PLN 2 451 985 thousand), and deposit interest in the amount of PLN 3 762 thousand (as at 31 December 2007: PLN 2 380 thousand); there were no debt securities held at 31 December 2008 (as at 31 December 2007: PLN 79 002 thousand).

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

13. Share capital

	Registered share capital	Share capital revaluation due to hyperinflation	Total
At 1 January 2007	2 000 000	5 413 573	7 413 573
Transfer of share capital revaluation to reserve capital	-	(5 413 573)	(5 413 573)
At 31 December 2007	2 000 000	-	2 000 000
At 31 December 2008	2 000 000	-	2 000 000

As at 31 December 2008, the Company's registered share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares ("A" series), fully paid, with a nominal value of PLN 10 each. All shares are bearer shares. The Company did not issue preference shares. Each share gives right to one vote at the General Shareholders' Meeting. The Company does not have treasury shares. Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A. In the years ended 31 December 2008 and 31 December 2007 there were no changes in the share capital registered or in the number of shares.

Ownership structure

At 31 December 2008, the only shareholder of the Company with shares representing at least 5% of the share capital and giving right to the same number of votes at the General Shareholders' Meeting, based on information dated 16 May 2007, was the State Treasury, which held 83 589 900 shares, with a total nominal value of PLN 835 899 000, which accounts for 41.79% of the Company's share capital.

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

Changes in significant blocks of shares

In 2008 there were no changes in significant blocks of shares.

14. Other reserves

	Note	Revaluation reserve on available-for-sale financial assets	Revaluation reserve on cash flow hedging financial instruments	Total other reserves
At 1 January 2007		8 319	(439 845)	(431 526)
Fair value gains on available-for-sale financial assets		14 197	-	14 197
Impact of effective cash flow hedging transactions entered into	28	-	131 890	131 890
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(19 894)	-	(19 894)
Amount transferred to profit or loss due to the settlement of hedging instruments	28	-	435 533	435 533
Deferred tax	18	1 083	(117 500)	(116 417)
Total income/(expenses) recognised directly in equity		(4 614)	449 923	445 309
At 31 December 2007		3 705	10 078	13 783
At 1 January 2008		3 705	10 078	13 783
Fair value gains on available-for-sale financial assets		9 992	-	9 992
Impact of effective cash flow hedging transactions entered into	28	-	1 197 853	1 197 853
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(1 893)	-	(1 893)
Amount transferred to profit or loss due to the settlement of hedging instruments	28	-	(579 991)	(579 991)
Deferred tax	18	(1 539)	(119 457)	(120 996)
Total income/(expenses) recognised directly in equity		6 560	498 405	504 965
At 31 December 2008		10 265	508 483	518 748

The revaluation reserve presented in other reserves, set in the amount of the fair value of hedging instruments in the effective portion of the hedge and the re-measurement to fair value of available-for-sale financial assets, is not subject to distribution.

15. Retained earnings

	Reserve capital created in accordance with the Code of Commercial Companies, art. 396	Reserve capital created from profit in accordance with the Statutes	Profit/(loss) from prior years	Retained earnings, total
At 1 January 2007	660 000	1 344 961	(871 194)	1 133 767
Profit for the period	-	-	3 798 826	3 798 826
Total recognised income/(expenses)	-	5 414 703	(3 395 130)	2 019 573
Transfer of share capital revaluation to reserve capital	-	5 413 573	-	5 413 573
Transfer to reserve capital	-	1 130	(1 130)	-
Dividend approved and paid	-	-	(3 394 000)	(3 394 000)
At 31 December 2007	660 000	6 759 664	(467 498)	6 952 166
At 1 January 2008	660 000	6 759 664	(467 498)	6 952 166
Profit for the period	-	-	2 920 378	2 920 378
Total recognised income/(expenses)	-	(2 267 498)	467 498	(1 800 000)
Transfer to reserve capital	-	1 998 825	(1 998 825)	-
Coverage of losses by reserve capital	-	(4 266 323)	4 266 323	-
Dividend approved and paid	-	-	(1 800 000)	(1 800 000)
At 31 December 2008	660 000	4 492 166	2 920 378	8 072 544

Based on the Code of Commercial Companies, the Company is required to create reserve capital against any potential (future) or existing losses, to which no less than 8 percent of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.

At 31 December 2008 this statutory reserve capital in the Company amounts to PLN 660 000 thousand, and is recognised in equity under retained earnings.

16. Trade and other payables

		At	
	Note	31 December 2008	31 December 2007
Non-current trade and other payables			
Trade payables		10 912	4 698
Other financial liabilities		12 676	-
Total non-current financial liabilities (scope of MSSF7)	27	23 588	4 698
Deferred income		1 374	1 607
Total non-current non-financial liabilities		1 374	1 607
Total non-current trade and other payables		24 962	6 305
Current trade and other payables			
Trade payables		694 956	560 957
Payables due to unsettled derivative financial instruments	28.1.8	35 395	3 304
Other financial liabilities		17 888	109 813
Total current financial liabilities (scope of MSSF7)	27	748 239	674 074
Other financial liabilities (IAS 19 – Employee benefits)		132 393	139 337
Total current financial liabilities		880 632	813 411
Liabilities due to taxes and social security		183 613	261 633
Other non-financial liabilities		43 762	76 234
Special funds		73 926	56 104
Deferred income		1 077	22 616
Accruals		293 078	280 843
Total current non-financial liabilities		595 456	697 430
Total current trade and other payables		1 476 088	1 510 841
Total non-current and current trade and other payables		1 501 050	1 517 146

Payables due to unsettled derivative instruments represent the amount of derivative instruments whose date of settlement falls on 5 January 2009 for the balance at 31 December 2008 and 3 January 2008 for the balance at 31 December 2007. These instruments were measured to fair value at the average settlement price for the month of December 2008 and of December 2007. For details see note 28.1.8.

Accruals include PLN 213 611 thousand of accrued annual bonus, which will be paid according to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.

17. Borrowings and finance lease liabilities

	Note	At	
		31 December 2008	31 December 2007
Non-current loans and finance lease liabilities			
Loans	27	3 000	7 000
Finance lease liabilities	27	14 173	13 319
Total non-current loans and finance lease liabilities		17 173	20 319
Current loans and finance lease liabilities			
Loans	27	4 012	6 022
Finance lease liabilities	27	3 108	2 590
Total current loans and finance lease liabilities		7 120	8 612
Total loans and finance lease liabilities	27	24 293	28 931

17.1 Loans

Loans as at 31 December 2008

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

Loans as at 31 December 2007

Loan currency	Interest	The value of the loan at balance sheet date	Of which payable in:		
			2008 (current)	2009 (non-current)	2010 (non-current)
PLN	Fixed	13 022	6 022	4 000	3 000

As at 31 December 2008 the Company had a loan from the Regional Fund for Environmental Protection and Water Management in the amount of PLN 7 012 thousand, including PLN 7 000 thousand payable by 16 September 2010 and PLN 12 thousand payable by 25 January 2009. Interest rate on the above loans is 4%. The repayment of the loan is guaranteed with a blank promissory note and Borrower's statement on submission to the enforcement regime under loan agreement.

Until 28 March 2008, KGHM Polska Miedź S.A., based on signed contracts, had credit facilities in current accounts. Due to positive cash flow generated from operating activities and a significant balance of cash and cash equivalents, KGHM Polska Miedź S.A. did not prolong these contracts for credit facilities.

17. Borrowings and finance lease liabilities (continuation)

17.2 Finance lease liabilities

As at 31 December 2008, the most significant item in finance lease liabilities is the liability with carrying amount of PLN 16 903 thousand, which results from an agreement with the State Treasury. Based on this agreement the State Treasury is providing an access to geological information for a fee. This information was acquired with the purpose to prepare a licensing application to obtain a license for the extraction of ore from the Głogów Głęboki - Przemysłowy deposit. This license was granted in November 2004. Payments to the State Treasury are being made in 10 equal instalments. The last instalment will be settled on 30 June 2014. Those non interest-bearing liabilities were recognised in the books of the Company at a discounted amount. As the payments are in EUR, the liability is exposed to currency risk due to changes in foreign exchange rates at the date of payment. The carrying amount of the liabilities resulting from this agreement is PLN 16 903 thousand (EUR 4 051 thousand), while the carrying amount of the related intangible assets at the balance sheet date amounts to PLN 29 382 thousand.

