ANNUAL REPORT 2008

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KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A.

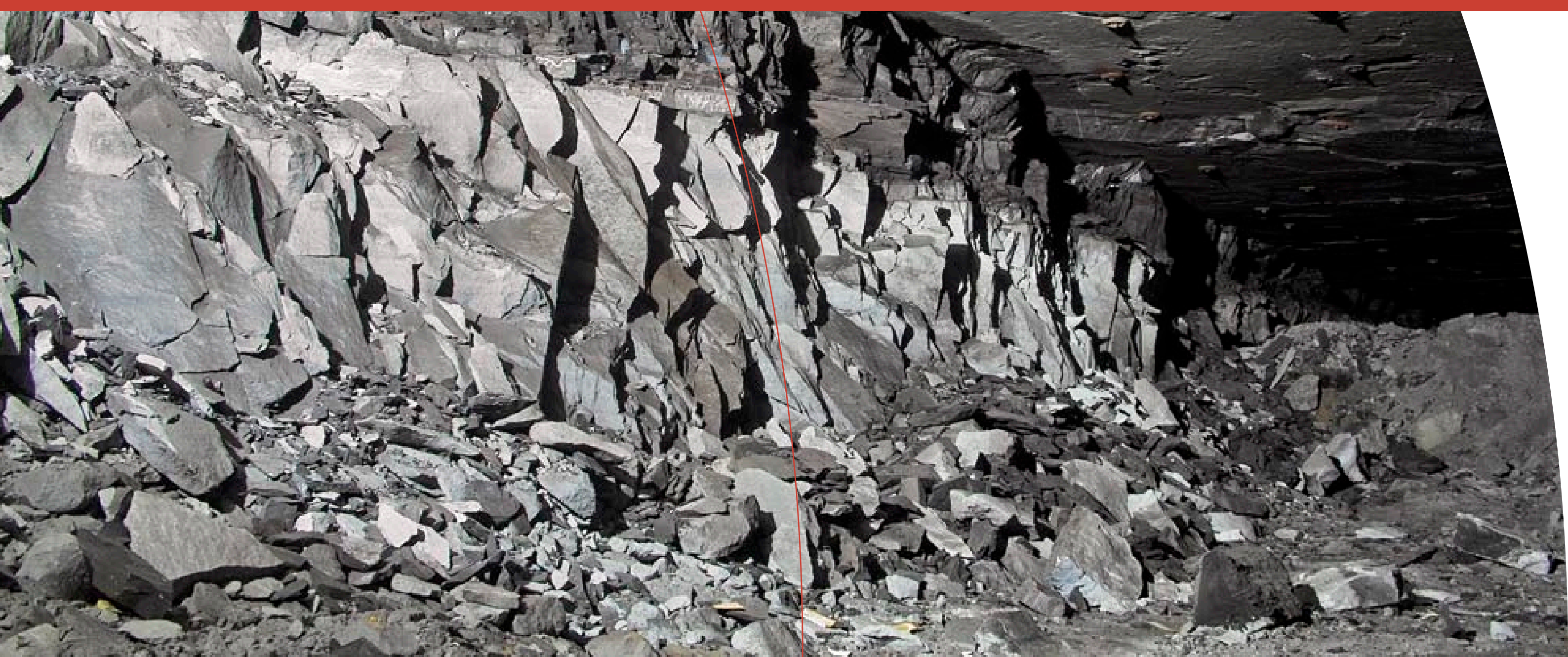
		1997	1998	1999	2000
Income statement					
Sales	m PLN	4 089	3 642	4 113	4 983
Profit on sales	m PLN	905	240	348	941
EBITDA*	m PLN	1 212	631	319	1 198
Profit before income tax	m PLN	914	310	-58	795
Profit for the period	m PLN	502	179	-170	618
Balance sheet					
Total assets	m PLN	4 937	4 975	4 884	5 757
Non-current assets	m PLN	3 558	3 698	3 579	4 177
Current assets	m PLN	1 364	1 242	1 250	1 381
Equity	m PLN	4 021	4 096	3 470	4 067
Liabilities and provisions	m PLN	846	775	1 187	1 380
Financial ratios					
Earnings per share (EPS)	PLN	2.51	0.89	-0.85	3.09
Dividend per share (DPS)**	PLN	0.25	0.10	-	1.00
Price per share / Earnings per share (P/E)	x	5.4	14.0	-30.8	8.3
Current liquidity	x	2.2	2.3	2.6	2.3
Quick liquidity	x	1.0	0.9	1.0	0.9
Return on assets (ROA)	%	10.2	3.6	-3.5	10.7
Return on equity (ROE)	%	12.5	4.4	-4.9	15.2
Debt ratio	%	14.2	13.5	14.3	15.9
Durability of financing structure	%	86.1	87.1	85.7	84.1
Production results					
Electrolytic copper production	'000 t	440.6	446.8	470.5	486.0
Metallic silver production	t	1 029	1 098	1 093	1 119
Macroeconomic data					
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95
Exchange rate	PLN/USD	3.28	3.49	3.96	4.35
Other					
Market value of Company shares at end of period	PLN/share	13.50	12.50	26.20	25.80
Capital expenditure	mln zł	649	487	379	584
Equity investments	m PLN	493	200	229	468
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417
Employment					
Mining		14 437	12 389	12 061	11 814
Smelting		5 485	5 094	4 851	4 820
Other		785	1 931	1 929	1 928
Total		20 707	19 414	18 841	18 562

* operating profit (in the years 1997-2006 profit (loss) before extraorinary items and taxation adjusted by interest cost) + depresiation/amortisation
** dividend for financial year

KEY FINANCIAL DATA FOR THE YEARS 1997-2009

(data for the years 1997-2005 per published annual reports, and since 2006 per IFRS)

2001	2002	2003	2004	2005	2006	2007	2008	Change 2007=100
4 218	4 488	4 741	6 158	8 000	11 670	12 183	11 303	92.8
173	152	431	1 445	2 707	4 139	4 880	3 392	69.5
144	753	956	1 761	2 937	4 784	5 101	4 078	79.9
-147	310	569	1 446	2 635	4 380	4 656	3 554	76.3
-190	255	412	1 397	2 289	3 605	3 799	2 920	76.9
7 557	8 155	8 695	8 948	10 977	12 251	12 424	13 901	111.9
4 735	6 440	6 621	6 552	7 079	7 017	7 431	8 704	117.1
2 657	1 715	2 074	2 397	3 899	5 234	4 992	5 174	103.6
3 696	4 011	4 007	5 337	6 214	8 116	8 966	10 591	118.1
3 634	4 144	4 689	3 612	4 763	4 136	3 458	3 309	95.7
-0.95	1.27	2.06	6.99	11.45	18.02	18.99	14.60	76.9
-	-	-	2.00	10.00	16.97	9.00	-	-
-13.7	10.6	12.7	4.5	5.5	4.9	5.6	1.9	33.9
1.0	1.2	1.2	1.2	1.4	1.9	2.5	3.1	124.0
0.7	0.6	0.7	0.8	1.0	1.3	1.7	2.2	129.4
-2.5	3.1	4.7	15.6	20.9	29.4	30.6	21.0	68.6
-5.1	6.3	10.3	26.2	36.8	44.4	42.4	27.6	65.1
38.2	34.2	38.8	24.0	28.2	33.8	27.8	23.8	85.6
63.4	79.0	76.8	75.0	70.6	77.0	83.3	88.0	105.0
498.5	508.7	529.6	550.1	560.3	556.6	533.0	526.8	98.6
1 163	1 192	1 358	1 344	1 244	1 242	1 215	1 193	98.2
1 578	1 558	1 780	2 868	3 684	6 731	7 126	6 952	97.6
4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.99	112.0
4.10	4.08	3.89	3.65	3.23	3.10	2.77	2.41	87.0
13.00	13.50	26.20	31.30	62.50	89.00	105.80	28.12	26.6
433	360	424	616	651	709	828	1 140	137.7
271	105	146	707	613	24	155	793	511.6
6 328	6 305	6 237	6 660	7 723	10 497	11 160	11 736	105.2
1 544	1 545	1 603	1 825	2 388	3 381	4 031	4 878	121.0
11 734	11 632	11 431	11 533	11 551	11 682	11 998	12 468	103.9
4 724	4 471	4 379	4 037	3 976	4 052	4 044	4 024	99.5
2 056	2 177	2 184	2 197	2 150	2 192	2 217	2 143	96.7
18 514	18 280	17 994	17 767	17 677	17 926	18 259	18 635	102.1

Company profile

KGHM Polska Miedź S.A. consists of 10 separate divisions involved in the extraction, enrichment, smelting, refining and processing of copper and silver.
The Company also has equity stakes (direct and indirect) in over 30 subsidiaries in various businesses which together comprise the KGHM Polska Miedź S.A. Group.
Total employment by KGHM Polska Miedź S.A. and the companies in its Group is around 28 000.

KGHM Polska Miedź S.A.

KGHM Polska Miedź S.A. is a globally-important producer of copper and silver. The Company's assets include:

- **its own deposit**

The resource base for the core business of KGHM is one of the world's largest deposits of copper ore, situated in Lower Silesia in the vicinity of the towns of Lubin, Sieroszowice and Głogów. To exploit this deposit a mining zone of approximately 468 km^2 was created.

- **integrated core business**

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

I **Extraction:**
Copper ore, Concentrate

KGHM Polska Miedź S.A. is the largest producer of copper in Europe from its own resources, as well as a major global producer. Mining of the copper ore is carried out by the Company's three mines:

- Lubin Mine,
- Polkowice-Sieroszowice Mine,
- Rudna Mine.

In 2008 429 thousand tonnes of copper was mined. Ore containing 1.4-2.4% copper is transported to the surface and delivered to the Ore Enrichment Plants where copper concentrate is produced. This concentrate, containing from 18% to 28% copper, is then transported to the smelters.

II **Smelting and refining:**
Copper and silver, other smelter products

Refined copper and refined silver are produced from the Company's own concentrates as well as from purchased concentrates and from scrap, by the Company's two smelters:

- Legnica Smelter an Refinery,
- Głogów Smelter an Refinery.

In 2008 the following was produced:

- 527 thousand tonnes of refined copper, giving the Company seventh place amongst global copper producers.
- 1 192 tonnes of refined silver, thanks to which the Company was the second largest global producer of silver.

III **Processing:**
Copper wire rod, oxygen-free copper rod...

Around 40% of the refined copper produced by KGHM is further processed by two of the Company's divisions:

- Cedynia Rolling Mill which produces copper wire rod, oxygen-free copper rod and oxygen-free, silver-bearing copper rod.
- Legnica Smelter and Refinery which produces round billets. In 2008 206 thousand tonnes of wire rod and 20 thousand tonnes of round billets were produced.

At the end of 2008 KGHM Polska Miedź S.A. employed 18 635 people.

KGHM Polska Miedź S.A. Group

At 31 December 2008 KGHM Polska Miedź S.A. owned, directly or indirectly, shares in 38 commercial law companies (30 subsidiaries, 2 associates and 6 other companies). The Company held shares directly in 20 entities.

Three business segments have been identified in the activities of the Group:

Segment I – metals (copper, precious metals), other smelter products – extraction, processing, production, trade and promotion;
Segment II – telecommunications,
Segment III – products and services related to the core business (including mine construction, machines and equipment for mining and construction, and research and development) along with others such as tourism, transportation, medecine, power generation.

Operating segments of significant Group companies

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

At the end of 2008 the companies of the KGHM Polska Miedź S.A. Group employed 9 992 people.

January

- At its meeting on 17 January 2008 the Supervisory Board carried out changes in the composition of the Management Board. Krzysztof Skóra, President of the Management Board, and Dariusz Kaśków, Vice President of the Management Board, were dismissed. The responsibilities of the President of the Management Board were assigned to I Vice President of the Management Board Ireneusz Reszczyński.
- The Supervisory Board also resolved to commence the recruitment process for the position of President of the Management Board of KGHM by means of a competition, and passed a resolution on the development of competition regulations for the position of President of the Management Board of KGHM Polska Miedź S.A.
- „Energetyka" sp. z o.o. – a new steam boiler was brought into operation in the power plant in Polkowice. This new equipment, together with the recently-built water heater, form a gas-steam block. This is one of the most modern technologies for the production of power, and allows for substantial savings.

February

- On 14 February 2008, the Extraordinary General Shareholders' Meeting dismissed the following people from the Supervisory Board: Leszek Jakubów, Anna Mańk, Remigiusz Nowakowski, Stanisław Andrzej Potycz and Jerzy Żyżynski, and appointed the following people to the Supervisory Board: Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Marek Trawiński and Marzenna Weresa.
- On 25 February 2008 Marek Trawiński was selected as the Chairman of the newly-constituted Supervisory Board of KGHM Polska Miedź S.A.

March

- On 14 March 2008 a compelifion was announced for the position of President of the Management Board of KGHM Polska Miedź S.A.
- On 28 March 2008 attorneys ad litem of KGHM Polska Miedź S.A. received a copy of the partial verdict of the Court of Arbitration in Vienna on the claim of Vodafone Americas Inc. against Polkomtel S.A. and the other shareholders of this company. The Court ruled that the agreement dated 10 March 2006 on purchasing the remaining shares of Polkomtel S.A. (belonging to TDC Mobile International A/S) by the Polish shareholders of Polkomtel S.A. is valid, and does not infringe either on the statutes of Polkomtel S.A. or on the shareholder agreements.

April

- As the result of a competition, on 17 April 2008 Mirosław Krutin was appointed to the position of President of the Management Board. The President assumed his duties on 23 April 2008. On this same day the Supervisory Board of KGHM Polska Miedź S.A. dismissed the following Vice Presidents of the Management Board: Ireneusz Reszczyński, Marek Fusiński and Stanisław Kot. The Supervisory Board simultaneously appointed the following persons to the Management Board: Member of the Management Board and I Vice President of the Management Board – Herbert Wirth and Member of the Management Board and Vice President of the Management Board – Maciej Tybura.

May

- **Saint Florian's Holiday.**
- The employees of the company elected the following employee representatives to the Supervisory Board of KGHM Polska Miedź S.A.: Józef Czyczerski, Ryszard Kurek and Leszek Hajdacki. Nearly 11 thousand employees cast their votes in 11 electoral regions – nearly 60% of those entitled to vote.

June

- The 7th, three-year term of the Supervisory Board of KGHM Polska Miedź S.A. began. Due to the completion of the 6th term on 26 June 2008, the Ordinary General Meeting of KGHM Polska Miedź S.A. elected a new-term Supervisory Board.
- On 26 June 2008, in Lubin, the Ordinary General Meeting of KGHM Polska Miedź S.A. was held. In accordance with the proposal of the Management Board and Supervisory Board of the Company, the shareholders agreed to allocate a dividend from the profit of the Company for financial year 2007 in the amount of PLN 1.8 billion (PLN 9 per share). The net profit of the company in 2007 was PLN 3.79 billion.

- Work began on sinking of the SW-4 shaft. This will be the thirtieth shaft of KGHM Polska Miedź S.A. Currently this is the largest mining investment by the Company. The shaft will operate as part of the structure of the ZG Polkowice-Sieroszowice Mine. Opening this shaft grants access to previously unworked copper ore. The planned depth of the shaft is 1 244 m, with an internal diameter of 7.5 m.

July

- On 11 July 2008 a Central Company Register was opened in KGHM Polska Miedź S.A. The aim of this tool is to support the procedure of selecting contractors for work and services as well as suppliers. It ensures full transparency of the manner contracts are entered into and enables the effective evaluation of potential contractors. The application is available on the website of KGHM.
- During the Sixth International Mine Rescue Competition in Reno, Nevada, USA, rescue personnel from KGHM took third place. First place was won by the team from Australia, while second place went to a rescue personnel team from Upper Silesia in Poland.
- On 21 July 2008 Marek Trawiński was selected as the Chairman of the newly-constituted Supervisory Board of KGHM Polska Miedź S.A.

August

- Work began on the filling of two of the shafts belonging to KGHM, P-III and P-IV, in order to reach the copper-rich resources contained in their protective walls. This operation is the first of its kind in the history of the Company. Plans called for mining of these resources to begin in the first half of 2009.

September

- Commemoration of the fifteenth anniversary of the commencement of production of silver, gold, technical selenium and platinum-palladium slime by the Precious Metals Plant situated at the Głogów smelter. In 2008 the plant produced 1 193 tonnes of silver, giving KGHM Polska Miedź second place amongst global silver producers.

October

- The Supervisory Board of KGHM issued a positive opinion on the decision of the Management Board with respect to the investment program „Modernization of pyrometallurgy" and the investment project „Construction of Gas-Steam Blocks in the power plants in Głogów and Polkowice".
- KGHM, for the fourth time, was recognized as a Workplace Safety Leader. This title was granted by the Central Workplace Safety Institute, simultaneously extending to the year 2010 the validity of the Workplace Safety Leader Gold Card.

November

- In mid-November 2008 production began of the first batch of 10mm copper wire rod at the Cedynia Wire Rod Plant in Orsk. This new production expanded the assortment of products manufactured by the plant.
- The Annual Report of KGHM for 2007 won first place in the competition „The Best Annual Report" organized by the Institute of Accounting and Taxation.
- KGHM Polska Miedź S.A. received a special award from the Warsaw Stock Exchange for the best communication of a company with investors.

December

- **Saint Barbara's Holiday.**
- The Ministry of the State Treasury removed KGHM Polska Miedź S.A. from its list of strategic companies.
- KGHM Polska Miedź S.A. purchased from the Danish company TDC Mobile International A/S 4.75% of the shares of Polkomtel S.A. By doing so KGHM increased its ownership of the share capital of this company from 19.61% to 24.39%. This acquisition was based on an agreement dated 10 March 2006.

Supervisory Board

Marek Trawiński – Chairman
Jacek Kuciński – Deputy Chairman
Marek Panfil – Secretary
Marcin Dyl
Arkadiusz Kawecki
Marzenna Weresa
as well as the following employee-elected members
Leszek Hajdacki
Ryszard Kurek
Józef Czyczerski

Letter of the Chairman of the Supervisory Board

Dear Shareholders,

Once again, on behalf of the Supervisory Board of KGHM Polska Miedź, I have the pleasure to present to you the annual report of the Company. The report presents a detailed discussion of the economic, financial and organizational condition of the Company in the past year, as well as the market situation which it had to contend with. I also wish to recognize and thank the employees of KGHM for their efforts. As in the previous year, their work resulted in excellent financial results. And this is in spite of the difficult year that it turned out to be, as business conditions deteriorated and increasingly pessimistic predictions for the global economy were published. So bad, in fact, that that we were shocked into disbelief as to the scale and tempo of the crash in many sectors, in both the public and private sectors. The Supervisory Board was particularly sensitive to these unfavorable changes and the growing risk to KGHM and the companies of its Group, as shown by its discussions of the subject and the actions taken at the meetings of the Supervisory Board. Some of these involved the operational activities of the Management Board in the form of decisions and concrete actions. In the end, despite the significant deterioration in the macroeconomic environment versus the previous year, the Company's shareholders should look favorably on the actions taken by KGHM, which were aimed at counteracting these unfavorable external conditions. The Company succeeded in defending the foundations of its core business: financial health and a solid market position. The Company was able to successfully counteract or minimize the effects of the global economic crash, as shown by its achievement of a net profit of PLN 2.92 billion. Numerous steps to increase productivity or reduce costs were enacted, which led to a cessation in the rise of production costs in the fourth quarter. The Company retained its position as a leading global producer of copper and silver. In 2008 KGHM produced 527 thousand tonnes of copper and 1 193 tonnes of silver. This enabled the Company to be the seventh largest producer of copper in the world and the second largest producer of silver.

KGHM operated under the impact of strong external factors. One of the actions taken to relieve this pressure was its presence on the Asian market. This is a strategically crucial market and a stabilizing factor for the long term development of KGHM. I am thinking here in particular of China, which currently has a thirty percent share in the global refined copper market. The registration of the Company's cathodes by the Shanghai exhange demonstrates the extent to which that market is strategically treated. Moreover, thanks to its presence on this market, KGHM was less exposed to the effects of the crisis and the slowdown on the domestic market. Looking back at the lessons taught by the experience of the past year, it appears that particular emphasis should be given to the need to continuously monitor the Company's approved strategic directions in terms of how closely they reflect the on-going changes in the domestic and global economic environments, and to developing adequate updated forecasts and ensuring that they are properly implemented. A decisive factor for the long term improvement of the market position of KGHM may be the rate of achievement of the strategic objectives set forth in the approved operational plans. Putting forth a full effort to improve operational effectiveness, as well as reducing costs, regardless of the periodic changes in the economic climate, would appear to be one of the main operational activities of the Company. Among other things this improves its flexibility, a critical factor in counteracting unfavorable external factors or the actions of competitors. Esteemed shareholders, once more I wish to assure you that the Supervisory Board of KGHM Polska Miedź S.A. treats its efforts to develop the Company as its personal mission. What is more, it is determined to earn the trust which the Company's shareholders have placed in it, among others by ensuring them long term returns from the money they have invested. Such commitments would not be possible without the sustained, dedicated efforts of the Company's employees and of its Management Board, all of whom I wish to sincerely thank once more on behalf of the Supervisory Board.

Marek Trawiński
Chairman of the Supervisory Board

Lubin, June 2009

Report on the Activities of the Supervisory Board

A. EXCERPT FROM THE ANNUAL REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF KGHM POLSKA MIEDŹ S.A. FOR FINANCIAL YEAR 2008 on the work of the Supervisory Board and reflecting the evaluation of the work of the Supervisory Board

This excerpt was prepared based on the document „ANNUAL REPORT ON THE ACTIVITIES OF THE SUPERVISORY BOARD OF KGHM POLSKA MIEDZ S.A. FOR FINANCIAL YEAR 2008 reflecting the evaluation of the work of the Supervisory Board with attached reports from the work of the Auditing Committee and Remuneration Committee", which was approved by the Supervisory Board of KGHM Polska Miedź S.A. on 8 May 2009.

The date, location and major issues dealt with by the Supervisory Board, as well as the decisions passed by the Supervisory Board during specific meetings are presented in the annual report on the activities of the Supervisory Board of KGHM Polska Miedź S.A. for financial year 2008, available on the website of KGHM Polska Miedź S.A., www.kghm.pl.

I. Composition of the Supervisory Board of KGHM Polska Miedź S.A.

The 6th term Supervisory Board of KGHM Polska Miedź S.A. (the 6th term began on 15 June 2005) was comprised of the following persons in financial year 2008:

from 1 January 2008 to 13 February 2008 (6th term)

Chairman
- Leszek Jakubów

Deputy Chairman
- Stanisław Andrzej Potycz

- Anna Mańk
- Remigiusz Nowakowski
- Marcin Ślęzak
- Jerzy Żyżyński

as well as the following employee-elected members:

Secretary
- Józef Czyczerski

- Leszek Hajdacki
- Ryszard Kurek

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

On 14 February 2008, the Extraordinary General Meeting dismissed the following people from the Supervisory Board: Leszek Jakubów, Anna Mańk, Remigiusz Nowakowski, Stanisław Andrzej Potycz, Jerzy Żyżynski (by resolutions No. 3-7/2008) and appointed the following people to the Supervisory Board: Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Marek Trawiński and Marzenna Weresa (by resolutions No. 8-13/2008).

from 14 February 2008 to 25 June 2008 (6th term)

- Marcin Dyl
- Arkadiusz Kawecki
- Jacek Kuciński
- Marek Panfil
- Marek Trawiński
- Marzenna Weresa

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

At its meeting on 25 February 2008 the Supervisory Board made the following appointments:

Chairman of the Supervisory Board
- Marek Trawiński,

Deputy Chairman
- Jacek Kuciński,

Secretary
- Marek Panfil.

Due to the completion of the 6th term Supervisory Board, the Ordinary General Meeting of KGHM Polska Miedź S.A. on 26 June 2008, by resolutions nos. 30-36/2008, appointed the following persons to the 7th term Supervisory Board: Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Marek Trawiński and Marzenna Weresa, as well as the following members elected by the employees on 14 – 15 May 2008 and appointed by resolution of the Ordinary General Meeting no. 29/2008: Józef Czyczerski, Leszek Hajdacki and Ryszard Kurek.

From 25 June to 31 December (7th term)

- Marcin Dyl
- Arkadiusz Kawecki
- Jacek Kuciński
- Marek Panfil
- Marek Trawiński
- Marzenna Weresa

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

At its meeting on 21 July 2008 the Supervisory Board appointed the following functions:

Chairman of the Supervisory Board
- Marek Trawiński,

Deputy Chairman
- Jacek Kuciński,

Secretary
- Marek Panfil.

II. Principles and functioning of the Supervisory Board of KGHM Polska Miedź S.A.

The principles and functioning of the Supervisory Board of KGHM Polska Miedź S.A. are regulated by laws respecting public companies and by:

- The Statutes of KGHM Polska Miedź S.A.,
- The Regulations of the Supervisory Board of KGHM Polska Miedź S.A. with its registered head office in Lubin, and
- Corporate Governance principles.

The Supervisory Board continuously supervised the activities of the Company and realised its tasks based on the specific rights granted to the Supervisory Board of KGHM Polska Miedź S.A. by the Statutes of the Company under Chapter IVB, § 20, and in turn by the Regulations of the Supervisory Board under ChapterIII, § 8.

The Supervisory Board performed its functions at meetings of the Supervisory Board convened for this purpose, as well as through its members delegated to work in the Committees.

During the reporting period, the Supervisory Board of KGHM Polska Miedź S.A. held 14 meetings, of which 8 meetings were held at the head office of the Company in Lubin, and 6 in the office of KGHM Polska Miedź S.A. in Warsaw (the first half of the meeting of the Supervisory Board on 17 – 18 April was held in Lubin, while the second half, on 23 April, was held in Warsaw).

The Supervisory Board at each meeting reviewed information provided by the Management Board regarding the current work of the Management Board, always reviewing the resolutions of the Management Board of the Company. The Supervisory Board also reviewed on an ongoing basis information regarding the financial results of KGHM Polska Miedź S.A. for individual months of 2008 and accrued results from the beginning of 2008. In accordance with the labour contracts with the members of the Management Board, the Supervisory Board reviewed the work of the Management Board on a quarterly basis, and considered the proposals of the Management Board regarding the payment of an advance on variable remuneration. The Supervisory Board also periodically reviewed the report of the Management Board on the realisation of subsidies, sponsoring, representation, marketing and advertising in KGHM Polska Miedź S.A. and in the Group, as well as the report on the realisation of consulting, advisory and analytical services performed by entities external to KGHM Polska Miedź S.A. and the Group. The Supervisory Board in particular analysed the realisation of investment tasks, as reflected in several meetings of the Supervisory Board.

During the financial year the Supervisory Board decided that the information of the Management Board on the subject of the unit cost of copper production and the actions taken by the Management Board aimed at reducing production costs, as well as information on the extent of achievement of the Company Budget, will be permanent points at the meetings of the Supervisory Board of KGHM Polska Miedź S.A. At each meeting the Supervisory Board also reviewed its correspondence.

In order to improve communications between the Management Board and the Supervisory Board, the practice was continued of providing written information to the Management Board in the form of a letter from the Chairman of the Supervisory Board after each meeting of the Supervisory Board, with information on all of the decisions taken by the Supervisory Board during the meeting.

In 2008 the Supervisory Board passed 120 resolutions, including 6 resolutions in the form of written voting beyond the meetings.

/…/

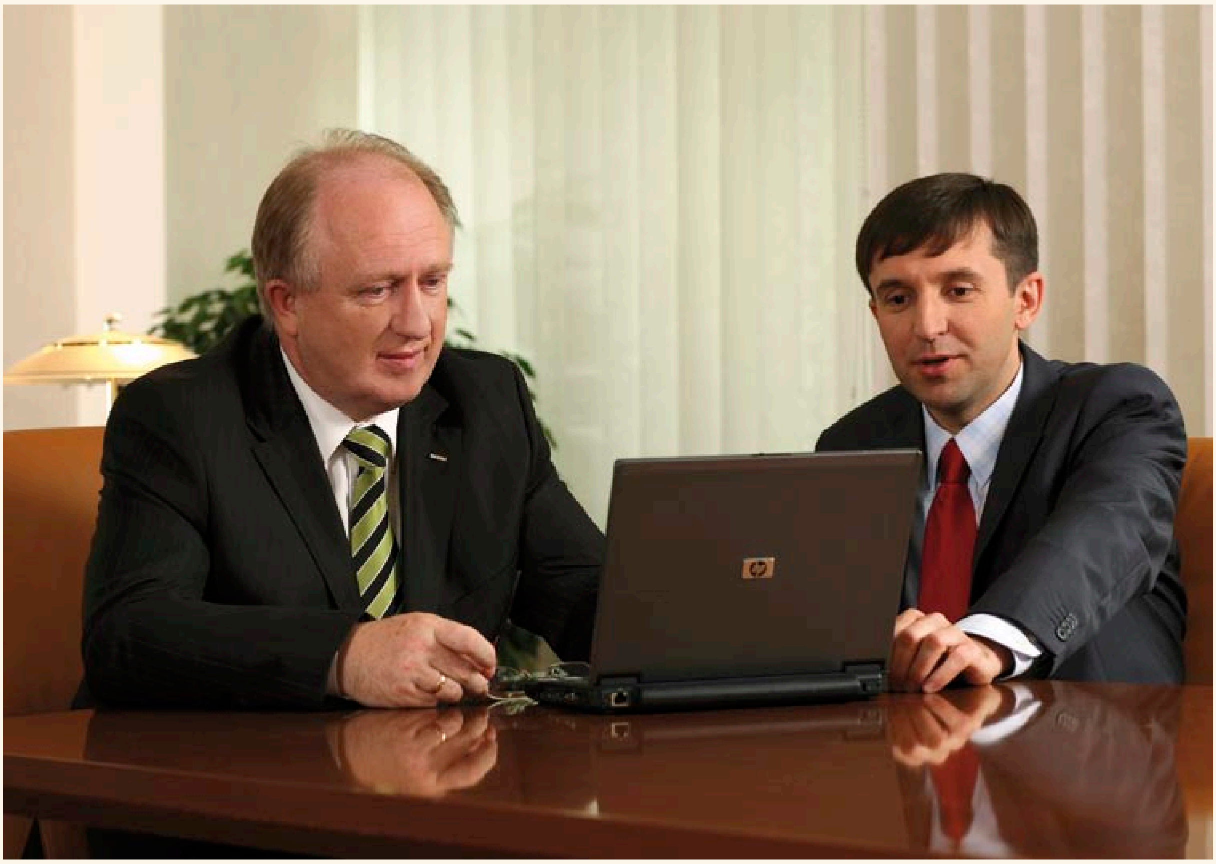
IV. Evaluation of the work of the Supervisory Board of KGHM Polska Miedź S.A.

This report describes the main directions of the activities of the Supervisory Board in financial year 2008. All of the members of the Supervisory Board properly performed their duties on the Supervisory Board, applying their knowledge and experience in the operation and supervision of commercial law companies.

In submitting this report, the Supervisory Board requests that its members be acknowledged as having properly performed their duties in financial year 2008.

B. Ordinary General Meeting of KGHM Polska Miedź S.A. which was on 16 May 2009 resolved to acknowledge that all of the members of the Supervisory Board of KGHM Polska Miedź S.A. had properly performed their duties in financial year 2008.

Company bodies



Herbert Wirth

Maciej Tybura

Management Board

Herbert Wirth – acting President of the Management Board
Maciej Tybura – I Vice President of the Management Board

Letter of the President

Dear Shareholders,

The year 2008 will long remain in our memory. Its beginning was highly fortuitous – in the first half of the year, gold and silver prices reached record levels. On 3 July 2008 the price of copper reached its peak – 8 985 USD/t. This bull run on the global markets only lasted, however, until the summer of 2008. The second half of the year witnessed a collapse on the global financial market. All of the world's equity markets collapsed, along with those of raw materials. By the end of the year one tonne of copper cost a mere 2 902 USD. Nonetheless, for KGHM Polska Miedź S.A., despite this global economic catastrophe, the year 2008 was quite successful. The Company's net profit was one of the highest in its history. Revenues from sales in 2008 amounted to PLN 11.30 billion, with a net profit of PLN 2.92 billion. A major reason for such a substantial level of profit was undoubtedly the hedging strategies implemented on the copper market, which to a significant degree compensated for the low metals prices, especially in the final quarter of the year. A negative factor affecting the results of the Company in the first half of 2008 was the appreciation of the Polish zloty. However, from July 2008 the zloty underwent a string depreciation. The currency hedging instruments applied, which enable participation in growth, allowed the Company to take advantage of the weakening zloty, which partially compensated for the drop in copper prices in the second half of the year. Another factor which had a positive impact on results was the increase in the volume of electrolytic copper sales by 10 thousand tonnes. In 2008 the Company carried out the largest investments in its history. In June we began the sinking of the KGHM's thirtieth mine shaft – SW-4. The development of this shaft is part of the project „Głogów Głęboki – Przemysłowy Ore Management Program". The total amount budgeted for tangible investments was PLN 1.14 billion. We continued our equity investment in the telecoms sector. In December 2008 we acquired 4.78% of the share capital of Polkomtel S.A. The purchase price for this block of shares was PLN 726 million. As a result of this transaction the share of KGHM Polska Miedź S.A. in the capital of this company increased from 19.61% to 24.39%. Satisfaction would not be complete if current activities were not accompanied by fundamental actions aimed at the future of the Company. A new strategy for KGHM Polska Miedź S.A. was created for the years 2009-2018, and was approved by the Supervisory Board on 23 February 2009. The main assumptions of the new strategy are improved Company productivity, development of the resource base, diversification of the sources of income, support of the region and the development of organisational ability and effectiveness. We expect that its realisation over the near term will improve the cost competitiveness of the Company on the global market. The result of the development of the resource base should be an increase in annual copper production to around 700 thousand tonnes. Over the long term our plans foresee that by diversifying our sources of income, which will mainly be based on continuing our involvement in the telecoms sector and gradual entrance into the power sector, the Company will become an international copper group with diversified revenue sources. We have undertaken a variety of actions and decisions aimed at realising the goals of the new strategy. We have begun to make changes in the area of Company-wide supply to reduce purchasing costs. A Central Company Registrar was created as a tool to support the process of selecting contractors for work and services as well as suppliers. This was a step towards the creation of a Central Purchasing Office, whose task will be to centralise purchases to meet the needs of the Company, to organise tenders and to negotiate the best offers. With respect to smelting we decided to begin in 2009 a program titled „Modernisation of pyrometallurgy", based on the construction of a new flash furnace. The new furnace will replace the ineffective shaft furnace of the Głogów I smelter. Completion of this project is planned for 2013. The decision was also made to develop the power generation capacity of the Company. In the years 2009-2012 realisation is planned of the project „Construction of Gas-Steam Blocks at the in Głogów and Polkowice". As a result of this project around 25% of the Company's electricity needs should be ensured, the cost of electricity should be reduced and the power security of the KGHM Polska Miedź S.A. Group should be assured. The good condition of the Company has not gone unnoticed – in recognition of the Company's achievements it received several prestigious awards, including for the fourth time the title of Leader of Workplace Safety from the Central Institute for Workplace Safety, a first-place award in the competition „The Best Annual Report" organised by the Institute of Accounting and Taxation, and a special award from the Warsaw Stock Exchange for best communication by a company with investors. We are especially pleased with this latter award, as it testifies to the unswerving trust which the shareholders of the Company have placed in it. For years a particularly important question for us has been the support of valuable initiatives related to corporate social responsibility. The Company has always been focused above all on regional development. Its operations include activities on many levels, including care for the environment, charity, supporting valuable cultural initiatives, sport, supporting the health services, education, science, social assistance and preserving cultural and religious objects. In 2008 the Company spent PLN 45.12 million on environmental protection. Total expenditure on sponsoring in 2008 amounted to a further PLN 15.5 million. I wish to sincerely thank all of the employees of KGHM Polska Miedź S.A., whose efforts and dedication led to the achievement by the Company of such excellent results. Remembering the principle that the most valuable asset of a company is its people, in the current year I also wish you much inventiveness, creativity and strength, to help make KGHM Polska Miedź S.A. an exceptional company. My thanks go to the members of the Supervisory Board and the Management Board for their enormous efforts at setting forth the long term goals of development and growth in the Company's value. I wish to offer particular thanks to Mr. Mirosław Krutin, who served at the head of the Management Board during the past year. I wish to thank our shareholders for the trust they have placed in us as well as to all of the business partners and customers of KGHM Polska Miedź S.A., whose loyalty has supported us in these difficult times.

Herbert Wirth
acting President of the Management Board

Lubin, June 2009

Report on the application of corporate governance principles

In July 2007, the Supervisory Board of the Warsaw Stock Exchange resolved the principles of corporate governance for joint-stock companies that are issuers of shares, convertible bonds or bonds with priority rights admitted to exchange trading. These corporate governance principles as described in the document "Code of Best Practice for WSE Listed Companies" represent an annex to resolution nr 12/1170/2007 of the Supervisory Board dated 4 July 2007 and which came into force on 1 January 2008. The contents of this document are available on the official website of the Warsaw Stock Exchange under the section on corporate governance (www.corp-gov.gpw.pl), as well as on the website of the Company (www.kghm.pl) under the section on corporate governance.

KGHM Polska Miedź S.A, whose shares are listed on the Warsaw Stock Exchange, has made every effort to apply the corporate governance principles described in document „Code of Best Practice for WSE Listed Companies". The Company has endeavoured at every stage of its operations to carry out all of the recommendations respecting best practice for listed companies as well as suggestions directed to management boards, supervisory boards and shareholders.

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, the Company made the broadest possible use of both traditional as well as modern technology for the distribution of information about the Company (recommendation I.1 of the "Code of Best Practice for WSE Listed Companies").

The Company decided not to comply with the recommended on-line transmission of general shareholders' meetings due to the lack of legal uniformity in this regard, but has registered these meetings and made them available on the Company website in both Polish and English. The efforts of the Company with regard to information policy were recognised by the Warsaw Stock Exchange. The Company received a special award for best investor communications.

In accordance with principle II.1.5 of the "Code of Best Practice for WSE Listed Companies", the Company should publish on its corporate website the received basis for proposed candidates for the Company's Supervisory Board together with the professional CVs of the candidates. The experience of the Company until now is that it has not received the required information from shareholders prior to its General Shareholders' Meetings, and therefore this information was not made available on the Company's website. Until now candidates for the Supervisory Board have been presented at the General Shareholders' Meeting. The Company makes every effort to ensure that the justifying data for the candidates is made publicly available prior to the Meeting.

General Meetings

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the Company and the Regulations of the General Meeting. The Company's corporate documents are available on its website.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the Company's activity and the financial statements, including the financial statements of the Company's Group, for the prior financial year,
- adopting resolutions on distribution of profits or coverage of losses,
- acknowledging fulfilment of duties performed by members of the bodies of the Company,
- changing the subject of the Company's activity,
- amending the Company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the establishment of the Company, or from management or supervisory activities,
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years,
- establishing principles of the renumeration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to execute their rights.

Changes in the Company Statutes are made by the General Shareholders' Meeting in the manner and form prescribed by the Code of Commercial Companies, i.e. the introduction of changes to the Company Statutes requires a resolution by the General Shareholders' Meeting and an entry in the National Court Register.

Shareholders and their rights

At 31 December 2008, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Shareholders' Meeting was **the Polish State Treasury**, which – based on an announcement dated 16 May 2007 – held 83 589 900 shares, representing 41.79% of the share capital of the Company.

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

The shareholders of the Company exercise their rights in the manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Regulations of the General Meeting.

Shareholders are entitled to exercise their voting rights during General Meetings either personally or through a representative. Each share grants the right to one vote. There is no limitation to the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights attached to the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special proprietary rights in respect of the Company.

The Company has a depositary receipts program. The representative of the owners of GDRs at the General Shareholders' Meeting is the Depositary Bank, which executes its voting rights through its representative, in accordance with the instructions issued by the owners of the said GDRs and in accordance with the principles of the Deposit Agreement entered into with the Company.

Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Shareholders' Meeting, of which 3 members are elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis or prevailing law, the Statutes of the Company and the Regulations of the Supervisory Board.

On 1 January 2008 the 6th-term Supervisory Board of KGHM Polska Miedź S.A. was composed of the following persons:

Chairman
- **Leszek Jakubów**

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

as well as the following employee-elected members:

Secretary
- **Józef Czyczerski**
- **Leszek Hajdacki**
- **Ryszard Kurek**

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

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

At its meeting on 25 February 2008 the Supervisory Board appointed Marek Trawinski as Chairman of the Supervisory Board, Jacek Kucinski as Vice Chairman, and Marek Panfil as Secretary.

Due to the completion of the 6th-term Supervisory Board, the Ordinary General Meeting of KGHM Polska Miedź S.A. on 26 June 2008 appointed those persons to the 7th-term Supervisory Board who had served in that position until that time.

At its meeting on 21 July 2008 the Supervisory Board reappointed the following persons to their respective functions: Chairman – Marek Trawinski, Deputy Chairman – Jacek Kucinski and Secretary – Marek Panfil.

At 31 December 2008 the 7th-term Supervisory Board was composed of the following persons:

Chairman
- **Marek Trawiński**

Deputy Chairman
- **Jacek Kuciński**

Secretary
- **Marek Panfil**
- **Marcin Dyl**
- **Arkadiusz Kawecki**
- **Marzenna Weresa**

as well as the following employee-elected members:
- **Józef Czyczerski**
- **Leszek Hajdacki**
- **Ryszard Kurek**

Supervisory Board Committees

Under the auspices of the Supervisory Board are two committees: the Auditing Committee and the Remuneration Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Auditing Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits. The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the Company and Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

The rights, scope of action and manner of work of these Committees are described by regulations approved by the Supervisory Board.

The specific duties and composition of the Committees are as follows:

Auditing Committee

In accordance with the Regulations of the Supervisory Board the duties of the Auditing Committee are as follows:

- supervision, on behalf of the Supervisory Board, of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles applied in the Company,
- the review of transactions with parties related to the Company, and of unusual transactions,
- the analysis and monitoring of post-control conclusions arising from the risk management process,
- conduct of the process of selecting independent auditors to audit the financial statements of the Company in order to recommend their acceptance by the Supervisory Board, and participation in commercial negotiations prior to the Company signing a contract with an auditor,
- continuous co-operation with the independent auditor of the Company during the review, analysis and formulation of conclusions from the review and opinion of the auditor respecting the financial statements, the auditor's letter to the Management Board and/or Supervisory Board, and the preparation of draft statements and evaluations required by the by-laws for Company bodies and other administrative institutions,
- providing an opinion on the internal auditing plan and the internal auditing regulations of the Company, and of changes of the director of internal auditing,
- analysis of the conclusions reached and the recommendations made by an internal audit of the Company, with monitoring of the degree of implementation of these recommendations by the Management Board of the Company,
- the monitoring of decrees and Company's regulations as regards accounting, finances and hedging against commercial and financial risks, and exposure of the Company to serious harm.

