

KGHM Polska Miedź S.A.

**LONG-FORM AUDITORS' REPORT
SUPPLEMENTING THE INDEPENDENT AUDITORS' OPINION
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008**

I. GENERAL NOTES

1. Background

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

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises a 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), an Ore Enrichment Plant, a Tailings Plant, a Mine-Smelter Emergency Rescue Unit, and a Data Center.

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

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

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

The Company is the parent company of the KGHM Polska Miedź SA capital group. Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Note 6 and 33 of the summary of significant accounting policies and other explanatory notes ("the additional notes and explanations") to the audited financial statements for the year ended 31 December 2008.

The principal activities of the Company are as follows:

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

As at 31 December 2008, the Company's issued share capital amounted to 2,000,000 thousand zlotys. Equity as at that date amounted to 10,591,292 thousand zlotys.

As at 27 March 2009, the ownership structure of the Company's issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares in zlotys	% of issued share capital
State Treasury	83,589,900	83,589,900	10	41.79
Others (less than 5%)	116,410,100	116,410,100	10	58.21
	-----	-----	-----	-----
Total	200,000,000	200,000,000	-	100.00
	=====	=====	=====	=====

There were no changes in the ownership structure of the Company during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

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

As at 27 March 2009, the Company's Management Board was composed of:

Mirosław Krutin	- President
Herbert Wirth	- I Vice President (Development)
Maciej Tybura	- Vice President (Finance)

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

Krzysztof Skóra	- President, called off on 17 January 2008;
Dariusz Kaśków	- Vice President, called off on 17 January 2008;
Ireneusz Reszczyński	- Acting President since 17 January 2008, previously I Vice President, called off on 23 April 2008;
Marek Fusiński	- Vice President (Finance), called off on 23 April 2008;
Stanisław Kot	- Vice President (Production), called off on 23 April 2008;
Mirosław Krutin	- President since 23 April 2008;
Herbert Wirth	- I Vice President (Development) since 23 April 2008;
Maciej Tybura	- Vice President (Finance) since 23 April 2008.

There were no changes in the Company's Management Board composition from the balance sheet date to the date of the opinion.

2. Financial Statements

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

2.1 Auditors' opinion and audit of financial statements

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

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

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act').

Under the contract executed on 30 April 2007 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2008.

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

Based on our audit, we issued an auditors' opinion dated 27 March 2009, stating the following:

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

1. We have audited the attached financial statements for the year ended 31 December 2008 of KGHM Polska Miedź S.A. ('the Company') located in Lubin at M. Skłodowskiej-Curie 48, containing:
 - the balance sheet as at 31 December 2008 with total assets amounting to 13,900,564 thousand zlotys,
 - the income statement for the period from 1 January 2008 to 31 December 2008 with a net profit amounting to 2,920,378 thousand zlotys,
 - the statement of changes in equity for the period from 1 January 2008 to 31 December 2008 with a net increase in equity amounting to 1,625,343 thousand zlotys,
 - the cash flow statement for the period from 1 January 2008 to 31 December 2008 with a net cash outflow amounting to 781,628 thousand zlotys and
 - the summary of significant accounting policies and other explanatory notes ('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair² and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.
3. We conducted our audit of the attached financial statements in accordance with the following regulations being in force in Poland:

¹ Translation of the following expression in Polish: '*rzetelność, prawidłowość i jasność*'

² Translation of the following expression in Polish: '*rzetelne, prawidłowe i jasne*'

- chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
- the auditing standards issued by the National Chamber of Auditors,

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

4. In our opinion, the attached financial statements, in all material respects:

- present truly and fairly all information material for the assessment of the results of the Company's operations for the period from 1 January 2008 to 31 December 2008, as well as its financial position³ as at 31 December 2008;
- have been prepared correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU and based on properly maintained accounting records;
- are in respect of the form and content, in accordance with (i) legal regulations governing the preparation of financial statements and (ii) the Company's Articles of Association.

5. We have read the 'Directors' Report for the period from 1 January to 31 December 2008 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).".

We conducted the audit of the Company's financial statements during the period from 27 October 2008 to 27 March 2009. We were present at the Company's head office and at the Company's branches in different periods from 27 October 2008 to 27 March 2009.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated 27 March 2009, confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and

³ Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

⁴ Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,
- and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2007 were audited by Marek Musiał, Certified Auditor No. 90036/7272, acting on behalf of acting on behalf of Ernst & Young Audit Sp. z o.o. located in Warsaw, at Rondo ONZ 1 registered in the auditors' register under the number 130. The certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2007. The Company's financial statements for the year ended 31 December 2007 were approved by the General Shareholders' Meeting on 26 June 2008, and the shareholders resolved to appropriate the 2007 net profit as follows:

Dividends for the shareholders	1,800,000
Reserve capital	1,998,826

	3,798,826

The financial statements for the financial year ended 31 December 2007, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on 3 July 2008 with the National Court Register.