Finance lease liabilities as at 31 December 2008

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

Finance lease liabilities as at 31 December 2007

	2009 (current)	2009	2010	2011- 2012	2013 and beyond	Total
Nominal value of minimum lease payments	2 651	2 651	2 651	5 301	5 301	18 555
Future finance costs due to finance leases	61	172	281	869	1 263	2 646
Present value of minimum lease payments	2 590	2 479	2 370	4 432	4 038	15 909

18. Deferred tax - changes

	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Deferred tax assets at the beginning of the period		509 119	640 783
Deferred tax liabilities at the beginning of the period		348 338	350 786
Net deferred tax asset at the beginning of the period, of which:		160 781	289 997
Changes during the year			
Charged to profit or loss	29	(288 733)	(299 299)
Credited to profit or loss	29	217 432	286 500
Decrease in equity	14	(191 411)	(283 557)
Increase in equity	14	70 415	167 140
Net deferred tax (liability)/asset at the end of the period, of which:		(31 516)	160 781
Deferred tax assets at the end of the period		499 221	509 119
Deferred tax liabilities at the end of the period		530 737	348 338

18. Deferred tax – changes (continuation)

Deferred tax assets prior to offsetting

	At 1 January 2007 based on the rate of 19%	Credited/(Charged) to profit or loss due to a change in the balance of temporary differences and tax loss	Increase/(Decrease) in equity due to change in the balance of temporary differences	At 31 December 2007 based on the rate of 19%
Exchange rate differences	16 807	(13 106)	-	3 701
Interest	8	(2)	-	6
Allowances for impairment of receivables	7 780	6 564	-	14 344
Short-term accruals for wages	48 623	5 061	-	53 684
Employee benefits (holidays)	3 762	(748)	-	3 014
Provision for decommissioning of mines and other facilities	87 192	17 372	-	104 564
Measurement of forward transactions	114 381	(52 998)	-	61 383
Re-measurement of hedging instruments	125 805	1 512	(117 500)	9 817
Depreciation differences	10 766	96	-	10 862
Liabilities due to future employee benefits	164 750	9 915	-	174 665
Unpaid wages with surcharges	44 150	7 665	-	51 815
Other	16 759	4 505	-	21 264
Total	640 783	(14 164)	(117 500)	509 119

	At 1 January 2008 based on the rate of 19%	Credited/(Charged) to profit or loss due to a change in the balance of temporary differences and tax loss	Increase/(Decrease) in equity due to change in the balance of temporary differences	At 31 December 2008 based on the rate of 19%
Exchange rate differences	3 701	(3 701)	-	-
Interest	6	(3)	-	3
Allowances for impairment of receivables	14 344	(5 801)	-	8 543
Short-term accruals for wages	53 684	(4 674)	-	49 010
Employee benefits (holidays)	3 014	495	-	3 509
Provision for decommissioning of mines and other facilities	104 564	12 738	-	117 302
Measurement of forward transactions	61 383	(23 233)	-	38 150
Re-measurement of hedging instruments	9 817	(8 158)	(119)	1 540
Depreciation differences	10 862	1 745	-	12 607
Liabilities due to future employee benefits	174 665	24 641	-	199 306
Unpaid wages with surcharges	51 815	(3 585)	-	48 230
Other	21 264	(243)	-	21 021
Total	509 119	(9 779)	(119)	499 221

18. Deferred tax – changes (continuation)

Deferred tax liabilities prior to offsetting

	At 1 January 2007 based on the rate of 19%	(Credited)/Charged to profit or loss due to a change in the balance of temporary differences	(Increase)/ Decrease in equity due to change in the balance of temporary differences	At 31 December 2007 based on the rate of 19%
Exchange rate differences	9 147	(7 502)	-	1 645
Interest	782	2 222	-	3 004
Measurement of forward transactions	46 445	(36 889)	-	9 556
Depreciation differences	289 892	31 442	-	321 334
Measurement of available- for-sale financial assets	1 887	-	(1 083)	804
Other	2 633	9 362	-	11 995
Total	350 786	(1 365)	(1 083)	348 338

	At 1 January 2008 based on the rate of 19%	(Credited)/Charged to profit or loss due to a change in the balance of temporary differences	(Increase)/ Decrease in equity due to change in the balance of temporary differences	At 31 December 2008 based on the rate of 19%
Exchange rate differences	1 645	(1 645)	-	-
Interest	3 004	(1 797)	-	1 207
Measurement of forward transactions	9 556	49 942	-	59 498
Re-measurement of hedging instruments	-	-	119 338	119 338
Depreciation differences	321 334	26 687	-	348 021
Measurement of available- for-sale financial assets	804	-	1 539	2 343
Other	11 995	(11 665)	-	330
Total	348 338	61 522	120 877	530 737

19. Employee benefits

Changes in future employee benefits

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent
Present value of obligations - at 1 January 2007	879 756	237 412	172 201	470 143
Interest costs	41 242	11 091	8 144	22 007
Current service cost	32 872	13 650	9 434	9 788
Benefits paid	(70 297)	(30 186)	(16 713)	(23 398)
Actuarial losses	46 683	11 241	6 905	28 537
Present value of obligations - at 31 December 2007	930 256	243 208	179 971	507 077
Past service cost unrecognised at the balance sheet date	(10 961)	-	(10 961)	-
Carrying amount of liabilities - at 31 December 2007	919 295	243 208	169 010	507 077
of which:				
Carrying amount of non-current liabilities	853 096	216 515	153 330	483 251
Carrying amount of current liabilities	66 199	26 693	15 680	23 826

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent
Present value of obligations - at 1 January 2008	930 256	243 208	179 971	507 077
Interest costs	51 104	13 284	10 066	27 754
Current service cost	34 660	14 106	9 950	10 604
Benefits paid	(71 486)	(31 564)	(13 824)	(26 098)
Actuarial (gains)/losses	113 727	3 266	(5 272)	115 733
Present value of obligations - at 31 December 2008	1 058 261	242 300	180 891	635 070
Past service cost unrecognised at the balance sheet date	(9 275)	-	(9 275)	-
Carrying amount of liabilities - at 31 December 2008	1 048 986	242 300	171 616	635 070
of which:				
Carrying amount of non-current liabilities	975 697	214 775	155 704	605 218
Carrying amount of current liabilities	73 289	27 525	15 912	29 852

19. Employee benefits (continuation)

At	Present value of employee benefits
31 December 2008	1 048 986
31 December 2007	919 295
31 December 2006	867 109
31 December 2005	831 352
31 December 2004	727 011

Total costs recognised in the income statement due to future employee benefits

Total costs recognised in the income statement	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Current service cost	34 660	32 872
Interest costs	51 104	41 242
Actuarial gains	113 727	46 683
Past service cost	1 687	1 686
	201 178	122 483

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

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

Main actuarial assumptions:	2009	2010	2011	2012 and beyond
- discount rate	6.00%	5.60%	5.50%	5.50%
- rate of increase in coal prices	13.00%	3.50%	3.50%	3.50%
- rate of increase in the lowest wage	0.00%	4.50%	4.50%	4.50%
- expected inflation	4.50%	3.50%	3.50%	3.50%
- future expected increase in wages	4.50%	4.50%	4.50%	4.50%

20. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2007		524 560	459 254	5 287	15 372	44 647
Provisions recognised		27 117	-	-	352	26 765
Changes in provisions arising from updating of estimates		81 382	82 847	-	-	(1 465)
Changes in provisions due to unwinding of discount	26	26 302	24 922	226	-	1 154
Utilisation of provisions		(13 615)	(3 839)	(142)	(149)	(9 485)
Release of provisions		(1 234)	(226)	(561)	(356)	(91)
Transfer to Mine Closure Fund		(12 647)	(12 647)	-	-	-
Provisions at 31 December 2007		631 865	550 311	4 810	15 219	61 525
of which:						
Non-current provisions		556 589	527 623	4 272	-	24 694
Current provisions		75 276	22 688	538	15 219	36 831

	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2008		631 865	550 311	4 810	15 219	61 525
Provisions recognised		5 235	124	754	2 713	1 644
Changes in provisions arising from updating of estimates		42 767	39 469	(22)	-	3 320
Changes in provisions due to unwinding of discount	26	38 091	37 289	217	-	585
Utilisation of provisions		(44 021)	(9 687)	-	(1 163)	(33 171)
Release of provisions		(12 205)	(230)	(38)	(11 937)	-
Transfer to Mine Closure Fund		(14 351)	(14 351)	-	-	-
Other		(12 591)	-	-	-	(12 591)
Provisions at 31 December 2008		634 790	602 925	5 721	4 832	21 312
of which:						
Non-current provisions		591 320	574 224	2 467		14 629
Current provisions		43 470	28 701	3 254	4 832	6 683

20. Provisions for other liabilities and charges (continuation)

As at 31 December 2008 the most significant item of provisions for other liabilities is the **provision for the costs of future decommissioning (liquidation) of mines and other technological facilities** with the carrying value of PLN 602 925 thousand (as at 31 December 2007: PLN 550 311 thousand), created in accordance with the methodology defined in the International Financial Reporting Standards.

Decommissioning schedule and estimates of decommissioning costs have been worked on since the beginning of 2001 by the Company's subsidiary, KGHM Cuprum Sp. z o.o. CBR. Revaluations of the basic decommissioning costs originally calculated in 2001 are made periodically based on the changes of price index for the construction-assembly industry, which are published by the Main Statistical Office, taking into account movements in tangible fixed assets. The exception to the above are mine shafts. In 2006, costs of shafts liquidation were revalued due to completion of the document called "Study of the project of liquidation of the P-III and P-IV mine shafts in the Polkowice Wschodnie Region and the project of excavation of deposits located in the safety pillars of those shafts – Stage III. 1. The project of liquidation of the P-III shaft, 2. The project of liquidation of the P-IV shaft" prepared by Cuprum and securing positive opinions for those projects of the Commission for Water, Waste Management and Mine Closure- Related Threats operating by the Main Mine Office – Resolution No. 2/2007 dated 6 September 2007. Detailed information included in technical projects developed for the P-III and P-IV shafts in the Polkowice Wschodnie Region provided the basis for verification of forecasts concerning costs of liquidation of other shafts in KGHM Polska Miedź S.A.