On 1 January 2008 the Auditing Committee of the Supervisory Board of KGHM Polska Miedź S.A. comprised the following Members of the Supervisory Board:

- **Leszek Hajdacki**
- **Leszek Jakubów**
- **Anna Mańk**
- **Marcin Ślęzak**

Following the changes in the composition of the Supervisory Board, at 31 December 2008 the Auditing Committee of the Supervisory Board of KGHM Polska Miedź S.A. comprised the following Members of the Supervisory Board:

- **Marcin Dyl**
- **Marek Panfil**
- **Marzenna Weresa**

Remuneration Committee

In accordance with the Regulations of the Supervisory Board the duties of the Remuneration Committee are as follows:

- to carry out the recruitment and employment of members of the Management Board by developing and organising draft documents and procedures to be submitted to the Supervisory Board for their acceptance,
- to develop draft agreements and samples of other documents related to the hiring of members of the Management Board, and supervision over the realisation of the contractual obligations entered into by the parties,
- to supervise realisation of the system of remuneration of the Management Board, in particular to prepare documents related to contingent pay and premiums, in order to submit recommended changes in remuneration to the Supervisory Board,
- to monitor and make periodic analyses of the remuneration system of the management staff of the Company and, if necessary, to formulate recommendations to the Supervisory Board,
- to supervise realisation of additional benefits received by the Management Board arising from labour contracts, such as: insurance, automobiles, housing, etc.

On 1 January 2008 the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. comprised the following Members of the Supervisory Board:

- **Remigiusz Nowakowski**
- **Stanisław Andrzej Potycz**
- **Jerzy Żyżyński**

Following the changes in the composition of the Supervisory Board, at 31 December 2008 the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. comprised the following Members of the Supervisory Board:

- **Leszek Hajdacki**
- **Arkadiusz Kawecki**
- **Jacek Kuciński**

At the end of the year the auditing and remuneration committees submit a report of their activities to the Supervisory Board. These reports, following approval by the Supervisory Board, are made available to shareholders in the materials for the General Meeting.

Management Board

The Management Board conducts the business of the Company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the Company which have not otherwise been assigned by law or the Statutes of the Company to the duties of other Company bodies. The Management Board operates based on prevailing law, the Statutes of the Company and the Regulations of the Management Board of KGHM Polska Miedź S.A. in Lubin. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with the Statutes of the Company, any increase in share capital or issuance of shares or bonds requires the approval of the General Shareholders' Meeting. The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Code of Commercial Companies.

The Management Board is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board. The Supervisory Board appoints and dismisses the employee-elected member of the Management Board.

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

President of the Management Board
- **Krzysztof Skóra**

I Vice President of the Management Board (Sales)
- **Ireneusz Reszczyński**

Vice President of the Management Board (Finance)
- **Marek Fusiński**

Vice President of the Management Board (Production)
- **Stanisław Kot**

Vice President of the Management Board (Development)
- **Dariusz Kaśków**

At its meeting on 17 January 2008, the Supervisory Board carried out the following changes in the composition of the Management Board:

- it dismissed Krzysztof Skóra from the function of President of the Management Board
- it dismissed Dariusz Kasków from the function of Member of the Management Board
- it appointed I Vice President of the Management Board Ireneusz Reszczynski to fill the function of President of the Management Board until the appointment of the President of the Management Board of KGHM Polska Miedź S.A.

At its meeting on 17 April 2008 the Supervisory Board appointed Mirosław Krutin as at 23 April 2008 to the position of President of the Management Board.

On 23 April 2008 the Supervisory Board carried out the following changes in the composition of the Management Board:

- the following persons were dismissed from the Management Board: Ireneusz Reszczyński, Marek Fusiński and Stanisław Kot,
- the following persons were appointed to the Management Board: Herbert Wirth and Maciej Tybura.

In addition the Supervisory Board appointed Herbert Wirth as I Vice President of the Management Board of KGHM Polska Miedź S.A.

24 April 2008 the Management Board of KGHM Polska Miedź S.A. passed a resolution regarding a change in the organisational structure of the Head Office. As a result the segregation of duties of the Members of the Management Board is as follows:

President of the Management Board
- **Mirosław Krutin**

I Vice President of the Management Board (Production)
- **Herbert Wirth**

Vice President of the Management Board (Finance)
- **Maciej Tybura**

At 31 December 2008 there was no change in either the composition of the Management Board or in the segregation of its duties.

Description of the basic characteristics of internal control and risk management systems applied in the Company with respect to the process of preparing financial statements and consolidated financial statements

KGHM Polska Miedź S.A. uses its many years of experience in the identification, documentation, record maintenance and control of economic operations, including in-depth audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data.

In order to ensure truth and accuracy in the keeping of accounting records of KGHM Polska Miedź S.A. and subsidiaries of the Group, based on fixed principles, and the generation on their basis of high-quality financial data for presentation, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group and a Sector Chart of Accounts, in accordance with International Financial Reporting Standards,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets,
- Sector Inventorisation Instructions,

and in addition, for KGHM Polska Miedź S.A.

- Principles for Financial Management and for an Economic System,
- Documentation for an IT system for the processing of accounting data

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of the Company and the Group, along with the established scope and principles of financial reporting based on International Financial Reporting Standards and other legal standards.

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of duties, uniformity of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Company and its subsidiaries continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. The technical servicing of the system is ensured by the highlyexperienced specialists employed by the Company. KGHM Polska Miedź S.A. has full technical documentation of the system, both in the part meant for end-users, as well as in the configuration for setting the parameters of the system and calculation algorithms. In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically updated and confirmed by the head of the units, i.e. the Management Board of the Company and management boards of subsidiaries.

The Company has introduced organisational and systemic solutions with respect to ensuring the proper use and protection of systems and data, as well as secure access to data and hardware. Access to the resources of the financial and accounting system and financial reporting – separate and consolidated is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

One of the primary elements of control as respects the preparation of separate and consolidated financial statements of KGHM Polska Miedź S.A. is the verification of financial statements of the Company and financial statements of subsidiaries by certified auditors. The tasks of the auditors include in particular: review of the half-year financial statements and preliminary audit and final audit of the annual financial statements. Selection of the certified auditor in the key companies of the Group is carried out from amongst renowned auditing firms, guaranteeing high standards of services and the required level of independence. In KGHM the selection of the certified auditor is carried out by the Supervisory Board, and in subsidiaries by Supervisory Boards and General Shareholders' Meetings.

The body which supervises the process of financial reporting in KGHM and which cooperates with the independent auditor is the Auditing Committee, which is appointed by the Supervisory Board of the Company. In addition, based on art. 4a of the Accounting Act dated 29 September 1994, the duties of the Supervisory Board include ensuring that the financial statements and the report on the activities of the Company meet legal standards. The Supervisory Board is required to perform this duty as set out by the Code of Commercial Companies and the Statutes of the Company. This is the final stage in the verification and auditing process performed by the independent body, ensuring the truth and accuracy of the information presented in the separate financial statements and consolidated financial statements of KGHM Polska Miedź S.A.

A significant element of risk management with respect to the process of preparing financial statements of KGHM is the internal control carried out by internal auditing and internal control.

Internal auditing operates based on the „Regulations for internal auditing in KGHM Polska Miedź S.A." approved by the Management Board of the Company and on the „Code of ethics for internal auditors in KGHM Polska Miedź S.A." – developed based on International Professional Standards in Internal Auditing Practice. Amongst the basic tasks of internal auditing are the examination and evaluation of auditing mechanisms to ensure the trustworthiness and uniformity of financial data, representing the basis for the preparation of financial statements required by law, and of management reports.

The audits performed in 2008 resulted in the identification and analysis of risk in the processes reviewed. To improve the effectiveness of the processes of risk management, auditing and governance, the effectiveness of the risk management and internal auditing systems was evaluated. In 2008 an external audit was also carried out in KGHM with respect to information security.

Internal control operates based on the „Internal Control Regulations" approved by the Management Board of the Company. Internal (institutional) control is performed by a separate department. The internal control system in KGHM is based on the principle of independence and encompasses all Company processes, including those areas which directly or indirectly affect the correctness of the financial statements. Additionally, the obligation fully remains for each employee to control their own performance, and for every level of management staff to perform their control – within supervisory-related duties.

One of the most important areas of risk to which the Group is exposed is market risk. Due to the exposure of the Group to market risk (copper and silver prices and the USD/PLN exchange rate), derivative instruments to manage this risk are used.

Organisation of the process of market risk management in the Group as regards entering and realising transactions on the derivative instruments market is based on proxy authority granted by the management boards of Group companies.

Organisation of the market risk management process in the Company separates the functions of units responsible for entering transactions on the derivative instruments market from the functions of units responsible for their authorisation, settlement and the preparation of information on the measurement of these transactions. Such an organisational structure, in accordance with best practice in risk management, permits control over the process of entering into transactions and the elimination of derivative instruments transactions unauthorised by the Management Board.

The effectiveness of the control and risk management procedures in the process of preparing financial statements of KGHM Polska Miedź S.A. may be seen in the form of the high quality of these statements, as confirmed by the opinions put forth thus far by certified auditors from their auditing of the financial statements and by the high evaluations of the recipients of these statements. In addition, KGHM Polska Miedź S.A. participates in the competition The Best Annual Report organised by the Institute of Accounting and Taxation under the patronage of the Warsaw Stock Exchange, gaining leading positions amongst listed companies. For its 2007 Annual Report, KGHM Polska Miedź S.A. was awarded first place.

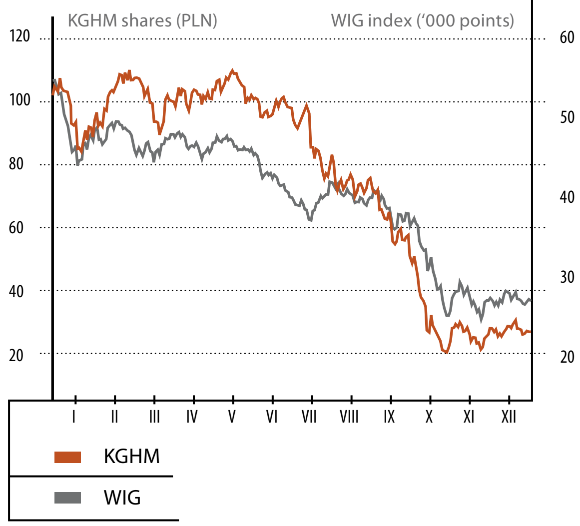
The Company on the securities markets

Company quotations in 2008

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

In 2008 the main indices of the Warsaw Stock Exchange decreased in value. The WIG index decreased by 51%, and the WIG20 decreased by 48%. The share price of KGHM Polska Miedź S.A. at the close of trading on 31 December 2008 was PLN 28.12 and was 73% lower than on the last trading day of the prior year. The share price of the Company in 2008 compared to the WIG index is shown in the chart below:

Share price of KGHM Polska Miedź S.A. versus the WIG index in 2008



Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

	Unit	2006	2007	2008
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	89.00	105.80	28.12
Market value of the Company at year's end	million PLN	17 800	21 160	5 624
Highest closing price in the year	PLN	135.00	143.00	112.00
Lowest closing price in the year	PLN	63.90	79.40	21.40
Average trading volume per session	'000	813.5	730.8	1 124.3
Dividend paid in the financial year from appropriation of profit for the prior year	PLN /share	10.00	16.97	9.00

Capital market ratios

		2006	2007	2008
EPS (PLN)	Profit (loss) for the period / number of shares	18.02	18.99	14.60
P/CE	Price per share / financial surplus per share *	4.5	5.0	1.7
P/E	Price per share / earnings per share	4.9	5.6	1.9
MC/S	Market capitalisation**/ revenues from sales	1.5	1.7	0.5
P/BV	Price per share / book value per share ***	2.2	2.4	0.5

* Financial surplus = profit for the period + depreciation.
** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares´ PLN 105.80 in 2007; PLN 28.12 in 2008).
*** Book value equals that of the balance sheet date.

Dividend

The attraction of investing in the shares of KGHM Polska Miedź S.A. includes the dividends which it pays. In 2008 the Company distributed PLN 9.00 per share from the profit earned in the previous year, giving a dividend yield – calculated using the price from the record date – of 11%.

The Ordinary General Meeting of KGHM Polska Miedź S.A. on 16 June 2009 resolved to pay a dividend for 2008 of PLN 11.68 per share.

The level of the dividend paid out over the last several years has made the Company one of the highest-yielding companies in terms of dividend payout on the Warsaw Stock Exchange.

Ownership structure

At 31 December 2008, the share capital of the Company, in accordance with the entry in the national Court Register, amounted to PLN 2 billion and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the General Meeting.

In the year ended 31 December 2008 there was no change in share capital. There is no limitation to the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights attached to the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special proprietary rights in respect of the Company.

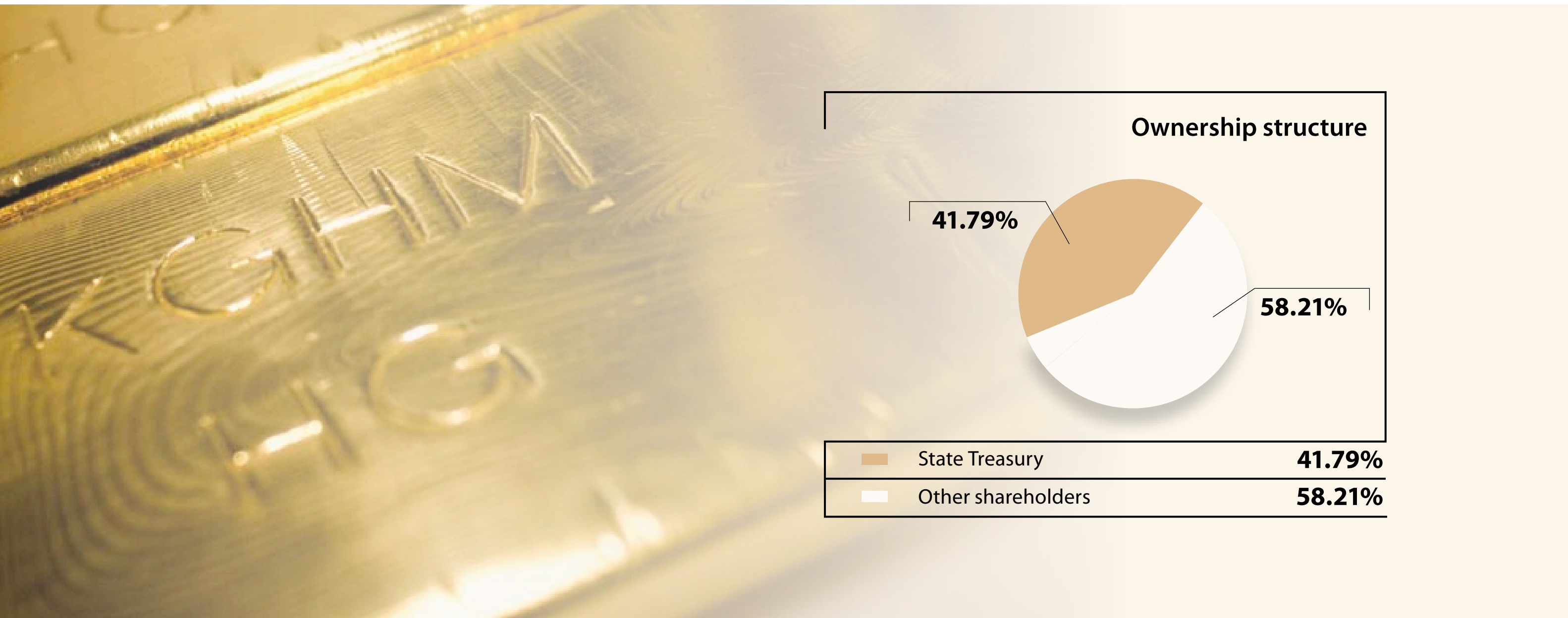
At 31 December 2008, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Shareholders' Meeting was the Polish State Treasury, which - based on an announcement dated 16 May 2007 - held 83 589 900 shares, representing 41.79% of the share capital of the Company and the same number of votes at the General Shareholders' Meeting.

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

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

At 31 December 2008, based on information held by the Company, among management and supervisory personnel only Ryszard Kurek – a member of the Supervisory Board – owned shares of KGHM Polska Miedź S.A. (10 shares with a total nominal value of PLN 100). At 31 December 2008, the members of the Management Board and Supervisory Board of the Company did not own shares of the remaining related entities of the Company.

In 2008 the Company did not buy back any of its shares and the Company does not have an employee share incentive program.



Company Strategy

In the second half of 2008 the Management Board of KGHM Polska Miedź S.A. began work on the development of assumptions to the Strategy of the Company for the years 2009 – 2018. The developed Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018 was approved by the Supervisory Board of the Company on 23 February 2009.

By realising the Strategy, KGHM will become a major, global copper producer and increase annual copper production to approx. 700 thousand tonnesnes. It is assumed that total expenditures on the realisation of new projects will amount to approx. PLN 19.8 billion over 10 years:

The Strategy for the years 2009-2018 is based on 5 pillars:

I. Improving productivity, aimed at halting increases in the unit cost of production, which will include, among others:

- investments in new technology, including combines for the mechanical mining of ore and the construction of a flash furnace,
- modernisation of existing infrastructure, including intensifying replacement of mining machinery,
- optimalisation of production procedures and organisation, including centralising purchasing and intensifying mine development work.

II. Developing the resource base, aimed at increasing the annual production of copper in concentrate to approx. 700 thousand tonnesnes, which assumes:

- further work on developing and mining the Głogów Głeboki–Przemysłowy deposit,
- developing the system for mining ore at depths below 1200 meters,
- investments in foreign mining assets,
- searching for new local deposits: further exploration of the possibilities of mining the region of Radwanice – Gaworzyce,
- exploring and documenting the region of Weisswasser (Germany), exploratory work in regions adjacent to the deposits of KGHM,
- intensifying the processing of scrap.

III. Diversifying sources of revenues, which assumes:

- continued investment in the telecoms sector,
- gradual entrance into the power sector.

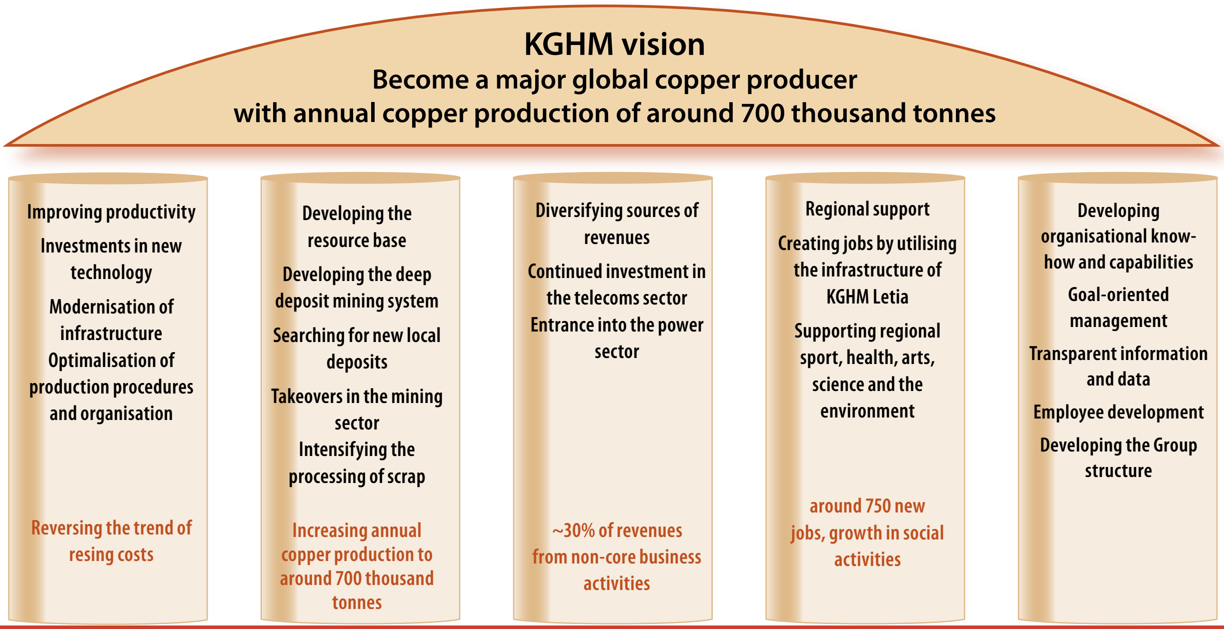
The goal is for around 30 % of revenues to come from non-core business activities.

IV. Regional support, to help solidify the importance of the Company for the region, which assumes:

- creating jobs and developing regional activities,
- developing regional entrepreneurship,
- protecting the environment as well as the health of employees and of the local community,
- supporting sport and the arts and sciences in the region.

V. Developing organisational know-how and capabilities, which assumes:

- introducing management mechanisms through goals,
- implementing staff development programs,
- creating a transparent Group structure.



Implementing the Strategy in the short term will improve the cost competitiveness of KGHM on global copper markets.

In the mid-term (up to 10 years), as a result of development of the resource base, the Company will become a major, global copper producer.

Over the long term, diversification and investment in the power sector will enable KGHM Polska Miedź S.A. to become an international copper group with diversified sources of income.

Results and forecasts

Despite the global financial crisis, 2008 was a very successful year for KGHM Polska Miedź S.A. While many companies ended the year with losses, KGHM earned one of the highest profits – PLN 2 920 million – in its history. A major reason for this was undoubtedly the hedging strategies implemented. The near future also bodes well for both KGHM and its Group. The updated Budget forecast assumes that in 2009 the Company will earn a net profit of PLN 1 906 million.

Market conditions and trends

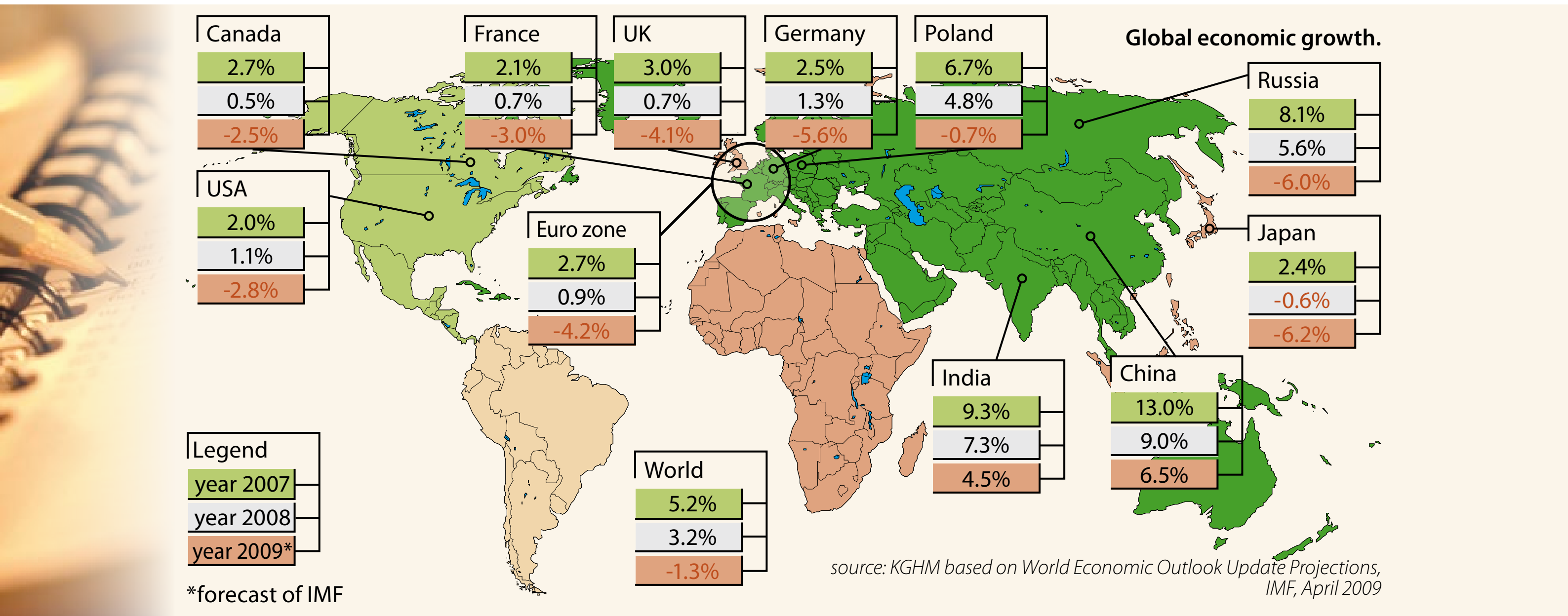
Global economic situation

In 2008 the global economy found itself in a crisis on a scale unseen for decades. The financial market, as the foundation for financing global economic growth, collapsed due to losses related directly or indirectly to the commitments of financial institutions on the risky mortgage loans market in the United States. This collapse in the American financial system led to the bankruptcy of the fourth-largest American investment bank, Lehman Brothers, and to protection being given to other banks and insurance institutions through their nationalization. The result was a loss of mutual trust amongst financial institutions, problems with liquidity and an increase in credit margins, increasing the cost of financial investing. The collapse on the financial market, as was the case in previous crises such as that of the Great Depression, led to a global economic slowdown. It is worth noting that as the current financial system is a profoundly interconnected one, the collapse on the American market had substantial negative consequences for economic growth in many other regions of the world.

Based on estimates of the Internatonnesal Monetary Fund, the rate of global economic growth in 2008 amounted to 3.2% and was two percent lower than in 2007. Developed economies grew in 2008 at a rate of 0.9%, of which the USA and the Euro zone recorded GDPs respectively of 1.1% and 0.9%. The Japanese economy meanwhile shrank by 0.6%. Against this weakening of growth in the developed economies were the good perspectives of emerging countries, in which GDP was around 6.1%.

The highest rate of GDP growth with respect to key emerging economies was recorded by China, with a growth rate of 9%. Its rate of growth, which for the first time in six years was single-digit, demonstrated that despite the significant share of internal consumption in the shaping of GDP, China was unable to bypass the effects of the global financial crisis. This lower rate of growth did not prevent China from advancing a position on the list of gobal leaders in terms of GDP. By passing Germany, China became the third-largest global economy.

From our point of view as a copper producer, of particular importance in terms of the macroeconomic situation is the role of global industry. Industrial production in the largest global economies in 2008 fell to a level not seen in decades. Industrial production indicators in the United States, the Euro zone and Japan fell systematically during 2008, and by December 2008 had fallen respectively by -8.8%, -12.3% and -21.9% versus the prior year. In the case of China production growth was positive, although the level from December 2008 in the amount of 5.7% y/y was the lowest since the beginning of 2002.



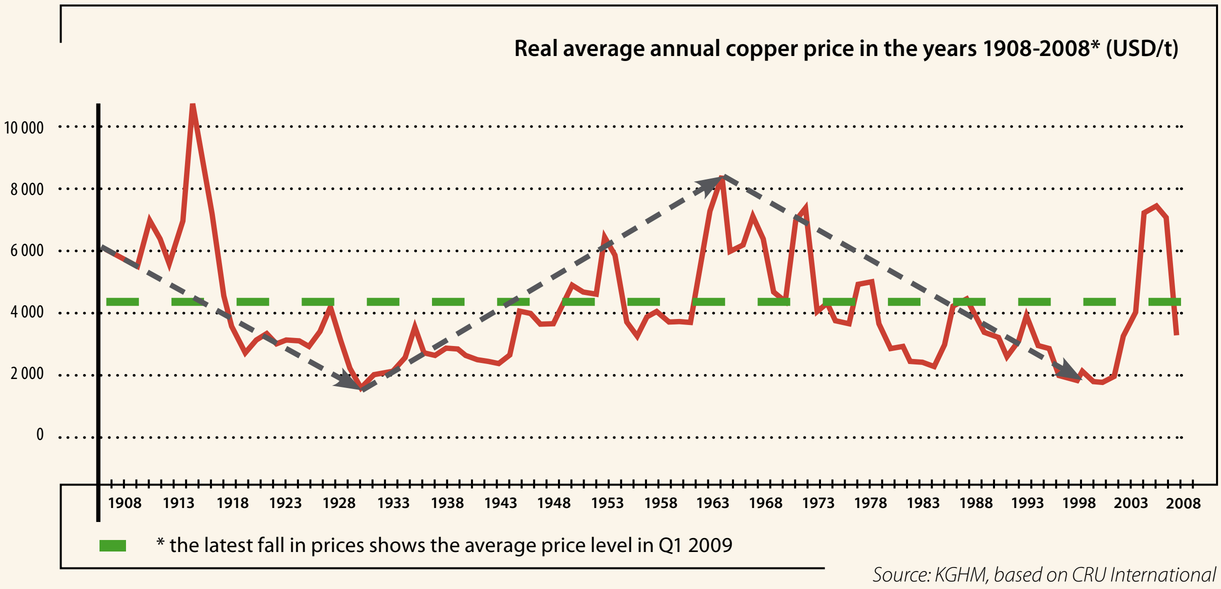
source: KGHM based on World Economic Outlook Update Projections, IMF, April 2009

Situation on the copper market

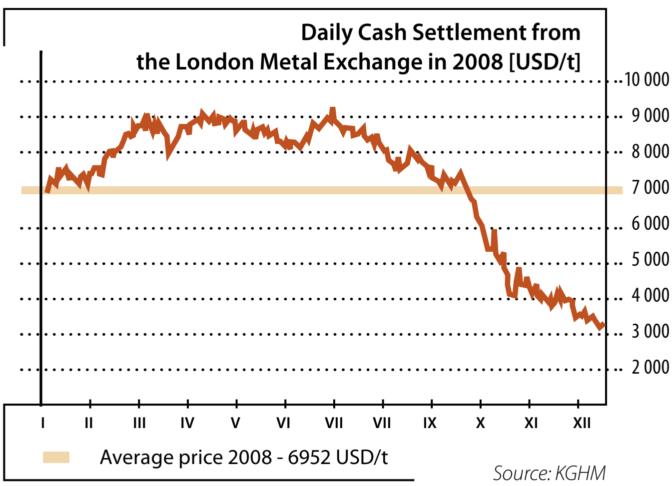
The first months of 2008 saw a significant increase in the price of copper. Throughout the second quarter prices remained between 7 800 – 8 800 USD/t, and on 3 July reached a historic record in the price of this metal (cash settlement 8 985 USD/t). Thereafter copper prices began to fall, and ended the year at a level 68% lower (2 902 USD/t). The average copper cash settlement price in 2008 was 6 951.5 USD/t, which means a fall of 2.45% versus 2007 (7 126.3 USD/t).

In the last quarter of 2007 a mass of negative information appeared describing the deteriorating economic situation in the USA, especially in the financial sector. Expectations for global economic growth were lowered, which in the opinion of some investors meant a drop in the demand for metals. Copper prices in the final months of 2007 fell substantially. From the start of 2008 this situation reversed. Investors treated the commodities market as an attractive alternative to investing in equities which had fallen in value, and as insurance against a fall in the USD. There was a rapid increase in investments by hedge funds, and the prices of most commodities appreciated in value. In the first half of the year gold and silver reached record highs. The situation again reversed in the second half of the year together with the worsening situation in the financial sector. The loss of trust led to liquidity problems for most financial institutions, and consequently to the nationalization of the two largest mortgage-granting financial institutions, problems for investment banks and the fall of one of them (Lehman Brothers). The financial crisis deepened substantially, and investor fears about the condition of the global economy grew drastically worse. The lack of liquidity in the financial sector led to a general sell-off of shares. The price of coper fell rapidly n the fourth quarter of 2008, causing many producers to restrict or cease production in high-cost mines.

Despite the fact that in 2008 prices reached their historic nominal maximum, a look at the price of this metal over the last 100 years, considering inflation, shows that such levels are not entirely unjustified. It may be noted that in the past there have been higher levels even than those reached in the last three years. The average real copper price since 1908 is approx. 4 200 USD/t. The last long-term cycle of coper price increases occurred after the second world war, and was connected with the reconstruction of Europe and the industrialization of Japan and Korea. It is not possible to say with any certainty whether the trend observed over the last several years is the beginning of a new price rise cycle, but some analysts suggest that this may be the case due to the industrialization of China and the similar potential of India.



Source: KGHM, based on CRU International

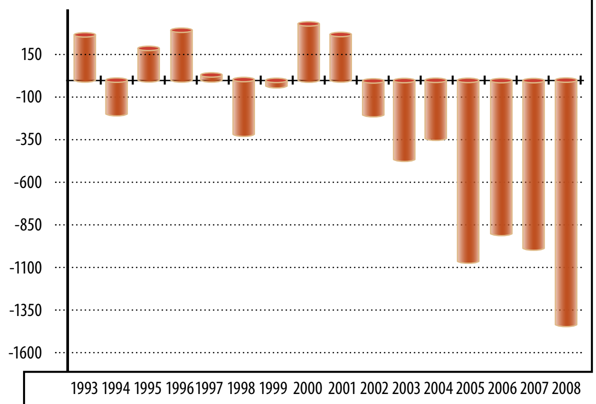


Source: KGHM

Copper production

Based on preliminary data of the International Copper Study Group, in 2008 mine production did not change significantly with respect to the prior year, and amounted to 15 450 ’000 tonnesnes (15 464 in 2007). As in the last several years, mine production was enormously impacted by so-called production losses. Due to various events (strikes, the scarcity of spare parts, breakdowns, natural disasters) final mine production was lower than forecast by certain companies at the start of the given period. In 2008 the difference between actual mine production and planned production reached a record level. This was partially due to the rapid reaction of producers to the drastic fall in prices in the final months of the year and to the obvious increase in fears about the condition of the global economy. A majority of producers restricted their production in the fourth quarter, while many small, high-cost mines were closed.

Losses in mine production versus planned amounts in the years 1993-2008 (‘000 tonnes)



Source: BrookHunt, Macquarie Bank

Refined production during this period amounted to 18 244 ‘000 tonnesnes, which means a rise of 1.67% y/y. An increase in production was recorded in all regions with the exception of Africa, where it fell by nearly 1% y/y. The largest percentage increase was recorded in Oceania (13.9%), while the largest volume increase, as in the prior year, was in Asia (primarily China).

Refined mine production in 2007 and 2008 by region, based on ICSG (‘000 tonnes)

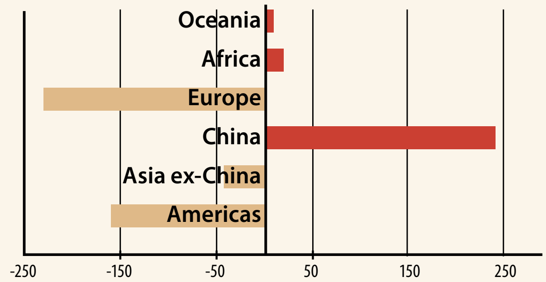
Region	2007	2008	Change[%]
Africa	589	583	-1.02%
Americas	5 716	5 786	1.21%
Asia	7 637	7 770	1.74%
Europe	3 560	3 602	1.19%
Oceania	442	503	13.90%
Total world	17 944	18 244	1.67%

Source: International Copper Study Group – April 2009.

Copper consumption

According to ICSG refined copper consumption in 2008 fell by nearly 1% to 18 006 thousand, with a fall in volime of 169 ‘000 tonnes. This time the increase in demand in China was unable to match the slowdown in the developed economies, as was the case in previous years. Refined copper consumption in China increased by 242 ‘000 tonnes. Consumption in Africa and Oceania increased only slightly (respectively by 19 and 4.6 ‘000 tonnes), while it decreased in Asia (excluding China) by 45 ‘000 tonnes, and above all in the Americas (-4.8% or 156 ‘000 tonnes) and in Europe (-4.5% or 233 ‘000 tonnes). Copper consumption in Europe and the USA clearly reflected the economic slowdown which had been observed in these regions for many months. China successively increased its impact on the global copper market. In the years 2000-2006 It was the main source of increased copper demand, while starting in 2007 demand for the metal was almost exclusively from this country. The main motor of this significant demand for copper has been the enormous investments in infrastructure (above all power generation).

Increase in refined copper consumption by region in 2008 (‘000 tonnes)

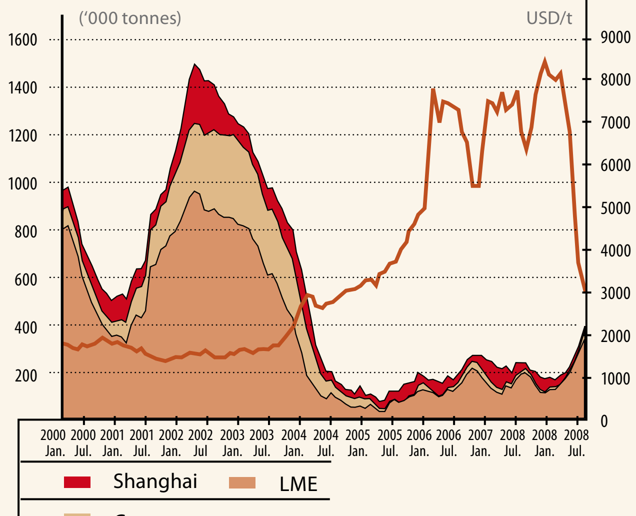


Source: International Copper Study Group – April 2009.

Copper inventories

Despite the fact that inventories in LME warehouses at the end of 2008 were over 13-times higher than the minimum from July 2005, this level cannot be considered high given the amounts observed at the beginning of this decade. In the first half of 2008 the increase in Chinese import of copper led to a decrease in warehoused inventories, which at the beginning of July reached a minimum of 164 '000 tonnes (the total for three markets). Information about the deepening financial crisis led to a decrease in economic activity, primarily in the highly-developed countries, and as a result to a lower demand for metal. Inventories on the three markets quickly and successively grew by more than double (to 392 '000 tonnes). At the end of the year 86.7% of all inventories were held in LME warehouses, 8.8% by COMEX and 4.5% on the Shanghai market.

Copper warehouse inventories in the years 2000-2008



Source: CRU International.

Hedge funds

Hedge fund interest in the commodities markets was clearly evident in the first half of 2008. The commodities markets are usually perceived as a source of protection against inflation and falls in the American dollar. The extensive commitment of these funds led in the second half of the year to a rapid collapse of most markets. Although the current financial crisis led to a decrease in many investors' portfolios and to a significantly lower appetite for risk, the interest of these funds continues to be an important element affecting the price of copper.

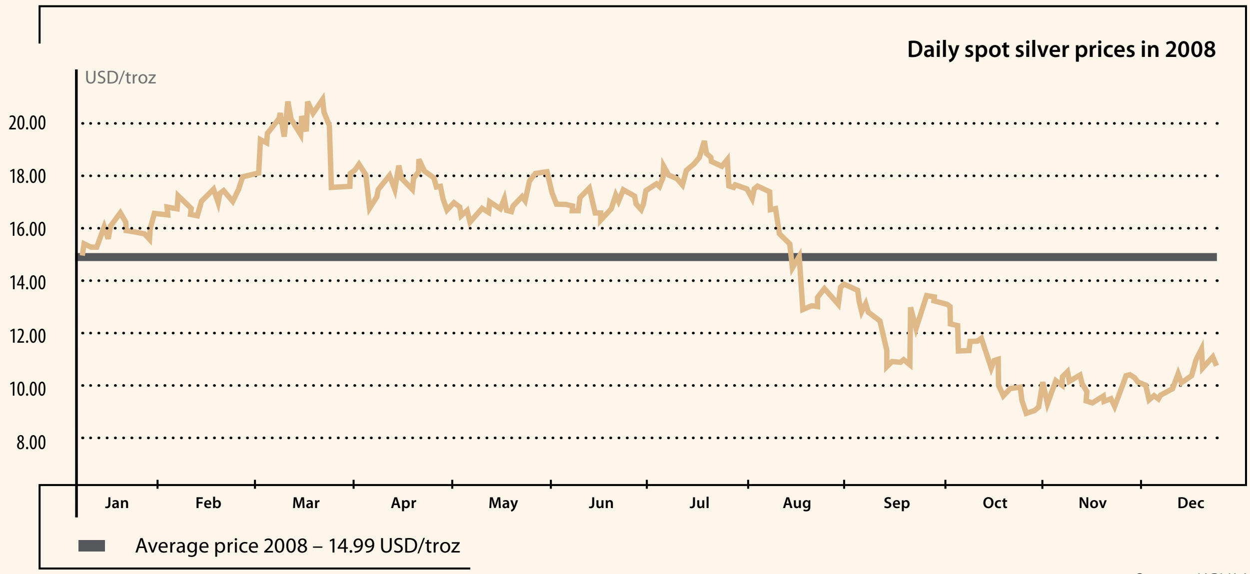
Silver market

The average annual price of silver in 2008 on the London Bullion Market amounted to 14.99 USD/troz and was 12% higher than in the prior year. After a dynamic increase in the first months of the price of silver reached a new record of 20.92 USD/troz, and in continuous trading exceeded 21 USD/troz. This was the highest price in 28 years. In subsequent months remained in the high range of 16-19 USD/troz. The price of silver fell in the second half of the year by over 57% from its peak (minimum 8.88 USD/troz), and at the end of December the fixing price was 10.79 USD/troz.

The increase in the first months of 2008, as in the case of copper, was caused by the drop in the value of the American dollar and by greater interest from hedge funds. In the second quarter the USD ceased depreciating, which led to stabilization of the silver price. The deepening of the financial crisis in the second half of the year led to a sell-off of nearly all assets, including the precious metals. Financial institutions, searching for liquidity, valued cash more highly. Once again, the price of silver proved to be more volatile than that of gold. Although both metals fell in value, silver fell by much more. This may be seen in the following gold/silver ratio, which shows the relative strength of both markets.

Following the creation of the first ETF (Exchange Traded Fund) – the iShares Silver Trust – similar financial products began to appear on the market. These funds allow participation in rising metal prices without the need to take physical delivery of the metal, thanks to which they have increased access to this market for a wide group of investors. ETF assets have systematically risen, and at the end of 2008 amounted to 265 million ounces, or 40% more than at the end of 2007. The amount of this metal is equal to nearly 37% of global annual mine production, or approx. 7.5 years of silver production by KGHM Polska Miedź S.A. These assets have not significantly decreased, even when prices collapsed in the fourth quarter of 2008. It appears that this confirms the long-term nature of these investments.

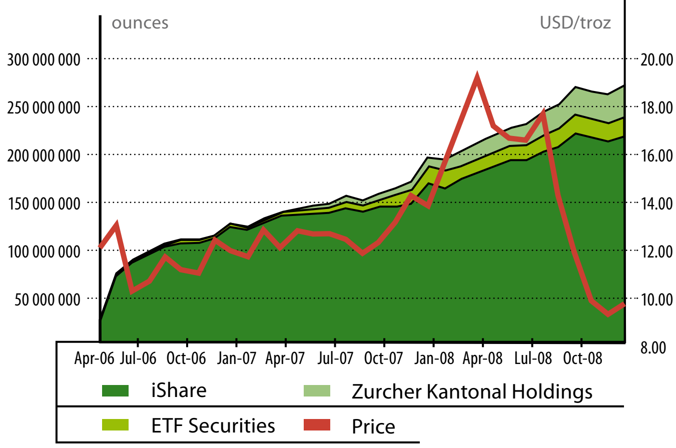
Daily spot silver prices in 2008



Source: KGHM

Gold/silver ratio in 2008

ETF silver market assets

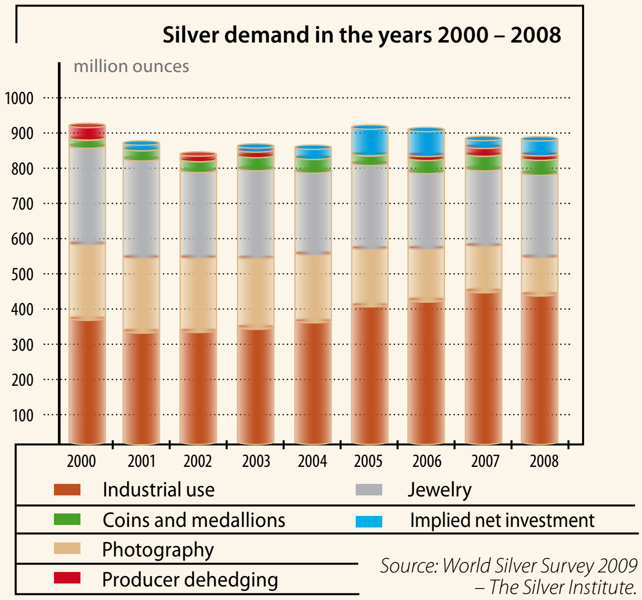


Silver supply

In 2008 total silver supply did not change versus the prior year. Silver mine production increased by 2.5% versus the prior year and amounted to 681 million ounces. This was mainly due to the achievement of full production capacity by the large San Cristobal mine in Bolivia and to increased production by the Kupol mine in Russia. Silver supply from two other sources (state silver sales and scrap) decreased. The amount of scrap fell despite the growth in silver prices, which appears to go against expectations. This happened however mainly due to the obvious fall in demand for silver by the photographic industry, where the metal used in reagents is to a large extent recovered. Lower silver consumption in this sector means lower recovery. State silver sales fell to their lowest level in the current decade. This was due to lower sales by Russia as well as lack of activity by China and India. The high prices also failed to encourage producers to increase their levels of hedging; on the contrary, hedging levels actually fell.