The introduction to the financial statements, the balance sheet as at 31 December 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year ended 31 December 2007, together with the auditors' opinion, a copy of the resolution approving the financial statements and a copy of the resolution on the appropriation of profit were published on 8 December 2008 in Monitor Polski B No. 1969.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Company for the years 2006 – 2008, calculated on the basis of financial information included in the financial statements for the years ended 31 December 2008 and 31 December 2007 prepared in accordance with International Financial Reporting Standards adopted by EU.

KGHM Polska Miedź S.A.
Long-form auditors' report supplementing the independent auditors' opinion
for the year ended 31 December 2008
(in thousand zlotys)

	2008	2007	2006
Total assets	13,900,564	12,423,630	12,251,437
Shareholders' equity	10,591,292	8,965,949	8,115,814
Net profit/ loss	2,920,378	3,798,826	3,604,988
Return on assets (%)	21.0	30.6	29.4
<div>Net profit x 100</div> <div>Total assets</div>			
Return on equity (%)	32.6	46.8	58.7
<div>Net profit x 100</div> <div>Shareholders' equity at the beginning of the period</div>			
Profit margin (%)	25.8	31.2	30.9
<div>Net profit x 100</div> <div>Sales of finished goods, goods for resale and raw materials</div>			
Liquidity I	3.3	2.7	2.0
<div>Current assets</div> <div>Short-term creditors</div>			
Liquidity III	1.2	1.4	0.8
<div>Cash and cash equivalents</div> <div>Short-term creditors</div>			
Debtors days	16 days	16 days	32 days
<div>Trade debtors x 365</div> <div>Sales of finished goods, goods for resale and raw materials</div>			
Creditors days	36 days	32 days	30 days
<div>Trade creditors x 365</div> <div>Costs of finished goods, goods for resale and raw materials sold</div>			

This is a translation of a document originally issued in the Polish language.

	2008	2007	2006
Inventory days	74 days	89 days	86 days
$\frac{\text{Inventory} \times 365}{\text{Costs of finished goods, goods for resale and raw materials sold}}$			
Stability of financing (%)	88.8	84.9	78.2
$\frac{(\text{Equity} + \text{long-term provisions and liabilities}) \times 100}{\text{Total liabilities, provisions and equity}}$			
Debt ratio (%)	23.8	27.8	33.8
$\frac{(\text{Total liabilities and provisions}) \times 100}{\text{Total assets}}$			
Rate of inflation:			
Yearly average	4.2%	2.5%	1.0%
December to December	3.3%	4.0%	1.4%

3.2 Comments

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

- Return on equity at the end of 2008 was 32.6% and at the end of 2007 was 46.8%;
- Profit margin decreased from 31.2% at the end of 2007 to 25.8% as at the end of 2008;
- Liquidity I ratio increased from 2.7 as at the end of 2007 to 3.3 as at the end of 2008;
- Liquidity III ratio decreased from 1.4 as at the end of 2007 to 1.2 as at the end of 2008;
- Debtors days ratio did not change compared to 2007 and was 16 days;
- Creditors days ratio increased from 32 days in 2007 to 36 days in 2008;
- Stability of financing increased from 84.9% as at the end of 2007 to 88.8% as at the end of 2008;
- Debt ratio decreased from 27.8% as at the end of 2007 to 23.8% as at the end of 2008.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2008 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 1 of the additional notes and explanations to the audited financial statements for the year ended 31 December 2008, the Management Board has stated that the financial statements were prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2008 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Accounting System

The Company's accounts are kept using the SAP – R3 computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act, including a chart of accounts approved by the Company's Management Board.

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

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

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

Details of the Company's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2008.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were adjusted in the books of account for the year 2008.

3. Additional Notes and Explanations to the Financial Statements

The additional notes and explanations to the financial statements for the year ended 31 December 2008 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2008 to 31 December 2008 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

5. Conformity with Law and Regulations

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

6. Work of Experts

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

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

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

Marek Musiał
Certified Auditor No. 90036/7272

Jacek Hryniuk
Certified Auditor No. 9262/6958

Warsaw, 27 March 2009