Subsequent revaluations have been made if significant economic events occurred which could have impact on the amount of the provision. The 2007 revaluation related mainly to the decommissioning schedule and was due to adoption by the Ministry of Natural Environment in January 2007 certain additions to the projects relating to ore deposits management at KGHM Polska Miedź S.A., which were underlying mining activities of the Company. These amended projects assume that ore excavation will continue until the year 2040.

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

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

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

It is expected that decommissioning costs will be incurred by the year 2047. The provision was estimated based on the currently used technology for decommissioning of mining facilities and using the current prices and the discount rate as in the model for provisions for future employee benefits (Note 19).

20. Provisions for other liabilities and charges (continuation)

Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other facilities at 31 December 2008

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

Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other facilities at 31 December 2007

Division	Facility	
ZH	"Żelazny Most" tailings pond	90 692
ZWR	ZWR Rudna Ore Enrichment Plant	50 239
ZH	Other waste storage areas	43 758
ZWR	ZWR Polkowice Ore Enrichment Plant	41 517
ZGR	Central part of Rudna Mine (shafts: RI, RII, RV)	39 630
ZWR	ZWR Lubin Ore Enrichment Plant	32 641
ZH	Pipelines and technological facilities	26 146
ZGR	Western part of Rudna Mine (shafts: RIII, RIV, RX)	23 295
ZGPS	Eastern part of Polkowice Mine (shafts: PIII, PIV)	20 616
ZGL	R6 - Central (shafts: LI, LII)	18 262

Provisions for disputed issues and court proceedings represent a less significant item of provisions. They are mainly relating to:

- asserting copyright in the amount of PLN 2 982 thousand for the use of an invention (as at 31 December 2007 in the amount of PLN 2 982 thousand),
- a non-legally binding verdict of the Court of Appeals in Wrocław in favour of PPHiU Legwro, which is demanding compensation from KGHM Polska Miedź S.A. in the amount of PLN 1 837 thousand.

21. Sales

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

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Copper, precious metals, smelter by-products	11 138 367	12 018 673
Salt	19 983	18 347
Services	50 885	54 285
Other goods	10 962	12 206
Goods for resale	43 232	42 560
Wastes and production materials	39 071	33 391
Other materials	413	3 651
Total	11 302 913	12 183 113

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

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
domestic	3 430 643	4 602 148
Copper, precious metals, smelter by-products	3 268 572	4 436 554
Salt	19 983	18 347
Services	48 410	54 285
Other goods	10 962	12 206
Goods for resale	43 232	43 714
Wastes and production materials	39 071	33 391
Other materials	413	3 651
export	7 872 270	7 580 965
Copper, precious metals, smelter by-products	7 869 795	7 582 119
Services	2 475	-
Goods for resale and materials	-	(1 154)
Total	11 302 913	12 183 113

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Average copper price on LME (USD/t)	6 952	7 126
Average exchange rate (USD/PLN) per NBP	2.41	2.77

22. Costs by type

	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Depreciation of property, plant and equipment and amortisation of intangible assets	4,5	481 376	418 551
Employee benefit costs	23	2 455 203	2 344 124
Materials and energy consumption		3 446 981	3 291 929
External services		1 034 444	884 436
Taxes and charges		278 017	268 129
Advertising costs and representation expenses		20 481	37 029
Property and personal insurance		8 871	9 835
Research and development costs not capitalised in intangible assets		4 883	4 982
Other costs, of which:		72 371	(5 619)
Write-down of inventories	11	62 172	1 388
Allowance for impairment of receivables	27.3	35	60
Impairment loss on property, plant and equipment, intangible assets	4,5	328	2 945
Reversal of write-down of inventories	11	(1 077)	(602)
Reversal of allowance for impairment of receivables	27.3	(3)	(14 159)
Reversal of impairment loss on property, plant and equipment, intangible assets		(67)	-
Losses from the disposal of financial instruments	27.3	1 608	1 142
Other operating costs		9 375	3 607
Total costs by type		7 802 627	7 253 396
Cost of goods for resale and materials sold (+)		80 266	76 848
Change in inventories of finished goods and work in progress (+/-)		114 896	16 416
Cost of manufacturing products for internal use (-)		(87 252)	(43 295)
Total cost of sales, selling and administrative costs		7 910 537	7 303 365

23. Employee benefit costs

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Remuneration	1 738 947	1 710 595
Costs of social security and other benefits	586 564	581 343
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits	129 692	52 186
Employee benefit costs	2 455 203	2 344 124

24. Other operating income

	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Income and gains from financial instruments classified under other operating activities, resulting from:		937 416	1 191 951
Interest on financial instruments	27.3	112 839	107 479
Gains from the disposal of financial instruments	27.3	14 795	26 111
Measurement and realisation of derivative instruments	27.3	672 624	1 058 325
Reversal of allowance for impairment of financial receivables	27.3	5	36
Foreign exchange gains - financial	27.3	137 153	-
Gains from disposal of shares in associates		7 233	-
Non-financial interest		10 549	13 215
Reversal of allowance for impairment of non-financial receivables		5 250	-
Foreign exchange losses - non-financial		(14 990)	-
Dividends received		237 174	270 363
Release of unused provisions		17 513	6 351
Penalties and compensation received		6 126	6 124
Excess payments of property tax		179	11 210
Government grants and other donations received		1 309	2 792
Surpluses identified in tangible current assets and cash and cash equivalents		7 160	7 149
Other operating income/gains		9 873	7 207
Total other operating income		1 224 792	1 516 362

25. Other operating costs

	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Costs and losses on financial instruments classified under other operating activities, resulting from:		887 399	1 536 974
Measurement and realisation of derivative instruments	27.3	884 625	1 371 472
Interest on overdue financial liabilities	27.3	199	-
Foreign exchange losses	27.3	-	165 451
Allowances for impairment of other financial receivables	27.3	20	51
Losses on measurement of non-current liabilities	27.3	2 555	-
Impairment losses on shares in a subsidiary		75 057	24 208
Allowances for impairment of other non-financial receivables		170	42 556
Impairment losses on intangible assets not yet available for use		29	765
Losses on the sale of intangible assets		77	734
Losses on the sale of property, plant and equipment		9 354	15 104
Impairment losses on assets under construction		2 947	-
Donations granted		10 636	8 847
Interest on overdue non-financial liabilities		1 784	5 715
Provisions for:		15 459	48 766
Decommissioning of mines		5 824	21 157
Property tax and interest on property tax		1 335	10 624
Disputed issues, pending court proceedings		2 713	352
Other		5 587	16 633
Penalties and compensation paid		1 442	2 498
Non-returnable additional payments to capital of subsidiaries		-	13 971
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events		1 102	1 249
Effects of tax audit decisions		639	-
Other operating costs/losses		14 709	12 689
Total other operating costs		1 020 804	1 714 076

26. Net finance costs

	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Interest expense:	27.3	2 337	1 483
On loans		656	787
Due to finance leases		1 681	696
Net foreign exchange (gains)/losses on borrowings	27.3	1 810	(1 281)
Changes in the value of liabilities due to unwinding of discount, due to:		38 588	26 302
Measurement of financial liabilities	27.3	497	-
Measurement of provisions for decommissioning of mines	20	37 289	24 922
Measurement of other provisions	20	802	1 380
Total net finance costs		42 735	26 504

27. Financial instruments

27.1 Carrying amount

		At 31 December 2008								
Note		Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities		Hedging instruments	Total
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Classes of financial instruments										
Debt securities										-
Shares	7	9 770								9 770
Shares and participation units in investment funds	7	11 264								11 264
Trade receivables (net)	10				498 545					498 545
Cash and cash equivalents and deposits up to 3 months	12, 8		59 545		1 793 580					1 853 125
Other financial assets (net)	10				428 861					428 861
Derivatives - Currency	9								62 326	62 326
Derivatives - Commodity contracts - Metals	9					(3 771)			655 271	651 500
Trade payables	16						(705 868)			(705 868)
Loans	17						(7 012)			(7 012)
Other financial liabilities	16, 17						(65 959)	(17 281)		(83 240)
		21 034	59 545	-	2 720 986	(3 771)	(778 839)	(17 281)	717 597	2 719 271

27. Financial instruments

27.1 Carrying amount

		At 31 December 2007													
Note		Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities		Hedging instruments	Total					
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39							
Classes of financial instruments															
Debt securities	12				79 002					79 002					
Shares	7	22 270								22 270					
Shares and participation units in investment funds	7	10 665								10 665					
Trade receivables (net)	10				539 813					539 813					
Cash and cash equivalents and deposits up to 3 months	12, 8		43 893		2 455 993					2 499 886					
Other financial assets (net)	10				109 687					109 687					
Derivatives - Commodity contracts - Metals	9			16 456		(16 458)			97 419	97 417					
Trade payables	16						(565 655)			(565 655)					
Loans	17						(13 022)			(13 022)					
Other financial liabilities	16, 17						(83 508)	(45 518)		(129 026)					
		32 935	43 893	16 456	3 184 495	(16 458)	(662 185)	(45 518)	97 419	2 651 037					

27. Financial instruments (continuation)

27.2 Fair values

Classes of financial instruments	Note	At 31 December 2008		At 31 December 2007	
		Carrying amount	Fair Value	Carrying amount	Fair Value
		31.1		31.1	
Debt securities	12	-	-	79 002	79 002
Shares	7	9 770	9 770	22 270	22 270
Shares and participation units in investment funds	7	11 264	11 264	10 665	10 665
Trade receivables (net)	10	498 545	498 545	539 813	539 813
Cash and cash equivalents and deposits up to 3 months	8, 12	1 853 125	1 853 370	2 499 886	2 499 969
Other financial assets (net)	10	428 861	428 861	109 687	109 687
Derivatives – Currency, of which:	9	62 326	62 326	-	-
Assets		62 326	62 326	-	-
Derivatives - Commodity contracts - Metals, of which:	9	651 500	651 500	97 417	97 417
Assets		655 271	655 271	114 839	114 839
Liabilities		(3 771)	(3 771)	(17 422)	(17 422)
Trade payables	16	(705 868)	(705 868)	(565 655)	(565 655)
Loans	17	(7 012)	(7 012)	(13 022)	(13 022)
Other financial liabilities	16,17	(83 240)	(83 240)	(129 026)	(129 026)

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

The Company is unable to reliably measure the fair value of shares held in companies which are not listed on active markets, classified as available-for-sale financial assets. As a result they are disclosed in the balance sheet at cost less impairment.