Silver consumption

In 2008 industrial demand for silver fell by approx. 1% to 832 million ounces. Demand for the metal fell in nearly all sectors (industry, photography, jewelry, silver-based products). The sole source of industrial demand where there was a clear increase was coinage. The production of coins and medallions was 63.5% higher in 2008 than in the prior year. During periods of financial volatility demand usually increases for collectable goods, and in 2008 such demand was the highest in a decade. Also of note is the rise in implied net investment, which exceeded 50 million ounces, or more than double the amount in 2007. This occurred despite the massive sell-off of assets, including silver, seen in the last quarter of 2008. The most important factor turned out to be the systematic flow of funds into ETFs, estimated in 2008 at 93 million ounces. Producers reduced their hedged positions (calculated using delta). Several entities closed their hedging positions, while others chose not to renew their expiring contracts.



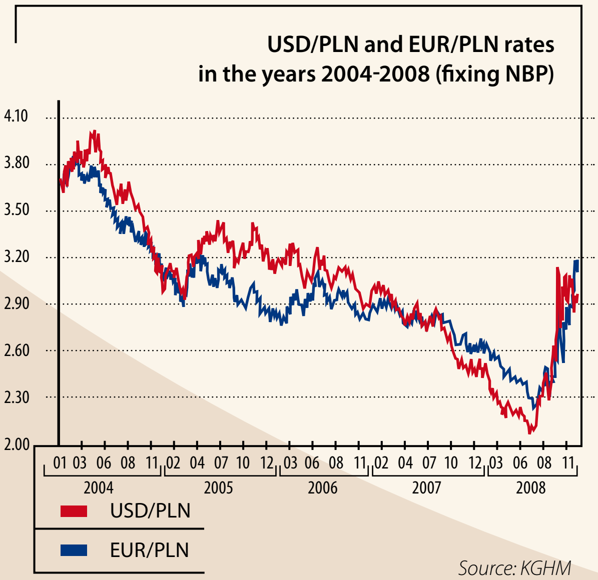
Source: World Silver Survey 2009 – The Silver Institute.

The rate of such de-hedging has been decreasing however over the last several years.

Currency market

2008 may undoubtedly be considered as a period of unprecedented rates of change on the currency market. A situation in which the relationships of the world's major currencies fluctuate within a single quarter by nearly 25% is a signal that extraordinary processes are at work in the global economy. The global collapse on the financial markets also caused significant changes with respect to the Polish zloty.

The growth trend for the zloty, beginning in May 2004, reversed itself in the middle of July 2008. This change to a weakening zloty versus the American dollar had never been so rapid. The main causes of this depreciation of the zloty from July 2008 must be taken in context not only with the deteriorating global situation, but that of the region as well. Other news of significance for the zloty exchange rate may also have been events such as the devaluation of the Russian ruble, or the sell-off of the Hungarian forint given fears for the stability of the financial system of that country. In the case of the majority of foreign investors, investment risk was considered as part of a regional basket. This however meant that the negative signals coming from some of the countries of our region led to a withdrawal of commitment from the entire region. The high liquidity of the Polish market also made it easier for foreign investors to withdraw their capital from Poland.



Source: KGHM

The range of fluctuation of the Polish zloty versus the dollar in 2008 was quite broad: USD/PLN 2.0145-3.1559. During this period (based on NBP quotations) the average annual USD/PLN exchange rate was 2.4061, while the EUR/PLN rate was 3.5129. In both cases these levels were lower than in 2007 (respectively by 13.1% and 7.2%). In 2008 the minimum zloty exchange rate versus the dollar was recorded in the second half of July, at the level of USD/PLN 2.0145, while the maximum was at the end of October - USD/PLN 3.1559. During this period the Euro was at its cheapest at the end of July (costing 3.1942 PLN), while the maximum was reached on the last day of December, EUR/PLN 4.1896.

After the rise in GDP in 2007 by 6.6%, the rate of economic activity in 2008, according to the Polish statistical office GUS, was 4.9%. In 2008, in quarterly terms, the rate of GDP growth slowed. The most rapid growth was in the first quarter at 6.1%, and the weakest in the fourth quarter, when GDP amounted to 2.9%. The causes of this weakening of economic activity must be taken in context with the deteriorating situation on the world's financial markets, which indirectly affected Polish businesses. This led to a fall in the rate of industrial production and caused sales in the fourth quarter of 2008 to be lower than in 2007. There was a slowdown in retail sales and in construction activity. The last quarter of 2008 also saw a reversal of the positive trends on the labor market.

Resource base

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

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

Among the numerous associated elements occurring together with the copper ore are those whose presence in the ore serve to increase the financial result of the Company, for example, silver, nickel and gold. Of particular economic importance for the Company is the relatively high silver content of the excavated ore (48 grams per tonne of ore in 2008). Due to the thinness of the layer of mineralisation of precious metals (appx. 25 cm), the lack of mineralisation continuity and its high irregularity, the concentrations documented are not treated as ore which meets economic criteria for separate mining operations. It should however be pointed out that a significant part of the precious metals contained in the copper ore are retained in the concentrate and recovered by the processing of anode slimes.

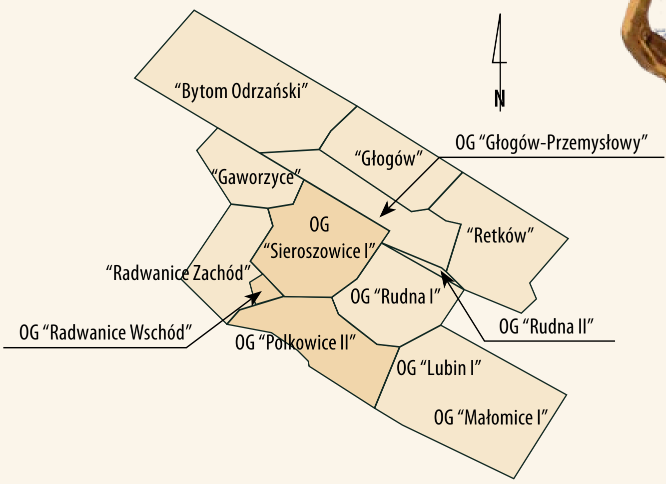
The amount of documented copper ore resources in areas licensed by KGHM Polska Miedź S.A. gives Poland 6th-7th place globally in terms of its resources, and first place in terms of its silver resources (wg. U.S. Geological Survey – 2009).

Current mining areas

KGHM Polska Miedź S.A. holds licenses for the mining of copper ore from the following regions:

- "Lubin-Małomice",
- "Polkowice",
- "Sieroszowice",
- "Rudna" (mining areas "Rudna I" and "Rudna II"),
- "Radwanice-Wschód",
- "Głogów Głęboki-Przemysłowy".

The licenses held by the Company entitle it to conduct copper ore mining until the year 2013 in the regions "Lubin I", "Małomice I", "Polkowice II", "Sieroszowice I" and "Rudna I", until 2015 in the region "Radwanice Wschód", until 2046 in the region "Rudna II" and until 2054 in the region Głogów "Głęboki-Przemysłowy". The Company will be allowed to prolong the mining licenses which expire in the year 2013, in accordance with Polish law, until the completion of mining operations (i.e. exhaustion of the ore).



Resource base – according to documentation in 2008 carried out based on a Decree of the Minster of the Environment dated 20.06.2005.

Balance ore resources of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S. A. (as at 31.12.2008)

Ore in production	Ore resources [mln t]	Cu [%]	Ag [g/Mg]	Amount of Cu [mln t]	Amount of Ag [t]
"Lubin-Małomice"	341	1.26	58	4.31	19 920
"Polkowice"	85	2.33	45	1.97	3 839
"Sieroszowice"	276	2.82	58	7.78	15 956
"Radwanice Wschód"	6	2.25	28	0.13	159
"Rudna"	469	1.81	43	8.48	20 119
"Głogów Głęboki-Przemysłowy"	292	2.40	79	7.01	22 970
KGHM Polska Miedź S. A.	1 469	2.02	56	29.68	82 963

Industrial ore resources of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (as at 31.12.2008)

Ore in production	Ore resources [mln t]	Cu [%]	Ag [g/Mg]	Amount of Cu [mln t]	Amount of Ag [t]
"Lubin-Małomice"	271	1.26	59	3.42	15 926
"Polkowice"	47	2.37	42	1.11	1 988
"Sieroszowice"	263	2.84	58	7.47	15 216
"Radwanice-Wschód"	6	2.25	28	0.13	159
"Rudna"	341	1.86	45	6.34	15 408
"Głogów Głęboki-Przemysłowy"	267	2.40	78	6.42	20 808
KGHM Polska Miedź S. A.	1 195	2.08	58	24.89	69 504

Reserve areas

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

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

Due to the continuation of high copper and silver prices on the global market, to gather further geological information on the copper ore deposits, KGHM Polska Miedź S.A. in the years 2007-2008 submitted requests for the granting of licenses for the evaluation of copper ore deposits in the documented zones of "Gaworzyce" and "Radwanice", to explore for copper ore deposits in the "Nowiny" zone and to explore for and evaluate deposits in the North Sudetic Basin.

Balance ore resources of copper and other metals (Cu, Ag) in reserve areas*

Ore not in production	Ore resources [mln t]	Cu [%]	Ag [g/Mg]	Amount of Cu [mln t]	Amount of Ag [t]
"Bytom Odrzański"	31.5	2.47	56	0.8	1 762
"Retków"	135.8	1.77	86	2.4	11 645
"Gaworzyce"	44.8	3.05	44	1.4	1 981
"Radwanice Zachód"	18.6	2.50	42	0.5	783

* down to 1250 m

In 2008, KGHM Polska Miedź S.A. received a license to evaluate the "Gaworzyce" copper ore deposit.

Production line

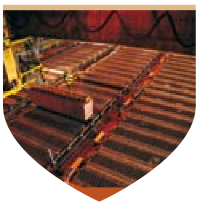
STAGES

ORE
EXTRACTION

ORE
ENRICHMENT

SMELTING

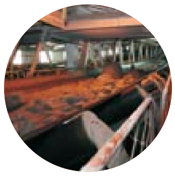
REFINING



COPPER
PROCESSING

RESULTING PRODUCT

Copper ore



Copper concentrate

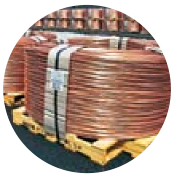
Blister copper

Electrolytic copper (cathodes)

Refined lead

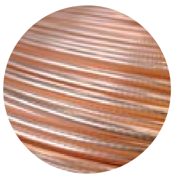
Silver

Gold



Wire rod

Oxygen-free
copper rod



Silver bearing
oxygen-free
copper rod

Billets

Production results

The main objectives set forth by the Management Board with respect to production in 2008 were:

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

The objectives set forth required fulfilment of the following tasks:

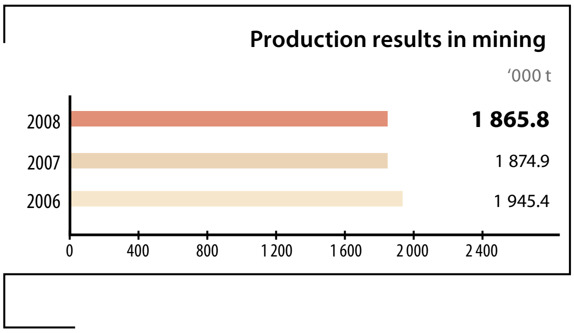
- improving the ore selection system by:
  - selecting an appropriate size for the support pillars and the geometry of working fields in order to restrict the risk of rock collapse,
  - applying so-called partial backfill in thick ore deposits,
  - increasing the scope of selective mining (i.e. leaving a larger amount of uncrushed stones at the bottom of the mine) and utilising wheeled machines which are an appropriate height for the thickness of the ore,
  - increasing the scope of drift work to prepare new working areas in the mines and improve knowledge of the deposit,
- adapting the production capacity of specific areas of the Ore Enrichment Plants to the amount and quality of ore supplied,
- improving enrichment parameters through the successive exchange of floatation equipment in specific areas of the Ore Enrichment Plants, and
- maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters.

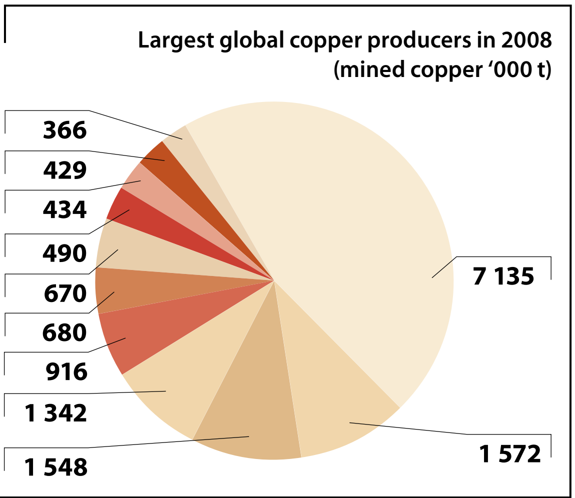
Mine production

Mining production is carried out in the Company's three mining divisions: "Lubin", "Polkowice-Sieroszowice" and "Rudna".

Ore extraction by dry weight in 2008 was lower by 0.8 million tonnesnes than in 2007. The decrease in extraction in 2008 was caused by the curtailment, at the request of the National Labour Inspectorate, of extraction in the mines on days legally free from work.

There was also a decrease in copper and silver content in extracted ore, caused by work in areas having a lower content of copper ore. These factors caused a decrease in the extraction of copper in ore in comparison to 2007 by 24.3 thousand tonnesnes (5%) and silver by 54.7t (4%). The decrease in copper and silver content in extracted ore directly affected the amount of copper and silver in concentrate, which in comparison to 2007 were lower respectively by 5% and 3%.





Codelco	1 572	Southern Copper	490
F-McM Copper & Gold	1 548	RAO Norilsk	434
BHP Billiton	1 342	KGHM Polska Miedź	429
Xstrata AG	916	Kazakhmys	366
Rio Tinto	680	Other	7 135
Anglo American plc	670	**Total**	**15 582**

Source: Brook Hunt

Smelter production

Refined copper is produced by KGHM Polska Miedź S.A. in two of the Company's metallurgical divisions: "Głogów" and "Legnica".

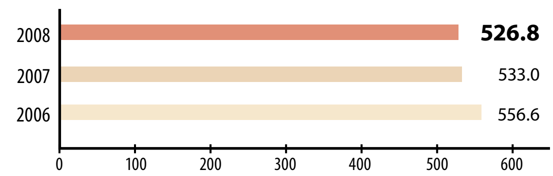
Despite a decrease in mined copper production by 5% electrolytic copper production decreased by only 1.2%, mainly due to an increase in production from purchased copper-bearing materials in the form of imported concentrate, blister copper and scrap. The addition of purchased copper-bearing materials to own concentrates was aimed at effectively utilising existing production capacity.

The increase in refined lead production by 32% is due to the achievement of improved production parameters.

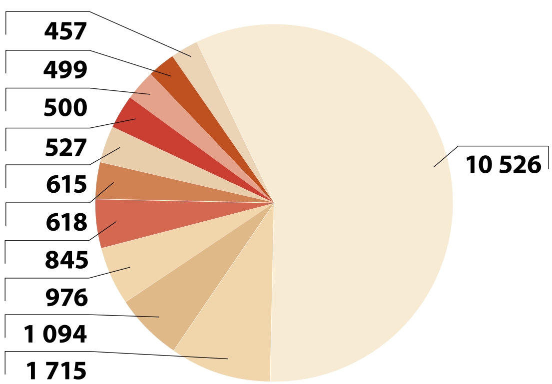
The production of other smelter products depends on the level of electrolytic copper production, the type of materials used and on market demand.

Electrolytic copper production

'000 t



Ranking of largest refined copper producers in 2008

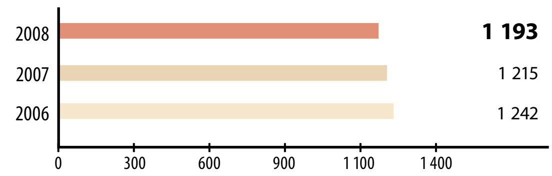


Codelco	1 715	KGHM Polska Miedź	527
F-McM Copper & Gold	1 094	Sumitomo Metal Mining	500
Norddeutsche Affinerie	976	Mitsubishi Materials	499
Xstrata AG	845	Southern Copper	457
Nippon Mining and Metals	618	Other	10 526
BHP Billiton	615	**Total**	**18 372**

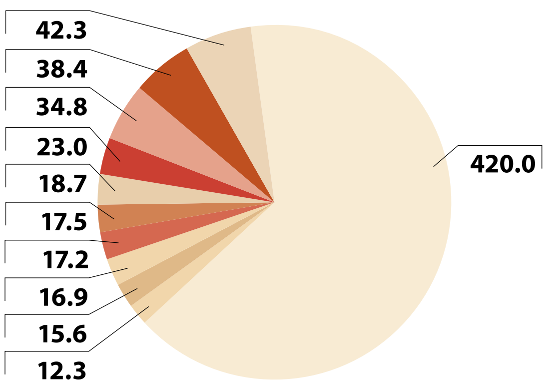
Source: Brook Hunt

Metallic silver production

t



Largest global silver producers in 2008 (mine production in million troz*)



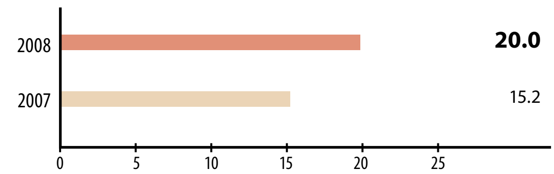
* 1t = 32 150.7 troz

BHP Billiton	42.3	Polymetal	17.2
KGHM Polska Miedź	38.4	Hochschild Mining	16.9
Fresnilo plc	34.8	Kazakhmys	15.6
Cia. Minera Volcan	23.0	Southern Copper	12.3
P. A. Silver Corporation	18.7	Other	420.0
Cia. Minas Buenaventura	17.5	**Total**	**680.9**

Source: GFMS World Silver Survey 2009

Refined lead production

'000 t



Copper processing

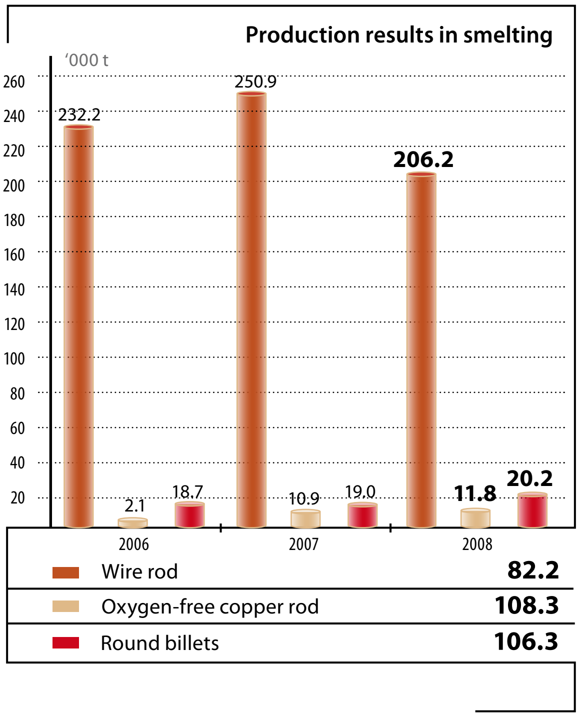
The main product of KGHM Polska Miedź S.A. is copper cathode, of which over 40% is used in further production in the divisions of KGHM:

- by the Cedynia Rolling Mill to produce wire rod, oxygen-free rod and silver-bearing oxygen-free rod, and
- by the Legnica Smelter and Refinery to produce round billets.

The decrease in market demand for wire rod caused a decrease in the production of this product by 18% versus the prior year.

In May 2008 the Cedynia division of KGHM Polska Miedź S.A produced 51 tonnes of silver-bearing oxygen-free rod, which is characterised by higher resistance to heat and abrasion. This product is now being sold on the market.

In November 2008 the Cedynia division in Orsk began production of the first batch of 10 mm copper wire rod. The production capacity of the division was thereby increased.



Main directions in production

The main production goals set out by the Management Board in 2009 are as follows:

- optimal utilisation of the resource base and of the production capacity of the Company,
- optimalisation of the copper content in ore and concentrate,
- continued preparation of mine drifts being realised in the direction of the "Głogów Głeboki-Przemysłowy" deposit,
- the application of new drift preparation work technology using drift combines,
- restricting depletion and moving from mining areas with low copper content to those with high copper content,
- continued exchange of floatation machinery in the Ore Enrichment Plants,

- optimalisation of the enrichment processes in order to counter the effects of a decrease in ore quantity-quality parameters, and

preparations to modernise the flash furnace complex in the "Głogów II" smelter.

Financial results

Profit before income tax in 2008 amounted to PLN 3 554 million and was 24% lower than in the comparable prior period.

Profit before income tax was impacted by ('000 PLN):

- profit on sales – 3 392
- profit on other operating activities – 204
- loss on financing activities – (43)

Sales

Revenues from the sale of products were lower by PLN 880 thousand, i.e. by 7% versus the comparable period.

The decrease in profit on sales is mainly due to:

- strengthening of the PLN from 2.77 do 2.41 USD/PLN (which decreased revenues by PLN 1 628 mln),
- the decrease in copper prices by 2.4% (which decreased revenues by PLN 667 mln).

The result on sales was positively impacted by:

- transactions hedging copper prices (which increased revenues by PLN 1 172 mln), and
- an increase in the volume of copper sales by 10.5 thousand tonnesnes (which increased revenues by PLN 214 mln).

In 2008, 99% of sales represented revenues from the sale of products, of which:

45% – from the sale of cathodes and their constituent parts,

34% – copper wire rod,

12% – metallic silver.

Financial risk management

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:

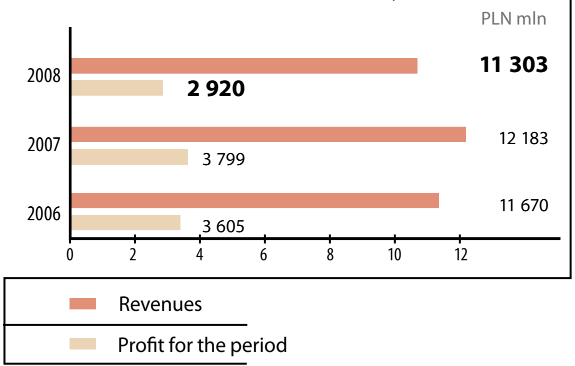
- Market risks:

Income statement – basic items

('000 PLN)	2006*	2007	2008
Sales	11670	12 183	11 303
Operating costs	7531	7 303	7 911
Profit on sales	4139	4 880	3 392
Profit/(loss) on other operating activities	264	-198	204
Operating profit	4403	4 682	3 596
Profit/(loss) on financing activities	-23	-27	-43
Profit before income tax	4380	4 656	3 554
Profit for the period	3605	3 799	2 920
EBITDA (EBIT + depreciation/amortisation)	4784	5 101	4 078

* Comparative data from annual report for 2007

Revenues from sales and profit for the period in the years 2006-2008

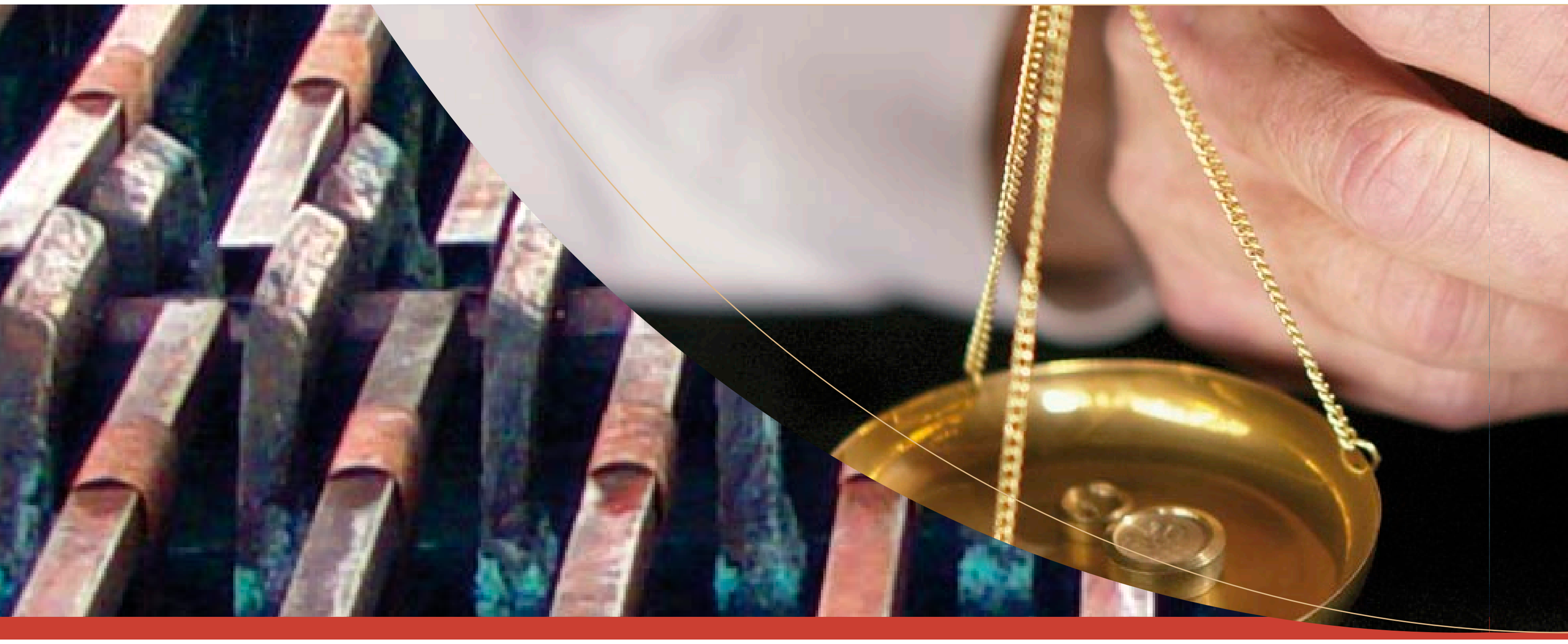


  - Risk of changes in commodity prices,
  - Risk of changes in foreign exchange rates,
  - Risk of changes in interest rates,
- Liquidity risk,
- Credit risk.

The Management Board is responsible for the management of market risk in the Company and for adhering to the approved policy in this regard. The main body responsible for overseeing management of market risk management is the Market Risk Committee, which recommends actions to the Management Board in this regard. The primary technique for market risk management is the use of hedging strategies involving derivative instruments. Apart from this, natural hedging is also used.

The Company continuously monitors the commodity and currency markets, and these monitoring activities are the basis for taking decisions on implementing hedging strategies. The management of market risk is also determined by the internal situation of the Company. KGHM applies cash flow hedge accounting. Monitoring of the amount of market risk in the Company is based on analysis of the impact of market risk factors on the activities of the Company (financial result, balance sheet, cash flow statement).

The Company quantifies and describes its market risk exposure using a consistent and comprehensive measure. 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. One of the measures of risk used in the process of market risk management is EaR - Earnings at Risk (pre-tax profit exposed to risk). However, due to the fact that no single risk measure possesses the ability to completely reflect reality, mainly because of the underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting the decision making process and as a source of additional information. Such models are not the only basis for decision making in the market risk management process.



In accordance with best world practice in this regard, appropriate units have been separated in the Company involved in entering into hedging transactions from others responsible for their authorisation and settlement, and for preparing measurements of these transactions. Such an organisational structure permits both control over the process of market risk management and minimises the risk of entering into unauthorised transactions on the derivative instruments market (the oversight principle). The above-described system of market risk management which is followed in the Company is based on best world standards, as confirmed by the positive opinion of the auditors and consulting firms auditing this process, as well as by the highly-rated transparency of the financial statements in this regard.

The Management Board is responsible for the management of financial liquidity in the Company and for adhering to the approved policy in this regard. The Company actively manages financial liquidity, understood as the capacity to punctually regulate its liabilities and to acquire funds to finance its current activities and investment needs. Financial liquidity is analysed across several time horizons, beginning from immediate liquidity to long-term liquidity.

The Management Board is responsible for the management of credit risk in the Company and for adhering to the approved policy in this regard. The main body responsible for overseeing management of credit risk management is the Credit Risk Committee. KGHM continuously evaluates the creditworthiness of its customers with whom physical sale transactions are undertaken; of the financial institutions (banks/brokers) with whom hedging transactions are undertaken; and of the entities in which direct investments or equity investments are made.

Market risk

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

In 2008 transactions in derivative instruments entered into on the metals market were settled with a positive result, while currency hedging transactions were settled with a negative result. The impact of all transactions in derivative instruments on the income statement amounted to PLN 367 990 thousand (in 2007: PLN (748 680) thousand), of which:

- revenues from sales were adjusted by PLN 579 991 thousand (in 2007 PLN (435 533) thousand) – being the amount transferred from revaluation reserve to profit and loss in the financial period,
- PLN (99 575) thousand (in 2007 PLN (47 165) thousand) adjusted other operating costs – loss from the realisation of derivative instruments,
- PLN (112 426) thousand (in 2007 PLN (265 982) thousand) adjusted other operating costs – loss from the measurement of derivative instruments.

The adjustment of other operating costs due to the measurement of derivative transactions results mainly from changes in the time value of options which are to be settled in future periods. Due to the existing hedge accounting regulations, changes in the time value of options may not be recognised in the revaluation reserve.

In 2008, the Company implemented copper price hedging strategies of a total volume of 99 thousand tonnesnes and a maturity falling in the fourth quarter of 2008 and the first half of 2009. The Company made use of options. Additionally, during this period the Company implemented adjustment hedge transactions of a total volume of 24.8 thousand tonnesnes 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. In 2008 adjustment hedge transactions were implemented on the silver market of 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 position in derivative instruments hedging the revenues of the Company in the fourth quarter of 2008 enabled the Company to achive the budget assumptions for the prior year. The purchase of sell options on the currency market during the period when the PLN was strong enabled the Company to participate in the strong weakening of the PLN versus the USD in the second half of the year.

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.

The hedging position developed by the Company served to ease the effects of the drastic fall in the price of copper. Simultaneously the derivative instruments used enable participation in the high USD/PLN exchange rate.

Assets

In comparison to the end of 2007, total assets increased by PLN 1 477 thousand, i.e. by 12%.

The value of property, plant and equipment increased in 2008 by PLN 682 million, and at the end of the year amounted to nearly 40% of total assets. The increase in this asset item is mainly due to realisation of the tangible investments program. Capital expenditures in 2008 amounted to PLN 1 140 million, i.e. more than twice as much as depreciation, which amounted to PLN 469 million.

In non-current assets, a significant item is assets related to subsidiaries and associates. The total value of shares amounted to PLN 2 959 million, i.e. 21% of total assets at the end of 2008. The increase in the value of these shares in 2008 was PLN 717 million, and is the result of equity investments and impairment losses, including primarily:

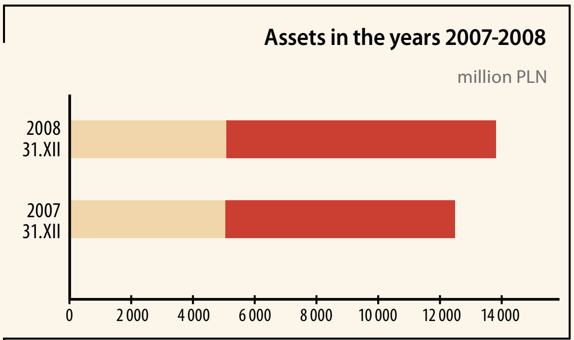
- Polkomtel S.A. – acquisition of a block of shares from TDC Mobile International A/S (currently TDC A/S) for PLN 726 million,
- PeBeKa S.A. – acquisition of shares in the increased share capital in the total amount of PLN 34 million (the funds from this increase in share capital were used for the purchase of mining machinery),
- Energetyka sp. z o.o. – an increase in share capital due to the expansion of power generation capacity. The amount of the increase was PLN 27 million,
- Dialog S.A. – an impairment losses on shares of PLN 75 million, accounted for by KGHM at 31 December 2008.

The value of cash and cash equivalents amounted to PLN 1 794 million, and decreased during the year by PLN 741 million (29%), mainly due to expenditures related to the acquisition of shares, property, plant and equipment and to the payment of a shareholder dividend of PLN 1 800 million.

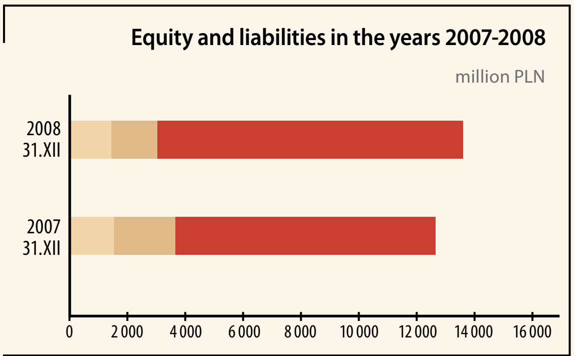
The value of inventories at the end of 2008 was PLN 1 447 million, including:

- semi-products and work in progress – PLN 1 062 million,
- finished goods - PLN 239 million,
- material inventories – PLN 144 million.

Inventories decreased by PLN 157 million, i.e. by 10% versus the end of 2007. Inventories fell with respect to semi-products and work in progress, and finished goods. This is related to a decrease in the volume of copper in concentrate inventories by 4 thousand t and finished goods from Cu by 10 thousand t. Also of significance was the revaluation of inventories to actual sale prices at the end of 2008. The value of inventories was written down by PLN 62 million.



		2007	2008
	Non-current assets	**7 431**	**8 704**
	Current assets	**4 992**	**5 174**
	Total:	**12 424**	**13 901**



		2007	2008
	Equity	**8 966**	**10 591**
	Non-current liabilities	**1 439**	**1 641**
	Current liabilities	**2 018**	**1 669**
	Total:	**12 424**	**13 901**

Available-for-sale financial assets in the amount of PLN 21 million represented shares in unlisted companies (PLN 10 million) and in the investment fund AIG (PLN 11 million). Held-to-maturity investments were all in respect of the Mine Closure Fund (PLN 60 million).

The largest item of current assets was cash and cash equivalents. In 2008 unallocated funds were mainly invested in short-term bank deposits of up to three months. In addition the Company invested in shares in investment funds, which represented up to 7% of the value of cash and cash equivalents. These assets were sold in October 2008.

An important item in the structure of current assets at the end of 2008 was current receivables in the amount of PLN 1 223 million, of which trade receivables amounted to PLN 520 million. The value of receivables increased during the year by PLN 450 million, mainly with respect to receivables due to unsettled derivative instruments (an increase by PLN 278 million) and non-financial receivables due to taxation, social and health insurance and other benefits (an increase by PLN 196 million). In this regard trade receivables decreased by PLN 37 million, i.e. by 7%.

Derivative financial instruments were measured at PLN 6.5 million in non-current assets and PLN 711 million in current assets.

Equity and liabilities

In 2008 the basic source for financing assets was equity, whose share in total assets increased from 72% in 2007 to 76% in 2008.

The increase in equity by PLN 1 625 million was comprised of:

- the change in the revaluation reserve on cash flow hedging financial instruments and on available-for-sale financial assets (PLN 505 million), mainly due to the measurement and settlement of hedging transactions,
- the profit for 2008, less the dividend for 2007 (PLN 1 120 million).

Total non-current and current liabilities amounted to PLN 3 309 million, i.e. PLN 148 million lower than at the end of 2007. Their share in the structure of financing assets also decreased, as shown by the relation of liabilities to equity – a decrease from 39% to 31%.

The largest item was trade and other payables, totalling PLN 1 501 million, of which:

- trade payables – PLN 706 million,
- other payables – PLN 795 million,

of which: taxation and social security PLN 184 million, accruals, mainly respecting the annual bonus, PLN 293 million.

During the year trade payables increased by 25%, while other payables decreased by 16%. As a result total payables in this regard remained at a similar level to the amount at the end of 2007.

A significant item is the liability due to employee benefits in the total amount of PLN 1 049 million, of which:

- the coal equivalent payment – PLN 635 million,
- jubilee bonuses – PLN 242 million,
- retirement and disability benefits – PLN 172 million.

The prevailing part of provisions for liabilities (PLN 635 million - total non-current and current) is a revalued provision for decommissioning costs of mines and other facilities (PLN 603 million).

Ratios illustrating the financing of assets did not change significantly with respect to 2007.

Financial ratios

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The increase in the liquidity ratios was mainly due to a decrease in current liabilities by 17%.

The decrease in the financial result by 23% alongside the increase in total assets by 12% caused a decrease in the return on assets (ROA). The decrease in the return on equity (ROE) is due to an increase in equity by 18% alongside a decrease in the financial result.

The decrease in the debt ratio was due to an increase in the share of equity in equity and liabilities from 72% in the prior year to 76% in 2008. The increase in equity also had a major impact on increasing the durability of financing structure.

The table below presents the basic ratios describing the economic activities of KGHM

	2007	2008
Current liquidity	2.5	3.1
Quick liquidity	1.7	2.2
ROA - return on assets (%)	30.6	21.0
ROE - return on equity (%)	42.4	27.6
Debt ratio (%)	27.8	23.8
Durability of financing structure (%)	83.8	88.0

Operating costs

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

The total unit cost of copper production increased by 576 PLN/t, i.e. by 5%, mainly due to:

- the increase in costs by type, of which:
  - costs of materials, fuel and energy (+432 PLN/t),
  - contracted mine preparatory work (+223 PLN/t),
  - depreciation/amortisation (+116 PLN/t),
  - labor costs, excluding actuarial provision (+79 PLN/t),
- electrolytic copper production lower by 6 thousand t (+106 PLN/t),

alongside the following factors reducing the unit cost:

- a lower value of external copper-bearing materials used (-439 PLN/t), the decrease in average prices for external copper-bearing materials from 19 685 PLN/t Cu to 14 946 PLN/t Cu (-959 PLN/t) was partially compensated by a 13 thousand t increase in Cu volume consumption (+520 PLN/t).
- the favorable valuation of anode slimes (-114 PLN/t) mainly due to the increase in the price of gold by 18%.

The unit cost of electrolytic copper production

	Unit	2006	2007	2008
Total unit cost ofcopper production	PLN/t	10 497	11 160	11 736
	USD/t	3 381	4 031	4 878
of which: from internal concentrates	PLN/t	8 185	9 313	10 797

The cost of copper production from internal concentrates increased by 1 484 PLN/t, i.e. by 16%, which was primarily due to the above-mentioned increase in costs by type and the decrease in the volume of copper production from internal concentrate by 4% (19 '000 t).

The cost of copper production represents 93% of total costs by type. The structure of costs by type is shown in the table below:

Structure of costs by type (%)

	2006	2007	2008
Depreciation/Amortisation	5	6	6
Materials and energy	51	45	44
including external copper-bearing materials	32	23	21
External services	12	12	13
Labor costs	27	32	31
Taxes and charges	4	4	4
Other	1	1	1

In 2008 total costs by type increased versus the prior year by PLN 549 million, i.e. by 8%, mainly due to an increase in the following costs (in million PLN):

- consumption of materials (excluding purchased copper-bearing materials), fuels and energy – 205,
- external services, including mainly mine preparatory work – 150,
- labor costs, including mainly provisions for future employee benefits – 111,
- depreciation/amortisation – 63,
- write-down of inventories – 61,

alongside a decrease in the costs of purchased copper-bearing materials consumed by PLN 50 million.

Realisation of financial forecasts

Realisation of the forecast financial results despite the less favourable-than-forecast macroeconomic conditions was possible thanks to a 5.2% higher sales volume and to the hedging policy realised in 2008.

The unit cost of electrolytic copper production in 2008 amounted to 11 736 PLN/t which is 5.8% lower than assumed (12 455 PLN/t). The main reasons for the more favorable-than-forecasted level of unit cost were: the lower price of external copper-bearing materials used in production and the higher-than-planned level of electrolytic copper production.

Realisation of the projected financial results of the Company for 2008

		Budget 2008	Execution 2008	Realisationof forecast%
Sales	million PLN	11 193	11 303	101.0
Profit for the period	million PLN	2 904	2 920	100.6
Average annual copper prices	USD/t	7 100	6 952	97.9
	PLN/t	17 750	16 754	94.4
Average annual silver prices	USD/troz	15.00	14.99	99.9
USD/PLN exchange rate	USD/PLN	2.50	2.41	96.4
Electrolytic copper production	'000 t	512.0	526.8	102.9
- of which from external copper-bearing materials	'000 t	93.5	105.1	112.4
Silver production	t	1 110	1 193	107.5
Unit electrolytic copper production cost	PLN/t	12 455	11 736	94.2
Capital expenditure	million PLN	1 637	1 140	69.6

Projected Company financial situation in 2009

On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2009. The basis for preparation of the Budget were the preliminary results for 2008 and the assumptions contained in specific operating plans. The accepted Budget assumes the achievement in 2009 of revenues from sales in the amount of PLN 7 048 million and profit for 2009 of PLN 488 million.

The macroeconomic assumptions used result from the assumed weakness in the metals market, alongside cautious assumptions with respect to the PLN exchange rate.

The investment program assumed in the Budget is aimed at realisation of the following goals:

- replacing worn-out assets and maintaining production over the long term from domestic resources (the technical infrastructure of new mining regions),
- improving productivity through realisation of projects resulting in reducing core business costs,
- additional revenues from new production.

The main element in planned equity investments is the acquisition of a foreign mine, in order to expand the resource base of KGHM Polska Miedź S.A., along with investments in the power sector.

In addition, the Budget for 2009 includes undertaking of ad hoc actions aimed at reducing costs and increasing productivity. The Budget assumes the realisation of programs, begun in 2008, for reducing costs and increasing productivity in the main operating areas of the Company and Group. One of these is the program to centralise purchasing throughout the Group, which it is cautiously expected should in 2009 bring about savings on the order of at least PLN 200 million.

Due to an improvement in macroeconomic factors and to a change in costs by type, the Company updated the projected financial results (published in a current report dated 15 May 2009). The projection foresees the achievement in 2009 of revenues from sales in the amount of PLN 9 065 million and net profit at the level of PLN 1 906 million.

The projection reflects the financial results of the Company realised in the first quarter of 2009 and the updated macroeconomic assumptions and basic elements of the production plan.

The projection assumes a lower volume of final production – mainly due to a shortage on the market of coper-bearing materials.

Despite an improvement in macroeconomic factors, there continues to be high volatility in copper prices and in the USD/PLN exchange rate on the financial markets, meaning that the financial results of the Company are characterised by high uncertainty.

In the second quarter the Company began work on an updated Budget reflecting the updated basic assumptions in terms of the macroeconomic environment and production and investment plans.

Details of the basic assumptions of the Budget for 2009 and the updated projection of Company results are presented below:

Company Budget assumptions for 2009

	Unit	2008	Budget 2009 *	Updated projection **
Sales	**m PLN**	**11 303**	**7 048**	**9 065**
Profit for the period	**m PLN**	**2 920**	**488**	**1 906**
Average annual copper price	USD/t	6 952	3 200	3 800
	PLN/t	16 754	9 280	12 350
Average annual silver price	USD/troz	14.99	10.00	12.60
USD/PLN exchange rate	USD/PLN	2.41	2.90	3.25
Electrolytic copper production	'000	526.8	512.3	496.0
- of which from external	'000	105.1	98.5	81.0
Silver production	t	1 193	1 125	1 159
Total unit cost of	PLN/t	11 736	10 466	10 659
electrolytic copper production	USD/t	4 878	3 609	3 280
Capital expenditure	m PLN	1 140	1 235	-
Equity investments	m PLN	793	939	-

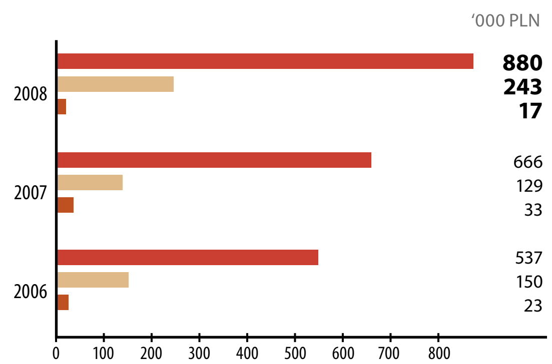
* Company Budget for 2009 approved by the Supervisory Board and published in a current report dated 23 February 2009
** Updated projection published in a current report dated 15 May 2009

Investments and Research and Development

Expenditures on investments in 2008 were the highest in the history of the Company and amounted to PLN 1 140 million. Investments expenditures in 2008 were 37.7% higher than in the prior year. In 2008 investments were financed from internal funds.

Investment activities in 2008 were primarily aimed at the replacement of equipment and development projects.

Investment expenditures



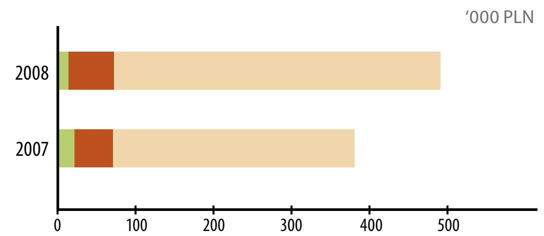
	Mining
	Smelting
	Other projects

Investments related to development:

With respect to investments related to development, the largest spending was in mining on the realisation of projects related to gaining access to new mining regions and the development of existing mining infrastructure:

- Construction of the SW 4 – since 2004 (average annual expenditure: PLN 80 million)
- "Program for the mangement of the Głogów Głęboki-Przemysłowy deposit" – since 2006 (average annual expenditure: PLN 100 million),
- Development of existing mining infrastructure (average annual expenditure: approx. PLN 100 million).

Investments related to development

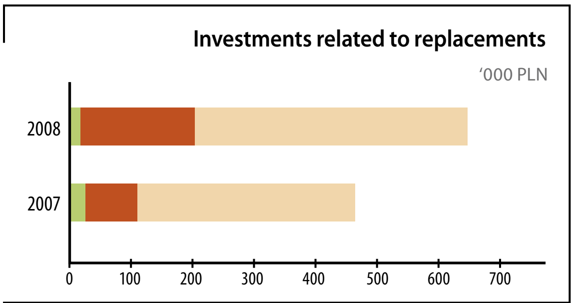


Investments related to development	2007	2008
total	**383**	**492**
in mining	**310**	**422**
in smelting	**54**	**62**
in other Divisions	**19**	**8**

Investments related to replacements:

With respect to replacements the largest item was with respect to the purchase of mining machinery.

In the years 2002-2006 the replacement ratio for mining machinery (number of new machines to total number of machines at work) varied within a range of 8-13%. In the years 2007-2008, through the intensified replacement of mining machinery, the replacement ratio for mining machinery reached 19%. Thanks to the systematic replacement of machinery there was a significant decrease in the average age of the machines at work in the mines (primary and auxiliary). In 2006 their average age amounted to 6.5 years, while in 2008 this was reduced to 5 years. In 2009 the plan is to decrease the average age of the machines to 4.5 years.



Investments related to replacements	2007	2008
total	**445**	**648**
in mining	**356**	**458**
of which: mining machinery	*190*	*222*
in smelting	**75**	**181**
in other Divisions	**14**	**9**

Major projects and facilities realised in 2008:

- modernisation and replacement of machinery in the mines (253 mining machines purchased),
- continued construction of the SW-4 shaft – work was carried out related to preparations for excavation of the shaft, 669 meters of drift tunnelling was carried out and 144.4 meters of the shaft was excavated,
- continued realisation of drift tunnelling to access the Głogów Głeboki-Przemysłowy mining area in accordance with the planned timetable – 8.7 thousand meters of tunnel were built (altogether since 2005 26.1 thousand meters of the planned 106.7 thousand meters). Following digging the tunnels are laid out with power, de-watering, ventilation and air conditioning lines, as well as ore transportation. In addition, testing holes are made as part of the preparations for excavation of the GG-1 shaft,
- investments related to developing the infrastructure of the mining divisions, conveyor belts and ventilation and air conditioning equipment in the mines,
- replacing equipment in the smelters,
- power and communications facilities,
- facilities related to improving and maintaining the safe operation of the Żelazny Most tailings pond, and eliminating its environmental impact,
- investments related to realisation of the project „Modernisation of pyrometallurgy in the Głogów II smelter”.

In addition, in 2008 the Company took decisions on realisation of the following projects:

- modernisation of pyrometallurgy in the “Głogów I” smelter (work is underway on preparing the project for realisation),
- constructing gas-steam blocks in the powerplants in Głogów and Polkowice – each of these has two gas turbines of 15 MWe and a steam turbine of 15 MWe. Their total power of 90 MWe will assure around 25% of the Company’s electrical needs.

The development of the power generation capacity is related to the possibility of reducing the Company’s electricity costs and improving the power security of the KGHM Polska Miedź S.A. Group.

Main areas of investment activities in the years 2009-2013

The main areas of investment activities in the years 2009-2013 comprise the following key activities:

1. Development and increased effectiveness of the core business:

- increasing the resource base, including maintaining the level of copper production from domestic sources by:
  - replacing production-related assets in the divisions,
  - developing the technical infrastructure of new mining regions,
  - construction of the SW-4 shaft,
  - realisation of the "Głogów Głeboki-Przemysłowy" project, which will enable continuation of the current level of copper production over the long term, and
  - exploring the possibility of mining the "Radwanice-Gaworzyce" deposit.
- improving effectiveness, including restriction of basic operating costs and modernisation of production-related assets by:
  - renovation of the tailings hydrotransport installation,
  - replacing floatation machinery,
  - modernising pirometallurgy,
  - constructing gas-steam blocks,
  - more rapid exchange of mining machinery, and
  - other investments related to reducing costs, which are currently being analysed.

2. Diversification of activities and supporting the development of KGHM – increasing the production of salt associated with the copper ore, increasing the production of crude and refined lead and the production of copper from scrap.

Equity investments

At 31 December 2008 KGHM Polska Miedź S.A. directly owned shares of 20 entities. Four companies belonging to the KGHM Polska Miedź S.A. Group have their own capital groups: KGHM Ecoren S.A., PHP "MERCUS" sp. z o.o., DIALOG S.A. and POL-MIEDŹ TRANS Sp. z o.o.

The acquisition and taking up of shares

The value of equity investments related to the acquisition and taking up of shares in 2008 amounted to PLN 793 072 thousand. The Company purchased and acquired shares in the following Group companies:

"Energetyka" sp. z o.o.

In June 2008 KGHM Polska Miedź S.A. acquired for cash, based on nominal value, shares in the increased share capital of „Energetyka" sp. z o.o. in the total amount of PLN 27 million. The funds obtained were used for modernisation work related to the expansion of power generation capacity. The share capital of this company following

the increase amounts to PLN 249 million. The ownership percentage of KGHM Polska Miedź S.A. in the share capital of the company remained unchanged.

PeBeKa S.A.

In August 2008 KGHM Polska Miedź S.A. acquired for cash, based on nominal value, shares in the increased share capital of PeBeKa S.A. in the total amount of PLN 19 million, and in December 2008 - in the total amount of PLN 15 million. The funds obtained from these increases in share capital were used to purchase mining machinery.

The share capital of this company following the increases amounts to PLN 65 million. The ownership percentage of KGHM Polska Miedź S.A. in the share capital of the company remained unchanged.

KGHM LETIA S.A.

In September 2008 the share capital of KGHM LETIA S.A. was increased by PLN 7 million. KGHM Polska Miedź S.A. acquired shares in the increased share capital of KGHM LETIA S.A. in the total amount of PLN 4 million covered, based on nominal value, by a contribution in kind in the form of property and documentation in the amount of PLN 4 million and cash in the amount of PLN 1 thousand.

In 2008 the Voivodeship of Lower Silesia increased its stake in the company, covering the shares acquired, based on their nominal value, by a contribution in kind in the form of property in the amount of PLN 3 million.

Following this increase the share capital of the company amounts to PLN 27 million. The ownership percentage of KGHM Polska Miedź S.A. in the share capital of the company changed from 94.96 % to 85.45 %.

"MCZ" S.A.

In December 2008 KGHM Polska Miedź S.A. acquired for cash, based on nominal value, shares in the increased share capital of "MCZ" S.A. in the total amount of PLN 1 million.

The funds obtained were used to purchase medical equipment. Following this increase the share capital of the company amounts to PLN 52 million. The ownership percentage of KGHM Polska Miedź S.A. in the share capital of the company remained unchanged.

Polkomtel S.A.

In December 2008 KGHM Polska Miedź S.A. acquired 980 486 ordinary registered shares of Polkomtel S.A., in the total nominal amount of PLN 98 million, representing 4.78% of the share capital of Polkomtel S.A. The purchase price of this block of shares was PLN 726 million. As a result of his transaction the percentage ownership of KGHM Polska Miedź S.A. in the share capital of this company changed from 19.61% to 24.39 %.

Capital decreases

In April 2008 there was a court registration of a decrease in the share capital of DIALOG S.A. from PLN 1 960 million to PLN 490 million, i.e. by PLN 1 470 million, through a decrease in the existing nominal value of all company shares from PLN 100.00 to PLN 25.00 per share.

The funds arising from this decrease in share capital were used to cover losses from prior years in the amount of PLN 913 million and were allocated to reserve capital in the amount of PLN 557 million. KGHM Polska Miedź S.A. owns 100% of the company's shares.

Sale of shares

In August 2008 KGHM Polska Miedź S.A. sold shares of MINOVA-KSANTE Spółka z o.o., representing 30% of the share capital, back to this company in order to retire them. As a result of this transaction KGHM Polska Miedź S.A. no longer owns shares of MINOVA-KSANTE Spółka z o.o.

Dividends received

In 2008 KGHM Polska Miedź S.A. received dividends from the following entities:

- Polkomtel S.A. PLN 183 million,
- KGHM Ecoren S.A. PLN 30 million,
- KGHM Metraco S.A. PLN 13 million,
- KGHM Polish Copper Ltd. PLN 9 million,
- CBJ sp. z o.o. PLN 2 million,
- PTR S.A. PLN 0,23 million.

The intentions of the Company as regards equity investments are mainly aimed at:

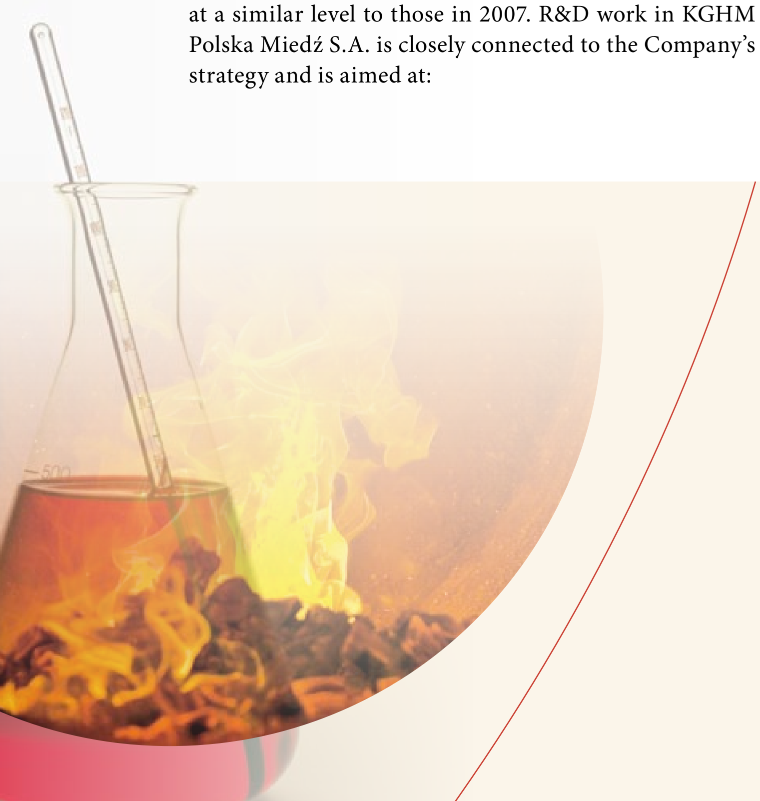
- investments in the areas considered by KGHM Polska Miedź S.A. as strategic power and mining,

- realisation of investments supporting the core business,
- developing and increasing the effectiveness of Group companies, and
- actions aimed at improving the Group structure.

The financial results of KGHM Polska Miedź S.A. for 2008 enable realisation of the approved equity investment plan. Realisation of these investment projects assumes the use of internal funds.

Research and Development

R&D work is financed by the Company's internal funds. In certain cases the Company makes use of public funds. Expenditures by KGHM Polska Miedź S.A. on R&D work in 2008 amounted to PLN 5.88 million and were at a similar level to those in 2007. R&D work in KGHM Polska Miedź S.A. is closely connected to the Company's strategy and is aimed at:



- development and expansion of the core business,
- diversifying activities, and
- supporting the development of KGHM.

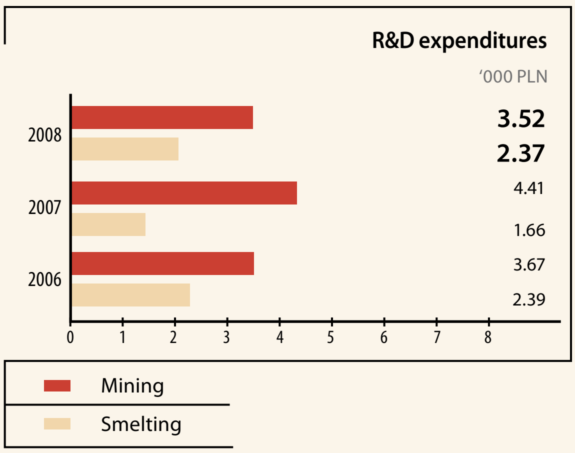
Apart from research conducted at its own initiative, KGHM Polska Miedź S.A. participated in realisation of the integrated project „BioMinE", as part of the 6th framework program of the European Union, consisting of research into the use of bioleaching for the recovery of useful metals from copper ore, concentrates and flotation tailings.

Another permanent part of the innovation process is expenditures on feasibility studies and analysis in the research process (academic-technical expertise), on which PLN 11.95 million was spent in 2008.

The main areas of research with respect to technological innovation in future years will include:

I. In mining:

- new methods for researching copper ore deposits and forecasting and managing the occurrence of associated and co-associated metals,
- optimalisation of existing applied technology for selected deposits and searching for new solutions in this regard for mining thin and/or thick deposits,
- improving safety during mining operations under conditions of associated threats,
- optimalisation of processing in terms of an increasing number of recovered useful elements and reducing costs,
- searching for possibilities to reduce production costs, improve the use of machinery and equipment and the consumption of materials and energy,
- research into technically and economically justified technologies enabling a reduction in the amount of stored waste using the hydrotechnical method, and



- ensuring the safe operation of the Żelazny Most tailings pond.

II. In smelting:

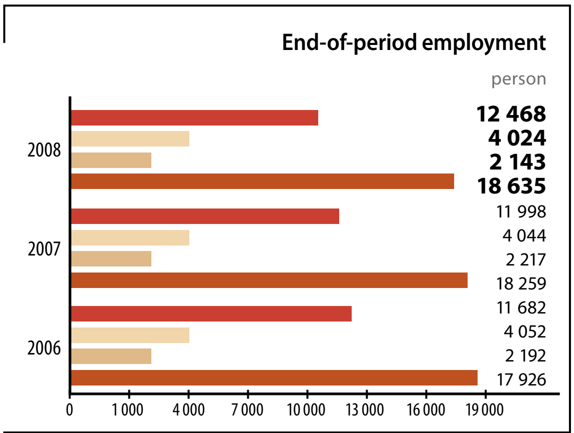
- research into the usefulness of new technological solutions for the smelters of KGHM, in order to reduce processing costs,
- minimalisation of the Company's environmental impact, including through the management of Pb and As which degrade the efficiency of smelter processes, and
- searching for possibilities to manufacture new products.

Employment in KGHM Polska Miedź S.A.

Employment

Employment in KGHM Polska Miedź S.A. at the end of 2008 was 18 635 persons, which was 2% higher than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 486 and was higher than the level of employment in 2007 by 497 persons.

The increase in employment was recorded in the mining divisions. The hiring of new workers was dictated on the one hand by the need to ensure an adequate level of employment to eliminate overtime work, and on the other to ensure staffing in newly-created sections: preparatory mining work and assembly-repair work, as well as to expand the conveyor belt system which is critical to maintaining the continuous removal of ore.



Mines	
Smelters	
Other divisions	
KGHM Polska Miedź S.A.	

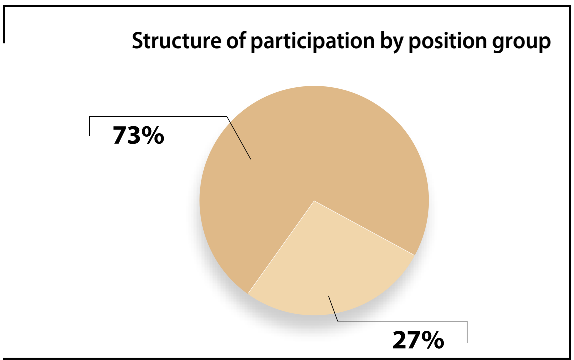
Human Resource Management System

2008 was a year of further improvement and implementation of human resource management tools. In order to standardize its activities, a unified personnel policy was introduced by KGHM Polska Miedź S.A. with respect to hiring. Hiring for all positions is carried out by internal and/or external recruitment. External announcements for available positions are placed on the Company's website or in the media, while internal announcements for available positions are sent to all of the Company's divisions via e-mail. The CVs of candidates are reviewed by a hiring committee appointed by the director of each of the divisions.

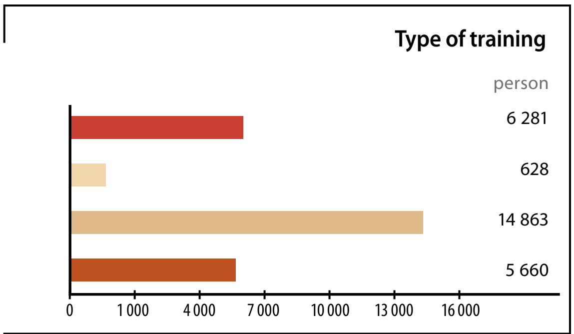
Training

The training carried out is closely connected to the Company strategy. Among the strategic goals are an increase in the effectiveness of human resource management and and an improvement in working conditions through the "Development of an organizational culture based on responsibility".

In 2008 training was carried out in all professional groups. A total of 27 432 underwent training.



Blue collar	73%
White collar	27%



Professional courses	6 281
Conference attendance	628
Health / safety training	14 863
Worksite training	5 660
	Total: 27 432

Ratio: participants / average employment = 148%

Training policy goals realized in 2008:

- The program „Activating unemployed graduates" was continued, begun in 2003 based on an agreement without deadline with local Labor Offices within the Copper Basin. This program covers unemployed youth who are registered in five powiats (Lubin, Legnica, Polkowice, Głogów and Złotoryja), where the economic entities of KGHM Polska Miedź S.A. are located. In 2008, 68 persons were offered places in this program.
- Professional work experience was organized and carried out for students in post-liceum schools in agreed limits by ensuring the requisite schooling bases within

the Divisions, equipped with the requisite machinery, equipment, instruments and auxilliary equipment to meet the needs of the program. 566 students were trained.

- Cooperation with respect to the development of professional regional training was begun with local authorities in Lubin as well as with subsidiary units – PUP in Lubin and with Zespół Szkół nr 1 im. B. Krupińskiego in Lubin. The scope of cooperation includes:
  - requesting the establishment of new professions and specialties based on the current and future needs of the Copper Basin,
  - assistance concerning the updating of programs for the teaching of professional subjects, for example by providing access to technical documentation and information on new technology and innovations applied or being implemented in KGHM Polska Miedź S.A.,
  - Work was begun to create a separate specialty in copper ore technology at Zespół Szkół nr 1 in Lubin,
  - Actions were undertaken aimed at creating a program to professionally adapt graduates to careers in underground mining technology, general technology and as electricians in cooperation with PUP in Lubin and Zespół Szkół nr 1.
- Student internships were organized for 261 persons, while 165 persons were granted access to materials and information for diploma-granting courses.
- In 2008 training was concluded which made use of financing from the European Social Fund.
- The unit cost of training was reduced by organizing closed dedicated training groups.

Employee Retirement Program (ERP)

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

1. PZU Open Share Investment Fund KRAKOWIAK.
2. PZU Open Debt Securities Investment Fund POLONEZ.
3. PZU Open Stable Growth Investment Fund MAZUREK.

These funds are managed by the company Towarzystwo Funduszy Inwestycyjnych PZU S.A. in Warsaw. The basic employer contribution amounts to 3% of the employee's wages. As at 31 December 2008 14 993 employees belonged to the program, i.e. 80% of the workforce, of which 3 061 employees have declared for additional contributions.

Social actions

In KGHM Polska Miedź S.A. a Social Fund (in Polish ZFŚS) is created separately in each of the Company's Divisions. Utilization of this Fund is done on the basis of regulations set out by the employer in agreement with the trade unions.

Apart from its obligatory financing of the Social Fund, it also provides additional financing based on the Collective Labor Agreement (CLA). The amount of this financing is from 106% to 166% of the average national monthly wage, on which the obligatory payment is based. In 2008 the total average contribution to the Social fund (basic and additional, due to the CLA) per employee amounted to PLN 4717.52. This amount of contribution is sufficient to meet the social needs of the workforce at a level significantly higher than standards prevailing in other companies. The total amount of this contribution, obligatory and additional, in 2008 amounted to PLN 87.2 million.

18.5 thousand employees and over 17 thousand retirees and persons on disability are covered by the KGHM Polska Miedź S.A. Social Fund. Also benefitting are the members of their families.

Among those items financed by the Social fund in 2008 were the following:

- Holiday payments (granted to all employees) – in 2008 this averaged approx. PLN 1862 per employee.
- Holidays for children and youth – in 2008 nearly 6 400 children took part in holiday camps and related activities.
- Housing loans (loans for the construction or purchase of flats or houses) – granted, depending on the Division, in an amount from PLN 10 000 to PLN 55 000.
- The financing of school expenses for employees' children – in 2008 this financing amounted to PLN 1 692.
- Health-related holidays for employees. In 2008 the Company financed 21-day health-related holidays for dla 440 employees.
- Holiday financing (granted to employees working underground. In 2008 this amounted to PLN 70 or PLN 44.10. Paid to all members of the employee's family.

Apart from these benefits, the following are financed from the Funds of the various Divisions, depending on their particular regulations: help for employees as well as retirees and those on disability who find themselves in difficult financial or other circumstances, holiday packages for children for Children's day or Christmas, gift coupons, cultural activities and sport-recreational events.

Employment in the Group KGHM Polska Miedź S.A.

In 2008 average employment in the Group increased in comparison to 2007 by 786. This was mainly due to increased employment in KGHM Polska Miedź S.A. (an increase of 497, i.e. by 2%). Employment also increased in the Group due to the addition of a new entity, PETROTEL Sp. z o.o., with average employment in 2008 of 114. Among the remaining entities, the largest increase in employment was recorded by AVISTA MEDIA sp. z o.o. (an increase of 136.5% i.e. by 71), due to the development of call center services.

The highest average level of employment in 2008, at 18 486, was recorded by the Parent Entity. Among the remaining Group companies the highest average number of employees in 2008 was recorded by:

Average employment in the years 2007-2008

Description	2007	2008	Change 2007=100
White collar	8 428	8 747	103.8
Blue collar	19 264	19 731	102.4
Total workers	27 692	28 478	102.8

- PeBeKa S.A. – 1 698,
- POL – MIEDŹ TRANS Sp. z o.o. – 1 477,
- ZANAM – LEGMET Sp. z o.o. – 1 078,
- DIALOG S.A. – 950,
- "Energetyka" sp. z o.o. – 801.

Corporate Social Responsibility

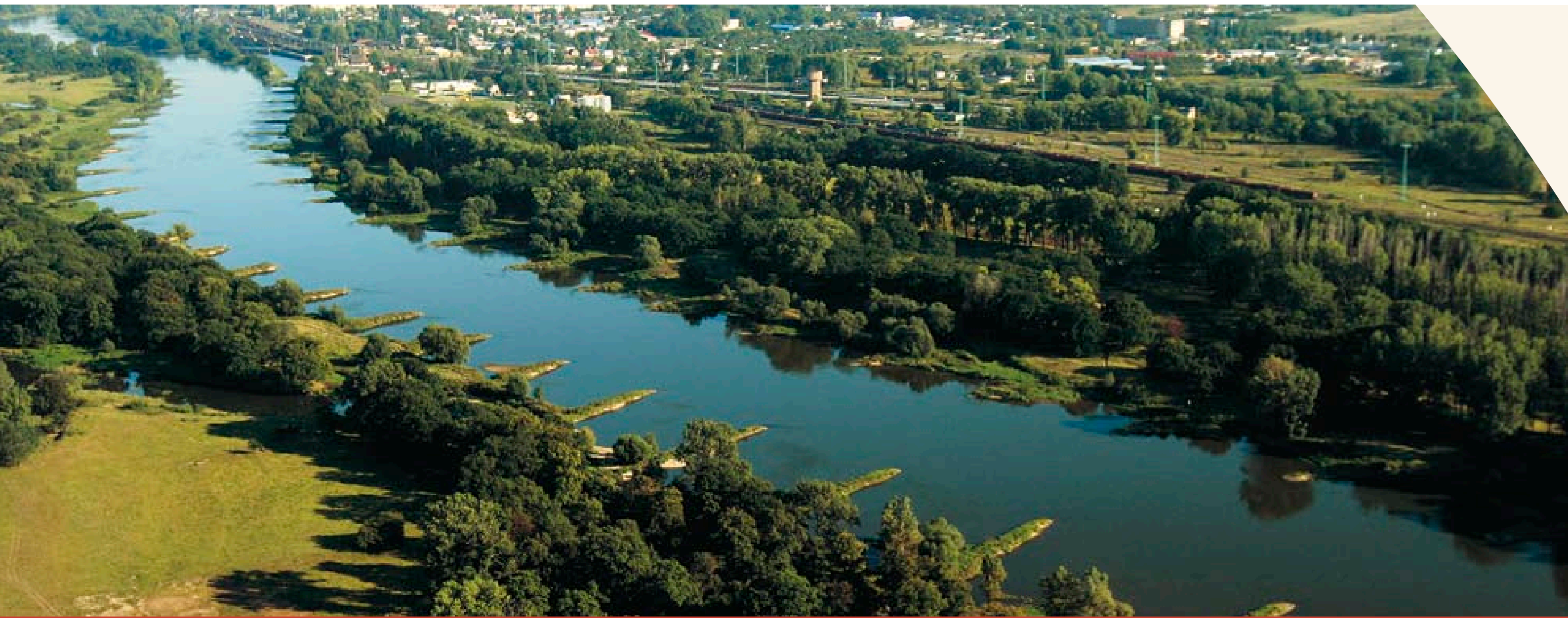
KGHM Polska Miedź S.A. has always placed great emphasis on environmental issues. Protecting the environment is one of its top priorities. For years the Company has invested heavily in projects aimed at reducing its environmental impact.

KGHM Polska Miedź S.A. is one of the largest supporters of culture, the arts and sport in Poland. Through its Polish Copper Fund it also provides assistance to ordinary people who find themselves in difficult circumstances, as well as to institutions which, due to constraints on State assistance, are insufficiently financed.

KGHM is the example of a company focused on the development of its region. The activities of the Company consequently reflect a clearly-defined commitment to matters important for its region and building relationships with it through multi-level actions. For years the Company has heavily invested in enterprises aimed at reducing its environmental impact. Constant care for the environment and the search for new solutions represents an integral part of the Company's routine operations. The Company is also committed to charitable activities. These include social needs through the support of valuable cultural and sport-related initiatives, supporting the health services, science and education, social needs and the preservation of objects of cultural and religious importance.

Environmental protection

In 2008 KGHM Polska Miedź S.A., as in prior years, carried out its production tasks while endeavouring to protect the natural environment. This adherence to strict environmental standards, as determined by law, is possible thanks to the systematic modernisation of existing environmental protection equipment, as well as to new investments in this area. In 2008 the Company spent PLN 45,12 million on the realisation of projects related to environmental protection.



Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2008 amounted to PLN 68,61 million. The largest fees paid by the Company were for the following:

- waste storage – PLN 50.27 million, including PLN 47.29 million for the storage of floatation tailings, and
- discharge of waste water – PLN 15.80 million, including PLN 13.76 million for the drainoff of excess water from the Żelazny Most tailings pond.

In 2008, as a result of the Act on Extractive Waste coming into force, as of 15 August 2008 the obligation of the Company to calculate and pay fees for the storage of floatation tailings waste was terminated. In 2007 the amount of fees paid by KGHM in this regard amounted to PLN 72.62 million.

Currently, as the result of an initiative by a member of the Polish parliament, legislative work is being pursued on amending the Act on Extractive Waste, aimed at returning to the legal state prior to 15 August 2008 in order to reintroduce fees for the storage of copper ore floatation tailings waste. The mining sector is protesting against this effort and the reintroduction of a system of mining fees for the storage of extractive waste, pointing out that such fees only apply to Polish, companies, and are not applied in other EU countries, and consequently result in higher production costs, which in turn cause domestic companies to be uncompetitive.

Until such time as a vote is taken in the Polish parliament on amending the Act on Extractive Waste, KGHM Polska Miedź S.A. will not incur fees for the storage of copper ore floatation tailings waste.

Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning depends on the possession of integrated permits. These include:

- the "Głogów" smelter for operating an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits,
- the "Głogów" smelter for operating the „Biechów industrial waste storage facility",
- the "Głogów" smelter for operating the „Biechów II industrial waste storage facility",
- the "Legnica" smelter for operating an installation for the production of refined lead,
- the "Legnica" smelter for an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electrical processes, the tailings waste facility „Polowice", a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the smelter,
- the Cedynia Wire Rod Plant for an installation for the melting, continuous casting and drawing of copper rod,
- the Tailings Plant for an installation for the storage of tailings from the floatation of copper ore, and
- the Ore Enrichment Plants for an installation for the neutralisation of sulphuric acid waste.

The remaining Divisions of the Company possess environmental sector administrative decisions.

In 2008 the "Głogów" smelter carried out work related to building a system for managing workplace safety and hygiene. In 2009 a certifying audit of this system is planned. Acquiring a certificate attesting to the implementation of the PN 18001 standard will conclude years of work at the "Głogów" smelter related to acquiring an Integrated Management System. This will also conclude the stage of certification in the smelter divisions, which will function in accordance with environmental, quality and workplace safety and hygiene management systems.

The Company has achieved a high level of technical solutions which enable the operation of installations in accordance with prevailing environmental law. In the near future it will be necessary to keep up with changes in BAT (Best Available Technology) requirements and to modernise installations in such a way as to increase production without increasing environmental impact. Amongst the most important investments planned in the near term are the following:

- limiting the impact of the Żelazny Most tailings pond on the environment,
- work related to securing the Żelazny Most tailings pond,
- continued modernisation of atmospheric protection equipment at the "Głogów" smelter,
- continued development of the "Biechów II" waste storage facility,
- construction of a copper concentrate warehouse in the charge preparation section at the "Głogów" smelter, and
- modernisation of the sulphuric acid plant at the "Legnica" and "Głogów" smelters.

REACH

This Regulation of the European Parliament and of the Council regarding the REACH (Registration, Evaluation and Authorisation of Chemicals) system entered into force on 1 June 2007. According to this Regulation, every (small, medium and large) producer or importer which introduces into the EU market over 1 tonne of a given substance was required, during the period 1 June to 1 December 2008, to make earlier registration of the substance. Early registration comprised registration of the name of the company, the name of the substance, its EINEX and CAS numbers, and was only the beginning of the formalities associated with meeting the requirements of REACH. KGHM Polska Miedź S.A. made early registration with respect to 54 substances (final and intermediary, including 6 to cover the possibility of their inclusion). By 1 December 2010 full registration will be required.

The REACH agency conducts registration following the submission of detailed documentation on the physical-chemical properties of a given substance, data on its toxicity, its further use as well as production site exposure scenarios. The scope of information required depends on the tonnage, the type of substance and on whether it is transported. Only information on toxicity must be supported by a range of very expensive toxilogical tests, performed on various organisms by specialised, authorised laboratories. Thankfully, the regulation permits submission to the Agency of a single set of documentation for each substance. Because of this European companies are creating consortiums which will jointly create the documentation required by the regulation. In this manner the responsibilities and costs (research costs are particularly high) are divided amongst all of the members of a given consortium.

In 2008 representatives of KGHM Polska Miedź S.A. took active part in the work of 4 consortiums. Since September 2007 the Company has belonged to the Precious Metals Consortium and the Nickel Consortium. In February 2008 it joined the Copper Consortium and the Lead Consortium.

Although these consortiums coordinate their work and develop the available, and eventually updated, toxilogical data, producers are required to collect an enormous amount of varied information and to complete a wide range of questionnaires concerning the composition of individual flows with respect to their minerology, exposure scenarios, and information on their downstream use and users. Quick action is therefore important. All the more, as KGHM, like many other Polish companies, will have to perform additional analyses. Why? Because the consortiums performed certain analyses several years ago, before Poland was a member of the European Union, and some data, without which registration may not be made, include neither Poland nor Polish industry. One example is risk analysis for copper, lead and nickel. The result - Polish producers should immediately perform

such analyses and collect the requisite data, as they will have to provide significantly more data than companies from the „old" EU.

KGHM is working intensively in this regard. A specially-appointed team has been formed responsible for REACH. The costs of meeting the requirements of REACH are estimated at several million Euros. The vast majority of this amount will be spent in the years 2009 and 2010.

Sponsoring

The Strategy of KGHM with respect to sponsoring assumes that the majority of funds will be used to realize activities which are aimed, on the one hand, at promoting the Company and the region, and on the other at supporting valuable cultural, sport-related and social initiatives and enterprises, thanks to which Lower Silesia can distinguish itself on the map of Poland and Europe.

The Company is perceived as a provider of funds and as a patron of culture and the arts. KGHM participates in organizations and acts as a patron of significant enterprises for the local community as well as the nation. In 2008 these included the International Głogów Jazz Festival, the Silver Festival SREBRO 2008, the copper festival Dymarki Kaczawskie 2008 and the arts festival SATYRYKON 2008.

KGHM also supports institutions of higher learning and scientific institutes, tym samym ensures closer relationships and creates bridges between industry and the scientific community. The Company, both financially and through its expertise, assists enterprises related thematically with problems encountered by KGHM and the region. In 2008 KGHM was organizationally and financially involved in numerous scientific conferences and symposiums, such as the World Mining Congress, the Spring Copper Belt Oncological Workshops, and the conference „The heritage and history of mining and utilization of the remnants of old mines".

For many years KGHM Polska Miedź S.A. has been actively involved in and supported sporting organizations and the initiatives and enterprises they have undertaken. The Company sponsors youth clubs, league teams and international sporting events. In 2008 KGHM was one of the main sponsors of many sporting events, such as the Tennis Tournament KGHM Polish Indoors 2008, the XXXII Piast Run 2008, and the 43rd International Piast Road Race.

KGHM Polska Miedź S.A. is the sole owner of „Zagłębie" Lubin SA, whose structure includes the football team „KGHM Zagłębie Lubin".

Total expenditure on sponsoring in 2008 amounted to PLN 15.5 million.

fundacja
POLSKA MIEDŹ

KGHM engages in acts of goodwill through its Polish Copper Foundation, which was established in 2003. For over 6 years the Foundation has supported and enriched this sphere of life, which all too frequently, due to the financial situation of the State budget, remain under-financed.

Since its establishment the Foundation has handed out over PLN 24 million in subsidies. Its statutary scope of operation comprises: charitable activities for insitutions and individuals, science and education, health and the promotion of a healthy lifestyle, cultural activities and the arts, the preservation of cultural heritage and traditions, the popularization of exercise and sports, regionalizm, maintaining national traditions, protecting Polish identity and developing national, citizen and cultural awareness, actions aimed at European integration and developing inter-community contacts and cooperation.

In 2008 the majority of funds were allocated for the protection of health (31%), science and education (15%) and the preservation of cultural heritage (15%). Apart from these areas funds were also allocated for sport and exercise (14%), regionalizm (7%) and other social activities (7%). The total amount of subsidies granted in 2008 was nearly PLN 3,735 thousand. The main beneficiaries of the Polish Copper Foundation in 2008 were the Wrocław branch of the 4th Military Clinical Hospital with a Polyclinic – Independent Public Health Facility, the Wrocław branch of the Polish Society of Surgeons, the Helena Modrzejewska Theater in Legnica and the Health Sevices Group in Głogów.

On 26 August 2008 the Polish Copper Foundation expanded its charitable activities to include private individuals. Funds for private individuals submitting requests are designated for medical purposes and social assistance. Total subsidies granted to private individuals in 2008 amounted to nearly PLN 1,300 thousand.

In 2008 the Foundation also provided funding for over 6 thousand holiday packages totalling over PLN 360 thousand, for children from orphanages, social welfare homes, therapeutic centers, and societies and churches around Lower Silesia.


KGHM POLSKA

The KGHM Polska Miedź S.A. Group

The companies of the Group are entities with separate legal status in which KGHM holds various degrees of ownership (either direct or indirect) in their share capital, and which are engaged in various business activities. These companies offer products and services related to the core business of KGHM Polska Miedź S.A. (such as mine construction and machinery and equipment for the mining and construction industries) as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications and medical services, and also including power generation and the production of silver-plated table settings.

The companies of the Group employ around 10 000.

The KGHM Polska Miedź S.A. Group

In 2008 the KGHM Polska Miedź S.A. Group earned revenues of PLN 12.7 billion. Profit for the period amounted to PLN 2.77 billion and was 30 % lower than in the comparable prior period. This was mainly due to the strengthening of the PLN and the decrease in copper prices due to the increasing impact of the global financial and economic crisis. The Parent Entity of the KGHM Polska Miedź S.A. Group achieved its forecast financial results – revenues from sales amounted to PLN 11.30 billion, with a profit for the period of PLN 2.92 billion.

Despite the unfavorable macroeconomic conditions prevailing in 2008, a strategy was realized with respect to the Group aimed at development and an increase in value through tangible and equity investments aimed at modernizing copper extraction and processing technology, reducing production costs and strengthening its position in the markets.

KGHM Ecoren S.A., thanks to the opening of an installation for the production of ammonium perrhenate, has become one of the top producers of rhenium compounds in the world, as well as the only producer of this compound in Europe from its own resources. In 2008 a project was developed for an installation for the production of metallic rhenium. In subsequent years plans call for the development of its activities based on other compounds, produced by the processing of waste generated by copper production. The company is a member of the international association Precious Metals and Rhenium Consortium.

ZANAM-LEGMET Sp. z o.o., as a producer and provider of servicing for mining machinery and equipment, fulfills a strategic role for the core business of KGHM Polska Miedź S.A. It is the sole supplier of haulage vehicles and a significant supplier of conveyor belts and steel constructions on this market. Its chief products responsible for its position include mining machinery (loaders, haulage vehicles, drilling-bolting vehicles and auxilliary machines) as well as conveyor belts. In addition the company produces castings, construction elements and roof bolts. Thanks to its technological innovation, the company is gaining an increasingly strong position on foreign markets.

The telecom company DIALOG S.A. realized development projects related to expanding its activities, such as wholesale line rental (WLR), virtual mobile telephony (MVNO), the start of internet tv and sales of complementary telecom services. By acquiring 99.56% of the share capital of PETROTEL sp. z o.o., DIALOG S.A. became the owner of a modern telecom infrastructure valued at approx. PLN 40 million, which is used by over 20 thousand fixed-line customers and 10 thousand internet users. The company is following a consistent strategy of increasing its subscriber base and, with respect to voice and internet services, increasing sales in 2008 by over 10%.

„Energetyka" sp. z o.o. continued a project related to modernizing its existing power generation capacity, and began a project aimed at acquiring new, alternative sources of energy.

KGHM LETIA Legnicki Park Technologiczny S.A. – a company created in conjunction with the Voivodeship of Lower Silesia and Wrocław University of Technology in order to take advantage of the technological potential of KGHM Polska Miedź S.A., to create an attractive area for business activities and to invest in activities based on modern technology – acquired property needed for the realization of two projects: the construction of an Office-Conference Center with an Entrepreneurial Incubator and Center of Technology Transfer, and the opening of Business and Technology Parks. By making use of the new infrastructure of the Park, the target of approx. 750 new jobs will be created. Together with Wrocław University of Technology and other partners, it will develop and implement projects financed with funds from the European Union serving to disseminate and commercialize the results of the research.

KGHM Polska Miedź S.A. financially supported projects projects serving the local community. As part of these activities, it increased the share capital of "MIEDŹIOWE CENTRUM ZDROWIA" S.A. to allow for the purchase of modern medical equipment and to improve the quality of its medical services. Construction also continued on the football stadium in Lubin.

In 2008, activities aimed at improving and simplifying the structure of the KGHM Polska Miedź S.A. Group comprised:

- passage of a resolution on directing activities aimed at liquidating the company KGHM Polish Copper Ltd.
- all of the shares held in MINOVA-KSANTE Spółka z o.o. were sold,
- all of the shares held in DOL-EKO organizacja odzysku S.A. were sold,
- all of the shares held in Ekstraklasa S.A. were sold.

In accordance with the strategy of the Company, entities which are unconnected with the core business or otherwise ineffective will be sold, while those providing services to the divisions of KGHM Polska Miedź S.A. will come under the direct supervision of the Company.

To realize its strategy, the actions of KGHM Polska Miedź S.A. with respect to investments are aimed at:

- investing in areas considered strategic,
- developing and increasing the potential of companies,
- realizing investments supporting the core business of KGHM Polska Miedź S.A.,
- building a transparent Group structure.

Realization of these goals will increase the value of the Group and will strengthen the position of individual companies in their specific sectors.