KGHM Polska Miedź S.A.
Annual financial statements prepared in accordance with IFRS
as adopted by the European Union
for the financial year from 1 January 2008 to 31 December 2008
(amounts in tables in thousand PLN, unless otherwise stated)

27. Financial instruments (continuation)

27.3 Items of income, costs, gains and losses recognised in the income statement for the period by categories of financial instruments

For the period from 1 January 2008 to 31 December 2008	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity investments	Loans and receivables	Other financial liabilities		Hedging instruments	Total financial instruments
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Interest income/(expense)	24, 25, 26	-	-	-	112 839	(855)	(1 681)	-	110 303
Exchange gains/(losses)	25, 26	-	-	-	160 071	(22 888)	(1 840)	-	135 343
Losses on measurement of financial liabilities	25, 26	-	-	-	-	(3 052)	-	-	(3 052)
Impairment allowances	22, 25	-	-	-	(55)	-	-	-	(55)
Reversal of impairment allowances	22, 24	-	-	-	8	-	-	-	8
Adjustment to sales due to hedging transactions	28	-	-	-	-	-	-	579 991	579 991
Profit from disposal of financial instruments	22, 24	-	2 683	-	10 504	-	-	-	13 187
Gains on measurement and realisation of derivative instruments	24	672 624	-	-	-	-	-	-	672 624
Losses on measurement and realisation of derivative instruments	25	(884 625)	-	-	-	-	-	-	(884 625)
Total net gain/(loss)		(212 001)	2 683	-	283 367	(26 795)	(3 521)	579 991	623 724

For the period from 1 January 2007 to 31 December 2007	Note	Financial assets measured at fair value through profit or loss	Available-for- sale financial assets	Held-to- maturity investments	Loans and receivables	Other financial liabilities		Hedging instruments	Total financial instruments
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Interest income/(expense)	24, 25, 26	-	-	303	107 176	(787)	(696)	-	105 996
Exchange gains/(losses)	25, 26	-	(892)	-	(126 346)	(38 213)	1 281	-	(164 170)
Impairment allowances	22, 25	-	-	-	(111)	-	-	-	(111)
Reversal of impairment allowances	22, 24	-	-	-	14 195	-	-	-	14 195
Adjustment to sales due to hedging transactions	28	-	-	-	-	-	-	(435 533)	(435 533)
Profit from disposal of financial instruments	22, 24	-	18 802	354	5 813	-	-	-	24 969
Gains on measurement and realisation of derivative instruments	24	1 058 325	-	-	-	-	-	-	1 058 325
Losses on measurement and realisation of derivative instruments	25	(1 371 472)	-	-	-	-	-	-	(1 371 472)
Total net gain/(loss)		(313 147)	17 910	657	727	(39 000)	585	(435 533)	(767 801)

27. Financial instruments (continuation)

27.4 Transfers not qualified for de-recognition

KGHM Polska Miedź S.A. does not own financial assets whose transfer does not qualify for derecognition.

27.5 Situations concerning financial instruments which did not occur in the Company

The following business events and situations, which are required to be disclosed, did not occur in the Company in the periods ended 31 December 2008 and 31 December 2007:

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

28. Financial risk management

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

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

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

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

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

28.1 Market risk

28.1.1. Principles of market risk management

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

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

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

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. For example, hedging transactions on the commodity market are related to contracts entered into on the currency market, as hedging prices of metals directly impacts the probability of achieving planned revenues from sales, which in turn represent hedged item for transactions dealt on the currency market. As a result, the Company has significantly greater flexibility in building hedging strategies.

The Company applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented, embracing an increasing share of production and sales revenues as well as extended time horizon. Consequently, the hedging of the Company is possible against unexpected plunges in both copper and silver prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notional amounts at a single price level.

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

28.1.2. Techniques for market risk management

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

All of the potential hedging strategies and the selection of those preferred reflect the following factors: current and forecasted market conditions, the internal situation of the Company, suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivative instruments are primarily used. The Company transacts only these derivative instruments for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company relies on information obtained from particular market leading banks, brokers and information services.

28. Financial risk management (continuation)

28.1 Market risk (continuation)

28.1.2. Techniques for market risk management (continuation)

It is permitted to use the following types of instruments:

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

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

28.1.3. Hedge effectiveness requirement

Hedging transactions can be entered into only if there is an appropriate instrument traded in a liquid market with a quoted reference price. Prior to the transaction the Company is required to confirm and document the existence of strong negative correlation between changes in value of the reference instrument and changes in value of actually-hedged exposure. Hedge effectiveness is subject to constant evaluation and monitoring.

28.1.4. Measurement of market risk

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

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

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

However, due to the fact that none risk measure possesses the ability to completely reflect the reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

28.1.5. Restrictions on entering into hedging transactions

Due to the risk of unexpected production cutback (for example because of "force majeure") or failure to achieve planned foreign currency revenues, which could lead to overhedging of actual market risk exposure, the Company has set a limit for the volume of production or the amount of sales revenues for a given period that may be hedged, at a level of up to 80%. The maximum time horizon within which the Company makes decisions concerning hedging of market risk is set up in accordance with technical and economic planning process, and amounts to 5 years. However, it must be emphasised that regardless of the tool used to measure market risks, the results of such measurement for long time horizons (especially above 2 years) may be subject to significant uncertainty, and therefore are treated as estimates.

28.1.6. Market risk exposure

28.1.6.1. Commodity risk

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

28. Financial risk management (continuation)

28.1 Market risk (continuation)

28.1.6. Market risk exposure (continuation)

28.1.6.1. Commodity risk(continuation)

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

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

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

For the period

	from 1 January 2008 to 31 December 2008		from 1 January 2007 to 31 December 2007	
	Sales	Purchases	Sales	Purchases
Copper ['000 tonnes]	537	107	527	93
Silver [tonnes]	1 175	17	1 177	30

Sensitivity of the Company's financial instruments to commodity risk at the balance sheet date is presented in note 28.1.10 Sensitivity analysis of exposure to market risk.

28.1.6.2. Currency risk

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

Moreover, the Company is exposed to the risk of changes in currency rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the USD.

Sensitivity of the Company's financial instruments to the currency risk at the balance sheet date is presented in note 28.1.10 Sensitivity analysis of exposure to market risk.

28.1.6.3. Interest rate risk

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

As at 31 December 2008 the Company had liabilities amounting to PLN 7 012 thousand due to loans based on fixed interest rates.

The Company has granted, within Group, a floating rate loan with reference rate based on variable interest rates LIBOR 1M and WIBOR 1M. This exposes the Company to the risk of changes in cash flows resulting from changes in the reference interest rate. As at 31 December 2008 the balance of the loan granted amounted to PLN 9 323 thousand.

At the balance sheet date the Company had no instruments hedging against interest rate risk.

28.1.7. Hedging exposure to market risk

In 2008 copper price hedging strategies represented approx. 35% (in 2007: 25%) of the sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 32% (in 2007: 6%). In the case of currency market, hedged revenues from sales represented approx. 11% (in 2007: 10%) of total revenues from sales realised by the Company.

In 2008 the Company implemented copper price hedging strategies with a total volume of 99 thousand tonnes and a maturity falling in the fourth quarter of 2008 and the first half of 2009. The Company made use of options. In addition, during this period the Company implemented adjustment hedge strategies with a total volume of 24.8 thousand tonnes and a maturity falling in 2008 and 2009. In the case of the silver market, during the analysed period no strategies were implemented to hedge the price of this metal.

28. Financial risk management (continuation)

28.1 Market risk (continuation)

28.1.7. Hedging exposure to market risk (continuation)

In 2008 adjustment hedge transactions were implemented on the silver market for a total volume of 643 thousand troz and a maturity falling in January 2008.

In the case of the forward currency market, in 2008 the Company implemented strategies hedging the USD/PLN rate for an amount of USD 1 374 million and a time horizon falling in the fourth quarter of 2008 and in 2009. The Company made use of options. During the analysed period there were no adjustment hedge transactions implemented on the currency market.

The Company remains hedged for a portion of copper sales planned in the first half of 2009 (63 thousand t), for a portion of silver sales planned in 2009 (9.6 million troz). With respect to revenues from sales (currency market) the Company holds a hedged position in 2009 of USD 924 million.