Review of Financial Position

The sales revenues of the Group in 2008 were lower compared to those in 2007 by PLN 839 million. This was mainly due to the strengthening of the PLN and the decrease in copper prices.

Costs of sales increased during the analysed period by PLN 911 million. This increase was mainly in respect of external services (an increase by PLN 444 million) and the impairment of fixed assets (an increase by PLN 283 million).

The impairment of property, plant and equipment is mainly in respect of the subsidiary DIALOG S.A. At 31 December 2008 impairment losses on property, plant and equipment in DIALOG S.A., recognised on the basis of tests for impairment performed in 2005 and on impairment recognised in the years 2006-2008 due to the withdrawal from use of MGW and DECT radio equipment and the write-off of unrealised project documentation, amounted to PLN 449 million (at 31 December 2007, PLN 186 million).

Consolidated income statement

('000 PLN)	2007	2008
Sales	13 494	12 655
Cost of sales	(7 578)	(8 490)
Gross profit	5 916	4 165
Operating profit	4 527	3 186
Profit before income tax	4 757	3 396
Profit for the period	3 936	2 766
attributable to shareholders of the Parent Entity	3 935	2 766

Other operating activities did not affect a change of the financial result.

The share in profit of associates valued by the equity method caused an increase in profit for the period of PLN 268 million.

Finally, profit for 2008 decreased versus the prior year by 30 %, i.e. by PLN 1 170 million.

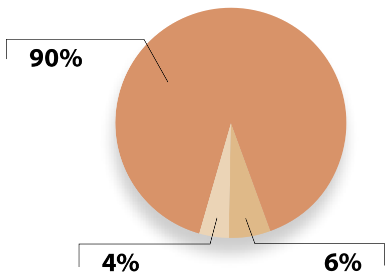
Structure of the profit for the period of the KGHM Polska Miedź S.A. Group ('000 PLN)

Nazwa jednostki	Profit for 2008
KGHM Polska Miedź S.A.	2 920.38
subsidiaries	(247.52)
of which:	
- KGHM Ecoren S.A.	24. 13
- KGHM Metraco S.A.	9. 73
- DFM ZANAM-LEGMET Sp. z o.o.	5.11
- POL-MIEDŹ TRANS Sp. z o.o.	7.72
- CBJ sp. z o.o.	2.74
- PHP "MERCUS" sp. z o.o.	4.38
- Zagłębie Lubin S.A.	(11.05)
- DIALOG S.A.	(292.14)
Associates – attributable to the Group	267. 58
of which:	
- Polkomtel S.A.	267.58
Consolidation adjustment	(174.26)
Profit for the period attributable toshareholders of the Parent Entity	2 766.18

The largest share in Group sales is held by the segment of activities which involve the extraction and processing of copper and precious metals, the production of non-ferrous metals, trade and copper promotion.

A significantly lower amount of sales is generated by the segment of telecom and IT services.

Sales by segment in 2008



Copper and precious metals	90%
Other	6%
Telecom and IT services	4%

Telecom assets

Among the most important entities of the Group are:

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

Polkomtel S.A.

At 31 December 2008, the carrying amount of the shares of Polkomtel S.A. in the financial statements of KGHM Polska Miedź S.A. was PLN 1 164 million.

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

Financial results of Polkomtel S.A.

('000 PLN)	2007	2008
Sales	7 799	8 482
Operating profit	1 772	1 889
EBITDA	2 833	3 106
Profit for the period	1 359	1 361

In 2008 the company, in comparison to 2007, increased its revenues, which is related to an increase in the customer base by 1.02 million. At the end of 2008 the customer base exceeded 14.5 million.

On 28 March 2008 the Ordinary General Shareholders' Meeting of Polkomtel S.A. resolved to distribute profit for 2007, pursuant to which the amount of PLN 1 248 million was allocated as a shareholder dividend. Of this amount, based on a resolution of the Supervisory Board of the company, in December 2007 an interim dividend payment of PLN 316 million was made to shareholders. The remainder, PLN 933 million, was paid in two instalments: PLN 466 million, in May 2008, and PLN 466 million in November 2008. KGHM Polska Miedź S.A. received a total dividend for 2007 of PLN 245 million, proportionally to its shareholding in the company.

In 2008 proceedings were concluded in the dispute respecting the „Agreement on the Acceptance of the Offer and Conditional Transfer of Shares in Polkomtel S.A." entered into on 10 March 2006 between KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Weglokoks S.A. as the purchasers, and TDC Mobile International A/S as the seller, which had been contested by Vodafone Americas Inc. Details of this agreement were described in the current report dated 10 March 2006 and in the annual report for 2005.

In these verdicts the Court of Arbitration dismissed all claims of Vodafone Americas Inc. which could have blocked acquisition by the Polish shareholders of Polkomtel S.A. of the respective portion of the shares of this company held by TDC A/S. This favourable decision for KGHM Polska Miedź S.A. confirmed the validity of the Agreement dated 10 March 2006 on the Acceptance of the Offer and Conditional Transfer of Shares in Polkomtel S.A.

In an agreement signed on 19 November 2008, all of the shareholders of Polkomtel S.A. consented to the purchase by Vodafone Americas Inc. of shares in Polkomtel S.A. from TDC A/S, to which it was entitled, via another member of the Vodafone Group. Pursuant to this Agreement, Vodafone Americas Inc. committed to submit a request to the District Court in Warsaw respecting lifting of the injunction on the shares of Polkomtel S.A. held by TDC A/S, which was imposed by a decision of the Court dated 24 February 2006 prohibiting TDC A/S from selling such shares. Once the decision of the District Court in Warsaw became legally binding, the Agreement respecting the sale of the shares of Polkomtel S.A. was able to be realised.

Finally, on 18 December 2008 KGHM Polska Miedź S.A. purchased 980 486 ordinary registered shares in Polkomtel S.A., with a nominal value of PLN 100 each, representing approx. 4.78% of the share capital of Polkomtel S.A. As a result of this transaction, the percentage ownership of KGHM Polska Miedź S.A. in the share capital of this company changed from 19.61% to 24.39 %.

DIALOG S.A.

The KGHM Polska Miedź S.A. Group has prepared consolidated financial statements in accordance with IFRS since 1 January 2005. DIALOG S.A. has kept accounts and prepared financial statements in accordance with IFRS since 1 January 2008. At the moment of transition of the Group to IFRS, a given level of significance was assumed in making adjustments adapting the financial statements of subsidiaries to the principles of IFRS, which vary from the level of significance assumed for the transition of the accounts of DIALOG S.A. to IFRS. The effect of assuming other levels of significance caused a difference between the equity of DIALOG S.A. at 1 January 2008 and the equity of this company established for the consolidated financial statements of the KGHM Polska Miedź S.A. Group in the amount of PLN 5 million. Due to its low level of significance in the consolidated financial statements, this amount decreased the financial result of the current period.

Financial data of DIALOG S.A*

('000 PLN)	2007	2008
Sales	490	548
Operating profit/(loss)	15	-303
EBITDA	119	**-191
Profit/(loss) for the period	62	-287

* included in the consolidated financial statements of KGHM Polska Miedź S.A.
** EBITDA (EBIT adjusted by depreciation/amortisation and impairment)

In 2008 the company recorded a loss on operating activities, mainly due to remeasurement of the company's assets, including an impairment loss on property, plant and equipment (IAS 36) of PLN 268 million.

In 2008 DIALOG S.A continued its strategy aimed at successively increasing the customer base, in both voice and internet services, leading to consistent growth in the company's revenues.

Thanks to its investments and its active search for new customers, DIALOG S.A. broke the general market trend away from fixed-line telephony, and despite strong competition from mobile operators there was an increase in the number of customers using voice services based on its own network. At the end of 2008 the company had 417.2 thousand ringing lines within its network.

Simultaneously the company increased the number of customers using services based on the Telekomunikacja Polska S.A. network by 83% during the analysed period, as compared to 2007. At the end of 2008 the company had 162.1 thousand active WLR customers.

DIALOG S.A. is dynamically expanding its base of internet customers, in particular with respect to broadband internet access. At the end of 2008 the company had 136.8 thousand internet customers, including 8.6 thousand BSA service users, meaning a change respectively by 120% and 412% (2007 = 100%).

In February 2008 DIALOG S.A. commenced sales of DIALOGmedia services, comprising digital television, video on demand, broadband internet and fixed-line telephony. At the end of 2008 the number of DIALOGmedia customers amounted to 3 500.

During the year the company also worked on introducing a new product – MVNO – thanks to which it will be offering mobile services as a so-called virtual operator. From August 2008 to January 2009 it has been testing the technical platform and services of MVNO. The company assumes implementation of this project and the commercial commencement of these services in 2009.

On 6 November 2008 DIALOG S.A. acquired 6 150 shares of PETROTEL Sp. z o.o. with a nominal value of PLN 1 000 per share, representing 75 % of the share capital of this company, based on a contingent agreement for the acquisition of shares dated 22 September 2008 entered into between PKN ORLEN S.A. and DIALOG S.A. Based on this contingent agreement, DIALOG S.A. presented an offer to the minority shareholders to acquire the remaining 2 050 shares, representing 25 % of the share capital of PETROTEL Sp. z o.o. At the turn of 2008/2009 DIALOG S.A. purchased 2 014 shares from these minority shareholders with a nominal value of PLN 1 000 per share, as a result of which the ownership percentage of DIALOG S.A. in the share capital of PETROTEL Sp. z o.o. increased to 99.56%. Simultaneously DIALOG S.A. became the owner of a modern telecommunications infrastructure valued at approx. PLN 40 million, which is currently being used by over 20 thousand fixed-line telephony customers and 10 thousand internet users in the region of Płock and its vicinity.

On 24 September 2008 the Management Board of Vivid.pl S.A., 100% owned by DIALOG S.A., submitted an application on the bankruptcy of the company. This bankruptcy was announced by the court on 29 September 2008. Vivid.pl S.A. generated losses and required regular capital injections, while its liabilities exceeded the value of the company's assets, both in respect of the owner and the company's customers.

On 4 April 2008 court registration took place of a decrease in the share capital of DIALOG S.A. by PLN1 470 million.

DIALOG telecom
Więcej możliwości...

Other important Group companies

KGHM Ecoren S.A.

Percentage of company owned by the KGHM Group – 100 %

Subject of activities – sales

This company is involved in the production of metals and their compounds as well as the management of industrial waste. It applies an innovative approach to reducing emissions to the environment caused by humanity's economic activities.
Tha main areas of activity of the company are:

- the production of ammonium perrhenate from waste generated by the Głogów smelter,
- the production of roadbuilding material, and
- the processing of furnace waste from the smelters.

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	53.5	93.7	133.2
Net profit	18.7	27.8	24.8
Share capital	223.4	213.3	213.3
Total assets	278.8	311.1	303.6

Important events in 2008

- A five-year contract was signed for the purchase and delivery of rhenium compounds, with an estimated value of around USD 55 000 thousand.
- In 2008 the company sold shares of DOL-EKO S.A. and acquired shares in Dolnośląska Korporacja Ekologiczna Sp. z o.o., becoming the sole owner of this entity.
- The company opened a Galvanization Section based on the assets of the subsidiary WFP Hefra S.A.
- A project was begun to create a raw materials recovery section.

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

References

- one of the five top global producers of rhenium,
- carrying out ventures aimed at reducing the environmental impact of KGHM Polska Miedź S.A. caused by its generation of industrial waste,
- a significant role in the strategy of diversification of KGHM Polska Miedź S.A. as respects waste management and the production and recovery of metals,
- For its project entitled „Hydrometallurgical technology for the cleaning of crude nickel sulphate" (developed in cooperation with the Institute of Non-Ferrous Metals) the company was awarded during the 10th edition of the competition „Polish Product of the Future" and a bronze medal at the 36th International Inventors Exhibition in Geneva.
- KGHM Ecoren S.A. became a member of an international association – the Precious Metals and Rhenium Consortium.
- The company, in cooperation with the Institute of Non-Ferrous Metals, organized in Wrocław an international technology conference dedicated to associated and rare metals.

KGHM CUPRUM sp. z o.o. – CBR

Percentage of company owned by the KGHM Group – 100 %

Subject of activities – sales

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

References

- the performance of R&D for most of the core business-related investment projects realised by KGHM Polska Miedź S.A., and the storage of the technical (geological) and technological documentation of KGHM Polska Miedź S.A.
- the company is recognised as an R&D enterprise by the Minister of Science and the Chairman of the Scientific research Committee,
- the company cooperates with a range of Polish and foreign centers of learning involved in science and research,
- a highly-qualified staff, with specialties which include environmental protection, geology and hydrogeology,
- high quality services confirmed by 40 years of experience and by ISO 9001 and ISO 14001 certificates.

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	30.8	25.3	27.2
Net profit	1.3	1.1	0.3
Share capital	8.5	8.5	8.5
Total assets	24.1	51.7	55.0

Important events in 2008

- Completion of a new, 'A'-class multi-purpose office building at the corner of Sikorski and Podwale streets in Wrocław,
- The company celebrated its 40th anniversary in 2008,
- The company organized numerous sector conferences, including the 1st International Debate of the European Technology Platform on Sustainable Mineral Resources,
- In 2008 the company received a Lower Silesia Economic Certificate granted by a chapter of DCG and the Lower Silesia Key to Success for 2007 in the category of best Lower Silesian company employing up to 250 people.

PeBeKa S.A.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

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

- the construction of mines together with infrastructure (shafts, tunnels, and the assembly and construction of equipment and associated facilities),
- drilling roadway and railway tunnels,
- underground construction (for example metro stations, underground garages),
- the reconstruction of historic mining facilities,
- constructing deep foundations, securing excavated construction sites,
- the construction and repair of all kinds of pipelines,
- general construction,
- civil construction,
- other specialty construction (such as concrete and reinforced concrete works).

The company is a major contractor of preparatory mining and engineering work for KGHM Polska Miedź S.A.

References

- the company has been on the market for 48 years,
- the company is the primary contractor for the shafts and mine infrastructure belonging to KGHM Polska Miedź S.A., as attested by its construction of 29 shafts having a total length of 27 km and the construction of approx. 1000 km of underground tunnels (drifts and chambers) with infrastructure,
- the company has mastered the construction of communication tunnels through its experience in the construction of such tunnels in Algeria, roadway tunnels in Turkey, Hong Kong and Israel, hydrotechnical tunnels in Malaysia, and metro tunnels in Algeria, Ankar and in Warsaw,
- the company is involved in renovating underground mines (the Wieliczka salt mine),
- the company has constructed mine shafts and tunnels in Europe, Africa, Asia, and in Central and South America,
- PeBeKa S.A. has carried out numerous investments involving general and specialty construction (underground passgeways, securing and stabilizing land, and housing, such as in Polkowice, Warsaw and Wieliczka).

Financial data

('000 PLN)	2006	2007	2008
Sales	353.2	468.1	592.1
Net profit	2.1	2.6	1.5
Share capital	30.8	30.8	49.5
Total assets	196.4	212.3	250.0

Important events in 2008

- the company carried out mining work for KGHM Polska Miedź S.A. related to gaining access to the new ore deposit of „Głogów Głęboki Przemysłowy" (construction of drifts and the SW-4 shaft),
- the construction by the consortium of PeBeKa S.A., HOCHTIEF Polska Sp. z o.o. and HOCHTIEF Construction AG Sport Facilities of the sport stadium for Zagłębie Lubin S.A. reached its target height,
- construction was completed on the B23 connecting tunnel and on the A23 station, as well as on the communication loop „Młociny", thereby completing construction of the first line of the Warsaw Metro,
- a drift combine was put into operation, purchased in order to increase the productivity of work carried out on behalf of KGHM Polska Miedź S.A. under difficult geological conditions.

Main directions of growth

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

Centrum Badań Jakości sp. z o.o.

CENTRUM BADAŃ JAKOŚCI
SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

The company offers the following services:

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

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	37.0	38.4	39.4
Net profit	3.3	2.9	2.5
Share capital	2.9	2.9	2.9
Total assets	29.3	30.5	30.7

Important events in 2008

- accreditation granted by the Polish Center for Testing and Certification in an expanded scope comprising 372 research methods,
- In 2008 the company received the following awards: the "Solid Firm" certificate, the "Business Gazelle 2007", the "Solid Employer of Lower Silesia", the title of Customer Friendly Firm.

References

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

ZANAM-LEGMET Sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

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

References

- the company is the largest producer in Poland of mining machinery for use in methane-free, underground tunnels,
- the company's largest customer is KGHM Polska Miedź S.A.,
- in 2008 the company supplied around 40% of the need of KGHM Polska Miedź S.A. for mining machinery and 100% of the need for conveyor belts,
- the company's products are unique, such as desulphurization and dedusting installations, and tall chimneys,
- the company is involved in intensive growth-related activities to expand its product line and to implement new and modernized machinery with superior working parameters and increased functionality for the mining of ore under harsh thermal and terrain conditions in the mines of KGHM Polska Miedź S.A.,
- the machines built by the Company are innovative solutions for mining and haulage systems in underground mines (the LKP 0903 loader and the WKPL 30HS haulage vehicle),
- almost 200 machines are at work in mines in Kazachstan and Russia.

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	211.2	235.3	273.0
Net profit	3.2	4.6	5.1
Share capital	36.0	36.0	36.0
Total assets	97.2	103.3	111.7

Important events in 2008

- realization of a strategic order: delivery of tubing for shaft construction,
- implementation of the ERP System,
- In 2008 the company received the following awards: Vice master of the NOT organization's technical competition in the Copper Basin for its wheeled-articulated loader LKP-0903, an award in the NOT organization's technical competition for its percussive crusher KKL50GE, an award in the category New Technology at the World Mining Exhibition MINING EXPO 2008 in Sosnowiec for its loader LKP-0903 in the micro-hybrid version.

POL-MIEDŹ TRANS Sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

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

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

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

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	445.1	441.8	463.2
Net profit	-20.4	0.4	7.7
Share capital	140.4	140.4	140.4
Total assets	222.8	206.7	229.8

Important events in 2008

- the company received a license for railway passenger transport, issued by the Office of Railway Transport,
- in 2008 POL-MIEDŹ TRANS Sp. z o.o. founded a new entity – PMT Linie Kolejowe sp. z o.o. with its registered head office in Polkowice, whose task is to take over and manage railway infrastructure; this will enable it to collect fees from other carriers for granting access to this infrastructure.

References

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

INTERFERIE S.A.

Percentage of company owned by the KGHM Group – 65.76%

Subject of activities – sales

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

interferie.pl

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	37.4	36.7	37.6
Net profit	2.5	1.1	0.8
Share capital	72.8	72.8	72.8
Total assets	99.8	103.3	107.4

Important events in 2008

- the company entered a construction contract for the Chalkozyn Rest and Recreation Facility in Kołobrzeg,
- two holiday units were sold: OWDiM „Sława” in Lubiatów and „Górnicza Strzecha” in Szklarska Poręba,
- the Bornit hotel owned by INTERFERIE S.A. in Szklarska Poręba was added to the UEFA Family hotel list, and reviewed by a team recommending overnight facilities for Euro 2012,
- the company implemented the EBP system (purchasing control system),
- the company approved an architectural concept for for the Barbarka II spa center in Świnoujście.

References

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

„Energetyka" sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

The company provides the following types of services:

- the generation of heat and electricity using its own sources, mainly co-occurring,
- the distribution of heat and electricity,
- the generation and distribution of potable water from its own sources,
- the collection and treatment of sewage and the utilisation of industrial rain water,
- the production of industrial water,
- the collection and treatment of industrial waste and the utilisation of water from waste flows,
- services related to these activities.

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	229.5	211.1	215.0
Net profit	-13.6	2.2	0.9
Share capital	191.0	221.5	248.8
Total assets	318.1	328.2	378.0

Important events in 2008

- „Energetyka" sp. z o.o. continued to realize a project related to z modernization of existing power-generation capacity, and commenced a project involving the acquisition of new alternative sources of energy,
- in 2008 the company began to modernize 4 boilers; total value of this modernization work is over PLN 86 400 thousand,
- In June 2008 an increase in share capital was registered for the company in the amount of PLN 27 317 thousand to be used for the modernization of power-generation capacity and for the purchase of overhead cranes from the "Głogów" smelter, and for parts for the lean gas installation and the throat gas colector at the "Legnica" smelter,
- the Microsoft Dynamice AX Integrated IT System was put into operation.

References

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

KGHM Metraco S.A.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

Wholesale trade:

- scrap and raw material semi-products (main business),
- chemical products,
- lead,
- precious metals.

References

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

Main directions of growth

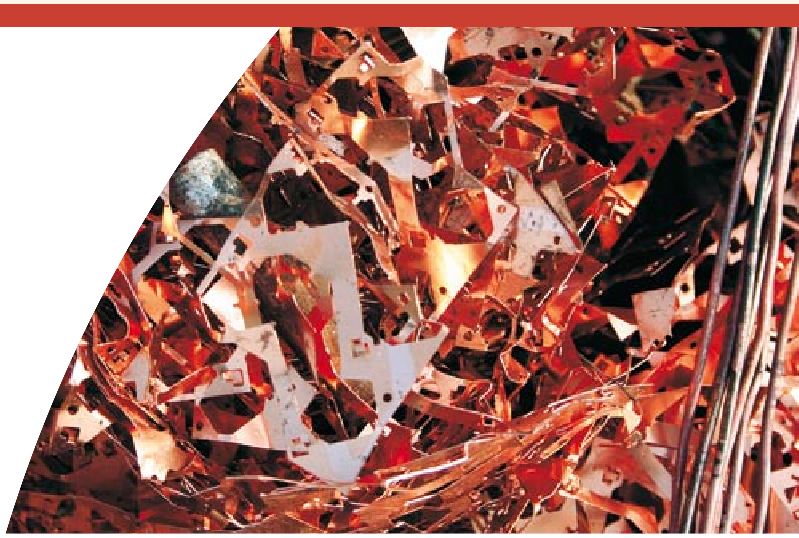
- constant improvement in the complex services provided to KGHM Polska Miedź S.A., especially as respects raw materials and strategic products based on its own logisticalexpediting activities,
- expanding its scope of activities and profit margins,
- maintaining and strengthening its position as the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

Financial data

('000 PLN)	2006	2007	2008
Sales	1 148.1	1 313.3	1 315.2
Net profit	9.1	13.2	9.7
Share capital	2.5	2.5	2.5
Total assets	114.4	116.1	104.2

Important events in 2008

- the company entered a contract for the purchase of presser-packers for the pressing of scrap; total contract value, EUR 819 thousand,
- KGHM Metraco S.A. successfully underwent an ISO certifying audit, and was granted the certificate PN-EN ISO 9001 : 2001 to February 2011.



PHP „MERCUS" sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

The company operates in four sectors:

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

Main directions of growth

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

Financial data

('000 PLN)	2006	2007	2008
Sales	563.5	577.7	699.4
Net profit	4.1	3.9	3.9
Share capital	10.7	10.7	10.7
Total assets	148.0	157.2	190.8

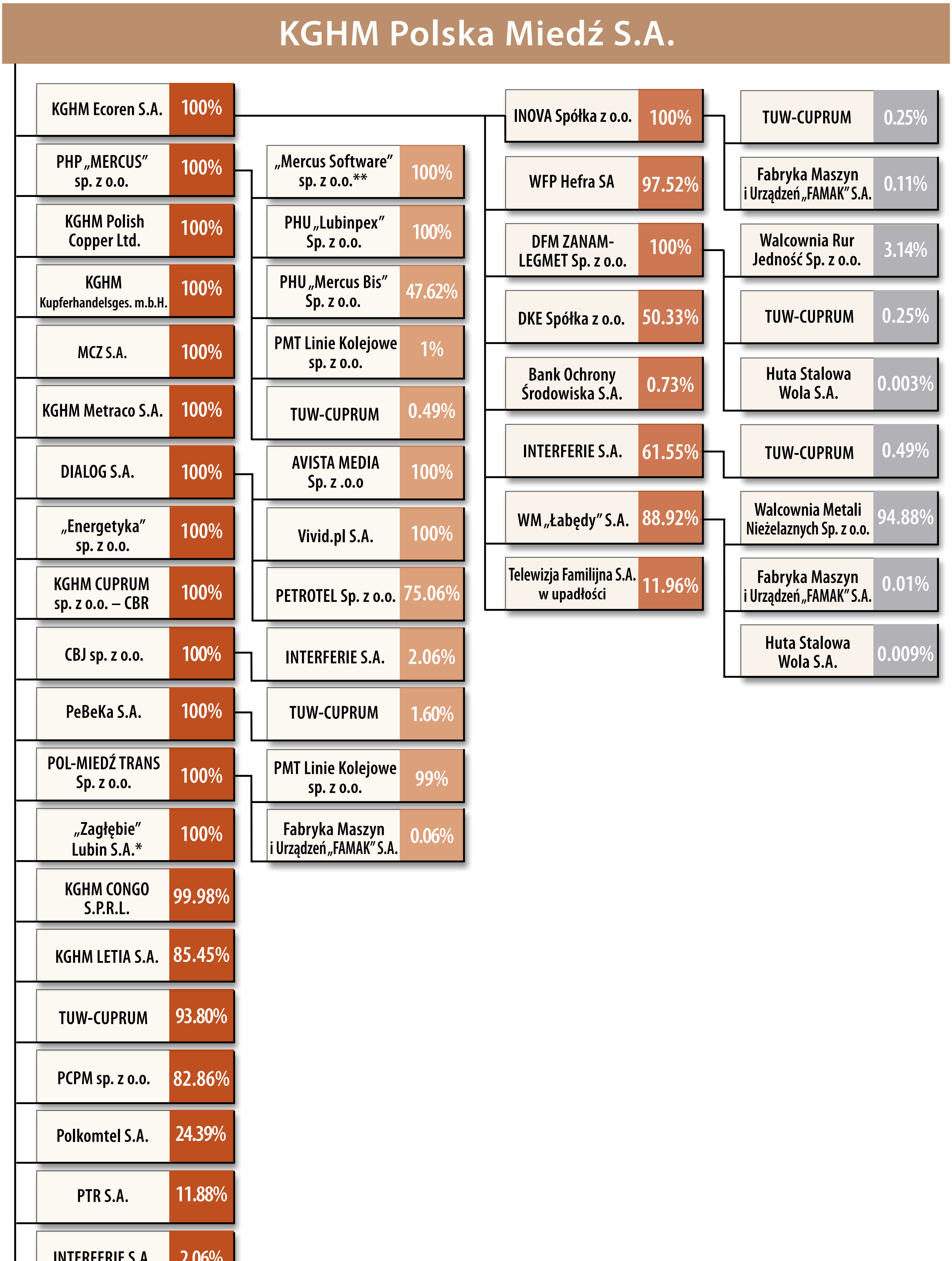
Important events in 2008

- the company began production of new varieties of bundled electrical cables – for equipment maintaining current in servers and for new types of washing machines and driers,
- in March 2008 the Electro-Mechanical Production Plant successfully underwent a quality audit by the Polish Center for Testing and Certification,
- preparations were completed for commencing production of bundled electrical cables for a new type of dishwasher.

References

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

Equity investments of KGHM Polska Miedź S.A. at 31 December 2008



* 14 July 2008 change in company name (previously „Zagłebie” Lubin SSA)
** 5 September 2008 change in company name (previously PU „Mercus Serwis” Sp. z o.o.)

Condensed financial report

The accompanying condensed financial report of KGHM Polska Miedź S.A. with its registered head office in Lubin was prepared by the Management board of the Company based on the audited full-year financial statements in accordance with International Financial Reporting Standards approved by the European Union for the financial period from 1 January to 31 december 2008.

For a complete understanding of the material and financial condition of the Company and its financial results for the financial period from 1 January to 31 December 2008, the complete financial statements of the Company must be read in conjunction with the registered auditor's opinion and report concerning these financial statements (the full text of these statements are on the enclosed CD and on the Company website, www.kghm.pl).

Independent auditors' opinion to the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

On 27 March 2009 we issued an opinion without reservations on the financial statements of KGHM Polska Miedź S.A. for the financial year ended 31 December 2008, as presented below:

1. We have audited the […] financial statements for the year ended 31 December 2008 of KGHM Polska MiedZ S.A. ('the Company') located in Lubin at M. Sklodowskiej-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 78I,628 thousand zlotys and
- the summary of significant accounting policies and other explanatory notes („the […] financial statements”).

2. The truth and fairness of the […] 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 fair 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 […] financial statements in accordance with the following regulations being in force in Poland:

- chapter 7 of the Accounting Act, dated 29 September 1994 (‘the Accounting Act’),
- the auditing standards issued by the National Chamber of Auditors, in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached 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 […] 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 […] 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 position 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 – „Decree on current and periodic information)."

In our opinion, the information presented in the published, condensed version of the financial statements on pages 84 to 87 of this annual report are in all material aspects presented correctly in respect of the above-mentioned audited financial statements, on which their preparation was based. The financial statements which we have audited contain notes which were not presented in their entirety in the attached condensed financial statements. A true and fair picture of the condition of the Company at 31 December 2008 and of the results of its activities in the period 1 January 2008 to 31 December 2008 requires a review of the full version of the financial statements containing those disclosures required by International Financial Reporting Standards approved by the EU.

Warsaw, 30 June 2009

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

Marek Musiał
Certified Auditor No. 90036/7272

Jacek Hryniuk
Certified Auditor No. 9262/6958

Balance sheet			
	Note	At	
Assets		31 December 2008	31 December 2007
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**

amounts in tables in thousand PLN, unless otherwise stated

Balance sheet			
	Note	At	
Equity and liabilities		31 December 2007	31 December 2007
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**

amounts in tables in thousand PLN, unless otherwise stated

Income statement			
	Note	For the period	
Continued activities		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

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**

amounts in tables in thousand PLN, unless otherwise stated

Cash flow statement	Note	For the period	
		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

amounts in tables in thousand PLN, unless otherwise stated

Consolidated financial statements

Independent auditors' opinion to the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

1. We have audited the attached consolidated financial statements of the KGHM Polska Miedź S.A. Group („the Group") for which the Parent Entity is KGHM Polska Miedź S.A. („the Company") located in Lubin at M. Skłodowskiej – Curie 48, for the year ended 31 December 2008 containing:
- the consolidated balance sheet at 31 December 2008 with total assets amounting to 15,000,105 thousand zlotys,
- the consolidated income statement for the year from 1 January 2008 to 31 December 2008 with a net profit amounting to 2.765.866 thousand zlotys,
- the consolidated statement of changes in equity for the year from 1 January 2008 roku to 31 December 2008 with a net increase in equity amounting to 1,481,256 thousand zlotys,
- the consolidated cash flow statement for the year from 1 January 2008 to 31 December 2008 with a net cash outflow amounting to 786,762 thousand zlotys, and
- the summary of significant accounting policies and other explanatory notes („the attached consolidated financial statements").

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

3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
- chapter 7 of the Accounting Act, dated 29 September 1994 ("the Accounting Act"),
- the auditing standards issued by the National Chamber of Auditors, in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
- present truly and fairly all information material for the assessment of the results of the Group's operations for the year from 1 January 2008 to 31 December 2008, as well as its financial position as at 31 December 2008;
- have been prepared in all material respects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
- are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.

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 consolidated 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 – „Decree on current and periodic information").

Warsaw, 27 March 2009

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

Consolidated balance sheet			
	Note	At	
Assets		**31 December 2008**	**31 December 2007**
Non-current assets			
Property, plant and equipment	**6**	7 136 307	6 614 352
Intangible assets	**7**	151 581	119 231
Investment property	**8**	18 083	16 517
Investments in associates	**9**	1 498 116	690 096
Deferred tax assets	**22**	188 992	320 506
Available-for-sale financial assets	**10**	31 213	47 155
Held-to-maturity investments	**11**	59 592	43 934
Derivative financial instruments	**12**	6 501	33 395
Trade and other receivables	**13**	22 774	47 071
		9 113 159	**7 932 257**
Current assets			
Inventories	**14**	1 608 369	1 744 495
Trade and other receivables	**13**	1 469 959	925 367
Current corporate tax receivables		1 741	7 377
Derivative financial instruments	**12**	711 127	81 622
Cash and cash equivalents	**15**	2 065 763	2 812 096
		5 856 959	**5 570 957**
Non-current assets held for sale	**25**	**29 987**	**184**
Total assets		**15 000 105**	**13 503 398**

amounts in tables in thousand PLN, unless otherwise stated

Consolidated balance sheet			
	Note	At	
Equity and liabilities		31 December 2008	31 December 2007
Equity			
Equity attributable to shareholders of the Parent Entity			
Share capital	**16**	2 000 000	2 000 000
Other reserves	**17**	517 456	13 118
Retained earnings		8 407 049	7 440 870
		10 924 505	**9 453 988**
Minority interest		**58 360**	**47 621**
Total equity		**10 982 865**	**9 501 609**
Liabilities			
Non-current liabilities			
Trade and other payables	**19**	44 289	24 762
Borrowings and finance lease liabilities	**20**	98 055	162 909
Derivative financial instruments	**12**	–	3 087
Deferred tax liabilities	**22**	68 182	29 804
Liabilities due to employee benefits	**23**	1 039 423	919 923
Provisions for other liabilities and charges	**24**	**599 315**	**570 327**
		1 849 264	**1 710 812**
Current liabilities			
Trade and other payables	**19**	1 756 752	1 646 406
Borrowings and finance lease liabilities	**20**	192 923	113 201
Current corporate tax liabilities		65 952	343 377
Derivative financial instruments	**12**	4 930	14 335
Liabilities due to employee benefits	**23**	83 531	77 402
Provisions for other liabilities and charges	**24**	63 888	96 256
		2 167 976	**2 290 977**
Total liabilities		**4 017 240**	**4 001 789**
Total equity and liabilities		**15 000 105**	**13 503 398**

amounts in tables in thousand PLN, unless otherwise stated

Consolidated income statement			
	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Sales	27	12 654 885	13 494 128
Cost of sales	28	(8 489 581)	(7 578 224)
Gross profit		**4 165 304**	**5 915 904**
Selling costs	28	(225 540)	(210 044)
Administrative expenses	28	(778 127)	(737 874)
Other operating income	30	1 043 759	1 305 377
Other operating costs	31	(1 019 034)	(1 746 410)
Operating profit		**3 186 362**	**4 526 953**
Finance costs – net	32	(57 494)	(35 159)
Share of profits of associates accounted for using the equity method	35	267 579	265 093
Profit before income tax		**3 396 447**	**4 756 887**
Income tax expense	36	(630 581)	(821 371)
Profit for the period		**2 765 866**	**3 935 516**
attributable to:			
shareholders of the Parent Entity		2 766 179	3 934 559
minority interest		(313)	957
		2 765 866	**3 935 516**
Earnings per share attributable to the shareholders of the Parent Entity during the year (PLN per share)	37		
– basic		13.83	19.67
– diluted		13.83	19.67

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of changes in equity						
	Note	Attributable to shareholdersof the Parent Entity			Attributable to minority interest	Total equity
		Share capital	Other reserves	Retained earnings		
At 1 January 2007 as previously stated		**2 000 000**	**(431 161)**	**6 648 838**	**44 725**	**8 262 402**
Prior period error		**–**	**–**	**251 473**	**37**	**251 510**
At 1 January 2007		**2 000 000**	**(431 161)**	**6 900 311**	**44 762**	**8 513 912**
Impact of cash flow hedging valuation	**34.1.9**	–	567 423	–	–	567 423
Fair value losses on available-for-sale financial assets		–	(6 727)	–	–	(6 727)
Deferred tax	**22**	–	(116 417)	–	–	(116 417)
Total income/(expenses) recognised directly in equity		**–**	**444 279**	**–**	**–**	**444 279**
Profit for the period		–	–	3 934 559	957	3 935 516
Total recognised income/ (expenses)		**–**	**444 279**	**3 934 559**	**957**	**4 379 795**
Dividend for 2006		–	–	(3 394 000)	–	(3 394 000)
Transactions with minority interest		–	–	–	1 902	1 902
At 31 December 2007		**2 000 000**	**13 118**	**7 440 870**	**47 621**	**9 501 609**
At 1 January 2008		**2 000 000**	**13 118**	**7 440 870**	**47 621**	**9 501 609**
Impact of cash flow hedging valuation	**34.1.9**	–	617 862	–	–	617 862
Fair value gains on available-for-sale financial assets		–	7 169	–	–	7 169
Deferred tax	**22**	–	(120 693)	–	–	(120 693)
Total income/(expenses) recognised directly in equity		**–**	**504 338**	**–**	**–**	**504 338**
Profit for the period		–	–	2 766 179	(313)	2 765 866
Total recognised income/ (expenses)		**–**	**504 338**	**2 766 179**	**(313)**	**3 270 204**
Dividend for 2007	**38**			(1 800 000)	(74)	(1 800 074)
Transactions with minority interest		–	–	–	11 126	11 126
At 31 December 2008		**2 000 000**	**517 456**	**8 407 049**	**58 360**	**10 982 865**

amounts in tables in thousand PLN, unless otherwise stated

Consolidated cash flow statement	Note	For the period	
		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		2 765 866	3 935 516
Adjustments to profit for the period	39	1 046 072	1 673 423
Income tax paid		(852 213)	(928 810)
Net cash generated from operating activities		**2 959 725**	**4 680 129**
Cash flow from investing activities			
Purchase of shares in subsidiaries, less acquired cash and cash equivalents		(28 969)	(724)
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		(1 331 545)	(1 182 361)
Proceeds from sale of property, plant and equipment and intangible assets	39	17 580	20 001
Proceeds from sale of investment property		–	35 924
Purchase of held-to-maturity investments		(77 796)	(278 024)
Proceeds from sale of held-to-maturity investments		77 796	297 875
Purchase of available-for-sale financial assets		(201 862)	(210 123)
Proceeds from sale of available-for-sale financial assets		208 440	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
Expenses connected with loans granted		(100)	–
Proceeds from repayments of loans		–	305
Interest received		1 004	867
Dividends received		183 162	265 468
Expenses connected with advances granted for purchase of property, plant and equipment and intangible assets		(14 629)	(9 732)
Other investment expenses		(7 409)	(6 272)
Net cash used in investing activities		**(1 919 124)**	**(811 108)**
Cash flow from financing activities			
Proceeds connected with transactions with minority interest		–	546
Proceeds from loans and borrowings		77 702	89 733
Repayments of loans and borrowings		(85 190)	(17 166)
Payments of liabilities due to finance leases		(4 484)	(5 501)
Interest paid		(15 317)	(9 059)
Dividends paid to the shareholders of the Parent Entity		(1 800 000)	(3 394 000)
Dividends paid to the minority interest		(74)	–
Net cash used in financing activities		**(1 827 363)**	**(3 335 447)**
Total net cash flow		**(786 762)**	**533 574**
Exchange losses on cash and cash equivalents		40 429	(42 609)
Movements in cash and cash equivalents		**(746 333)**	**490 965**
Cash and cash equivalents at beginning of the period	15	**2 812 096**	**2 321 131**
Cash and cash equivalents at end of the period	15	**2 065 763**	**2 812 096**
including restricted cash and cash equivalents		2 648	3 308

amounts in tables in thousand PLN, unless otherwise stated

Accounting policies and other explanatory information to the consolidated financial statements prepared for 2008

1. General information

Name, registered office, business activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at ul. M.Skłodowskiej-Curie 48 is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Parent Entity was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 Divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), Ore Enrichment Plant, Tailings Plant, Mine-Smelter Emergency Rescue Unit and Data Center. The composition of the Group was presented in Note 5.

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

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

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

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

Period of operation of the Group

KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Parent Entity and subsidiaries have an unlimited period of operation.

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

Composition of the Management Board of the Parent Entity

During the period from 1 January 2008 to 17 January 2008, the composition of the Management Board of the Parent Entity 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 as the acting President of the Management Board until the President of the Management Board is appointed.

On 17 April 2008 the Supervisory Board of the Parent Entity 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 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 Parent Entity on 27 March 2009.

Going concern assumption

These consolidated financial statements were prepared under the assumption that Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, there are no circumstances that would indicate a threat to the going concern assumption by the Group companies. However, in the company DIALOG S.A. current liabilities at 31 December 2008 exceed current assets, which could be an indication of a threat to the continuation of the activities of DIALOG S.A. This high level of liabilities in DIALOG S.A. is due to the drawing of short term bank loans, which are to be repaid at the end of April 2009. DIALOG S.A. is negotiating to refinance these loans. As a result of these discussions, the bank presented a preliminary offer to refinance this debt. In the opinion of the management board of DIALOG S.A., the company will receive long term refinancing, permitting the uninterupted continuation of its activities.

In order to fully understand the financial position and the results of the activities of the Group, these consolidated financial statements should be read jointly with the separate annual financial statements of KGHM Polska Miedź S.A. for the period ended 31 December 2008. These financial statements will be available on the website of the Parent Entity 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

These financial statements have been prepared in accordance with the International Financial Reporting Standards approved by the European Union using the same principles for the current and comparative periods.

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

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

Standards and interpretations in force applied in the Group as of 1 January 2008

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"
Application of this interpretation has no affect on the financial statements of the Group.

IFRIC 12 "Service Concession Arrangements"
Application of this interpretation has no affect on the financial statements of the Group.

IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"
Application of this interpretation has no affect on the financial statements of the Group.

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 Group for 2008.

Application of a Standard or Interpretation prior to its coming into force.

IFRIC 13 "Customer Loyalty Programmes"
On 28 June 2007, the International Accounting Standards Board published interpretation 13 Customer Loyalty Programmes. This interpretation addresses the method of accounting for payments related to the sale of goods or services included in customer loyalty programmes. This interpretation becomes effective for periods beginning on or after 1 July 2008, although earlier application is recommended. The only company in the Group which has a customer loyalty programme is DIALOG S.A. Due to the fact that IFRIC 13 was approved for use in the European Union on 16 December 2008, the Group has decided on the earlier application of this Interpretation to the financial statements for financial year 2008. The impact of this Interpretation on the consolidated financial statements of the Group is immaterial.

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 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 subcontractors) 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 Group; 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 Group; 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 Group.

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 Group.

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 Group, as Group companies are not involved in activities which would involve them receiving property, plant, and equipment or cash for the construction of such assets from their customers.

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 essential changes have 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 Group will apply the amendments to IFRS 7 from 1 January 2009 and will provide disclosures in its consolidated financial statements in accordance with requirements. At the date of preparation of these consolidated 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 Group. The Group 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. As a result of an analysis of the management approach taken, it has been determined that each Group company represents a separate operating segment. However, the recognition of individual operating segments as reportable is possible upon fulfilment of a variety of formal requirements as well as upon the achievement of certain value thresholds. It is estimated that these requirements are only met by the Parent Entity, based on which the reportable segment "Production of copper, precious metals and other smelter products" has been separated, while the remaining companies of the Group will be combined into a single segment called "All other segments".

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

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 requires them to be capitalised. The amendment introduced will affect the Group, and its impact on the financial statements will depend on the financial strategy approved by the companies of the Group 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 entity 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 Group.

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 Group.

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. As a result of this change the entity will always recognise, in the separate financial statements, dividends from subsidiary, co-controlled and associated entities in the income statement when it acquires the right to receive dividends and the acquisition cost is not adjusted. The amendments to IFRS 1 and IAS 27 will be in effect for periods beginning on or after 1 January 2009. The amendments will be applicable for future equity investments.

"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. 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 affect on accounting. Each change has an individual effective date, although most will come into effect 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 Group.

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 Group 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 Group.

2.2. Accounting policies

2.2.1. Property, plant and equipment

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

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

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

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

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

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

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

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

As at the balance sheet date, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. The principles of impairment losses recognition are presented in detail in point 2.2.10.

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.