28.1.8. Impact of derivatives on the Company's balance sheet

As at 31 December 2008, the fair value of open positions in derivative instruments amounted to PLN 713 826 thousand, of which PLN 717 597 thousand relate to financial assets and PLN 3 771 thousand relate to financial liabilities.

Derivative instruments whose date of settlement was 5 January 2009 were measured at fair value and accounted for in trade and other receivables as receivables due to unsettled derivative instruments, or in trade and other liabilities as liabilities due to unsettled derivative instruments.

The fair value of receivables/ liabilities due to unsettled derivative instruments, with a settlement date 5 January 2009 is as follows:

- PLN 287 146 thousand presented as other financial receivables (Note 10),
- PLN 35 395 thousand presented as other financial liabilities (Note 16).

Other information concerning derivatives is presented in Note 9 Derivative instruments and in Note 27.2 Fair value.

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

In 2008, the result on derivative instruments amounted to PLN 367 990 thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from equity to sales for the period amounted to PLN 579 991 thousand. Other operating costs arising from the measurement of derivative instruments amounted to PLN 112 426 thousand and from the realisation of derivative instruments, PLN 99 575 thousand. Adjustment to other operating costs arising from the measurement of derivative instruments results mainly from changes of the time value of options, which will be settled in the future periods. Due to the hedge accounting principles applied by the Company, the change in the time value of options is not recognised in the revaluation reserve.

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

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Impact on sales	579 991	(435 533)
Impact on other operating costs	(212 001)	(313 147)
Losses from realisation of derivative instruments	(99 575)	(47 165)
Losses from measurement of derivative instruments	(112 426)	(265 982)
Total impact of derivative instruments on profit or loss:	367 990	(748 680)

The value of adjustment to the other operating cost for 2008 due to the ineffective portion of cash flow hedges amounted to PLN 205 487 thousand (in 2007: PLN 179 995 thousand), of which PLN 107 924 thousand is a loss on measurement of hedging instruments (in 2007: PLN 154 964 thousand) and PLN 97 563 thousand is a loss on the realisation of the ineffective portion of hedging instruments (in 2007: PLN 25 031 thousand).

28. Financial risk management (continuation)

28.1 Market risk (continuation)

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

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

The effectiveness of hedging instruments used by the Company during the period is evaluated and measured by comparing the changes in the forward prices of hedged items with the changes in the prices of forward contracts or the changes in the intrinsic value of options, as appropriate.

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

AMOUNTS RECOGNISED IN EQUITY

	At	
	31 December 2008	31 December 2007
Revaluation reserve – commodity price risk hedging transactions (copper and silver) – derivatives	627 757	(964)
Revaluation reserve – currency risk hedging transactions – foreign currency loans	-	10 859
Total revaluation reserve from hedging instruments in cash flow hedges (excluding the deferred tax effect)	627 757	9 895

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Gains or (losses) on hedging instruments in cash flow hedges recognised directly in equity		
Cumulative gain or loss arising from changes in the fair value of hedging instruments in cash flow hedges at the beginning of the period	9 895	(557 528)
Amounts recognised in equity in the reporting period in respect of hedging transactions	1 197 853	131 890
Amounts transferred from equity to the income statement in the financial period	(579 991)	435 533
Cumulative gain or loss arising from changes in the fair value of hedging instruments in cash flow hedges at the end of the period (excluding the deferred tax effect)	627 757	9 895

28. Financial risk management (continuation)

28.1 Market risk (continuation)

28.1.10. Sensitivity analysis of exposure to market risk

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

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

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

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

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

In analysing the sensitivity of the item "Derivatives – Currency" and "Derivatives – Commodity contracts" it should be noted that the Company holds a position in derivative instruments hedging future cash flows from the sale of copper and silver. It should also be noted that the Company is exposed to risk in respect of the planned volume of copper and silver sales from its own production, adjusted by its position in hedging instruments.

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

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

KGHM Polska Miedź S.A.
Annual financial statements prepared in accordance with IFRS
as adopted by the European Union
for the financial year from 1 January 2008 to 31 December 2008
(amounts in tables in thousand PLN, unless otherwise stated)

28. Financial risk management (continuation)

28.1 Market risk (continuation)

28.1.10. Sensitivity analysis of exposure to market risk (continuation)

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

KGHM Polska Miedź S.A.
Annual financial statements prepared in accordance with IFRS
as adopted by the European Union
for the financial year from 1 January 2008 to 31 December 2008
(amounts in tables in thousand PLN, unless otherwise stated)

28. Financial risk management (continuation)

28.1 Market risk (continuation)

28.1.10. Sensitivity analysis of exposure to market risk (continuation)

SENSITIVITY ANALYSIS AS AT 31 DECEMBER 2007

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2007 CARRYING AMOUNT	CURRENCY RISK								COMMODITY RISK							
			USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			2.91		2.06		3.96		3.31		9 376		3 748		18.57		8.54	
			+19%		- 15%		+11%		- 8%		+41%		- 44%		+26%		-42%	
	[‘000 PLN]	[‘000 PLN]	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
Shares and participation units in investment funds	10 665	10 665	1 680		(1 327)													
Trade receivables (net)	216 530	539 813	22 219		(17 551)		6 450		(4 700)									
Cash and cash equivalents and deposits up to 3 months	1 124 085	2 499 886	62 944		(49 720)		61 900		(45 106)									
Other financial assets (net)	16 518	109 687	2 321		(1 834)		152		(111)									
Derivatives – Commodity contracts Metals	97 417	97 417	15 499	(152)	(12 243)	120					(55 188)	7 331	(66 735)	567 002	(12 789)	-	(11 055)	128 457
Trade payables	(14 738)	(565 655)	(1 075)		849		(676)		493									
Other financial liabilities	(21 406)	(129 026)	(736)		581		(1 430)		1 042									
IMPACT ON PROFIT & LOSS ACCOUNT			102 852		(81 245)		66 396		(48 382)		(55 188)		(66 735)		(12 789)		(11 055)	
IMPACT ON EQUITY				(152)		120					7 331		567 002		-			128 457

28. Financial risk management (continuation)

28.2. Liquidity risk and capital management

The Company is exposed to financial liquidity risk, where financial liquidity is understood as the ability to settle its liabilities within given timeframes. The fact that the activities are financed using external sources (loans, borrowings, buyer's credit) increases the risk of losing liquidity in the future.

The Company must have permanent access to financial markets, and is therefore exposed to the risk of losing the ability to acquire new financing, as well as to refinance its current debt. This risk is primarily dependent on market conditions and on the evaluation of the creditworthiness of the Company.

The Company decides about the choice of investments and maturities of those investments taking into account the maturities of its liabilities.

Due to positive cash flows from operating activities and significant amount of cash balances in the Company, in 2008, as well as in 2007, the Company barely used external sources of financing.

Liquidity analysis for financial liabilities as at 31 December 2008

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

Liquidity analysis for financial liabilities as at 31 December 2007

	Contractual maturities from the balance sheet date					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Financial liabilities							
Trade payables	560 590	371	3 364	865	865	566 055	565 655
Loans, including bank loans	146	6 288	7 267	-	-	13 701	13 022
Derivatives – Commodity contracts (metals)	-	964	-	-	-	964	17 422
Other financial liabilities	88 117	27 651	5 301	5 301	5 301	131 671	129 026
Total financial liabilities by maturity	648 853	35 274	15 932	6 166	6 166	712 391	

The values presented in Liquidity analysis in respect of financial liabilities arising from derivatives are their intrinsic values, excluding the effects of discounting.

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

In accordance with a market practice, the Company monitors its capital, among others based on the *equity ratio* and the *ratio of Debt/EBITDA*. The *equity ratio* is calculated as the relation of net tangible assets (equity

28. Financial risk management (continuation)

28.2. Liquidity risk and capital management (continuation)

less intangible assets) to total assets. The ratio of *Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities to EBITDA (EBITDA is operating profit plus depreciation and amortisation). In order to maintain financial liquidity and the capacity to acquire external financing at a reasonable cost, the Company assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Debt/EBITDA* at a level of up to 2.0.

The above ratios at 31 December 2008 and 31 December 2007 are presented below:

	At	
	31 December 2008	31 December 2007
Equity	10 591 292	8 965 949
Less: intangible assets	80 904	74 830
Net tangible assets	10 510 388	8 891 119
Total assets	13 900 564	12 423 630
Equity ratio	0.76	0.72
Operating profit	3 596 364	4 682 034
Plus: depreciation/amortisation	481 376	418 551
EBITDA	4 077 740	5 100 585
Borrowings and finance lease liabilities	24 293	28 931
Ratio of Debt/EBITDA	0.006	0.006

Due to the low level of debt of the Company as at 31 December 2008, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.006.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.76 at 31 December 2008. The increase in this ratio at 31 December 2008 versus the level at 31 December 2007 results from the fact that net tangible assets increased by 18%.

In 2008 and 2007 there were no external capital requirements imposed on the Company.

28.3. Credit risk

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

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

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

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

28.3.1. Credit risk related to cash and cash equivalents and bank deposits

All entities with which deposit transactions are entered into operate in the financial sector. These are mainly banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest¹ (75% of deposits) and medium-high² credit ratings (25% of

¹ By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moodys.