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

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

2.2.2. Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance, i.e.:
- development costs,
- goodwill,
- software,
- acquired concessions, patents, licenses,
- other intangible assets, and
- intangible assets not yet available for use (under construction).

Goodwill

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

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

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

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

Development costs

The entities of the Group 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:

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

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

Capitalised development costs are recognised as an intangible asset not available for use and are not amortised until the moment when the given intangible asset is completed and the decision has been taken to implement it. 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.

Other intangible assets

Other intangible assets are measured at cost at initial recognition.

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

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

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

- Development costs – 5 – 15 years,
- Software – 2 – 8 years,
- Licenses and patents – 2 – 5 years,
- Other intangible assets, including rights to geological information – 50 years.

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

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

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

The principles of impairment losses recognition are presented in detail in point 2.2.10.

2.2.3. Investment property

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

On subsequent balance sheet dates investment property is measured at fair value. Any gain or loss arising from a change in the fair value of the investment property affects net profit or loss for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

2.2.4. Investments in subsidiaries and associates

a) Subsidiaries

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

The purchase method is used to account for the acquisition of subsidiaries by the Group.

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

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

Inter–company transactions, balances, income, expenses and unrealised gains recognised in assets are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

Minority interest in the net assets of consolidated subsidiaries are recognised as a separate item of equity.

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

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

b) Associates

Investments in associates, i.e. entities over which the Group has significant influence but does not control, and in which it participates in setting both the financial and operating policies of the entity, are accounted for using the equity method in the consolidated financial statements.

These investments are initially recognised at cost. The Group's net investment in an associate includes goodwill, as set at the date of acquisition, less any accumulated impairment losses.

The Group's share of post-acquisition profits or losses of associates is recognised in its profit or loss, and its share of post-acquisition movements in other equity is recognised in the respective item of the equity. The cumulative post-acquisition movements in equity are adjusted against the carrying amount of the investment. When the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

2.2.5. Financial Instruments

2.2.5.1. Classification of financial instruments

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

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

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

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

Financial assets and liabilities measured at fair value through profit or loss
This category includes financial assets and financial liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss at their initial recognition.

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

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

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

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

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

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

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

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

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

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

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

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

2.2.5.2. Initial measurement and derecognition of financial instruments

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

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

2.2.5.3. Measurement at the balance sheet date

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

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

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

Gains and losses on financial assets which are classified as available-for-sale are recognised in equity, except for impairment losses and exchange gains/losses on monetary assets and interest calculated using the effective interest rate method. When available-for-sale financial assets are derecognised, the total cumulative gains and losses which had been recognised in equity are recognised in the income statement as gains and losses.

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

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

Other financial liabilities
After initial recognition, the Group measures all financial liabilities, apart from those classified as at fair value through profit or loss, at amortised cost using the effective interest rate method except for:
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.

If the transfer of financial assets does not qualify them for derecognition because the Group retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Group continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the Group recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability:
- financial guarantee agreements, measured at the higher of:
  - the amount determined in accordance with note 2.2.15 Provisions, or
  - the amount initially recognised less, when appropriate, cumulative amortisation recognised according to International Accounting Standard No 18 Revenue.

2.2.5.4. Fair value

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

At the balance sheet date, the fair value of financial instruments, for which an active market exists, is established based on the current bid/ask prices. If the market for a financial instrument is not active (and in relation to non-quoted securities), the Group establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions, 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 obtained from Reuters are used. Forwards and swaps on copper market are priced based on forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to Black-Scholes model is used for Asian options pricing on commodity markets, whereas standard German-Kohlhagen model is used for currency of European option pricing.

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

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

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

2.2.5.5. 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 significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the disappearance of an active market for a given financial instrument, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the prolonged decrease of the fair value of a financial instrument below it's amortised cost.

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments recognised in profit or loss are not reversed through profit or loss. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

Loans and receivables, as well as held–to-maturity investments which are measured at amortised cost, are individually tested for impairment at each balance sheet date. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio).

An impairment allowance is reversed, if in subsequent periods the impairment is reduced, and this reduction may be attributed to events occurring after recognition of the impairment allowance. The reversal of an impairment allowance is recognised in profit or loss.

2.2.5.6. Embedded derivatives

Initial recognition of derivatives

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

- the hybrid (combined) instrument not measured at fair value, with changes in fair value recognised in 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 Group 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.

2.2.5.7. Hedge accounting

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

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

Derivatives used in cash flow hedges
In a cash flow hedge, a derivative used as a hedging instrument is an instrument which**:**
- hedges the exposure to volatility of cash flows which is attributable to a particular type of risk associated with a recognised asset or liability, or a highly probable forecast transaction, and
- will affect reported profit or loss.

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

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

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

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

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

Discontinuation of hedge accounting
Derivative instruments cease to be accounted for as hedging instruments when they expire or are sold, terminated or settled, or when the Group revokes its designation of a given instrument as a hedging instrument. The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in equity until the hedged item affects profit or loss.

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

2.2.6. Inventories

Inventories consist of the following items:
- materials,
- semi-products and work in progress,
- finished goods, and
- goods for resale.

Inventory additions are measured in accordance with the following principles:
- materials and goods for resale – at cost,
- finished goods, semi-products – at actual manufacturing cost,
- work in progress – based on valuation of the work-in-progress inventories.

Inventory disposals are measured in accordance with the following principles:
- materials and goods for resale – at average cost based on the weighted average cost of a given item,
- finished goods and semi-products – by way of valuating the difference between inventories closing balance and the value of any additions, and giving due regard to the opening balance.

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

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

2.2.7. Trade and other receivables

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

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

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

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

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

Recognised as receivables are:

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

2.2.8. Cash and cash equivalents

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

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

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

Before the initial classification of assets (or disposal groups) as held for sale, the carrying amount of the asset is measured in accordance with applicable standards.

At the moment of reclassification these assets are measured at the lower of carrying amount and fair value less costs to sell.

2.2.10. Impairment of non-financial assets

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

A depreciable asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. Amongst the fundamental and most important external indications of possible impairment for the Group companies listed on the active markets are the continuation over the long term of a situation in which the carrying amount of their net assets exceeds their market value. In addition, amongst the most significant indications are unfavorable technical, market and economic changes to the environment in which the Group companies operate, including on the destination markets for their products, as well as 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 assets of Group companies. Internal factors taken into account in determining whether 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.

2.2.11. Equity

Equity consists of:

1. Share capital.

2. Other reserves, which consist of:
– revaluation reserve set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge, and adjusted by deferred tax, and
– revaluation reserve for the re-measurement of financial assets classified as available-for-sale to fair value, adjusted by deferred tax.

3. Retained earnings, composed of:
– undistributed profit or unabsorbed losses from previous years,
– reserve capital created in accordance with the Code of Commercial Companies,
– reserve capital created and used in accordance with the Statutes,
– profit or loss for the period.

2.2.12. Liabilities

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

Liabilities comprise:
– liabilities arising from bank loans, other loans (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.

2.2.13. Accrued expenses

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

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

2.2.14. Deferred income

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

The value of fixed assets, assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with this Policy, note no. 2, point 2.2.24 *Government grants*.

2.2.15. Provisions

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

Provisions are recognised, in particular, in respect of the following:
– future costs of mine decommissioning 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 Parent Entity. Provisions are reviewed at the balance sheet date.

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

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

2.2.16. Employee benefits

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

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

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

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

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

2.2.17. Income taxes (including deferred tax)

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

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

Deferred tax is determined using tax rates and tax 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 on the balance sheet date.

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

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

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

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:
- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit. Deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

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

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

2.2.18. Contingent items and other off-balance sheet items

Contingent liabilities are:

a) possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or

b) a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  - the amount of the obligation (liability) cannot be measured with sufficient reliability.

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

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

2.2.19. Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. 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 2.2.5.6. 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 Group, i.e. revenues from sales of products, services, goods for resale and materials, reflecting any rebates granted and any other decreases in selling prices.

In addition, revenue for the given reporting period which affects the financial result of the period includes

- **other operating income and gains,** which are indirectly related to the activities carried out, in particular:
  - income and gains from investments,
  - gains from the measurement and realisation of trading derivative instruments and the ineffective portion of gains from the realisation and re-measurement to fair value of derivative hedging instruments,
  - foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
  - reversal of impairment losses on held-to–maturity investments, available-for-sale financial assets, and loans,
  - release of unused provisions, previously charged to other operating costs, and
  - gains on disposal of property, plant and equipment and intangible assets,
- **finance income,** representing primarily income related to financing of the activities of the Group, including:
  - net foreign exchange gains arising exclusively on liabilities from sources of financing of the Group's activities (loans, bank loans, bonds, finance leases etc.),
  - gains on realisation and re-measurement to fair value of derivative hedging instruments used to hedge liabilities financing the Group's activities.

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

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

Revenues from the sale of services are recognised when:

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

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

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

2.2.20. Costs

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

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals. 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 2.2.5.6.

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

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

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

Functional and presentation currency

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

Transactions and balances

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:
- at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities,
- at the average exchange rate set for a given currency by the NBP (National Bank of Poland) prevailing on the date of the transaction. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day proceeding the transaction day.

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

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

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

2.2.22. Borrowing costs

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

2.2.23. Leases

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

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

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

2.2.24. Government grants

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

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

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

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

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

Non-monetary grants are recognised in the accounts in their fair value.

The principles of utilisation of CO_2 are presented in note 2, point 2.2.26.

2.2.25. Segment reporting

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

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

Three business segments have been identified for internal reporting purposes:

Segment I – copper, precious metals, other smelter products – extraction, the processing of copper and precious metals, the production of non-ferrous metals, copper trade and copper promotion;

Segment II – telecommunications and IT services – the provision of telecommunications services, telecommunications, IT services;

Segment III – other sectors, comprising the activities of Group subsidiaries which are not encompassed by segments I and II.

2.2.26. Emission rights

The entities of the Group participate in a program to limit emissions of carbon dioxide based on the Kyoto protocols of 11 December 1997, which commit government bodies, including those in Poland, to control and reduce emissions of greenhouse gases. Based on signed agreements the goal was established to reduce the emissions of carbon dioxide to a specified level. As a result, the Polish government allocates emission allowances in an amount covering the permitted carbon dioxide emission limit. Emission rights are granted in accordance with the National Plan for Allocating Proprietary Rights for the emission of carbon dioxide, which is developed for each subsequent settlement period.

At inception, proprietary emission rights received without cost from the government and any associated non-monetary government subsidies (accounted for as deferred income) are measured at fair value which is equal to nominal value. Purchased proprietary rights are measured at cost. Proprietary rights represent an intangible asset. At the balance sheet date, these rights are measured at cost less any impairment. Proprietary rights received without cost are accounted for in the amount of the difference between the fair value of the rights received and the amount of the associated deferred income.

Subsidies are settled simultaneously with the redemption[1] of proprietary emission rights. The Group applies the principle of net liabilities to granted proprietary emission rights. In accordance with this principle a provision is recognised when actual emissions exceed the amount of rights allotted and actually held. Such liabilities are accounted for at the fair value of the proprietary emission rights which the given entity is to redeem, plus any eventual costs or penalties due to a deficit of the proprietary emission rights necessary to resolve this deficit. A provision is created to cover the product manufacturing cost. This provision is settled at the moment of redemption of the proprietary emission rights purchased by the entity for the purpose of meeting its obligations. Proprietary emission rights are settled based on the principle "first in-first out" (FIFO).

2.2.27. Earnings per share

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

2.2.28. Cash flow statement

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

2.2.29. Capital management

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

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

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

1 redemption means the decision to redeem the proprietary emission rights issued by the President of the Energy Regulatory Office based on information on emissions provided by an installation's owner.

2.2.30 Customer Loyalty Programmes

Loyalty award credits which are granted to customers who participate in a Partnership Programme are accounted for as a separate component of the sales transaction in which they were granted. The fair value of the proceeds is allocated between the said loyalty award credits and the remaining elements of the sale. The amount allocated to the award credits is measured by reference to their fair value, and is accounted for as deferred income until the said credits are redeemed by the customer.

The fair value of a loyalty credit in respect of which income is deferred is determined based on the fair value of the award in terms of its redemption structure.

The value of a loyalty award credit is reviewed at the end of each calendar year.

Income is recognised at the moment an award credit is redeemed. The amount of income recognised in a given period is based on the number of credits awarded in relation to the total anticipated number of redeemed loyalty award credits, and reflects changes in the value of such award credits in subsequent years. The anticipated number of redeemed loyalty award credits is an estimate.

3. Important estimates

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 Group fail to hold such instruments to maturity, apart from the situation described in IAS 39, it would have to reclassify all such assets recognised in this group as available-for-sale. In such a situation, the reclassified investments would be measured at fair value, and not at amortised cost.

At each balance sheet date the Group analyses significance of the impact of bifurcated embedded derivative instruments on the financial statements. Following this analysis, the Group 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 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 costs of 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 23).

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.

3.4. Impairment of property, plant and equipment

In accordance with IAS 36, at 31 December 2008 the Parent Entity 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 Parent Entity as the sole cash generating unit (CGU) due to the inability to assign cash flow to individual Company units.

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

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.

3.5. Presentation

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

amounts in tables in thousand PLN, unless otherwise stated

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, fully consolidated 26 subsidiaries in the current period. At 31 December 2008 the composition of the Group was as follows:

Entity	Head office
KGHM CUPRUM Spółka z o.o. – CBR	Wrocław
KGHM Polish Copper Ltd.	Londyn
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin
KGHM Ecoren S.A.	Lubin
"Energetyka" sp. z o.o.	Lubin
CBJ sp. z o.o.	Lubin
KGHM Kupferhandelsges m.b.H.	Wiedeń
POL-MIEDŹ TRANS Sp. z o.o.	Lubin
DIALOG S.A.	Wrocław
KGHM CONGO S.P.R.L.	Lubumbashi
KGHM Metraco S.A.	Legnica
Zagłębie Lubin Spółka Akcyjna	Lubin
INTERFERIE S.A.	Lubin
PeBeKa S.A.	Lubin
DFM ZANAM – LEGMET Sp. z o.o.	Polkowice
INOVA Spółka z o.o.	Lubin
DKE Spółka z o.o.	Oława
WFP Hefra S.A.	Warsaw
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice
PHP "MERCUS" sp. z o.o.	Polkowice
PHU "Lubinpex" Sp. z o.o.	Lubin
WM "ŁABĘDY" S.A.	Gliwice
AVISTA MEDIA sp. z o.o.	Wrocław
KGHM Letia S.A.	Legnica
"PMT Linie Kolejowe" sp. z o.o.	Polkowice
Petrotel Sp. z o.o.	Płock

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

Acquisition of shares in the newly-founded company PMT Linie Kolejowe sp. z o.o.
On 19 September 2008 the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register issued a decision on entering the following company into the National Court Register – Register of Entrepreneurs: PMT Linie Kolejowe sp. z o.o. with its registered head office in Polkowice. The share capital of this newly-founded entity amounts to PLN 100 thousand and is divided into 100 shares of PLN 1000 each.

Scope of activities	% of share capital held	% of voting rights held
R&D activities	100	100
copper trading	100	100
medical services	100	100
production of other products from non-metallic mineral resources	100	100
generation, distribution and sale of electricity and heat	100	100
technical research and analyses	100	100
copper trading	100	100
transportation services	100	100
telecommunications services, telecommunications, IT and information services	100	100
ore extraction services	99.98	99.98
trade, agency and representative services	100	100
participation in and organisation of professional sporting events	100	100
tourism, hotel and spa services	65.67	65.67
underground and mining construction, construction of tunnels	100	100
repair and manufacture of machinery	100	100
inspections and control of machinery, R&D work	100	100
collection of municipal and industrial waste, processing, storage and utilisation of waste	50.33	50.33
production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics, finished and semi-finished products and services	97.52	97.52
production of sheeting	84.37	84.37
trade, production of bundled electrical cables	100	100
retail trade in food items, catering services	100	100
production of non-ferrous metals, products from non-ferrous metals, services	88.92	88.92
design, implementation and servicing of IPTV systems (interactive television)	100	100
promotion of innovation	85.45	85.45
management over railway infrastructure	100	100
telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	75.06	75.06

POL-MIEDŹ TRANS sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) has acquired 99 shares in the newly-founded company PMT Linie Kolejowe sp. z o.o. These shares have a per-share face value of PLN 1000 and a total nominal value of PLN 99 thousand, represent 99% of the share capital of this company and grant the right to the same number of votes at the General Shareholders' Meeting. 1% of the shares of PMT Linie Kolejowe sp. z o.o. acquired a subsidiary of KGHM Polska Miedź S.A. – PHP Mercus sp. z o.o.

The carrying amount of the shares of PMT Linie Kolejowe sp. z o.o. in the accounts of POL-MIEDŹ TRANS sp. z o.o. is PLN 99 thousand, while in the accounts of PHP Mercus sp. z o.o. it amounts to PLN 1 thousand.

The shares acquired by POL-MIEDŹ TRANS sp. z o.o. and PHP Mercus sp. z o.o. for a price equal to their nominal value were entirely paid for in cash.

The Parent Entity of the Group indirectly became the owner of 100% of shares in PMT Linie Kolejowe sp. z o.o.

The founding of this company and its takeover of management over railway infrastructure will enable PMT Linie Kolejowe sp. z o.o. to collect fees for providing access to this infrastructure to other carriers. The result of commencing operations by PMT Linie Kolejowe sp. z o.o. will be to improve the effectiveness of the assets owned by POL-MIEDŹ TRANS sp. z o.o.

Loss of control over Vivid.pl S.A.

On 29 September 2008 the Regional Court for the City of Warsaw in Warsaw, Section X (Economic) for bankruptcy and remediary proceedings, issued a ruling upon declaration of bankruptcy of the company Vivid.pl S.A. with its registered head office in Warsaw (100% of the shares of Vivid.pl S.A. are owned by DIALOG S.A. – a subsidiary of KGHM Polska Miedź S.A.). The court appointed a court commissioner – Regional Court Judge, Arkadiusz Zagrobelny, and a receiver – Jacek Filiks. The ruling on this bankruptcy came into legal force on 10 October 2008. As a result of accounting for the loss of control over a subsidiary in the consolidated financial statements a profit was recorded on the disposal of a subsidiary in the amount of PLN 393 thousand.

amounts in tables in thousand PLN, unless otherwise stated

Until the day of loss of control, i.e. to 29 September 2009 Vivid.pl S.A. was consolidated.

Transfer of ownership of shares of Petrotel Sp. z o.o.
On 6 November 2008 there was the transfer of ownership of 6 150 shares of Petrotel Sp. z o.o., with a face value of PLN 1 thousand per share, representing 75% of the share capital of the company, to DIALOG S.A. The transfer of ownership rights to these shares took place based on a contingent agreement for the acquisition of shares of Petrotel Sp. z o.o, entered into between PKN Orlen S.A. and DIALOG S.A. on 22 September 2008. On 23 December DIALOG S.A. acquired 5 shares from a private investor, representing 0.6 % of the share capital of Petrotel sp. z o.o.

Total cost of acquiring shares PLN 32 877 thousand. The net asset value of Petrotel sp. z o.o. measured at fair value at the acquisition date was PLN 32 933 thousand. The 75.06 % of net assets due the buyer amount to PLN 24 720 thousand. Goodwill of PLN 8 157 thousand represents the separate Petrotel brand undisclosed in the accounts of the acquired company and its customer address base. Goodwill is also related to effect of scale and synergy.

From the acquisition date to the balance sheet date, Petrotel Sp. z o.o. achieved sales of PLN 4 748 thousand and a net loss of PLN (1 022) thousand.

Change in the share capital of KGHM Letia Legnicki Park Technologiczny
On 19 November 2008 a change in share capital was registered for KGHM LETIA Legnicki Park Technologiczny spółka akcyjna. The share capital of KGHM LETIA Legnicki Park Technologiczny spółka akcyjna was increased by PLN 7 428 thousand. KGHM Polska Miedź S.A. acquired 4 448 newly-created shares having a total nominal value of PLN 4 448 thousand in return for a contribution in kind – PLN 4 447 thousand and cash – PLN 1 thousand. Currently the share capital of KGHM LETIA Legnicki Park Technologiczny spółka akcyjna amounts to PLN 27 428 thousand. As a result of registration of the increase in share capital, the share of KGHM Polska Miedź S.A. in the share capital of KGHM LETIA Legnicki Park Technologiczny spółka akcyjna changed from 94.95% to 85.45%

The share of the Group in the share capital of KGHM Letia Legnicki Park Technologiczny S.A. as a result of this transaction decreased by 9.5% in favour of minority shareholders. The profit from this sale in the amount of PLN 67 thousand was settled in other operating income.

Liquidation of KGHM Polish Copper LTD.
On 13 May 2008 the Management Board of the Parent Entity resolved to undertake actions aimed at liquidating the company KGHM Polish Copper Ltd. By the end of 2008 the significant trade contracts of KGHM Polish Copper Ltd. were taken over by the Parent Entity, while the remaining trade contracts will expire in the first months of 2009. Further actions aimed at liquidation will be made in cooperation with a consultant, following issue of the auditor's opinion on the financial statements of KGHM Polish Copper Ltd. for 2008.

5. Information on business segments

Information on business segments
for the period from 1 January 2008 to 31 December 2008
Revenue
External sales
Inter-segment sales
Total revenue
Result
Segment result
Unallocated expenses of Group as a whole
Operating profit
Finance cost – net
Share of profit of associates
Profit before income tax
Income tax expense
Profit for the period
At 31 December 2008
Other information
Segment assets
Investments in entities accounted for using the equity method
Unallocated assets of Group as a whole
Total consolidated assets
Segment liabilities
Unallocated liabilities of Group as a whole
Total consolidated liabilities
for the period from 1 January 2008 to 31 December 2008
Capital expenditures
Depreciation of property, plant and equipment
Amortisation of intangible assets
Impairment of property, plant and equipment and intangible assets recognised in income statement
Other non-cash expenses, of which:
– provisions recognised

amounts in tables in thousand PLN, unless otherwise stated

Copper and precious metals, other smelter products	Telecom and IT services	Other	Eliminations	Consolidated amount
11 397 662	550 668	706 555	–	12 654 885
91 172	3 336	1 653 016	(1 747 524)	–
11 488 834	**554 004**	**2 359 571**	**(1 747 524)**	**12 654 885**
4 576 875	(251 810)	132 549	(493 125)	3 964 489
–	–	–	–	(778 127)
–	–	–	–	**3 186 362**
–	–	–	–	(57 494)
–	266 921	658	–	267 579
–	–	–	–	**3 396 447**
–	–	–	–	(630 581)
–	–	–	–	**2 765 866**
10 079 609	925 233	1 523 664	(432 512)	12 095 994
–	1 498 116	–	–	1 498 116
–	–	–	–	1 405 995
–	–	–	–	**15 000 105**
2 892 531	60 158	394 957	(262 895)	3 084 751
–	–	–	–	932 489
–	–	–	–	**4 017 240**
1 162 829	72 158	241 028	(36 351)	1 439 664
478 761	108 610	80 570	(11 984)	655 957
12 582	7 439	4 704	685	25 410
3 318	278 709	515	–	282 542
36 258	20 700	9 516	(2 203)	64 271
15 755	10 603	5 413	–	31 771

amounts in tables in thousand PLN, unless otherwise stated

Information on business segments (continuation)		
for the period from 1 January 2007 to 31 December 2007		
	Copper and precious metals, other smelter products	**Telecom and IT services**
Revenue		
External sales	12 397 394	494 173
Inter-segment sales	135 430	3 943
Total revenue	**12 532 824**	**498 116**
Result		
Segment result	5 497 047	63 092
Unallocated expenses of Group as a whole	–	–
Operating profit	–	–
Finance cost – net	–	–
Share of profit of associates	–	264 191
Profit before income tax	–	–
Income tax expense	–	–
Profit for the period	–	–
At 31 December 2007		
Other information		
Segment assets	10 029 650	1 215 920
Investments in entities accounted for using the equity method	–	687 665
Unallocated assets of Group as a whole	–	–
Total consolidated assets	–	–
Segment liabilities	2 587 784	69 253
Unallocated liabilities of Group as a whole	–	–
Total consolidated liabilities	–	–
for the period from 1 January 2007 to 31 December 2007		
Capital expenditures	837 502	108 454
Depreciation of property, plant and equipment	416 612	97 921
Amortisation of intangible assets	10 168	5 892
Impairment of property, plant and equipment and intangible assets recognised in income statement	3 710	5 204
Other non-cash expenses, of which:	84 796	6 389
– provisions recognised	57 046	98

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

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

amounts in tables in thousand PLN, unless otherwise stated

Other	Eliminations	Consolidated amount
602 561	–	13 494 128
1 480 637	(1 620 010)	–
2 083 198	**(1 620 010)**	**13 494 128**
129 487	(424 798)	5 264 828
–	–	(737 875)
–	–	**4 526 953**
–	–	(35 159)
902	–	265 093
–	–	**4 756 887**
–	–	(821 371)
–	–	**3 935 516**
1 364 612	(451 750)	12 158 432
2 431	–	690 096
–	–	654 870
–	–	**13 503 398**
362 468	(223 071)	2 796 434
–	–	1 205 355
–	–	**4 001 789**
188 972	(16 551)	1 118 377
73 661	(11 912)	576 282
4 743	461	21 264
(991)	–	7 923
7 579	(2 824)	95 940
5 361	–	62 505

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

Information on geographical segments

	Revenue for the period		Total assets at		Capital expenditures for the period	
	from 1.01.2008 to 31.12.2008	from 1.01.2007 to 31.12.2007	31 December 2008	31 December 2007	from 1.01.2008 to 31.12.2008	from 1.01.2007 to 31.12.2007
Poland	4 484 811	5 662 587	14 911 576	13 410 736	1 439 344	1 116 651
Germany	1 398 163	2 528 005	–	–	–	–
France	809 686	82 016	–	–	–	–
United Kingdom	955 703	722 365	71 724	68 925	–	12
Czech Republic	870 894	1 244 613	–	–	–	–
Austria	225 360	295 088	8 043	16 379	18	6
Hungary	176 711	166 685	–	–	–	–
China	1 264 188	852 220	–	–	–	–
Other countries	2 469 369	1 940 549	8 762	7 358	302	1 708
Total	**12 654 885**	**13 494 128**	**15 000 105**	**13 503 398**	**1 439 664**	**1 118 377**

amounts in tables in thousand PLN, unless otherwise stated

6. Property, plant and equipment

Property, plant and equipment		
	At	
	31 December 2008	31 December 2007
Land	19 465	20 237
Buildings and constructions	3 239 210	3 208 274
Technical equipment and machinery	2 504 965	2 475 477
Motor vehicles	139 915	129 056
Other fixed assets	60 924	52 994
Assets under construction	1 171 828	728 314
Total	**7 136 307**	**6 614 352**

Changes in property, plant and equipment in the period from 1 January 2007 to 31 December 2008	Note
At 1 January 2007	
Gross carrying amount	
Accumulated depreciation	
Impairment losses	
Net carrying amount	
Changes in 2007	
Settlement of assets under construction	
Settlement of assets under construction – other (leases, warehouse acceptance, without effect)	
Direct purchases	
Internally-produced	
Reclassification from non-current assets classified as held for sale or included in a disposal group	
Disposal	
Donations and no-cost transfers	
Scrapping/decommissioning or write-off	
Reclassification to non-currentassets classified as held for sale or inclusion in a disposal group	
Other changes	
Change in amount of provisions for costs of decommissioning	
Transfer between groups	
Depreciation	**28**
Decrease in accumulated depreciation due to scrapping, sale and other	
Impairment losses	**28, 31**
Reversal of impairment losses	**28, 30**
Utilisation of impairment losses	
At 31 December 2007	
Gross carrying amount	
Accumulated depreciation	
Impairment losses	
Net carrying amount	

amounts in tables in thousand PLN, unless otherwise stated

Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
17 816	6 931 032	5 626 398	301 731	142 156	683 779	13 702 912
–	(3 728 788)	(3 435 164)	(190 479)	(93 827)	–	(7 448 258)
–	**(116 875)**	**(55 028)**	**(119)**	**(14)**	**(30 332)**	**(202 368)**
17 816	3 085 369	2 136 206	111 133	48 315	653 447	6 052 286
3 446	219 845	715 568	34 576	10 953	(984 388)	–
–	–	–	–	–	(17 618)	(17 618)
–	13 499	15 313	3 781	6 961	1 051 991	1 091 545
–	–	–	–	–	5 688	5 688
–	–	–	454	–	–	454
(981)	(5 226)	(17 931)	(5 311)	(3 504)	–	(32 953)
–	(179)	(2)	(176)	9	(5)	(353)
(44)	(15 245)	(192 637)	(3 599)	(5 170)	(9)	(216 704)
–	(4 125)	(63)	–	(27)	–	(4 215)
–	6 751	(891)	4 047	(223)	9 835	19 519
–	64 850	–	–	–	–	64 850
–	1 287	(1 287)	–	–	–	–
–	(173 347)	(367 533)	(23 988)	(11 414)	–	(576 282)
–	14 445	189 091	8 043	7 093	–	218 672
–	(203)	(3 773)	–	–	(5 178)	(9 154)
–	–	3	–	–	2 111	2 114
–	553	3 413	96	1	12 440	16 503
20 237	7 212 489	6 144 468	335 503	151 155	749 273	14 613 125
–	(3 887 690)	(3 613 606)	(206 424)	(98 148)	–	(7 805 868)
–	(116 525)	(55 385)	(23)	(13)	(20 959)	(192 905)
20 237	**3 208 274**	**2 475 477**	**129 056**	**52 994**	**728 314**	**6 614 352**

amounts in tables in thousand PLN, unless otherwise stated

Changes in property, plant and equipment in the period from 1 January 2007 to 31 December 2008	
	Note
Changes in 2008	
Settlement of assets under construction	
Settlement of assets under construction – other (leases, warehouse acceptance, without effect)	
Direct purchases	
Internally-produced	
Reclassification from non-current assets classified as held for sale or included in a disposal group	
Disposal	
Donations and no-cost transfers	
Scrapping/decommissioning or write-off	
Reclassification to non-currentassets classified as held for sale or inclusion in a disposal group	
Gross carrying amount in a subsidiary at the date of obtaining control	
Other changes	
Change in amount of provisions for costs of decommissioning	
Transfer between groups	
Depreciation	**28**
Decrease in accumulated depreciation due to scrapping, sale and other	
Accumulated depreciation in a subsidiary at the date of obtaining control	
Impairment losses	**26, 28, 31**
Reversal of impairment losses	**26, 28, 30**
Utilisation of impairment losses	**26**
At 31 December 2008	
Gross carrying amount	
Accumulated depreciation	
Impairment losses	
Net carrying amount	

amounts in tables in thousand PLN, unless otherwise stated

Land	Buildings and constructions	Technical equipment and machinery	Motor vehicles	Other fixed assets	Assets under construction	Total
–	268 308	624 800	25 879	15 691	(934 678)	–
–	–	–	–	–	(3 212)	(3 212)
–	1 063	18 643	2 344	5 968	1 371 533	1 399 551
–	–	–	–	–	14 751	14 751
–	629	63	–	27	–	719
(16)	(6 922)	(2 698)	(6 937)	(244)	–	(16 817)
–	–	3	–	68	–	71
–	(124 680)	(282 751)	(8 044)	(8 725)	(381)	(424 581)
(756)	(4 154)	(10 686)	(7 994)	(99)	–	(23 689)
–	32 193	33 377	1 120	327	2 825	69 842
–	(5 262)	(2 655)	11 983	(731)	2 125	5 460
–	37 851	–	–	–	–	37 851
–	10 479	(10 193)	–	(286)	–	–
–	(171 905)	(446 881)	(24 865)	(12 306)	–	(655 957)
–	109 630	276 654	18 192	8 524	–	413 000
	(7 093)	(20 221)	(490)	(251)		(28 055)
–	(123 918)	(161 814)	(372)	(34)	(10 560)	(296 698)
–	14 023	–	–	–	166	14 189
–	694	13 847	43	1	945	15 530
19 465	7 421 994	6 512 371	353 854	163 151	1 202 236	15 673 071
–	(3 957 058)	(3 804 054)	(213 587)	(102 181)	–	(8 076 880)
–	(225 726)	(203 352)	(352)	(46)	(30 408)	(459 884)
19 465	**3 239 210**	**2 504 965**	**139 915**	**60 924**	**1 171 828**	**7 136 307**

Impairment losses on property, plant and equipment are mainly in respect of the subsidiary DIALOG S.A. At 31 December 2008 impairment recognised with respect to the property, plant and equipment of DIALOG S.A., carried out based on impairment tests performed in the years 2005 – 2008, amounted to PLN 449 451 thousand (at 31 December 2007, PLN 185 950 thousand). At the end of 2008, as in prior years, due to the technological obsolescence and loss of utility of an asset due to new technology, DIALOG S.A. performed an impairment test. As a result of this test impairment was recognised on property, plant and equipment in the amount of PLN 268 270 thousand. For calculation purposes it was assumed that all of the assets of DIALOG S.A. represent a single cash-generating unit. The recoverable amount of this cash-generating unit was determined based on calculations of value in use. The value in use of assets was determined based on cash flow forecasts for the period 2009 – 2015, assumed for the creation of the long term strategy, adjusted by flows related to future investments. Individual flows were discounted using rates based on:

- the risk-free rate of 5.37% and WIBOR of 5.61% (from the end of 2008),
- a risk premium of 8.4%
- debt financing with respect to debt/capital according to the anticipated financing structure of DIALOG S.A.
- the beta ratio, reflecting financial leverage of 0.63
- the iterative method applied to standardise amounts based on pre-and post taxation flows.

As a result of applying these assumptions, the discount rate amounted to 11.21% before taxation.

amounts in tables in thousand PLN, unless otherwise stated

Depreciation of property, plant and equipment used in production or in the provision of services was recognised in the income statement as a cost of sales in the amount of PLN 623 004 thousand (at 31 December 2007, PLN 540 393 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 21 963 thousand (at 31 December 2007, PLN 23 906 thousand) and in selling costs in the amount of PLN 10 990 thousand (at 31 December 2007, PLN 11 983 thousand).

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

	31 December 2008		
Groups of property, plant and equipment	**Initial cost – capitalised finance lease**	**Accumulated depreciation**	**Net carrying amount**
Technical equipment and machinery	773	87	686
Motor vehicles	17 323	1 477	15 846
Total	**18 096**	**1 564**	**16 532**

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

	31 December 2008			
	Cost	**Depreciation for the period**	**Accumulated depreciation**	**Net carrying amount**
Land	2 349	–	–	2 349
Buildings and constructions	31 103	730	18 324	12 779
Technical equipment and machinery	26 085	1 420	11 388	14 697
Motor vehicles	–	–	–	–
Other property, plant and equipment	558	24	530	28
Total	**60 095**	**2 174**	**30 242**	**29 853**

Amount of collateral for the repayment of liabilities of the KGHM Polska Miedź S.A. Group established on property, plant and equipment was presented in note 21 Collateral for the repayment of liabilities.

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

	For the period	
	from 1 January 2008 to 31 December 2008	**from 1 January 2007 to 31 December 2007**
Amount of compensation recognised in profit or loss	1 949	1 865

amounts in tables in thousand PLN, unless otherwise stated

	31 December 2007		
	Initial cost – capitalised finance lease	Accumulated depreciation	Net carrying amount
	11 987	10 895	1 092
	4 737	629	4 108
	16 724	**11 524**	**5 200**

	31 December 2007			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
	1 855	–	–	1 855
	31 093	678	17 893	13 200
	26 659	1 390	11 390	15 269
	19	–	19	–
	558	25	505	53
	60 184	**2 093**	**29 807**	**30 377**

Major investment projects recognised at 31 December 2008 under assets under construction	
Construction of the SW-4 shaft	196 452
Głogów Głęboki-Przemysłowy	194 386
Pyrometallurgy modernisation	101 418
Mining region infrastructural development	97 279
Modernisation of a stadium	74 457
Modernisation of a tailings hydrotransport installation including the direct pumping of tailings	47 338
Investments in power and communications facilities	47 149
Modernisation of sulphuric acid unit	39 520
Modernisation of steam and water boilers	33 162
Conveyor belt and pipeline transport investments	25 737
Installation for the incineration of production gases	21 756
Shafts and primary equipment	18 401
Total	**897 055**

amounts in tables in thousand PLN, unless otherwise stated

Major investment projects recognised at 31 December 2007 under assets under construction	
Construction of the SW-4 shaft	153 475
Głogów Głęboki-Przemysłowy	115 496
Mining region infrastructural development	77 701
Investments in power and communications facilities	40 807
Construction of office building	32 583
Pyrometallurgy modernisation	32 159
Conformatory work	27 128
Conveyor belt and pipeline transport investments	19 320
Modernisation of steam and water boilers	17 881
Construction of the R-XI shaft	16 842
Shafts and primary equipment	14 023
Modernisation of a tailings hydrotransport installation including the direct pumping of tailings	13 393
Modernisation of a stadium	10 807
Purchase of mining machinery	10 667
Total	**582 282**

Capital commitments at the balance sheet date but not recognised in the balance sheet	At	
	31 December 2008	31 December 2007
For the acquisition of property, plant and equipment	511 877	454 100
For the acquisition of intangible assets	17 141	10 835
Total capital commitments:	**529 018**	**464 935**

Perpetual usufruct of land

At 31 December 2008, the Group entities used land under perpetual usufruct rights comprising a total area of 6080 ha (at 31 December 2007: 6053 ha).

Perpetual usufruct of land	At	
	31 December 2008	31 December 2007
	(ha)	(ha)
KGHM Polska Miedź S.A.	5 708	5 741
Subsidiaries of the Group	372	312

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

Due to the nature of the use of the above-mentioned land, the Parent Entity has not determined a fair value for these perpetual usufruct rights at 31 December 2008.

amounts in tables in thousand PLN, unless otherwise stated

Total value of future minimum fees due to perpetual usufruct of land	At	
	31 December 2008	31 December 2007
Under one year	7 900	7 130
From one to five years	31 890	28 535
Over five years	484 438	437 063
Total	**524 228**	**472 728**

Fees due to perpetual usufruct of land recognised in profit or loss	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Value of fees due to perpetual usufruct of land	7 717	6 874

Off-balance sheet liabilities of the Group due to the perpetual usufruct of land were 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.

7. Intangible assets

Intangible assets	At	
	31 December 2008	31 December 2007
Development costs	3 892	1 354
Goodwill	11 075	2 918
Software	23 796	22 137
Acquired concessions, patents, licenses	30 730	16 657
Other intangible assets	52 907	42 195
Intangible assets not yet available for use	29 181	33 970
Total	**151 581**	**119 231**

amounts in tables in thousand PLN, unless otherwise stated

Changes in intangible assets in the period from 1 January 2007 to 31 December 2008	Note	Development costs	Goodwill
At 1 January 2007			
Gross carrying amount		17 276	2 981
Accumulated amortisation		(12 732)	–
Impairment losses		–	(402)
Net carrying amount		4 544	2 579
Changes in 2007			
Transfer from intangible assets not yet available for use		44	–
Direct purchases		95	–
Other changes		–	339
Disposals		(481)	–
Liquidation or write-off		(737)	–
Amortisation	**28**	(3 118)	–
Decrease in accumulated amortisation due to liquidation, sale and other		1 074	–
Impairment losses	**28, 31**	(67)	–
Utilisation of impairment losses		–	–
At 31 December 2007			
Gross carrying amount		16 197	3 320
Accumulated amortisation		(14 776)	–
Impairment losses		(67)	(402)
Net carrying amount		**1 354**	**2 918**
Changes in 2008			
Transfer from intangible assets not yet available for use		4 003	–
Direct purchases		–	–
Other changes		(95)	–
Disposals		–	–
Liquidation or write-off		(570)	–
Gross carrying amount in a subsidiary at the date of obtaining control			8 157
Amortisation	**28**	(2 381)	–
Decrease in accumulated amortisation due to liquidation, sale and other		1 514	–
Accumulated amortisation in a subsidiary at the date of obtaining control			
Impairment losses	**26, 28, 31**	–	–
Reversal of impairment losses	**26, 28, 30**	67	–
Utilisation of impairment losses	**26**	–	–
At 31 December 2008			
Gross carrying amount		19 535	11 477
Accumulated amortisation		(15 643)	–
Impairment losses		–	(402)
Net carrying amount		**3 892**	**11 075**

amounts in tables in thousand PLN, unless otherwise stated

Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use	Total
80 905	44 758	47 831	37 811	231 562
(55 921)	(27 012)	(6 066)	–	(101 731)
(3 415)	–	–	–	(3 817)
21 569	17 746	41 765	37 811	126 014
6 972	6 242	–	(13 258)	–
1 134	301	4 569	20 733	26 832
(4)	–	(37)	(10 500)	(10 202)
13	(6)	(201)	–	(675)
(2 214)	(2 621)	(2 571)	–	(8 143)
(7 539)	(7 632)	(2 975)	–	(21 264)
2 016	2 627	1 645	–	7 362
–	–	–	(816)	(883)
190	–	–	–	190
86 806	48 674	49 591	34 786	239 374
(61 444)	(32 017)	(7 396)	–	(115 633)
(3 225)	–	–	(816)	(4 510)
22 137	**16 657**	**42 195**	**33 970**	**119 231**
6 235	11 486	–	(21 724)	–
3 903	13 327	2 297	20 586	40 113
(1 192)	927	10 349	(3 673)	6 316
–	(5)	(982)	–	(987)
(7 497)	(4 294)	(2 452)	–	(14 813)
1 411	2 138			11 706
(7 872)	(11 785)	(3 372)	–	(25 410)
6 987	4 468	4 872	–	17 841
(964)	(1 801)			(2 765)
(90)	(392)	–	(29)	(511)
411	–	–	–	478
327	4	–	51	382
89 666	72 253	58 803	29 975	281 709
(63 293)	(41 135)	(5 896)	–	(125 967)
(2 577)	(388)	–	(794)	(4 161)
23 796	**30 730**	**52 907**	**29 181**	**151 581**

amounts in tables in thousand PLN, unless otherwise stated

At 31 December 2008, the most significant item of intangible assets of the KGHM Polska Miedź S.A. Group is the documentation of geological information on the "Głogów-Głęboki" deposit, included under other intangible assets, with a carrying amount of PLN 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.

By a Decree of the Council of Ministers dated 27 December 2005 (Journal of Laws no. 264/2005 item 2206) the Polish government allocated emission rights to specific eligible business entities.

The amount of emission allowances allocated in the National Plan for Allocating Proprietary Rights for each calendar year in the settlement period 2008 – 2012 amounts to 486 196 allowances. In 2008 the operation of facilities required the utilisation of 482 552.74 allowances. The amount of unused allowances for 2008 in the amount of 4 643.26 remains for final settlement of allowances for the year 2008.

The amortisation of intangible assets utilised in the production or in the providing of services was recognised as a cost of sales in the income statement: PLN 20 290 thousand (at 31 December 2007: PLN 15 976 thousand). The amortisation of other intangible assets was recognised in administrative expenses: PLN 3 126 thousand (at 31 December 2007: PLN 3 074 thousand) and selling costs: PLN 1 994 thousand (at 31 December 2007: PLN 2 214 thousand).

8. Investment property

At 31 December 2008, investment property with a value of PLN 18 083 thousand is based on the measurement carried out by a valuer at 31 December 2008.

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

Investment property			
	Note	**For the period**	
		from 1 January 2008 to 31 December 2008	**from 1 January 2007 to 31 December 2007**
Beginning of financial period		**16 517**	**18 853**
Changes during the financial period		**1 566**	**(2 336)**
– re-measurement to fair value	**30, 31**	1 566	(2 336)
End of financial period		**18 083**	**16 517**

amounts in tables in thousand PLN, unless otherwise stated

9. Investments in associates

Investments in associates	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Beginning of financial period		690 096	690 074
Share of profits of associates	35	267 579	265 093
Changes in equity due to payment of dividend for the prior and current financial year		(182 860)	(265 092)
Acquisition of shares in associates		726 391	–
Disposal of shares in associates		(3 090)	–
Other changes		–	21
End of financial period		**1 498 116**	**690 096**

Interests held by the Group in associates	Country of incorporation	Assets	Liabilities	Sales	Profit for the period	Interest held (%)
At 31 December 2007						
Polkomtel S.A.	**Poland**	8 453 373	4 946 435	7 799 020	1 358 676	19.61
MINOVA-KSANTE Spółka z o.o.	**Poland**	9 740	1 635	16 760	3 006	30.00
		8 463 113	**4 948 070**	**7 815 780**	**1 361 682**	
At 31 December 2008						
Polkomtel S.A.	**Poland**	8 913 880	4 978 247	8 482 085	1 361 239	24.39

The shares of Polkomtel S.A., despite the fact that the share of KGHM Polska Miedź S.A. until 18 December 2008 was less than 20% (19.61%), were valued in the consolidated financial statements by the equity method. Significant influence was determined based on provisions of the shareholder agreement and the statutes of Polkomtel S.A., thanks to which KGHM Polska Miedź S.A., through its representative on the Supervisory Board, had influence on resolutions related to the operating strategy of Polkomtel S.A., which in turn affected its operating and financial policies.

On 18 December 2008 KGHM Polska Miedź S.A. acquired from TDC Mobile International A/S (TDC 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 726 391 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. The provisionally-set goodwill allocated to the investments in associates amounts to PLN 538 155 thousand. Final settlement of purchase price will be made in 2009.

On 26 August 2008 the Parent Entity 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 with a total nominal value of PLN 1 350 thousand amounts to PLN 8 542 thousand (PLN 632.75 per share).

The net value of sold shares in the consolidated financial statements amounted to PLN 3 090 thousand.

Gains from the sale of an associate recognised in consolidated income statement amounts to PLN 5 452 thousand.

Following this transaction KGHM Polska Miedź S.A. no longer owns any of the share capital of MINOVA-KSANTE Spółka z o.o.

amounts in tables in thousand PLN, unless otherwise stated

10. Available-for-sale financial assets

Available-for-sale financial assets	Note	At	
		31 December 2008	31 December 2007
Non-current available-for-sale financial assets		31 213	47 155
– shares in unlisted companies		11 417	23 952
– shares in listed companies		8 525	9 455
– treasury bonds		–	3 076
– share in the AIG investment fund		11 264	10 665
– other		7	7
Total available-for-sale financial assets:	**33.1**	**31 213**	**47 155**

11. Held-to-maturity investments

Held-to-maturity investments	Note	At	
		31 December 2008	31 December 2007
Non-current held-to-maturity investments		59 592	43 934
– debt securities		59 545	43 893
– other securities		47	41
Total held-to-maturity investments:	**33.1**	**59 592**	**43 934**

The Parent Entity 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 Decree 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 Parent Entity 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 invested mainly in short-term deposit of PLN 59 540 thousand.

Information on the fair value of held-to-maturity investments was presented in Note 33.2.

amounts in tables in thousand PLN, unless otherwise stated

12. Derivative financial instruments

Derivative financial instruments	Note	At	
		31 December 2008	31 December 2007
Non-current assets, of which:		**6 501**	**33 395**
hedging instruments		6 501	30 308
trade instruments		–	3 087
Current assets, of which:		**711 127**	**81 622**
hedging instruments		711 096	68 075
trade instruments		31	13 547
Total assets:	**33.1**	**717 628**	**115 017**
Non-current liabilities, of which:		**–**	**3 087**
trade instruments		–	3 087
Current liabilities, of which:		**4 930**	**14 335**
hedging instruments		–	964
trade instruments		4 930	13 371
Total liabilities:	**33.1**	**4 930**	**17 422**

amounts in tables in thousand PLN, unless otherwise stated

Trade derivatives		
	Volume/Notional	Avg. weighted price/ex. rate [1]
Type of financial instrument	Cu ['000 t]Ag ['000 troz] Currency ['000 USD,'000 EUR]	Cu [USD/t]Ag [USD/troz] Currency [USD/PLN][EUR/PLN]
Derivatives – Commodity contracts – Metals – Copper		
Swaps	1.35	4 039.92
Options		
Purchased put options		
Written put options		
Total:		
Derivatives – Currency contracts		
Forwards USD	4 414	2.1965–2.9754
Forwards EUR	2 100	3.5787–4.1850
Total:		
Embedded derivative instruments		
Total trade derivatives		

1 The weighted average hedge contract prices/ exchange rates are aggregate amounts presented for informational purposes only. Their use in financial analysis in certain cases may lead to erroneous results. This relates to hedging levels and to levels of participation in option instruments, in the case of which the simulation of future settlement 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 Parent Entity.

Hedging derivatives				
	Volume/Notional	Avg. weighted price/ ex. rate [1]	Maturity date	
Type of financial instrument	Cu ['000 t]Ag ['000 troz] Currency ['000 USD]	Cu [USD/t]Ag [USD/troz] Currency [USD/PLN]	From	Till
Derivatives – Commodity contracts – Metals – Copper				
Swaps				
Options				
Collar – purchased put options	3	7 300.00	Jan-09	Mar-09
Collar – written call options	3	9 000.00	Jan-09	Mar-09
Purchased put options	60	6 200.00	Jan-09	June-09
Synthetic put				
Total:				
Derivatives – Commodity contracts – Metals – Silver				
Swaps				
Options				
Purchased put options	8 800	12.00	Jan-09	Nov-09
Purchased put options	800	12.00	Dec-09	Dec-09
Collars				
Total:				
Derivatives – Currency contracts – PLN/USD				
Forwards				
Options				
Purchased put options	924 000	2.4334	Jan-09	Dec-09
Total:				
Total hedging derivatives				

1 The weighted average hedge contract prices/ exchange rates are aggregate amounts presented for informational purposes only. Their use in financial analysis in certain cases may lead to erroneous results. This relates to hedging levels and to levels of participation in option instruments, in the case of which the simulation of future settlement 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 Parent Entity.

	At 31 December 2008				At 31 December 2007			
	Financial assets		Financial liabilities		Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
			(3 771)					
					13 369	3 087		
							(13 371)	(3 087)
			(3 771)		**13 369**	**3 087**	**(13 371)**	**(3 087)**
	31		(576)		178			
			(583)					
	31		**(1 159)**		**178**			
	31		**(4 930)**		**13 547**	**3 087**	**(13 371)**	**(3 087)**

	Period of profit/ loss impact		At 31 December 2008				At 31 December 2007			
			Financial assets		Financial liabilities		Financial assets		Financial liabilities	
	From	Till	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
									(964)	
	Feb-09	Apr-09	37 604							
	Feb-09	Apr-09								
	Feb-09	July-09	554 031				63 140	11 951		
			591 635				**63 140**	**11 951**	**(964)**	
	Feb-09	Dec-09	57 135				4 935	18 357		
	Jan-10	Jan-10		6 501						
			57 135	**6 501**			**4 935**	**18 357**		
	Jan-09	Dec-09	62 326							
			62 326							
			711 096	**6 501**			**68 075**	**30 308**	**(964)**	

amounts in tables in thousand PLN, unless otherwise stated

13. Trade and other receivables

Trade and other receivables	Note	At	
		31 December 2008	31 December 2007
Non-current trade and other receivables			
Trade receivables		13 468	11 767
Amount retained (collateral) due to long-term construction contracts		2 063	10 963
Deposits		15 405	15 405
Other financial receivables		3 997	1 692
Impairment allowances	**34.3.6**	(15 453)	(11 013)
Total loans and financial receivables, net:	**33.1**	**19 480**	**28 814**
Other non-financial receivables		171	59
Prepayments		3 123	18 198
Impairment allowances		–	–
Total non-financial receivables, net		**3 294**	**18 257**
Non-current trade and other receivables, net:		**22 774**	**47 071**
Current trade and other receivables			
Trade receivables		767 469	738 067
Receivables due to unsettled derivative instruments	**34.1.8**	287 146	8 877
Loans granted		907	307
Other financial receivables		43 162	45 570
Impairment allowances	**34.3.6**	(49 507)	(48 839)
Total loans and financial receivables, net	**33.1**	**1 049 177**	**743 982**
Other non-financial receivables, including:		462 878	238 501
– taxes and other charge		422 318	201 895
Prepayments		13 944	17 114
Impairment allowances		(56 040)	(74 230)
Total non-financial receivables, net		**420 782**	**181 385**
Current trade and other receivables, net		**1 469 959**	**925 367**
Total non-current and current trade and other receivables, net		**1 492 733**	**972 438**

Receivables 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. Detailes are described in note 34.1.8.

amounts in tables in thousand PLN, unless otherwise stated

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	**74 230**	**31 889**
Impairment allowances recognised in profit or loss	11 915	42 564
Impairment allowances reversed through profit or loss	(5 434)	(129)
Impairment allowances utilised during the period	(24 701)	(96)
Impairment allowances on costs of legal proceedings	34	11
Reversal of impairment allowances on costs of legal proceedings	(4)	(9)
Impairment allowances at the end of the period	**56 040**	**74 230**

14. Inventories

Inventories			
	Note	At	
		31 December 2008	31 December 2007
Materials		201 579	189 292
Semi-finished products and work in progress		1 091 714	1 177 498
Finished products		269 796	335 226
Goods for resale		45 280	42 479
Total carrying amount of inventories		**1 608 369**	**1 744 495**

Write-down of inventories in the financial period	Note	For the period	
		from 1 January 2008 to 31 December 2008	from 1 January 2007to 31 December 2007
Write-down of inventories recognised in cost of sales	**28**	(66 576)	(4 230)
Reversal of write-down recognised in cost of sales	**28**	1 518	1 714

The most significant item in Group inventories were copper inventories of the Parent Entity. At 31 December 2008, 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.

amounts in tables in thousand PLN, unless otherwise stated

15. Cash and cash equivalents

Cash and cash equivalents

	Note	At 31 December 2008	At 31 December 2007
Cash in hand		418	577
Cash at bank		202 613	86 609
Other cash		197	474
Other financial assets with a maturity of up to 3 months from the date of acquisition		1 862 535	2 724 436
Total cash and cash equivalents	**33.1**	**2 065 763**	**2 812 096**

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 1 858 673 thousand (as at 31 December 2007: PLN 2 638 137 thousand), debt securities – there were none (at 31 December 2007: PLN 83 628 thousand) and interest accrued on financial assets in the amount of PLN 3 862 thousand (as at 31 December 2007: PLN 2 671 thousand).

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

16. Share capital

As at 31 December 2008, the Parent Entity'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 Parent Entity 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 Parent Entity with shares representing at least 5% of the share capital and giving right to the same number of votes at the General Shareholders' Meeting was the State Treasury, which based on information dated 16 May 2007 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 share capital and give the same number of votes at the General Shareholders' Meeting.

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

17. Other reserves

Other reserves
At 1 January 2007
Fair value gains on available-for-sale financial assets
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets
Impact of effective cash flow hedging transactions entered into
Amount transferred to profit or loss due to the settlement of hedging instruments
Deferred tax
Total income/(expenses) recognised directly in equity
At 31 December 2007
At 1 December 2008
Fair value gains on available-for-sale financial assets
Impact of effective cash flow hedging transactions
Amount transferred to profit or loss due to the settlement of hedging instruments
Deferred tax
Total income/(expenses) recognised directly in equity
At 31 December 2008

amounts in tables in thousand PLN, unless otherwise stated

Note	Revaluation reserve on available-for-sale financial assets	Revaluation reserve on cash flow hedging financial instruments	Total other reserves
	8 684	**(439 845)**	**(431 161)**
	13 167	–	13 167
	(19 894)	–	(19 894)
34.1.9	–	131 890	131 890
34.1.9	–	435 533	435 533
22	1 082	(117 499)	(116 417)
	(5 645)	**449 924**	**444 279**
	3 039	**10 079**	**13 118**
	3 039	**10 079**	**13 118**
	7 169	–	7 169
34.1.9	–	1 197 853	1 197 853
34.1.9	–	(579 991)	(579 991)
22	(1 236)	(119 457)	(120 693)
	5 933	**498 405**	**504 338**
	8 972	**508 484**	**517 456**

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.

amounts in tables in thousand PLN, unless otherwise stated

Moreover, in the equity item: "Retained earnings", based on the Code of Commercial Companies, joint stock companies in the Group are required to create reserve capital against any eventual future or existing losses, to which no less than 8 percent of a given financial year's profit is to be transferred until the capital has been built up to no less than one-third of the 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, the amount of this statutory reserve capital in the Group is PLN 679 826 thousand, of which PLN 660 000 thousand is in respect of the Parent Entity.

18. Transactions with minority shareholders

In 2008 transactions were carried out with minority shareholders through:

- a change in percentage ownership of the share capital of KGHM Letia S.A. due to an increase in share capital by PLN 7 428 thousand. The share of the Group in the share capital of KGHM Letia S.A. as a result of this transaction decreased by 9.5% in favour of minority shareholders.
- the acquisition by DIALOG S.A. of 75.06% of the shares of Petrotel Sp. z o.o. Minority interest at the acquisition date of 24.94% of the net assets of Petrotel sp. z o.o. was set at PLN 8 213 thousand.

Transactions with minority shareholders

In 2008 transactions were carried out with minority shareholders through:

Type of transaction	For the period from 1 January 2008 to 31 December 2008				
	Cost	Value of net assets as at acquisition date	Goodwill	Gains from disposal	Transactions with minority shareholders
Increase in the share capital of Letia S.A.	4 448	7 428	–	67	2 913
Acquisition of shares of Petrotel Sp. z o.o.	32 877	32 933	8 157	–	8 213
Total	**37 325**	**40 361**	**8 157**	**67**	**11 126**

Transactions with minority shareholders

In 2007 transactions with minority shareholders were as follows:

Type of transaction	For the period from 1 January 2007 to 31 December 2007				
	Cost/ income from disposal	Value of net assets acquired/ (disposed)	Goodwill/(excess of the value of shares acquired over the cost of acquisition)	Loss from disposal/ other operating cost	Transactions with minority shareholders
Liquidation of Energetyka Spółka Specjalnego Przeznaczenia	50	(50)	–	–	–
Acquisition of shares of WM Łabędy S.A.	30 936	30 598	338	–	338
Change of indirect shares in WMN Sp. z o.o.	–	(872)	–	(872)	872
Acquisition of shares of KGHM Metraco S.A.	610	638	(28)	–	(638)
Acquisition of shares of KGHM Letia S.A.	18 990	18 990	–	–	1 010
Adjustment to minority interest capital	–	–	–	(320)	320
Total	**50 586**	**49 304**	**310**	**(1 192)**	**1 902**

amounts in tables in thousand PLN, unless otherwise stated

19. Trade and other payables

Trade and other payables	Note	At	
		31 December 2008	31 December 2007
Non-current trade and other payables			
Trade payables		18 942	9 281
Other financial liabilities		13 063	144
Total non-current financial liabilities (scope of MSSF7)	**33.1**	**32 005**	**9 425**
Deferred income		12 284	15 337
Total non-current non-financial liabilities		**12 284**	**15 337**
Total non-current trade and other payables		**44 289**	**24 762**
Current trade and other payables			
Trade payables		766 585	642 007
Payables due to unsettled derivative financial instruments	34.1.8	35 395	3 304
Other financial liabilities		67 747	44 320
Total current financial liabilities (scope of MSSF7)	**33.1**	**869 727**	**689 631**
Other financial liabilities (IAS 19 – Employee benefits)		156 960	160 266
Total current financial liabilities		**1 026 687**	**849 897**
Liabilities due to taxes and social security		264 678	330 608
Other non-financial liabilities		37 770	79 267
Special funds		74 034	56 212
Deferred income		24 426	7 647
Accruals		329 157	322 775
Total current non-financial liabilities		**730 065**	**796 509**
Total current trade and other payables		**1 756 752**	**1 646 406**
Total non-current and current trade and other payables		**1 801 041**	**1 671 168**

Trade payables are recognised in the balance sheet at amortised cost, using the effective interest rate, with the proviso that current trade payables are not discounted. The carrying amount of current trade payables approximates their fair value.

Accruals consist mainly of one-off remuneration paid after the approval of the annual financial statements in the amount of PLN 250 629 thousand (PLN 257 325 thousand at 31 December 2007) and settlement of unused annual leave in the amount of PLN 23 211 thousand (PLN 25 532 thousand at 31 December 2007).

Liabilities 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.

amounts in tables in thousand PLN, unless otherwise stated

20. Borrowings and finance lease liabilities

Borrowings and finance lease liabilities			
	Note	At	
		31 December 2008	31 December 2007
Non-current borrowings and finance lease liabilities			
Bank loans		63 605	132 440
Loans		8 311	13 781
Finance lease liabilities		26 139	16 688
Total non-current borrowings and finance lease liabilities		**98 055**	**162 909**
Current borrowings and finance lease liabilities			
Bank loans		181 031	101 890
Loans		5 758	7 722
Finance lease liabilities		6 134	3 589
Total current borrowings and finance lease liabilities		**192 923**	**113 201**
Total borrowings and finance lease liabilities	**33.1**	**290 978**	**276 110**

20.1. Borrowings

Bank and other loans as at 31 December 2008								
Bank loan currency	Interest rate	The value of the bank and other loans at balance sheet date (in '000)		Of which payable in:				
		in foreign currency	in PLN	2009 (current)	2010	2011	2012–2013	2014 and beyond
EUR	Variable	2 050	8 553	1 652	1 972	819	1 637	2 473
PLN	Variable		233 188	177 845	12 002	9 337	16 956	17 048
PLN	Fixed		16 964	7 292	6 253	1 941	1 432	46
Total bank and other loans			**258 705**	**186 789**	**20 227**	**12 097**	**20 025**	**19 567**

Bank and other loans as at 31 December 2007								
Bank loan currency	Interest rate	The value of the bank and other loans at balance sheet date (in '000		Of which payable in:				
		in foreign currency	in PLN	2008 (current)	2009	2010	2011–2012	2013 and beyond
EUR	Variable	879	3 149	774	2 146	229	–	–
PLN	Variable		237 842	100 996	107 811	5 976	7 042	16 017
PLN	Fixed		14 842	7 842	4 000	3 000	–	–
Total bank and other loans			**255 833**	**109 612**	**113 957**	**9 205**	**7 042**	**16 017**

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

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

Ratio (%)	At 31 December 2008	At 31 December 2007
WIBOR 1W	5.4600	5.3200
WIBOR 1M	5.6100	5.5200
WIBOR 3M	5.8800	5.6800
EURIBOR 1M	2.6030	4.2900
EURIBOR 3M	2.8920	4.6800

The major item in borrowings is the bank loan drawn by the subsidiary DIALOG S.A. in the amount of PLN 130 652 thousand at 31 December 2008 (PLN 141 081 thousand at 31 December 2007 respectively). The bank loan agreement sets out the additional covenants which must be met by the company over the term of the loan, including the following:

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

Based on the contracts signed, the total value of overdraft facilities at 31 December 2008 amounted to PLN 103 100 thousand (at 31 December 2007 PLN 103 000 thousand and USD 10 000 thousand respectively), of which PLN 28 580 thousand was utilised at 31 December 2008 (at 31 December 2007 PLN 45 888 thousand). Repayment dates for the overdraft facilities used fall a half year after the balance sheet date.

20.2. Finance lease liabilities

As at 31 December 2008, the carrying amount of the finance lease liabilities amounted to PLN 32 273 thousand (at 31 December 2007: PLN 20 277 thousand, respectively).

The most significant item is the commitment resulting from an agreement with the State Treasury. Based on this agreement the State Treasury provides access to geological information for a fee. This information was acquired with the purpose of preparing a licensing application to obtain a license for the extraction of ore from the Głogów Głęboki-Przemysłowy deposit. This license was granted in November 2004. Payments to the State Treasury are being made in 10 equal instalments. The last instalment will be settled on 30 June 2014. Those non interest-bearing liabilities were recognised in the accounts of the Parent Entity at a discounted amount. As the payments are in EUR, the liability is exposed to currency risk due to changes in foreign exchange rates at the date of payment. The carrying amount of the liabilities resulting from this agreement is PLN 16 903 thousand (EUR 4 051 thousand) (at 31 December 2007: PLN 15 909 thousand (EUR 4 441 thousand)), while the carrying amount of the related intangible assets at the balance sheet date amounts to PLN 29 382 thousand (at 31 December 2007: PLN 30 029 thousand).

Finance lease liabilities as at 31 December 2008

	2009 (current)	2010	2011	2012-2013	2014 and beyond	Total
Nominal value of minimum lease payments	**7 177**	**7 014**	**7 476**	**11 803**	**3 088**	**36 558**
Future finance costs due to finance leases	1 043	894	751	1 083	514	4 285
Present value of minimum lease payments	**6 134**	**6 120**	**6 725**	**10 720**	**2 574**	**32 273**

Finance lease liabilities as at 31 December 2007

	2008 (current)	2009	2010	2011–2012	2013 and beyond	Total
Nominal value of minimum lease payments	**3 868**	**3 634**	**3 583**	**6 861**	**5 638**	**23 584**
Future finance costs due to finance leases	279	344	413	1 002	1 269	3 307
Present value of minimum lease payments	**3 589**	**3 290**	**3 170**	**5 859**	**4 369**	**20 277**

amounts in tables in thousand PLN, unless otherwise stated

21. Collateral for the repayment of liabilities

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

- proxy rights to all present and future bank accounts of the borrowers,
- contractual mortgage on properties up to PLN 39 094 thousand,
- maximum mortgages to the total amount of PLN 51 743 thousand,
- assignment of rights under insurance policy on investments up to PLN 78 433 thousand,
- collective mortgage for land of PLN 16 500 thousand,
- blank promissory notes with a declaration of rights thereunder up to PLN 69 359 thousand,
- blank promissory notes up to PLN 15 000 thousand guaranteed by Group companies,
- statement on submitting to the enforcement regime,
- registered pledge on technical equipment and machinery, with assignment of rights under insurance policies on these machines and equipment up to PLN 4 580 thousand,
- assignment of receivables up to PLN 110 109 thousand,
- registered pledge and agreements for ownership transfer on inventories of finished products, semi-finished products, goods for resale and materials up to PLN 24 080 thousand,
- ownership transfer on tangible assets up to PLN 16 906 thousand,
- assignment of rights under property insurance agreement (assignment of rights under insurance policy against fire and other accidents for PLN 15 600 thousand and an insurance policy against theft with breaking, entering and robbery, PLN 150 thousand),
- proxy rights for the Bank to discharge liabilities to the Bank from funds in the current account and other accounts kept by the Bank.

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

At the balance sheet date collateral was established for the following assets to guarantee repayment of liabilities or contingent liabilities:

	At	
	31 December 2008	31 December 2007
Property, plant and equipment, including:	101 191	96 791
– Assets under construction (incl. those under a mortgage)	11 203	35 409
– Buildings and constructions	57 892	29 941
– Motor vehicles [1]	19 689	3 626
– Technical equipment and machinery [1]	12 407	27 815
Inventories	23 594	27 434
Trade receivables [2]	6 440	20 363
Cash and cash equivalents	60 092	15 605
Total carrying amount of assets for which collateral was established to guarantee repayment of financial liabilities	**191 317**	**160 193**

1 incl. those used based on a finance lease

2 incl. those under a pledge or assignment of receivables

amounts in tables in thousand PLN, unless otherwise stated

22. Deferred tax

Deferred tax	Note	At	
		31 December 2008	31 December 2007
Net deferred tax asset at the beginning of the period, of which:		**290 702**	**361 930**
Deferred tax assets at the beginning of the period		320 506	388 468
Deferred tax liabilities at the beginning of the period		29 804	26 538
Change during the year:			
(Charged)/Credited to profit or loss	**36**	(50 156)	45 189
Decrease in equity	**17**	(120 693)	(116 417)
Deferred tax assets at the date of acquisition of shares in a subsidiary		957	–
Net deferred tax asset at the end of the period, of which:		**120 810**	**290 702**
Deferred tax assets at the end of the period		188 992	320 506
Deferred tax liabilities at the end of the period		68 182	29 804

amounts in tables in thousand PLN, unless otherwise stated

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	16 887	(13 092)	–	3 795
Interest	13	219	–	232
Allowances for impairment of receivables	8 681	10 219	–	18 900
Short-term accruals for wages	52 158	5 903	–	58 061
Employee benefits (holidays)	4 813	(463)	–	4 350
Provision for decommissioning of mines and other facilities	87 245	17 385	–	104 630
Measurement of forward transactions	114 318	(52 936)	–	61 382
Re-measurement of hedging instruments	125 863	1 453	(117 499)	9 817
Depreciation and amortisation	64 271	40 323	–	104 594
Liabilities due to future employee benefits	175 437	12 857	–	188 294
Unpaid wages with surcharges	48 489	8 676	–	57 165
Other	100 417	(12 639)	–	87 778
Total	**798 592**	**17 905**	**(117 499)**	**698 998**

	At 1 January 2008 based on the rate of 19%	Increase due to obtaining control of a subsidiary	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	3 795	–	(3 701)	–	94
Interest	232	2	(94)	–	140
Allowances for impairment of receivables	18 900	217	(6 045)	–	13 072
Short-term accruals for wages	58 061	269	(3 737)	–	54 593
Employee benefits (holidays)	4 350	31	334	–	4 715
Provision for decommissioning of mines and other facilities	104 630	–	12 751	–	117 381
Measurement of forward transactions	61 382	–	(23 133)	–	38 249
Re-measurement of hedging instruments	9 817	–	(8 038)	(119)	1 660
Depreciation and amortisation	104 594	8	32 836	–	137 438
Liabilities due to future employee benefits	188 294	342	23 496	–	212 132
Unpaid wages with surcharges	57 165	150	(3 731)	–	53 584
Measurement of available-for-sale financial assets	–	–	–	303	303
Other	87 778	185	(505)	–	87 458
Total	**698 998**	**1 204**	**20 433**	**184**	**720 819**

amounts in tables in thousand PLN, unless otherwise stated

The amount of deductible temporary differences and unused tax losses in respect of which the Group did not recognise deferred tax assets (due to the remote possibility of their being settled in future years) amounts to PLN 176 507 thousand (at 31 December 2007: PLN 34 916 thousand).

Tax losses which may be settled in future periods by reducing taxable profit amount to PLN 161 561 thousand (at 31 December 2007: PLN 2 281 thousand). These losses expire as follows: PLN 2 549 thousand in 2009 (in 2007: PLN 1 124 thousand); PLN 950 thousand in 2011 (in 2007: PLN 768 thousand); PLN 49 649 thousand in 2012 (in 2007: PLN 389 thousand) and PLN 108 413 thousand in 2013.

The Group created deferred tax assets whose realisation depends on the future generation of taxable profit in the amount exceeding gains arising from the reversal of taxable temporary differences in the amount of PLN 13 661 thousand (at 31 December 2007: PLN 7 284 thousand). The recognition of deferred tax assets was based on current, approved financial plans and on the current activities of the Group.

Deferred tax liabilities prior to offsetting

	At 1 January 2007 based on the rate of 19%	(Credited)/Charged to profit or lossdue to a change in the balance of temporary differences	(Increase)/Decrease in equity due to changein the balance of temporary differences	At 31 December 2007 based on the rate of 19%
Exchange rate differences	9 223	(7 537)	–	1 686
Interest	878	2 345	–	3 223
Measurement of forward transactions	46 458	(36 902)	–	9 556
Re-measurement of hedging instruments	901	(867)	–	34
Depreciation/amortisation	221 738	110 441	–	332 179
Measurement of available-for-sale financial assets	1 951	–	(1 082)	869
Other	155 513	(94 764)	–	60 749
Total	**436 662**	**(27 284)**	**(1 082)**	**408 296**

	At 1 January 2008 based on the rate of 19%	Increase due to obtaining control of a subsidiary	(Credited)/Charged to profit or lossdue to a change in the balance of temporary differences	(Increase)/ Decrease in equity due to changein the balance of temporary differences	At 31 December 2008 based on the rate of 19%
Exchange rate differences	1 686	–	(1 366)	–	320
Interest	3 223	2	(1 837)	–	1 388
Measurement of forward transactions	9 556	–	49 942	–	59 498
Re-measurement of hedging instruments	34	–	(34)	119 338	119 338
Depreciation/amortisation	332 179	–	30 549	–	362 728
Measurement of available-for-sale financial assets	869	–	–	1 539	2 408
Other	60 749	245	(6 665)	–	54 329
Total	**408 296**	**247**	**70 589**	**120 877**	**600 009**

amounts in tables in thousand PLN, unless otherwise stated

23. Employee benefits

A general description of the employee benefit plans is included in note 2, Main accounting policies, point 2.2.16.

Change in liabilities due to future employee benefits

	Total liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other liabilities due to future employee benefits
Present value of obligations – at 1 January 2007	**950 200**	**287 515**	**192 277**	**470 138**	**270**
Interest costs	44 191	13 249	8 935	22 007	–
Current service cost	39 976	17 829	12 359	9 788	–
Past service cost	2 888	2 052	836	–	–
Benefits paid	(80 271)	(37 089)	(19 519)	(23 393)	(270)
Actuarial losses	51 302	13 814	8 952	28 536	–
Present value of obligations – at 31 December 2007	**1 008 286**	**297 370**	**203 840**	**507 076**	**–**
Past service cost unrecognised at the balance sheet date	(10 961)	–	(10 961)	–	–
Carrying amount of liabilities – at 31 December 2007	**997 325**	**297 370**	**192 879**	**507 076**	**–**
of which:					
Carrying amount of non-current liabilities	919 923	263 479	173 193	483 251	–
Carrying amount of current liabilities	77 402	33 891	19 686	23 825	–

	Total liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent
Present value of obligations – at 1 January 2008	**1 008 286**	**297 370**	**203 840**	**507 076**
Interest costs	54 919	16 030	11 134	27 755
Current service cost	41 330	18 798	11 928	10 604
Benefits paid	(83 066)	(39 445)	(17 522)	(26 099)
Actuarial (gains)/losses	115 787	4 107	(4 053)	115 733
Gains due to limitation of the employee benefit plans	(6 827)	(4 070)	(2 757)	
Liabilities due to business combination	1 800	1 378	422	
Present value of obligations – at 31 December 2008	**1 132 229**	**294 168**	**202 992**	**635 069**
Past service cost unrecognised at the balance sheet date	(9 275)	–	(9 275)	–
Carrying amount of liabilities – at 31 December 2008	**1 122 954**	**294 168**	**193 717**	**635 069**
of which:				
Carrying amount of non-current liabilities	1 039 423	259 521	174 684	605 218
Carrying amount of current liabilities	83 531	34 647	19 033	29 851

amounts in tables in thousand PLN, unless otherwise stated

Present value of employee benefits	
At	
31 December 2008 roku	1 132 229
31 December 2007 roku	1 008 286
31 December 2006 roku	950 200
31 December 2005 roku	899 148
31 December 2004 roku	785 397

Total costs recognised in the income statement due to future employee benefits		
	For the period	
Total costs recognised in the income statement	**from 1 January 2008 to 31 December 2008**	**from 1 January 2007 to 31 December 2007**
Current service cost	41 330	39 976
Interest costs	54 919	44 191
Actuarial losses	115 787	51 302
Past service cost	1 686	4 574
Gains due to limitation of the employee benefit plans	(6 827)	–
Total	**206 895**	**140 043**

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

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

Main actuarial assumptions:	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%

amounts in tables in thousand PLN, unless otherwise stated

24. Provisions for other liabilities and charges

Provisions for Rother liabilities and changes

	Note	Total	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2007		**571 910**	**459 534**	**5 287**	**22 483**	**84 606**
Provisions recognised		41 926	67	–	1 142	40 717
Changes arising from changes in provisions after updating of estimates		81 383	82 848	–	–	(1 465)
Changes in provisions due to unwinding of discount	**32**	26 303	24 922	226	–	1 155
Utilisation of provisions		(36 484)	(3 840)	(142)	(217)	(32 285)
Release of provisions		(8 097)	(226)	(561)	(3 765)	(3 545)
Transfer to Mine Closure Fund		(12 647)	(12 647)	–	–	–
Other		2 289	–	–	(32)	2 321
Provisions at 31 December 2007		**666 583**	**550 658**	**4 810**	**19 611**	**91 504**
of which:						
Non-current provisions		**570 327**	**527 634**	**4 272**	**–**	**38 421**
Current provisions		**96 256**	**23 024**	**538**	**19 611**	**53 083**

	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		**666 583**	**550 658**	**4 810**	**19 611**	**91 504**
Provisions recognised		23 156	191	1 173	13 476	8 316
Changes arising from changes in provisions after updating of estimates		42 767	39 469	(22)	–	3 320
Changes in provisions due to unwinding of discount	**32**	38 091	37 289	217	–	585
Utilisation of provisions		(46 702)	(9 687)	–	(1 537)	(35 478)
Release of provisions		(22 425)	(230)	(38)	(13 344)	(8 813)
Transfer to Mine Closure Fund		(14 351)	(14 351)	–	–	–
Provisions due to business combination		68	–	68	–	–
Other		(23 984)	–	–	6 783	(30 767)
Provisions at 31 December 2008		**663 203**	**603 339**	**6 208**	**24 989**	**28 667**
of which:						
Non-current provisions		**599 315**	**574 235**	**2 467**	**7 921**	**14 692**
Current provisions		**63 888**	**29 104**	**3 741**	**17 068**	**13 975**

amounts in tables in thousand PLN, unless otherwise stated

The Group recognises provisions for decommissioning costs of mines and other facilities based on principles described in note 2, point 2.2.15.

The most significant item of provisions for other liabilities is the **provision for the costs of future decommissioning (liquidation) of mines and other technological facilities** with the carrying value of PLN 603 339 thousand (as at 31 December 2007: PLN 550 658 thousand), created in accordance with the methodology defined in the International Financial Reporting Standards.

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

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

The largest facility earmarked for decommissioning (restoration), which at the same time accounts for the largest share in the costs of decommissioning of all technological facilities, is the "Żelazny Most" tailings pond, together with the hydro-transportation network and cubage hydro-technical facilities. The "Żelazny Most" tailings pond is a 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 hydrotechnical 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 fertilisation. The above site restoration method is comparable to those used in the EU countries. KGHM CUPRUM Sp. z o.o. CBR, in cooperation with the Natural Science University in Wrocław, are currently conducting research work in respect of this issue. The decommissioning project assumes a 10-year monitoring period for the facility.

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

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

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

It is expected that decommissioning costs will be incurred by the year 2047. The provision was estimated based on the currently used technology for decommissioning of mining facilities and using the current prices and the discount rate as in the model for provisions for future employee benefits (Note 23).

Provisions for disputed issues and court proceedings represent a less significant item of provisions. They are mainly relating to:
- proceedings in a dispute concerning the payment of damages for breach of contract for delivery of equipment and services of PLN 7 795 thousand,
- questioning of the amount of social insurance premiums due to the control by Social Insurance Institution (ZUS) for prior years in the amount of PLN 10 478 thousand (at 31 December 2007: PLN 16 625 thousand),
- asserting copyright in the amount of PLN 2 982 thousand for the use of an invention (at 31 December 2007: 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.

25. Non-current assets held for sale

	At	
	31 December 2008	31 December 2007
Non-current assets held for sale	**29 987**	**184**

At 31 December 2008 non-current assets held for sale represent:
- shares of Polskie Towarzystwo Reasekuracyjne S.A., PLN 20 000 thousand measured at fair value,
- two quartz mines, "Stanisław" and "Taczalin", and a quartz powder and crushed aggregate processing plant, all of whose activities have been discontinued, PLN 6 450 thousand,
- 5 automobiles, PLN 536 thousand,
- a civil aircraft, PLN 2 484 thousand,
- a drill, PLN 517 thousand.

The activity related to assets held for sale was discontinued in 2004, at which time their depreciation was also discontinued. As a result the only costs related to this activity in 2008 were the costs of care and maintenance of this property in the amount of PLN 785 thousand. No significant revenues were earned in this regard.

26. Impairment losses

Impairment losses on property, plant and equipment used in the manufacture of products or in the providing of services were recognised in the income statement as costs of sales. For other property, plant and equipment impairment losses were recognised in administrative expenses. Details on the principles of accounting for impairment losses applied by the Group are described in point 2.2.10 of note 2.

Impairment losses recognised in 2008 relate to property, plant and equipment and intangible assets which will not bring expected economic benefits.

amounts in tables in thousand PLN, unless otherwise stated

Impairment losses by asset class during the financial period from 1 January to 31 December 2008			
	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings and constructions	123 918	14 023	694
Technical equipment and machinery	161 814	–	13 847
Motor vehicles	372	–	43
Other fixed assets	34	–	1
Assets under construction	10 560	166	945
Development cost	–	67	–
Software	90	411	327
Acquired concessions, patents, licenses	392	–	4
Intangible assets not yet available for use	29	–	51
Total	**297 209**	**14 667**	**15 912**

Impairment losses by segment during the financial period from 1 January to 31 December 2008				
	Copper and precious metals, other smelter products	Telecom and IT services	Other	Total consolidated amount
Impairment loss recognised	3 386	293 301	522	297 209
Impairment loss reversed	68	14 592	7	14 667
Impairment loss used	94	15 230	588	15 912

Impairment losses by asset class during the financial period from 1 January to 31 December 2007			
	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings and constructions	203	–	553
Technical equipment and machinery	3 773	3	3 413
Motor vehicles	–	–	96
Other fixed assets	–	–	1
Assets under construction	5 178	2 111	12 440
Development cost	67	–	–
Software	–	–	190
Intangible assets not yet available for use	816	–	–
Total	**10 037**	**2 114**	**16 693**

Impairment losses by segment during the financial period from 1 January to 31 December 2007				
	Copper and precious metals, other smelter products	Telecom and IT services	Other	Total consolidated amount
Impairment loss recognised	3 710	5 207	1 120	10 037
Impairment loss reversed	–	3	2 111	2 114
Impairment loss used	693	2 981	13 019	16 693

amounts in tables in thousand PLN, unless otherwise stated

27. 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	11 231 173	12 162 500
– energy	35 657	34 447
– services	1 006 651	874 285
– mining machinery, transport vehicles for mining and other	34 408	17 179
– goods for resale	239 493	307 818
– wastes and materials	9 785	10 106
– other goods	97 718	87 793
Total	**12 654 885**	**13 494 128**

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	**4 484 811**	**5 662 587**
– copper, precious metals, smelter by-products	3 129 743	4 403 062
– energy	35 657	34 447
– services	948 196	809 403
– mining machinery, transport vehicles for mining and other	31 162	16 118
– goods for resale	236 598	304 107
– wastes and materials	9 785	10 106
– other goods	93 670	85 344
Export	**8 170 074**	**7 831 541**
– copper, precious metals, smelter by-products	8 101 430	7 759 438
– services	58 455	64 882
– mining machinery, transport vehicles for mining and other	3 246	1 061
– goods for resale and materials	2 895	3 711
– other goods	4 048	2 449
Total	**12 654 885**	**13 494 128**

	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

amounts in tables in thousand PLN, unless otherwise stated

28. Costs by type

	Note	For the period from 01.01.08 to 31.12.08	For the period from 01.01.07 to 31.12.07
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 7	681 367	597 546
Employee benefit costs	29	3 080 980	2 938 479
Materials and energy consumption		3 392 670	3 333 469
External services		1 802 192	1 357 858
Taxes and charges		335 860	325 764
Advertising costs and representation expenses		49 967	70 094
Property and personal insurance		14 734	15 135
Research and development costs not capitalised in intangible assets		4 883	4 256
Other costs, of which:		388 948	39 720
Impairment of property, plant and equipment, intangible assets	6, 7	286 620	4 043
Write-down of inventories	14	66 576	4 230
Allowance for impairment of trade receivables	34.3.6	21 320	14 771
Reversal of impairment of property, plant and equipment, intangible assets	6, 7	(14 501)	(3)
Reversal of write-down of inventories	14	(1 518)	(1 714)
Reversal of allowance for impairment of trade receivables	34.3.6	(12 703)	(18 363)
Losses from the disposal of financial instruments	33.3	1 608	1 142
Other operating costs		41 546	35 614
Total costs by type		**9 751 601**	**8 682 321**
Cost of goods for resale and materials sold (+), of which:		128 436	210 469
Allowance for impairment of receivables	34.3.6	1 438	789
Reversal of allowance for impairment of receivables	34.3.6	(505)	(789)
Change in inventories of finished goods and work in progress (+/–)		91 338	(1 448)
Cost of manufacturing products for internal use (–)		(478 127)	(365 200)
Total cost of sales, selling and administrative costs		**9 493 248**	**8 526 142**

29. Employee benefit costs

	For the period from 01.01.08 to 31.12.08	For the period from 01.01.07 to 31.12.07
Remuneration	2 255 442	2 184 308
Costs of social security	701 709	694 399
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits	123 829	59 772
Employee benefit costs	**3 080 980**	**2 938 479**

amounts in tables in thousand PLN, unless otherwise stated

30. Other operating income

	Note	For the period from 01.01.08 to 31.12.08	For the period from 01.01.07 to 31.12.07
Income and gains from financial instruments classified under other operating activities, resulting from:	**33.3**	953 297	1 207 831
– measurement and realisation of derivative instruments		697 428	1 061 917
– gains from the disposal of financial instruments		15 695	26 863
– interest on financial instruments		128 344	118 911
– reversal of impairment losses on available-for-sale financial assets		78	100
– foreign exchange gains		108 697	–
– reversal of allowance for impairment of loans and receivables		3 055	40
Gains from the disposal of investment property		–	16 122
Increase in fair value of investment property		1 566	–
Gains from the disposal of shares in subsidiaries and associates		5 913	–
Gains from the disposal of perpetual usufruct of land		450	391
Gains from the disposal of intangible assets		2 027	–
Other interest		20 455	13 224
Dividends received		303	396
Reversal of impairment losses on assets under construction	**6**	166	2 111
Reversal of allowance for impairment of other non-financial receivables	**13**	5 434	129
Government grants and other donations received		2 520	3 334
Release of unused provisions		27 733	13 215
Surpluses identified in tangible current assets and cash and cash equivalents		7 899	7 965
Penalties and compensation received		15 812	16 236
Excess payments of property tax		–	11 210
Foreign exchange losses – non-financial		(13 631)	–
Other operating income/gains		13 815	13 213
Total other operating income		**1 043 759**	**1 305 377**

amounts in tables in thousand PLN, unless otherwise stated

31. Other operating costs

	Note	For the period from 01.01.08 to 31.12.08	For the period from 01.01.07 to 31.12.07
Costs and losses on financial instruments classified under other operating activities, resulting from:	33.3	903 878	1 557 052
– measurement and realisation of derivative instruments		891 352	1 371 505
– losses from the disposal of financial instruments		2 608	–
– interest on financial liabilities		657	2 046
– foreign exchange losses		–	182 996
– impairment losses on available-for-sale financial assets		45	131
– allowances for impairment of loans and receivables		6 661	374
– losses on measurement of non-current liabilities		2 555	–
Decrease in the fair value of investment property		–	2 336
Losses from the sale of shares in subsidiaries		–	872
Allowances for impairment of other non-financial receivables	13	11 915	42 564
Losses from the disposal of intangible assets		–	1 502
Losses on the sale of property, plant and equipment		21 626	19 996
Impairment losses on assets under construction	6	10 560	5 178
Impairment losses on intangible assets not yet available for use	7	29	816
Interest on overdue non-financial liabilities		1 801	5 699
Donations granted		11 546	9 990
Provisions for liabilities		31 771	62 505
Penalties and compensation paid		4 484	5 325
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events		1 823	2 802
Other operating costs/losses		19 601	29 773
Total other operating costs		**1 019 034**	**1 746 410**

32. Net finance costs

	Note	For the period from 01.01.08 to 31.12.08	For the period from 01.01.07 to 31.12.07
Interest expense:	33.3	16 640	10 481
– on bank and other loans		14 339	9 640
– due to finance leases		2 301	841
Net foreign exchange gains on borrowings	33.3	2 004	(1 327)
Changes in the value of liabilities due to unwinding of discount, due to:		38 588	26 303
– measurement of financial liabilities		497	–
– decommissioning of mines	24	37 289	24 922
– measurement of other provisions	24	802	1 381
Other net finance costs		262	(298)
Total net finance costs		**57 494**	**35 159**

amounts in tables in thousand PLN, unless otherwise stated

33. Financial instruments

33.1. Carrying amount

Classes of financial instruments	Note	Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss
Debt securities				
Shares	**10**	19 942		
Shares and participation units in investment funds	**10**	11 264		
Trade receivables (net)	**13**			
Cash and cash equivalents and deposits up to 3 months	**11, 15**		59 545	
Other financial assets (net)	**10, 11, 13**	7	47	
Derivatives – Currency	**12**			31
Derivatives – Commodity contracts – metals	**12**			
Trade payables	**19**			
Bank and other loans	**20**			
Other financial liabilities	**19, 20**			
Total		**31 213**	**59 592**	**31**

Classes of financial instruments	Note	Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss
Debt securities	**10, 15**	3 076		
Shares	**10**	33 407		
Shares and participation units in investment funds	**10**	10 665		
Trade receivables (net)	**13**			
Cash and cash equivalents and deposits up to 3 months	**11, 15**		43 893	
Other financial assets (net)	**10, 11, 13**	7	41	
Derivatives – Currency	**12**			178
Derivatives – Commodity contracts – metals	**12**			16 456
Trade payables	**19**			
Bank and other loans	**20**			
Other financial liabilities	**19, 20**			
Total		**47 155**	**43 934**	**16 634**

amounts in tables in thousand PLN, unless otherwise stated

At 31 December 2008						
Balance sheet items						
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		
					–
					19 942
					11 264
725 700					**725 700**
2 065 763					**2 125 308**
342 957					**343 011**
	(1 159)			62 326	**61 198**
	(3 771)			655 271	**651 500**
		(785 527)			**(785 527)**
		(258 705)			**(258 705)**
		(116 205)	(32 273)		**(148 478)**
3 134 420	**(4 930)**	**(1 160 437)**	**(32 273)**	**717 597**	**2 745 213**

At 31 December 2007					
Balance sheet items					
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		
83 756					**86 832**
					33 407
					10 665
693 667					**693 667**
2 728 340					**2 772 233**
79 129					**79 177**
					178
	(16 458)			97 419	**97 417**
		(651 288)			**(651 288)**
		(255 833)			**(255 833)**
		(18 158)	(49 887)		**(68 045)**
3 584 892	**(16 458)**	**(925 279)**	**(49 887)**	**97 419**	**2 798 410**

amounts in tables in thousand PLN, unless otherwise stated

33.2. Fair value

Fair value					
		At			
		31 December 2008		31 December 2007	
Classes of financial instruments	Note	Carrying amount	Fair Value	Carrying amount	Fair Value
		33.1		33.1	
Debt securities	10, 15	–	–	86 832	86 832
Shares	10	19 942	19 942	33 407	33 407
Shares and participation units in investment funds	10	11 264	11 264	10 665	10 665
Trade receivables (net)	13	725 700	725 700	693 667	693 667
Cash and cash equivalents and deposits up to 3 months	11, 15	2 125 308	2 125 553	2 772 233	2 772 316
Other financial assets (net)	10, 11, 13	343 011	343 011	79 177	79 177
Derivatives – Currency, of which:	12	61 198	61 198	178	178
Assets		62 357	62 357	178	178
Liabilities		(1 159)	(1 159)	–	–
Derivatives – Commodity contracts (metals), of which:	12	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	19	(785 527)	(785 527)	(651 288)	(651 288)
Bank and other loans	20	(258 705)	(258 705)	(255 833)	(255 833)
Other financial liabilities	19, 20	(148 478)	(148 478)	(68 045)	(68 045)

The methods and assumptions used by the Group for measuring the fair values are presented in notes 2.2.5.4 Fair value, 3 Important estimates.