² By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moodys.

28. Financial risk management (continuation)

28.3. Credit risk (continuation)

28.3.1. Credit risk related to cash and cash equivalents and deposits (continuation)

deposits), appropriate level of equity and strong, stable market position. The maximum exposure of the Company to a single bank in respect of cash and cash equivalents amounts to 24% as at 31 December 2008.

Given the above as well as the short-term nature of those investments, the Company estimates credit risk associated with cash and cash equivalents and deposits as low.

28.3.2. Credit risk related to derivative transactions

All entities with which derivative transactions are entered into operate in the financial sector. These are financial institutions (mainly banks), with the highest¹ (27.8%), medium - high² (55.6%) or medium³ (16.7%) credit ratings. The maximum exposure of the Company to a single entity in respect of derivative instruments amounts to 17.9 %.

Fair value of derivative instruments at 31 December 2008 amounted to⁴:

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

Due to geographical and institutional diversification of creditors and cooperation with financial institutions having a high credit rating, the Company is not materially exposed to credit risk due to derivatives.

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

28.3.3. Credit risk related to trade and other financial receivables

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

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

	At 31 December 2008			At 31 December 2007		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Trade receivables	52.2 %	35.5 %	12.3 %	53.7 %	30.5 %	15.8 %

¹ By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moodys.

² By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moodys.

³ By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moodys.

⁴ The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2009, which were recognised in the Company's balance sheet under other financial receivables (Note 10) and other financial payables (Note 16).

28. Financial risk management (continuation)

28.3. Credit risk (continuation)

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

The Company makes the majority of its sales transactions based on prepayments. The Company monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom the buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always 100% secured. The Company has secured the majority of its receivables by promissory notes¹, frozen funds on bank accounts, registered pledge², bank guarantees and documentary collection. In addition, the majority of contracts where customers are provided with a buyer's credit contain an ownership rights reservation clause confirmed by a date certain³.

The total value of the Company's trade receivables as at 31 December 2008, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 475 723 thousand (at 31 December 2007: PLN 539 812 thousand). The decrease in the level of receivables compared to the end of 2007 mainly results from decreased sales in the 4th quarter of 2008 compared to the 4th quarter of 2007 (lower metal price).

The concentration of credit risk in the Company results from the fact that key clients are allowed extended terms of payment. Consequently, at 31 December 2008 the balance of receivables from 7 of the Company's largest clients, calculated as a percentage of trade receivables at the balance sheet date, represents 82% of the balance of trade receivables (at 31 December 2007: 65%). Despite this concentration of receivables from key clients (most of whom operate in the European Union), the Company believes that, given the available historical data as well as long-lasting history of cooperation and used hedging, the level of credit risk is low.

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

28.3.4. Credit risk related to loans granted

The Company granted a loan to subsidiaries and a related entity. Due to the fact that the financial situation and the financial results of Group companies are closely monitored, the Company estimates that the level of credit risk related to the granted loans is low.

28.3.5. Credit risk related to investments in debt securities and participation units in investment funds

The Company invested its free cash resources in corporate bonds issued or guaranteed by companies granted an investment rating by the respectable international rating agencies (Standard&Poor's, Moody's, Fitch). The Company has also purchased participation units in money market investment funds.

Given the above as well as the short-term nature of the investments, the Company estimates that the level of credit risk for the above investments is low.

¹ In order to speed up any potential collection of receivables, each promissory note is accompanied by a notarial enforcement declaration.

² At the balance sheet date the Company held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.

³ A trade contract clause officially certified by a notary means that the ownership of goods is transferred to the buyer only upon payment, regardless of their physical delivery.

28. Financial risk management (continuation)

28.3. Credit risk (continuation)

28.3.6. Other information related to credit risk

Aging analysis of financial assets overdue as at balance sheet date, for which no impairment loss has been recognised

At 31 December 2008						
	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	24 270	20 887	3 348	31	1	3
Other receivables	525	214	277	33	1	-

At 31 December 2007						
	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	25 127	23 932	1 166	24	3	2
Other receivables	229	135	71	20	2	1

Except for trade receivables and other financial receivables, no other classes of financial instruments were identified as overdue but not impaired at the balance sheet date.

Changes in allowances for impairment of financial assets - category loans and financial receivables - are presented in the tables below:

Allowances for impairment of loans and financial receivables

a) trade receivables (category: loans and financial receivables)

	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Impairment allowance at the beginning of the period	10	18 062	35 706
Impairment allowance recognised in profit or loss		35	21
Impairment allowance reversed through profit or loss		(3)	(14 174)
Revaluation of impairment allowance on foreign exchange differences		3 796	(2 956)
Impairment allowance utilised during the period		-	(510)
Reversal of impairment allowance on costs of legal proceedings		-	(25)
Impairment allowance at the end of the period	10	21 890	18 062

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

	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Impairment allowance at the beginning of the period	10	2 777	3 092
Impairment allowance recognised in profit or loss		20	90
Impairment allowance reversed through profit or loss		(5)	(21)
Revaluation of impairment allowance on foreign exchange differences		5	(16)
Impairment allowance utilised during the period		(246)	(370)
Impairment allowance on costs of legal proceedings		-	2
Reversal of impairment allowance on costs of legal proceedings		(33)	-
Impairment allowance at the end of the period	10	2 518	2 777

29. Income tax

Income tax	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Current income tax		576 428	836 641
Deferred income tax	18	71 301	12 799
Adjustments to current income tax from prior periods		(14 478)	7 264
Total		633 251	856 704

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Profit before tax	3 553 629	4 655 530
Tax calculated at tax rates in force	675 190	884 551
Not taxable income	(111 015)	(186 798)
Expenses not deductible for tax purposes	83 554	151 687
Adjustments to current income tax from prior periods	(14 478)	7 264
Income tax expense	633 251	856 704

The applicable income tax rate was 19% (2007: 19%). The effective interest rate was 17.82% (2007: 18.4%).

30. Earnings per share

Basic earnings/diluted earnings

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Profit (loss) for the period	2 920 378	3 798 826
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	14.60	18.99

There are no dilutive ordinary shares.

31. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2008 of the Ordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. dated 26 June 2008 regarding the appropriation of Company profit for financial year 2007 and setting of the right to dividend date and dividend payment date, the amount of PLN 1 800 000 thousand, representing PLN 9.00 per share, was allocated as a shareholders dividend from profit for financial year 2007. The right to dividend date was set at 18 July 2008, and dividend payment date at 7 August 2008. All shares of KGHM Polska Miedź S.A. are ordinary shares.

32. Notes to the cash flow statement

Cash generated from operating activities

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Income tax from the income statement	633 251	856 704
Depreciation/amortisation	481 376	418 551
Losses on sales of property, plant and equipment and intangible assets	9 431	15 838
Gains on sales of available-for-sale financial assets and held-to-maturity investments	(2 683)	(19 156)
Gains on sales of shares in subsidiaries and of investments in associates	(7 233)	-
Impairment loss on property, plant and equipment, intangible assets, shares in subsidiaries	78 293	27 918
Interest and share in profits (dividends)	(235 194)	(269 255)
Foreign exchange (gains)/losses	(18 206)	42 848
Change in provisions	94 767	94 640
Change in derivative instruments	1 453	139 903
Other adjustments	(4 166)	(6 470)
Changes in working capital:	(362 190)	269 428
Inventories	156 685	34 784
Trade and other receivables	(493 721)	475 696
Trade and other payables	(25 154)	(241 052)
Cash generated from operating activities	668 899	1 570 949

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

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	16 902	24 216
Losses on sales of property, plant and equipment and intangible assets	(9 431)	(15 838)
Change in receivables due to sales	(24)	-
Proceeds from sales of property, plant and equipment and intangible assets	7 447	8 378

33. Related party transactions

State Treasury Companies (Companies list as at 30 June 2008) meet the definition of related entities. Turnover and balances with these entities have been reflected in the disclosures presented in this note.

For the period from 1 January 2008 to 31 December 2008

Sales to related entities	Sales of products	Sales of goods for resale and materials	Other transactions
To subsidiaries	1 345 203	49 821	5 300
To associates	168	117	8 560
To State Treasury Companies	18 346	6	14
Total sales to related entities	1 363 717	49 944	13 874

KGHM Polska Miedź S.A. received dividends from subsidiaries in the amount of PLN 54 087 thousand (from 1 January 2007 to 31 December 2007: PLN 4 895 thousand) and dividends from associates in the amount of PLN 182 860 thousand (from 1 January 2007 to 31 December 2007: PLN 265 072 thousand).