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

33.3. Items of income, costs, profit and losses recognised in the income statement for the period by categories of financial instruments

Items of income, costs, profit and losses recognised in the income statement for the period by categories of financial instruments	Note
For the period from 1 January 2008 to 31 December 2008	
Interest income/(expense)	30, 31, 32
Exchange gains/(losses)	30, 32
Losses on measurement of non-current financial liabilities	31, 32
Impairment allowances	28, 31
Reversal of impairment allowances	28, 30
Adjustment to sales due to hedging transactions	34
Profit/(losses) from disposal of financial instruments	28, 30, 31
Gains on measurement and realisation of derivative instruments	30
Losses on measurement and realisation of derivative instruments	31
Total net gain/(loss)	

amounts in tables in thousand PLN, unless otherwise stated

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: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total financial instruments
–	891	200	127 253	(14 996)	(2 301)	–	**111 047**
–	–	6	137 107	(28 580)	(1 840)	–	**106 693**
–	–	–	–	(3 052)	–	–	**(3 052)**
–	(45)	–	(31 308)	–	–	–	**(31 353)**
–	78	–	16 263	–	–	–	**16 341**
–	–	–	–	–	–	562 520	**562 520**
–	3 217	294	7 969	–	–	–	**11 480**
697 428	–	–	–	–	–	–	**697 428**
(891 352)	–	–	–	–	–	–	**(891 352)**
(193 924)	**4 141**	**500**	**257 284**	**(46 628)**	**(4 141)**	**562 520**	**579 752**

amounts in tables in thousand PLN, unless otherwise stated

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

For the period od 01.01.07 do 31.12.07	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables
Interest income/(expense)	**30, 31, 32**	–	154	569	118 188
Exchange gains/(losses)	**31, 32**	–	(892)	(3)	(130 964)
Impairment allowances	**28, 31**	–	(131)	–	(15 934)
Reversal of impairment allowances	**28, 30**	–	100	–	19 192
Adjustment to sales due to hedging transactions	**34**	–	–	–	–
Profit/(losses) from disposal of financial instruments	**30**	–	18 802	1 055	5 864
Gains on measurement and realisation of derivative instruments	**30**	1 061 917	–	–	–
Losses on measurement and realisation of derivative instruments	**31**	(1 371 505)	–	–	–
Total net gain/(loss)		**(309 588)**	**18 033**	**1 621**	**(3 654)**

33.4. Transfers not qualified for de-recognition

As at 31 December 2008 the Group does not own financial assets whose transfer does not qualify for derecognition.

33.5. Failure to regulate payments and breach of contractual terms.

At 31 December 2008 DIALOG S.A. failed to adhere to one of the financial terms of a loan contract. In accordance with the contract the company is obligated to maintain a level of equity throughout the life of the loan which is no lower than PLN 900 000 thousand. This level was not met.

DIALOG S.A. repays the loan principal and interest on time. At the date of publication of this report this breach of contractual terms was not corrected, no other term was breached, the loan contract was not renegotiated, and the bank did not request additional collateral.

33.6. Situations concerning financial instruments which did not occur in the Group

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

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

amounts in tables in thousand PLN, unless otherwise stated

Other financial liabilities			
Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total financial instruments
(11 686)	(841)	–	**106 384**
(51 091)	1 281	–	**(181 669)**
–	–	–	**(16 065)**
–	–	–	**19 292**
–	–	(435 533)	**(435 533)**
–	–	–	**25 721**
–	–	–	**1 061 917**
–	–	–	**(1 371 505)**
(62 777)	**440**	**(435 533)**	**(791 458)**

34. Financial risk management

Group companies are exposed to risk in each area of their activities. Understanding those risks and the principles of their management allows the Group to better meet its objectives.

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

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

- Market risk:
  - 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.

34.1. Market risk

34.1.1. Principles of market risk management

The Group has an active approach to managing its market risk exposure. The objectives of market risk management are:

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

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

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

The Parent Entity applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented on derivative instruments market, embracing an increasing share of production and sales revenues as well as an extended time horizon. Consequently, the hedging 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 notionals at a single price level.

The Group continuously monitors metal and currency markets, which are the basis for decisions on implementing strategies on derivative instruments market.

In addition, the Parent Entity applies cash flows hedge accounting to hedge the risk of changes of commodity and currency risk.

34.1.2. Techniques for market risk management

The primary technique for market risk management is the use of strategies on derivative instruments market, as well as natural hedging.

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

It is permitted to use the following types of instruments:

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

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

amounts in tables in thousand PLN, unless otherwise stated

34.1.3. Hedge accounting – Hedge effectiveness requirement according to IAS 39

Only the Parent Entity applies derivative instrument hedge accounting in the Group. Prior to entering a hedge transaction and throughout its life, the Parent Entity confirms and documents whether there exists, between the changes in the fair value of a hedge instrument and the changes in the fair value of the hedged position, a strong negative correlation. Hedge effectiveness is subject to constant evaluation and monitoring.

34.1.4. Measurement of market risk

The Parent Entity 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 Parent Entity to market risk.

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

However, due to the fact that no single risk measure possesses the ability to completely reflect reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting

the decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

34.1.5. 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 Parent Entity 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 Parent Entity 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.

34.1.6. Market risk exposure

34.1.6.1. Commodity risk

The Parent Entity 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 commercial policy of the Parent Entity 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 Parent Entity is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price.

In a situation where a non-standard formula is used to set the sales price, the Parent Entity 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 Parent Entity 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 Parent Entity's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources from the volume of sales.

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 1 January 2008 to 31 December 2008		from 1 January 2007 to 31 December 2007	
	Sales	Purchases	Sales	Purchases
Copper ['000 tonnes]	539	107	527	93
Silver [tonnes]	1 176	6	1 177	30

Sensitivity of the Group's financial instruments to commodity risk at the balance sheet date is presented in note 34.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

34.1.6.2. Currency risk

The Parent Entity 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 Parent Entity however is the PLN. As a result, the Parent Entity 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 Group is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN.

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

Sensitivity of the Group's financial instruments to the currency risk at the balance sheet date is presented in note 34.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

34.1.6.3. Interest rate risk

The Group is exposed to interest rate risk due to:

- changes in the measurement of bank and other loans drawn, bonds purchased and bank deposits for which interest is calculated at fixed rates,
- changes in cash flow related to bank and other loans drawn, bonds purchased and bank deposits for which interest is calculated at variable rates.

As at 31 December 2008 the Group had liabilities amounting to PLN 258 705 thousand due to bank and other loans (as at 31 December 2007: PLN 255 833 thousand) based on variable and fixed interest rates.

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

34.1.7. Hedging exposure to market risk in the Parent Entity

In 2008 copper price hedging strategies represented approx. 35% (in 2007: 25%) of the sales of this metal realised by the Parent Entity. 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 Parent Entity.

In 2008 the Parent Entity 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 Parent Entity made use of options. In addition, during this period the Parent Entity 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.

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 Parent Entity 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 Parent Entity made use of options. During the analysed period there were no adjustment hedge transactions implemented on the currency market.

The Parent Entity 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 Parent Entity holds a hedged position in 2009 of USD 924 million.

34.1.8. Impact of derivatives on the Group's balance sheet

As at 31 December 2008, the fair value of open positions in derivative instruments amounted to PLN 712 698 thousand, of which PLN 717 628 thousand relate to financial assets and PLN 4 930 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 these instruments is as follows:

- PLN 287 146 thousand presented as receivables due to unsettled derivative instruments (Note 13),
- PLN 35 395 thousand presented as liabilities due to unsettled derivative instruments (Note 19).

Other information concerning derivatives is presented in Note 12 Derivative financial instruments and in Note 33.2 Fair value

34.1.9. Impact of derivatives on the Group's profit or loss and equity

In 2008, the result on derivative instruments amounted to PLN 367 596 thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from equity to profit or loss in the financial period amounted to PLN 579 991 thousand. Other operating costs arising from the measurement of derivative instruments amounted to PLN 113 733 thousand and from the realisation of derivative instruments, PLN 81 191 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, the change in the time value of options is not recognised in the revaluation reserve.

The impact of derivative instruments on profit or loss is presented below:

	For the period	
	from 01.01.08 to 31.12.08	from 01.01.07 to 31.12.07
Impact on sales	**562 520**	**(435 533)**
Impact on other operating costs, of which:	**(194 924)**	**(309 588)**
Losses from realisation of derivative instruments	(81 191)	(43 792)
Losses from measurement of derivative instruments	(113 733)	(265 796)
Total impact of derivative instruments on profit or loss:	**367 596**	**(745 121)**

The value of adjustment to the other operating cost of the Parent Entity 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).

The Parent Entity accounts for cash flow hedging instruments according to the principles presented in note 2.2.5.7 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 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**

Gains or (losses) on hedging instruments in cash flow hedges recognised directly in equity	For the period	
	from 01.01.08 to 31.12.08	from 01.01.07 to 31.12.07
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 income statement during 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**

amounts in tables in thousand PLN, unless otherwise stated

34.1.10. Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk

The Group identifies the following major market risks to which it is exposed:

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

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

For sensitivity analysis of commodity risk factors (copper and silver) the mean reverting Schwartz model (the geometrical Ornstein-Uhlenbeck process) is used, while the Black-Scholes model (the geometrical 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 Group was exposed at the balance sheet date, showing what the impact would be on the profit for the period and equity of potential changes in specific risk factors divided by classes of financial assets and financial liabilities.

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

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)	296 667	82 780	12 340
Cash and cash equivalents and deposits up to 3 months	542 002	159 108	16 958
Other financial assets (net)	308 495	103 666	349
Derivatives – Currency	61 198	lack of data	lack of data
Derivatives – Commodity contracts – Metals	651 500	219 968	–
Trade payables	(97 295)	(14 040)	(13 352)
Bank and other loans	(8 553)	–	(2 050)
Other financial liabilities	(43 098)	(2 818)	(8 329)

Sensitivity analysis as at 31 December 2008

Financial assets and liabilities		31.12.2008	Currency risk			
			USD/PLN			
	Value at risk	Carrying amount	3.96		2.11	
			+34%		–29%	
	['000 PLN]	['000 PLN]	P&L	Equity	P&L	Equity
Shares and participation units in investment funds	11 264	11 264	3 084		(2 637)	
Trade receivables (net)	296 667	725 700	67 132		(57 410)	
Cash and cash equivalents and deposits up to 3 months	542 002	2 125 308	129 032		(110 345)	
Other financial assets (net)	308 495	343 011	84 070		(71 895)	
Derivatives – Currency	61 198	61 198	(48 662)	–	23 847	216 981
Derivatives – Commodity contracts – Metals	651 500	651 500	6 297	171 887	(5 385)	(146 993)
Trade payables	(97 295)	(785 527)	(11 387)		9 737	
Bank and other loans	(8 553)	(258 705)				
Other financial liabilities	(43 098)	(148 478)	(2 285)		1 954	
Impact on income statement			**227 281**		**(212 134)**	
Impact on equity				**171 887**		**69 988**

Sensitivity analysis as at 31 December 2007

Financial assets and liabilities		31.12.2007	Currency risk			
			USD/PLN			
	Value at risk	Carrying amount	2.91		2.06	
			+19%		–15%	
	['000 PLN]	['000 PLN]	P&L	Equity	P&L	Equity
Shares and participation units in investment funds	10 665	10 665	1 680		(1 327)	
Trade receivables (net)	246 715	693 667	21 601		(17 063)	
Cash and cash equivalents and deposits up to 3 months	1 183 443	2 772 233	68 735		(54 294)	
Other financial assets (net)	10 840	79 177	1 417		(1 119)	
Derivatives – Currency	178	178				
Derivatives – Commodity contracts – Metals	97 417	97 417	15 499	(152)	(12 243)	120
Trade payables	(29 600)	(651 288)	(2 271)		1 794	
Bank and other loans	(3 149)	(255 833)				
Other financial liabilities	(22 412)	(68 045)	(815)		644	
Impact on income statement			**105 846**		**(83 608)**	
Impact on equity				**(152)**		**120**

amounts in tables in thousand PLN, unless otherwise stated

	Currency risk				Commodity risk							
	EUR/PLN				Copper prices [USD/t]				Silver prices [USD/troz]			
	5.09		3.35		5 298		1 685		19.54		6.00	
	+22%		–20%		+83%		–42%		+81%		–44%	
	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
	9 147		(8 244)									
	12 570		(11 330)									
	259		(233)									
	(1 706)		1 254									
					56 489	(380 994)	(3 346)	195 213	(17 984)	(27 547)	(23 836)	110 461
	(9 897)		8 920									
	(1 520)		(1 370)									
	(6 174)		5 565									
	2 679		**(2 698)**		**56 489**		**(3 346)**		**(17 984)**		**(23 836)**	
						(380 994)		**195 213**		**(27 547)**		**110 461**

	Currency risk				Commodity risk							
	EUR/PLN				Copper prices [USD/t]				Silver prices [USD/troz]			
	3.96		3.31		9 376		3 748		18.57		8.54	
	+11%		–8%		+41%		–44%		+26%		–42%	
	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
	9 363		(6 823)									
	63 831		(46 513)									
	158		(115)									
	15		(11)									
					(55 188)	7 331	(66 735)	567 002	(12 789)	–	(11 055)	128 457
	(1 298)		945									
	(269)		196									
	(1 473)		1 073									
	70 327		**(51 248)**		**(55 188)**		**(66 735)**		**(12 789)**		**(11 055)**	
						7 331		**567 002**		**–**		**128 457**

amounts in tables in thousand PLN, unless otherwise stated

34.2. Liquidity risk and capital management

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

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

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

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

Financial liabilities arising from derivatives are their intrinsic values, excluding the effects of discounting.

In 2008 the Group had overdraft facilities in the amount of PLN 103 100 thousand. At the end of December 2008 unused overdraft facilities amounted to PLN 74 520 thousand.

In 2007 the Group had overdraft facilities in the amount of PLN 103 000 thousand and USD 10 000 thousand. At the end of 2007 unused overdraft facilities amounted to PLN 57 112 thousand and USD 10 000 thousand.

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

Contractual maturities for financial liabilities as at 31 December 2008

Financial liabilities	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		
Trade payables	763 482	3 106	17 650	1 014	518	**785 770**	**785 527**
Loans, including bank loans	62 561	131 796	35 705	23 254	22 993	**276 309**	**258 705**
Derivatives – Currency	529	630	–	–	–	**1 159**	**1 159**
Derivatives – Commodity contracts – Metals	–	3 771	–	–	–	**3 771**	**3 771**
Other financial liabilities	87 273	23 033	18 155	14 685	10 915	**154 061**	**148 478**
Total financial liabilities by maturity	**913 845**	**162 336**	**71 510**	**38 953**	**34 426**	**1 221 070**	

Contractual maturities for financial liabilities as at 31 December 2007

Financial liabilities	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		
Trade payables	641 814	198	7 814	981	883	**651 690**	**651 288**
Loans, including bank loans	75 067	45 061	130 433	8 136	21 421	**280 118**	**255 833**
Derivatives – Commodity contracts – Metals	–	964	–	–	–	**964**	**17 422**
Other financial liabilities	46 855	4 419	6 845	6 971	5 632	**70 722**	**68 045**
Total financial liabilities by maturity	**763 736**	**50 642**	**145 092**	**16 088**	**27 936**	**1 003 494**	

amounts in tables in thousand PLN, unless otherwise stated

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

The ratio of *Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities to EBITDA (operating profit plus depreciation/amortisation).

In order to maintain financial liquidity and the capacity to acquire external financing at a reasonable cost, the Group assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Debt/EBITDA* at a level of up to 2.0.

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

	At	
	31 December 2008	31 December 2007
Equity	10 981 715	9 501 609
Less: intangible assets	151 572	119 231
Net tangible assets	10 830 143	9 382 378
Total assets	14 968 373	13 503 398
Equity ratio	**0.72**	**0.69**
Operating profit	3 184 172	4 526 953
Plus: depreciation/amortisation	681 367	597 546
EBITDA	3 865 539	5 124 499
Borrowings and finance lease liabilities	290 978	276 110
Ratio of Debt/EBITDA	**0.075**	**0.054**

Due to the low level of financial debt of the Group as at 31 December 2008, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.075.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.72 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 15%.

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

34.3. Credit risk

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

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

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

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

34.3.1. Credit risk related to cash and cash equivalents and 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 for the most part with the highest credit ratings[1], appropriate level of equity and strong, stable market position. The maximum exposure of the Group to a single bank in respect of cash and cash equivalents amounts to 20% as at 31 December 2008.

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

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.

amounts in tables in thousand PLN, unless otherwise stated

34.3.2. Credit risk related to derivative instruments

All entities with which derivative transactions are entered into operate in the financial sector. These are financial institutions (mainly banks), with the highest[1] (27.8%), medium-high[2] (55.6%) or medium[3] (16.7%) credit ratings. They have appropriate level of equity and strong and stable market position. The maximum exposure of the Group to a single entity in respect of derivative instruments amounts to 17.9%.

Fair value of derivative instruments hedging metal prices and exchange rates entered into by the Group at 31 December 2008 amounted to [4]:

PLN 964 449 thousand	(positive balance on the measurement of hedging transactions), of which:
PLN 40 325 thousand	represent financial liabilities,
PLN 1 004 774 thousand	represent financial assets.

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

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

34.3.3. Credit risk related to trade and other financial receivables

Companies of the Group have been cooperating for many years with a number of geographically diversified clients. The vast majority of sales goes to EU countries, including Poland.

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

The Parent Entity makes the majority of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom 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 Parent Entity has secured the majority of its receivables by promissory notes[5], frozen funds on bank accounts, registered pledge[6], 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 certain[7].

The total value of the Group's trade receivables as at 31 December 2008, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 704 295 thousand (at 31 December 2007: PLN 693 667 thousand).

The concentration of credit risk in the Parent Entity results from the fact that key clients are allowed extended terms of payment. Consequently, at 31 December 2008 the balance of receivables from 7 of the Group's largest clients, calculated as a percentage of trade receivables at the balance sheet date, represents 55% of the balance of trade receivables (at 31 December 2007: 51%). Despite this concentration of receivables from key clients (most of whom operate in the European Union), the Parent Entity believes that, given the available historical data as well as long-lasting history of cooperation, the level of credit risk is low.

The following Group companies have significant trade receivables: DIALOG S.A. PLN 78 694 thousand, KGHM Polish Copper Ltd. PLN 53 015 thousand, KGHM Metraco S.A. PLN 27 740 thousand, PeBeKa S.A. PLN 16 466 thousand, KGHM Ecoren S.A. PLN 11 101 thousand, Walcownia Metali Nieżelaznych spółka z o.o. PLN 10 723 thousand, PHP "MERCUS" sp. z o.o. PLN 11 104 thousand.

	At					
	31 December 2008 roku			31 December 2007 roku		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Trade receivables from sales of copper and silver	55.11%	32.84%	12.05%	55.6%	30.4%	14.0%

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 Group's balance sheet under other financial receivables (Note 13) and other financial payables (Note 19).

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

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

7 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.

amounts in tables in thousand PLN, unless otherwise stated

These Group companies operate in various economic sectors, such as transport, construction, trade, industrial production and telecom services, and consequently there is no concentration of credit risk in any sector. The companies of the Group, with the exception of the Parent Entity, do not enter into framework agreements of a net settlement in order to reduce exposure to credit risk, although in situations where the given entity recognises both receivables and liabilities with the same client, in practice net settlement is applied, as long as both parties accept such settlement. Due to the extensive volatility in the level of net settlement on particular balance sheet days, it is difficult in practice to determine a representative amount of such compensation.

The KGHM Polska Miedź S.A. Group believes that the maximum amount of exposure of the Group to credit risk at the balance sheet date approximates the amount of the balance of trade receivables, without taking into account the fair value of any collateral. Nevertheless, the real risk that there will be no cash inflow to the Group due to trade receivables is low.

34.3.4. Credit risk related to loans granted

In accordance with data presented in note 13, Trade and other receivables, the balance of loans granted by Group companies does not exceed 0.09% of total loans and financial receivables at 31 December 2008 (at 31 December 2007: 0.04%) and is the maximum level of losses to which the Group is exposed should a borrower fail to execute his liabilities (without taking into account the fair value of any collateral). Due to the fact that the financial condition and financial results of Group entities are continuously monitored, the Group believes that the level of credit risk is insignificant.

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

The Group 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 Group has also purchased participation units in money market investment funds.

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

34.3.6. 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	**97 849**	90 212	5 847	368	326	1 096
Other financial receivables	**847**	526	283	34	1	3

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	**41 818**	38 045	2 949	481	46	297
Other financial receivables	**231**	132	70	21	3	5

The Group analyses receivables primarily on an individual basis in terms of the indication and recognition of impairment allowance. Significant indicators are described in note 2.2.5.5.

amounts in tables in thousand PLN, unless otherwise stated

Changes in allowances for impairment of financial assets by asset classes are presented in the table below:

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

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
Impairment allowance at the beginning of the period	**56 167**	**67 322**
Increase due to obtaining control of a subsidiary	1 498	–
Impairment allowance recognised in profit or loss	22 992	15 498
Impairment allowance reversed through profit or loss	(16 124)	(18 663)
Impairment allowance on foreign exchange differences	2 381	333
Impairment allowance utilised during the period	(11 164)	(8 320)
Impairment allowance on costs of legal proceedings	(493)	(3)
Decrease due to loss of control of a subsidiary	(20)	–
Impairment allowance at the end of the period	**55 237**	**56 167**

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

	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	**3 685**	**3 899**
Impairment allowance recognised in profit or loss	6 427	436
Impairment allowance reversed through profit or loss	(139)	(529)
Impairment allowance on foreign exchange differences	–	(3)
Impairment allowance utilised during the period	(338)	(132)
Impairment allowance on costs of legal proceedings	88	14
Impairment allowance at the end of the period	**9 723**	**3 685**

c) debt securities (category: available-for-sale financial assets)

	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	**549**	**518**
Impairment allowance recognised in profit or loss	45	131
Impairment allowance reversed through profit or loss	(78)	(100)
Impairment allowance utilised during the period	(268)	–
Impairment allowance at the end of the period	**248**	**549**

amounts in tables in thousand PLN, unless otherwise stated

35. Share of profits/losses of associates accounted for using the equity method

	For the period	
	from 01.01.08 to 31.12.08	from 01.01.07 to 31.12.07
Share of profits of associates	267 579	265 093
Total	**267 579**	**265 093**

36. Income tax

Income tax			
	Note	**For the period**	
		from 01.01.08 to 31.12.08	**from 01.01.07 to 31.12.07**
Current income tax		594 766	859 303
Deferred income tax	**22**	50 156	(45 189)
Adjustments to current income tax from prior periods		(14 341)	7 257
Total		**630 581**	**821 371**

The tax on the Group's profit before tax differs in the following manner from the theoretical amount that would arise if the theoretical tax rate was applied, as a sum of profits before tax, multiplied by the income tax rate of the home country of each company and then divided by profit before tax.

	For the period	
	from 01.01.08 to 31.12.08	from 01.01.07 to 31.12.07
Profit before tax	**3 396 447**	**4 756 887**
Tax calculated using the domestic rates applicable to incomes in individual countries is 19.04% (2007: 19.08%)	646 540	907 670
Non-taxable income	(119 410)	(199 196)
Expenses not deductible for tax purposes	84 885	162 028
Utilisation of previously-unrecognised tax losses	(2 236)	(55 874)
Tax losses on which deferred tax assets were not recognised	33 171	349
Deductible temporary differences on which deferred tax assets were not recognised	1 972	(863)
Adjustments to current income tax from prior periods	(14 341)	7 257
Income tax expense the average income tax rate applied was 18.57% (2007: 17.27%)	**630 581**	**821 371**

amounts in tables in thousand PLN, unless otherwise stated

37. 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 attributable to shareholders of the Parent Entity	2 766 179	3 934 559
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	13.83	19.67

There are no dilutive potential ordinary shares.

38. 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 Parent Entity 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 Parent Entity shares are ordinary shares.

39. Notes to the cash flow statement

Adjustments to profit for the period	For the period	
	from 01.01.08 to 31.12.08	from 01.01.07 to 31.12.07
Income tax from the income statement	630 581	821 371
Depreciation/amortisation	681 367	597 546
Losses on sales of property, plant and equipment and intangible assets	19 599	21 498
Gains on sales of available-for-sale financial assets and held-for-maturity investments	(3 510)	(19 857)
Gains/(losses) on disposal of shares in subsidiaries and associates	(5 913)	872
Gains on sales and change in the fair value of investment property	(1 566)	(13 786)
Impairment losses on property, plant and equipment, intangible assets available-for-sale financial assets and loans	285 633	8 261
Share of profits of associates accounted for using the equity method	(267 579)	(265 093)
Interest and share in profits (dividends)	15 672	9 674
Foreign exchange (gains)/losses	(16 585)	41 858
Change in provisions	84 399	89 595
Change in derivative instruments	2 759	139 716
Other adjustments	203	(5 121)
Changes in working capital:	(378 988)	246 889
Inventories	136 028	24 268
Trade and other receivables	(531 608)	459 269
Trade and other payables	16 592	(236 648)
Adjustments to profit for the period:	**1 046 072**	**1 673 423**

Proceeds from sales of property, plant and equipment and intangible assets	For the period	
	from 01.01.08 to 31.12.08	from 01.01.07 to 31.12.07
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	38 443	42 183
Losses on sales of property, plant and equipment and intangible assets	(19 599)	(21 498)
Change in receivables due to sales	369	(646)
Capitalised gains from the disposal of property, plant and equipment and intangible assets	(1 633)	(38)
Proceeds from sales of property, plant and equipment and intangible assets	**17 580**	**20 001**

amounts in tables in thousand PLN, unless otherwise stated

40. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A. and is presumed to be the parent entity of the Company, the State Treasury Companies (see the list of Companies at 30 June 2008) meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

Sales to related entities	For the period from 1 January 2008 to 31 December 2008		
	Sales of products	Sales of goods for resale and materials	Other transactions
– to associates	3 134	138	8 560
– to other related entities*	56 826	44 181	596
Total sales to related entities	**59 960**	**44 319**	**9 156**

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.

* State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group earned revenues (5 largest items) during the period from 1 January to 31 December 2008:

1. Zakłady Chemiczne "POLICE" S.A.	26 443
2. Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej w Legnicy S.A.	25 713
3. Fabryka Przewodów Energetycznych S.A.	13 577
4. CENTROZŁOM WROCŁAW S.A.	11 906
5. Zakłady Górniczo-Hutnicze "BOLESŁAW" S.A.	7 619

Sales to the above-mentioned entities represent around 85% of sales to the State Treasury subsidiaries. The remaining 15% represent revenues earned from 101 entities – the remaining clients of the Group related to the State Treasury.

Sales to related entities	For the period from 1 January 2007 to 31 December 2007		
	Sales of products	Sales of goods for resale and materials	Other transactions
– to associates	2 514	217	18
– to key management and supervisory personnel	25	–	–
– to other related entities	54 879	20 412	1 657
Total sales to related entities	**57 418**	**20 629**	**1 675**

amounts in tables in thousand PLN, unless otherwise stated

Purchases from related entities	For the period from 1 January 2008 to 31 December 2008 Purchase of services	Purchase of goods for resale and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
– from associates	34 963	10 541	26	–
– from other related entities*	634 579	99 943	12 432	1 808
Total purchases from related entities	**669 542**	**110 484**	**12 458**	**1 808**

* State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group made purchases (5 largest items) during the period from 1 January to 31 December 2008:

1. EnergiaPro S.A.	554 595
2. Polskie Górnictwo Naftowe i Gazownictwo S.A.	93 449
3. NITROERG S.A.	38 263
4. "Stomil-Poznań" S.A.	12 481
5. PPUP Poczta Polska	8 664

Purchases from the above-mentioned entities represent around 96% of purchases from the State Treasury subsidiaries. The remaining 4% represent purchases from 95 entities - the remaining clients of the Group related to the State Treasury.

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 associates	38 738	15 592	6	–
– from other related entities	565 562	73 112	9 417	1 193
Total purchases from related entities	**604 300**	**88 704**	**9 423**	**1 193**

amounts in tables in thousand PLN, unless otherwise stated

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

amounts in tables in thousand PLN, unless otherwise stated

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**	**58**	**1 279**

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 Czyczerski	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**

amounts in tables in thousand PLN, unless otherwise stated

Trade receivables from related entities	At 31 December 2008	At 31 December 2007
– from associates	739	505
– from other related entities *	13 476	16 538
Total receivables from related entities	**14 215**	**17 043**

* State Treasury subsidiaries from whom the KGHM Polska Miedź S.A. Group at 31 December 2008 had receivables balance due to sales (5 largest items):

1. Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej w Legnicy S.A.	4 029
2. Zakłady Chemiczne "POLICE" S.A.	2 413
3. Zakłady Górniczo-Hutnicze "BOLESŁAW" S.A.	652
4. CENTROZŁOM WROCŁAW S.A.	508
5. Huta "Będzin" S.A.	329

Receivables from the above-mentioned entities represent around 88% of receivables from sales to the State Treasury subsidiaries. The remaining 12% represent receivables from sales earned from 86 entities - the remaining clients of the Group related to the State Treasury.

The amount of the allowance for impairment of receivables from related entities at the balance sheet date and the amount of the allowance concerning related entities taken to profit or loss during the period is insignificant from the point of view of the consolidated financial statements.

Trade payables towards related entities	At 31 December 2008	At 31 December 2007
– towards associates	2 176	10 463
– towards other related entities *	70 430	68 393
Total liabilities towards related entities	**72 606**	**78 856**

* State Treasury subsidiaries towards which the KGHM Polska Miedź S.A. Group at 31 December 2008 recognised trade payables (5 largest items):

1. EnergiaPro S.A.	57 114
2. NITROERG S.A.	3 903
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	3 097
4. "Stomil-Poznań" S.A.	789
5. PUPP Poczta Polska	673

Liabilities towards the above-mentioned entities represent around 96% of liabilities due to purchases from the State Treasury subsidiaries. The remaining 4% represent liabilities towards 49 entities - the remaining clients of the Group related to the State Treasury.

In addition, entities of the KGHM Polska Miedź S.A Group make with the State Treasury settlements in respect of various types of taxes and charges. These transactions have been described in other notes of the financial statements.

	At 31 December 2008	At 31 December 2007
Guarantees received:	**–**	**4**
– from other related entities	–	4
Guarantees granted to:	**12**	**270**
– other related entities	12	270

amounts in tables in thousand PLN, unless otherwise stated

41. Remuneration of the entity entitled to audit financial statements

	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.	**2 989**	**2 533**
Due to contract for the review and audit of financial statements, of which:	2 153	2 111
– audit of annual financial statements	1 631	1 588
– review of financial statements	522	523
Due to other contracts	836	422
Other companies of the Ernst & Young Group in Poland	**1 882**	**803**
of which due to tax consultancy	1 399	803

42. Off-balance sheet liabilities due to operating leases

Entities of the Group have entered into operating leases agreements related to the rental of office space, space serving radio and cable networks, mining machinery, vehicles and medical and IT equipment.

	At	
Total value of future minimum payments	**31 December 2008**	**31 December 2007**
Up to one year	17 550	17 056
From one to five years	32 834	34 891
Over five years	9 462	16 213
Total:	**59 846**	**68 160**

	For the period	
Lease payments recognised in profit or loss	**from 1 January 2008 to 31 December 2008**	**from 1 January 2007 to 31 December 2007**
Value of minimum lease payments	36 380	27 133

amounts in tables in thousand PLN, unless otherwise stated

43. Contingent items and other off-balance sheet items

	At	
	31 December 2008	31 December 2007
Contingent receivables	**54 408**	**158 816**
– contested State Budget issues	32 875	146 054
– guarantees received	21 533	12 762
Off-balance sheet receivables – inventions, implementation of projects	**25 195**	**25 195**
Contingent liabilities	**68 068**	**708 660**
– guarantees granted	**15 390**	30 002
– promissory note liabilities	**18 094**	15 501
– disputed issues, pending court proceedings	**14 185**	7 533
– contingent penalties	**1 627**	3 893
– preventive measures in respect of mine-related damages	**8 000**	10 000
– agreement on the acceptance of the offer and conditional transfer of shares in Petrotel sp. z o.o.	**10 772**	–
– agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A.*	–	641 731
Off-balance sheet liabilities – disputed issues due to implementation of projects and inventions	**86 583**	**55 588**

The value of contingent assets was determined based on estimates.

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

Potential liabilities due to offsetting of general service costs

Since 8 May 2006 Telekomunikacja Polska S.A. has been designated by the President of the Electronic Communications Office ('UKE') to provide the universal service throughout the country (49 numeral zones). The range of the universal services provided comprises:

1) connecting individual network outlets at the main location of the subscriber, excluding integrated services digital networks (ISDN);
2) maintaining the subscriber connection with the network outlet, as described in point 1), in readiness to provide telecommunications services;
3) domestic and international telephone calls, including mobile networks connections, additionally assurring fax and data transmissions and connections to the Internet;
4) providing information on telephone numbers and providing subscriber lists;
5) providing assistance to the handicapped;
6) providing telephone services through the use of the public equipment.

In accordance with art. 95 of the Telecommunications Act, designated companies are entitled to reimbursement of the costs of providing the universal service should they be unprofitable. The President of the UKE will set the amount of this reimbursement at the level of the net cost of providing services included in the universal service, and including only those costs which a given company would not incur if it had not been required to provide the universal service. The net amount of this cost is calculated in the manner set out in the decree of the Minister of Transportation and Construction dated 15 December 2005 regarding the manner of calculating the net cost of services included in the universal telecommunication service (Journal of Laws from 2005, No. 255, item 2141).

Telecommunication companies whose revenues from telecommunications activities exceed PLN 4 million in the calendar year for which reimbursement is due are required to participate in covering the reimbursement of costs for providing the universal service. The amount of reimbursement which a given company is required to cover can not exceed 1% of its revenues. The share of individual companies in covering this reimbursement is determined by the President of the UKE, once the amount of the reimbursement due to a designated company is determined.

As at the date of preparation of these consolidated financial statements, neither the final amount of the above-mentioned reimbursement nor the share in it of individual telecommunications companies has been determined by the UKE. The effects of claims in this regard are accounted for in the consolidated financial statements based on probability estimates carried out by the management boards of the associate Polkomtel S.A. and the subsidiary Telefonia Dialog S.A. as telecommunication companies.

Contested State Budget issues

Legal regulations related to VAT and corporate income tax for 2008 have not been significantly changed as compared to the prior year, these changes may have resulted in significant changes in the Parent Entity's tax policy.

amounts in tables in thousand PLN, unless otherwise stated

Despite some stabilisation of court and administrative tax judgments, tax interpretations issued by the tax office – through implemented duty of issuing individual interpretations regarding tax law problems by the Ministry of Finance, there are still areas of uncertainty and disputes. Issues regarding qualification of expenses deductible for tax purposes and determination of tax base are and still may have caused the tax risk for entities pursuing economic activity.

Tax bodies, operating within their assigned spheres of competence, are authorised to conduct controls and to examine records relating to business transactions accounted for in financial accounts within a period of 5 years from the end of the fiscal year for which a tax return was made and a financial result was calculated. 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 Parent Entity, there are no existing circumstances which would indicate the possibility of the arising of significant tax liabilities.

Contingent receivables due to contested State Budget issues regarding income taxes and VAT amounted at the balance sheet date to PLN 9 216 thousand, of which:

	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, 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 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 Parent Entity is not in the category of public entities.

Therefore the Parent Entity 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 Parent Entity 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 Parent Entity continually regulates its liabilities respecting property tax due to decisions issued by tax bodies.

In companies of the Group, appeal proceedings were continued respecting controls carried out in prior years.

POL-MIEDŹ TRANS Sp. z o.o.

In 2007 the Legnica Branch of the Tax Office in Wrocław conducted a tax audit in the subsidiary POL-MIEDŹ TRANS Sp. z o.o. regarding the payment of taxes in 2004. These proceedings concluded with the issuance of two decisions on the levying of additional excise tax in the total amount of PLN 7 721 thousand.

The main complaints involve the acceptance of declarations from customers regarding the use of heating oil containing fictional personal data, and sales of heating oil in wholesale amounts, suggesting they were to be used for commercial purposes.

On 20 December 2007 the company submitted an appeal of these decisions to the Customs Office in Wrocław. The Director of the Customs Office in Wrocław overturned the decision of a body of the first instance, and ordered the matter to be re-heard. On 30 December 2008 the Tax Control Office, as the result of a further review, maintained its previous decisions and set a 14-day deadline for submitting an appeal.

Due to contested State budget issues, contingent receivables in the subsidiary POL-MIEDŹ TRANS Sp. z o.o. amount to PLN 23 658 thousand, of which:

	PLN '000
– Excise tax	22 579
– Fee for the right of perpetual usufruct	1 079

DIALOG S.A.

DIALOG S.A. is acting as a plaintiff in a variety of proceedings involving prior years, whose subject is the exclusion from the taxable base of the property tax of telecom lines, which in the opinion of the company are not objects which are subject to this tax. At 31 December 2008 the total value of the dispute is PLN 1 711 thousand.

44. Employment structure

Average employment in the Group was as follows:

	For the period	
	from 1 January 2008 to 31 December 2008	from 1 January 2007 to 31 December 2007
White-collar workers	8 747	8 428
Blue-collar workers	19 731	19 264
Total	**28 478**	**27 692**

45. Social assets and Social Fund liabilities

The net balance of the Social Fund at 31 December 2008 amounted to PLN 1 245 thousand – Social Fund liability, and at 31 December 2007 amounted to PLN 3 643 thousand – Social Fund liability. The Group has netted the assets of the Fund with the liabilities towards the Fund.

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

	At	
Social assets and Social Fund liabilities	**31 December 2008**	**31 December 2007**
Loans granted to employees	103 116	85 762
Other receivables	222	113
Cash and cash equivalents	29 207	44 931
Social Fund liabilities	(133 790)	(134 449)
Net balance	**(1 245)**	**(3 643)**

The balance is settled in the following periods after refunding.

	For the period	
	from 1 January 2008 to 31 December 2008	**from 1 January 2007 to 31 December 2007**
Transfers made to the Social Fund during the financial period	103 750	111 076

46. Government grants

The balance of government grants recognised in deferred income at 31 December 2008 is PLN 1 633 thousand (at 31 December 2007: PLN 1 877 thousand). The funds are from the European Union funds, as well as from other funds. These are cash grants received for the acquisition of property, plant and equipment, for the performance of development work, which result in capitalised intangible assets and for the subsidising of employee training.

The companies of the Group also receive government grants from the Voivodeship Fund for Environmental Protection and Water Management (Fundusz Ochrony Środowiska i Gospodarki Wodnej) in the form of preferential interest rates on loans, as well as annulment of loans.

47. 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.

amounts in tables in thousand PLN, unless otherwise stated

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 (PTR) announced on 8 September 2008 by Fairfax Financial Holdings Limited 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 the Group currently holds none of the shares of PTR.

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 detailes of the approved documents see Report of the Management Board on the Company's Activities in the Separate Financial Statements, 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	

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ANNUAL REPORT 2008

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