During the period from 1 January to 31 December 2008, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

Significant sales to State Treasury Companies during the period from 1 January 2008 to 31 December 2008:

1. Fabryka Przewodów Energetycznych S.A.	13 571
2. Huta Będzin S.A.	4 595
3. Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej w Legnicy S.A.	79
4. Kopalnie Surowców Skalnych S.A.	50

33. Related party transactions (continuation)

For the period from 1 January 2007 to 31 December 2007

Sales to related entities	Sales of products	Sales of goods for resale and materials	Other transactions
To subsidiaries	1 655 640	49 222	2 658
To associates	222	185	18
To State Treasury Companies	18 759	-	304
Total sales to related entities	1 674 621	49 407	2 980

During the period from 1 January to 31 December 2007, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

Significant sales to State Treasury Companies during the period from 1 January 2007 to 31 December 2007:

1. Fabryka Przewodów Energetycznych S.A.	11 232
2. Huta Będzin S.A.	7 411
3. EnergiaPro S.A.	304
4. Telewizja Polska S.A.	88

For the period from 1 January 2008 to 31 December 2008

Purchases from related entities	Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
From subsidiaries	565 180	1 936 382	446 024	74 792
From associates	1 929	3 437	16	-
From State Treasury Companies	611 919	62 999	6 697	25
Total purchases from related entities	1 179 028	2 002 818	452 737	74 817

Significant purchases from State Treasury Companies during the period from 1 January to 31 December 2008:

1. EnergiaPro S.A.	547 667
2. Polskie Górnictwo Naftowe S.A.	91 894

33. Related party transactions (continuation)

Purchases from related entities	For the period from 1 January 2007 to 31 December 2007			
	Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
From subsidiaries	558 204	1 751 432	346 279	39 690
From associates	1 756	6 134	-	-
From State Treasury Companies	543 057	33 947	2 989	-
Total purchases from related entities	1 103 017	1 791 513	349 268	39 690

Significant purchases from State Treasury Companies during the period from 1 January to 31 December 2007:

1. EnergiaPro S.A.	479 812
2. Polskie Górnictwo Naftowe i Gazownictwo S.A.	84 944
3. Nitroerg S.A.	9 444
4. Zakłady Koksownicze WAŁBRZYCH S.A.	1 586

33. Related party transactions (continuation)

Remuneration of the Management Board in 2008

	Period when function served in 2008	Wages	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits due to termination of employment relationship	Retirement rights	Benefits, other earnings	Total earnings in 2008
Members of the Management Board as at 31 December 2008								
Mirosław Krutin	23.04-31.12.2008	346	47	141	-	-	55	589
Maciej Tybura	23.04-31.12.2008	282	38	63	-	-	59	442
Herbert Wirth	23.04-31.12.2008	282	38	91	-	-	50	461
Dismissed Members of the Management Board *								
Krzysztof Skóra	01.01-17.01.2008	293	126	74	600	-	56	1 149
Maksymilian Bylicki	-	171	79	-	460	-	45	755
Marek Fusiński	01.01-23.04.2008	342	139	51	448	-	65	1 045
Stanisław Kot	01.01-23.04.2008	342	170	32	448	198	26	1 216
Ireneusz Reszczyński	01.01-23.04.2008	342	139	56	448	-	34	1 019
Dariusz Kaśków	01.01-17.01.2008	239	-	-	293	-	7	539
Total		2 639	776	508	2 697	198	397	7 215

* the item „Wages” includes wages during the termination period

Remuneration of the Management Board in 2007

	Period when function served in 2007	Wages	Annual bonus, sector bonuses	Earnings from subsidiaries and associates	Benefits due to termination of employment relationship	Retirement rights	Benefits, other earnings	Total earnings in 2007
Members of the Management Board as at 31 December 2007								
Krzysztof Skóra	01.01-31.12.2007	448	212	231	-	-	58	949
Marek Fusiński	01.01-31.12.2007	364	172	151	-	-	88	775
Stanisław Kot	01.01-31.12.2007	364	149	49	-	-	35	597
Ireneusz Reszczyński	01.01-31.12.2007	364	215	143	-	-	30	752
Dariusz Kaśków	06.11-31.12.2007	59	2	-	-	-	37	98
Dismissed Members of the Management Board *								
Maksymilian Bylicki	01.01-06.11.2007	364	172	323	-	-	90	949
Wiktor Błądek	-	-	10	-	83	-	-	93
Mirosław Biliński	-	-	37	-	-	-	-	37
Andrzej Krug	-	-	-	-	75	-	-	75
Robert Nowak	-	-	23	-	65	-	-	88
Sławomir Pakulski	-	-	-	-	55	-	-	55
Jarosław Andrzej	-	-	-	-	-	-	-	-
Szczepek	-	-	-	-	75	-	-	75
Marek Szczerbiak	-	-	-	-	88	-	-	88
Total		1 963	992	897	441	-	338	4 631

* the item „Wages” includes wages during the termination period

Remuneration of the Supervisory Board in 2008

	Period when function served in 2008	Wages for the period when function served in the Supervisory Board	Earnings from other contracts	Earnings from subsidiaries and associates	Total earnings in 2008
Marcin Dyl	14.02-31.12.2008		77	-	77
Arkadiusz Kawecki	14.02-31.12.2008		77	-	77
Jacek Kuciński	14.02-31.12.2008		87	-	87
Marek Panfil	14.02-31.12.2008		75	-	75
Marek Trawiński	14.02-31.12.2008		97	58	155
Marzenna Weresa	14.02-31.12.2008		75	-	75
Leszek Jakubów	01.01-14.02.2008		19	-	19
Stanisław Potycz	01.01-14.02.2008		14	-	14
Anna Mańk	01.01-14.02.2008		11	-	11
Remigiusz Nowakowski	01.01-14.02.2008		10	-	10
Marcin Ślęzak	01.01-13.02.2008		10	-	10
Jerzy Żyżyński	01.01-14.02.2008		15	-	15
Józef Czyczerski	01.01-31.12.2008		86	96	182
Leszek Hajdacki	01.01-31.12.2008		87	162	249
Ryszard Kurek	01.01-31.12.2008		89	134	223
Total			829	392	1 279

33. Related party transactions (continuation)

Remuneration of the Supervisory Board in 2007

	Period when function served in 2007	Wages for the period when function served in the Supervisory Board	Earnings from other contracts	Earnings from subsidiaries and associates	Total earnings in 2007
Adam Glapiński	11.04-10.07.2007	21	-	-	21
Adam Łaganowski	01.01-18.10.2007	61	-	-	61
Anna Mańk	11.04-31.12.2007	49	-	-	49
Stanisław Potycz	01.01-31.12.2007	76	-	-	76
Jan Sulmicki	01.01-11.04.2007	20	-	-	20
Marcin Ślęzak	01.01-31.12.2007	69	-	-	69
Jerzy Żyżyński	01.01-31.12.2007	69	-	-	69
Leszek Jakubów	18.10-31.12.2007	17	-	-	17
Remigiusz Nowakowski	18.10-31.12.2007	14	-	-	14
Józef Czyzerski	01.01-31.12.2007	69	71	-	140
Leszek Hajdacki	01.01-31.12.2007	69	167	-	236
Ryszard Kurek	01.01-31.12.2007	69	169	-	238
Total		603	407	-	1 010

	At	
Trade receivables from related entities	31 December 2008	31 December 2007
From subsidiaries	181 538	190 975
From associates	26	50
From State Treasury Companies	369	1 695
Total receivables from related entities	181 933	192 720

Significant receivables due to sales transactions with State Treasury Companies at 31 December 2008:

1. Huta Będzin S.A.	329
2. Powszechny Zakład Ubezpieczeń	14
3. Nitroerg S.A.	12

33. Related party transactions (continuation)

Allowances for impairment of trade receivables from related entities

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Impairment allowance at the beginning of the period	17 852	35 014
Impairment allowance recognised in profit or loss for the period	-	67
Impairment allowance reversed through profit or loss for the period		(13 990)
Impairment allowances utilised during the period	(244)	(267)
Reversal of impairment allowance on costs of legal proceedings	(33)	-
Revaluation of impairment allowance due to foreign exchange differences	3 801	(2 972)
Impairment allowance at the end of the period	21 376	17 852

	At	
	31 December 2008	31 December 2007
Trade payables towards related entities		
Towards subsidiaries	232 723	292 769
Towards associates	327	761
Towards State Treasury Companies	63 889	56 170
Total payables towards related entities	296 939	349 700

Significant payables due to purchases from State Treasury Companies at 31 December 2008:

1. EnergiaPro S.A.	56 615
2. Polskie Górnictwo Naftowe	2 881

	At	
	31 December 2008	31 December 2007
No-cost guarantees granted to related entities	2 169	5 532

34. Remuneration of Auditor

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Ernst & Young Audit Sp. z o.o.	1 206	1 088
Due to contract for the review and audit of financial statements	1 068	978
- audit of annual financial statements	687	597
- review of financial statements	381	381
Due to other contracts	138	110
Other services of companies of the Ernst & Young Group in Poland	1 485	525
Of which due to tax consultancy	1 002	525

35. Off-balance sheet liabilities due to operating leases

Total value of future minimum payments due to non-rescindable contractual periods for operating leases and rental contracts

	At	
	31 December 2008	31 December 2007
Up to one year	6 424	5 288
From one to five years	10 724	11 041
Over five years	4 247	6 173
Total:	21 395	22 502

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Lease payments recognised in profit or loss		
Value of minimum lease payments	7 605	6 616

36. Contingent items and other off-balance sheet items

	At	
	31 December 2008	31 December 2007
Contingent receivables	9 858	122 972
Contested State Budget issues	9 216	122 395
Guarantees received	435	577
Other receivables	207	-
Off-balance sheet receivables	25 195	25 195
Inventions, implementation of projects	25 195	25 195
Contingent liabilities	31 002	675 886
Guarantees granted	7 170	12 811
Agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A	-	641 731
Disputed issues, pending court proceedings	14 185	7 483
Contingent penalties	1 627	3 838
Preventive safety measures in respect of mine-related damages	8 000	10 000
Other	20	23
Off-balance sheet liabilities	465 264	451 189
Due to implementation of projects and inventions	61 706	55 588
Operating leases	21 395	22 502
Payments due to perpetual usufruct of land	382 163	373 099

* The contingent agreement for the sale of shares in Polkomtel S.A. was realised on 18 December 2008.

The value of contingent assets items is based on estimates.

Contested State Budget issues

In 2008 legal regulations related to taxes have not been significantly changed as compared to prior year. Despite some stabilisation of tax court and administrations judgments, tax interpretations issued by tax office – through implemented duty of issuing individual interpretations regarding tax law problems by the Ministry of Finance, there are still areas of uncertainty and disputes. Issues regarding qualification of expenses deductible for tax purposes and determination of a tax base are and still may have caused the tax risk for entities pursuing economic activity.

Tax bodies, operating within their assigned spheres of competence, are authorised to conduct audits and to examine records relating to business transactions accounted for in financial accounts within a period of 5 years from the end of the fiscal year for which a tax return was made and a financial result was calculated. Given the lack of consistent interpretation, KGHM Polska Miedź S.A. may be charged with additional taxation as well as interest.

In the opinion of the Management Board of the Company, there are no existing circumstances which would indicate the possibility of the arising of significant tax liabilities.

Contingent receivables due to contested State Budget issues in administrative courts regarding taxes amounted at the balance sheet date to PLN 9 216 thousand, of which the most significant relate to income taxes:

	PLN '000
Personal income tax for year 2000	1 702
Corporate income tax (lump-sum) for year 2003	1 914
Corporate income tax for year 2002	2 496

Contingent receivables regarding contested issues on property tax on underground mining facilities amounts to PLN 2 454 thousand (as at 31 December 2007: PLN 119 628 thousand).

Due to the review of a constitutional complaint by the Constitutional Tribunal, filed on 14 July 2006 by KGHM Polska Miedź S.A., with respect to the property tax on underground mining facilities and the buildings and equipment located within these facilities for previous years, the Constitutional Tribunal on 8 April 2008 issued a Decision in which it cancelled proceedings due to the inadmissibility of issuing a decree. The Company, disagreeing with this decision, on 26 May 2008 filed a complaint with the Constitutional Tribunal against this decision. The basis for filing this complaint was mainly the official position of the Minister of the State Treasury contained in a letter dated 25 March 2008, in which the State Treasury stated that it does not have a decisive

36. Contingent items and other off-balance sheet items (continuation)

impact on KGHM Polska Miedź S.A. as understood by the act on the transparency of financial relations between public bodies and public companies, which means that the Company is not in the category of public entities. Therefore the Company is entitled, as is every other economic entity, to such rights as constitutional protection and the right of access to proceedings before the Constitutional Tribunal.

The Company withdrew complaints from administrative courts respecting the property tax on underground mining facilities for the years 2003-2007, as a result of which there was a significant decrease in the above-mentioned contingent receivables respecting property tax.

The decision of the Constitutional Tribunal does not have financial consequences for KGHM Polska Miedź S.A. due to the fact that the Company continually regulates its liabilities respecting property tax due to decisions issued by tax bodies.

However, the Company submitted a petition to the Office for Citizens' Rights asking the office to submit a petition to the Constitutional Tribunal on examining the constitutionality of the law on local taxation and fees.

37. Government grants

The balance of government grants recognised in deferred income at 31 December 2008 amounted to PLN 272 thousand (at 31 December 2007: PLN 384 thousand).

These are monetary grants for carrying out the target project "New materials-related solutions for discharge systems used in metallurgic equipment" and realisation of the project "Modernisation of the local furnace ventilation system in the Metallurgy Department".

The Company makes use of preferential interest loans granted by the Environmental Protection and Water Management Fund (*Fundusz Ochrony Środowiska i Gospodarki Wodnej*). Government assistance is also received in the form of the subsidising of employee training, from both Polish governmental agencies as well as from the European Union.

38. Social assets and Social Fund liabilities

KGHM Polska Miedź S.A. creates a Social Fund. The Fund's purpose is to subsidise the Company's social activity, loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control of the Company and do not meet the definition of an asset. Accordingly, the net balance (the Social Fund liability) at 31 December 2008 amounts to PLN 1 370 thousand, and the net balance (Social Funds liability) at 31 December 2007 amounted to PLN 3 772 thousand.

The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
	31 December 2008	31 December 2007
Social assets and Social Fund liabilities		
Loans granted to employees	97 256	80 033
Other receivables	3	2
Cash and cash equivalents	25 797	41 297
Social Fund liabilities	124 426	125 104
Net balance	(1 370)	(3 772)
Transfers made to the Social Fund during the financial period	86 570	94 746

39. Employment structure

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
White-collar workers	4 531	4 421
Blue-collar workers	13 955	13 568
Total:	18 486	17 989

40. Subsequent events

Acquisition of shares of „Biowind” Sp. z o.o. by „Energetyka” sp. z o.o.

On 5 January 2009 an agreement for the acquisition of the shares of the company „Biowind” Sp. z o.o. with its registered head office in Gdańsk was entered into between „Energetyka” sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) and two physical persons.

Based on this agreement, „Energetyka” sp. z o.o. acquired 1000 shares with a nominal value of PLN 50 each, having a total nominal value of PLN 50 thousand, representing 100% of the shares of „Biowind” Sp. z o.o. and granting 100% of the votes at the General Shareholders’ Meeting of „Biowind” Sp. z o.o.

The purchase price for the shares amounts to PLN 450 thousand. The shares were paid for in cash.

The share capital of „Biowind” Sp. z o.o. amounts to PLN 50 thousand and is divided into 1000 shares with a nominal value of PLN 50 per share.

The carrying amount of the assets in the accounts of „Energetyka” sp. z o.o. is PLN 450 thousand. The acquisition of these assets was financed using the internal funds of „Energetyka” sp. z o.o. The assets acquired are of a long-term, equity investment nature.

The purchase of shares of „Biowind” Sp. z o.o., holding a lease on property (around 300 hectares) in the Warmińsko-Mazurskie Voivodeship, enables the commencement of formal procedures aimed at realising an investment related to the construction of a wind farm.

Termination of contracts with PGNiG

On 10 January 2009 two contracts entered into on 1 December 2003 by a subsidiary of KGHM Polska Miedź S.A. - „Energetyka” sp. z o.o. - and Polskie Górnictwo Naftowe i Gazownictwo Spółka Akcyjna (PGNiG S.A.) for the supply of natural gas for power-generation purposes to reception terminals in Żukowice and Polkowice (current report no. 58/2003 dated 3 December 2003) were terminated.

Final negotiations are underway between KGHM Polska Miedź S.A. and PGNiG S.A. with respect to the signing of a new contract for the supply of natural gas, among others to the reception terminals in Żukowice and Polkowice. It was established that KGHM Polska Miedź S.A. will be the party to the contract for receiving natural gas.

Sale of shares of Polskie Towarzystwo Reasekuracji S.A.

On 12 January 2009, as part of a call for the sale of shares of Polskie Towarzystwo Reasekuracji S.A. in Warsaw announced on 8 September 2008 by Fairfax Financial Holdings with its registered head office in Toronto, Canada (Fairfax), KGHM Polska Miedź S.A. sold to Fairfax 12 500 000 registered ordinary shares of Polskie Towarzystwo Reasekuracji S.A. with its registered head office in Warsaw, representing 11.88% of the share capital of PTR for the total amount of PLN 20 000 thousand, i.e. PLN 1.60 per share. As a result of this transaction KGHM Polska Miedź S.A. currently holds none of the shares of Polskie Towarzystwo Reasekuracji S.A.

Acquisition of shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. by KGHM Ecoren S.A.

On 14 January 2009 an agreement for the acquisition of the shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. (a direct subsidiary of KGHM Ecoren S.A.) was signed between KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) and SITA POLSKA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ.

Based on this agreement, KGHM Ecoren S.A. acquired 380 shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. having a total nominal value of PLN 380 thousand, representing 49.67% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and granting 49.67% of the votes at the General Shareholders’ Meeting.

The shares were acquired for PLN 2 801 thousand and paid for in cash on the date of signing the agreement. The carrying amount of the shares acquired in the accounts of KGHM Ecoren S.A. is PLN 2 863 thousand. The acquisition of these assets was financed using the internal funds of KGHM Ecoren S.A. The assets acquired are of a long-term, equity investment nature.

Currently KGHM Ecoren S.A. owns 100% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and 100% of the votes at the General Shareholders’ Meeting.

Approval by the Supervisory Board of the Budget for 2009 and the "Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018"

On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the Company’s Budget for 2009 as presented by the Management Board and the „Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018”. For details of the approved documents see Report of the Management Board on the Company’s Activities, chapter 4, point 4.1 and 4.3.

SIGNATURES

Signatures of all Members of the Management Board			
DATE	FIRST, LAST NAME	POSITION	SIGNATURE
27 March 2009	Mirosław Krutin	President of the Management Board	
27 March 2009	Herbert Wirth	I Vice President of the Management Board	
27 March 2009	Maciej Tybura	Vice President of the Management Board	

Signature of person responsible for company accounting			
DATE	FIRST, LAST NAME	POSITION	SIGNATURE
27 March 2009	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	