

**KGHM** POLSKA MIEDŹ S.A.

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**REPORT ON THE ACTIVITIES  
OF THE GROUP  
IN 2007**

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Lubin, April 2008

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## 1. Basic information on the KGHM Polska Miedź S.A. Group

### 1.1. Structure of the Group

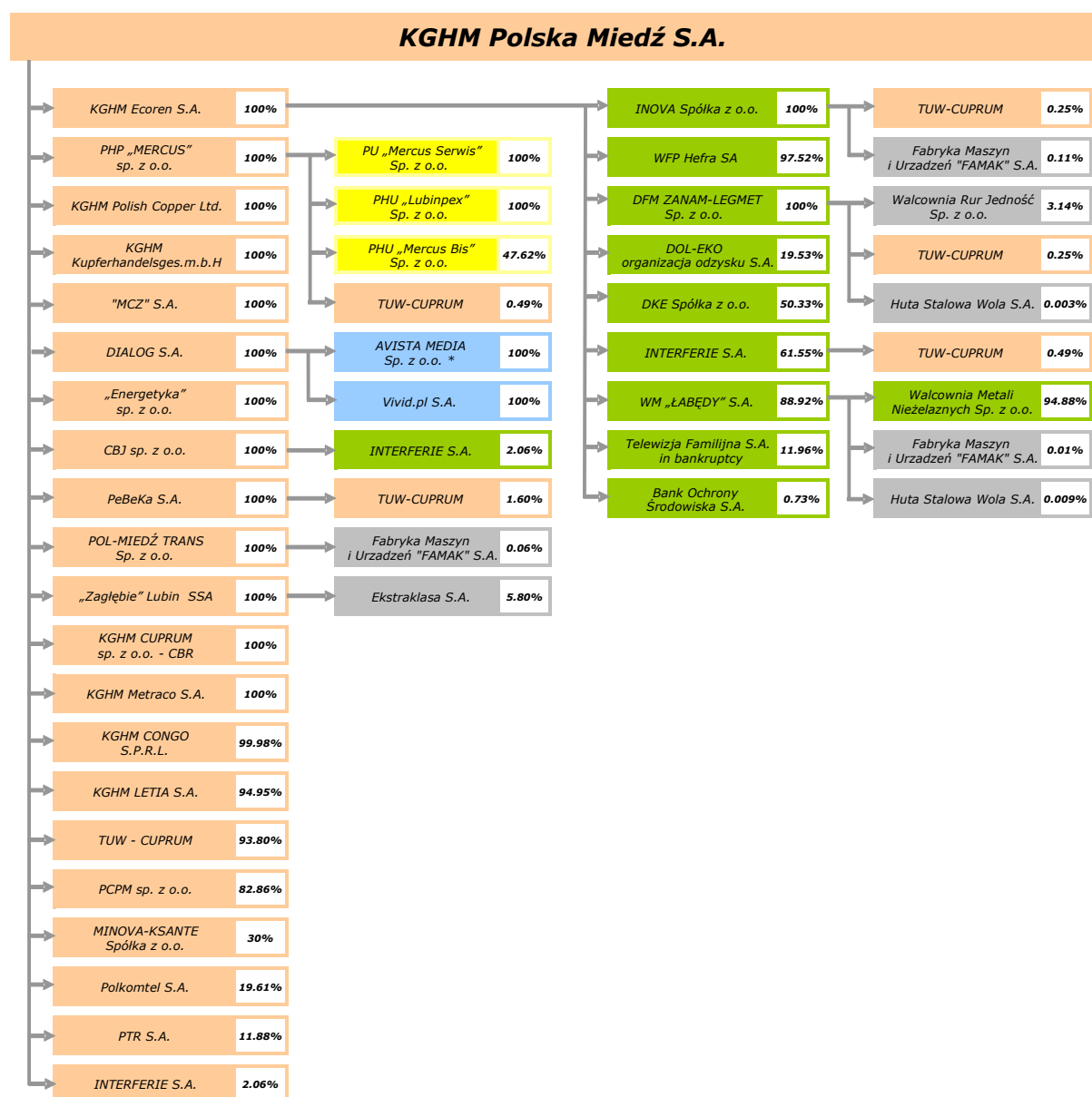
The Parent Entity of the Group is KGHM Polska Miedź S.A.

At 31 December 2007 KGHM Polska Miedź S.A. owned, directly or indirectly, shares in 39 commercial law companies, including in:

- 28 subsidiaries,
- 3 associates,
- 8 other companies.

The equity investments of KGHM Polska Miedź S.A. in individual entities are shown in the diagram below.

**Diagram 1.** Equity investments of KGHM Polska Miedź S.A. at 31 December 2007



\* 13 July 2007 company name changed (formerly Tele Video Media sp. z o.o.)

## 1.2. Changes in the structure of the Group in 2007

In 2007 the following changes were made in the structure of the Group.

- In July 2007 KGHM Polska Miedź S.A. founded a company called KGHM LETIA Legnicki Park Technologiczny spółka akcyjna. The share capital of this newly-created entity amounts to PLN 20 000 thousand. KGHM Polska Miedź S.A. acquired shares with a total nominal value of PLN 18 990 thousand, representing 94.95 % of the share capital of this company. The company was registered in August 2007.
- In September 2007 KGHM Polska Miedź S.A. acquired 29 shares of Polskie Centrum Promocji Miedzi sp. z o.o. with its registered head office in Wrocław, with a total nominal value of PLN 87 thousand, representing 82.857 % of the share capital of this company, from the following entities of the KGHM Polska Miedź S.A. Group: KGHM Ecoren S.A., WM „Łabędy” S.A., KGHM Metraco S.A. and KGHM CUPRUM sp. z o.o. – CBR. The transfer of ownership rights to the shares of PCPM sp. z o.o. to KGHM Polska Miedź S.A. occurred in October 2007.
- In September 2007 KGHM Polska Miedź S.A. increased its ownership of KGHM Metraco S.A. from 98.96% to 100%, due to the mandatory buyout of 53 shares of the company, with a total nominal value of PLN 27 thousand, from the minority shareholder of the company.
- KGHM Ecoren S.A. increased its share in WM „ŁABĘDY” S.A. from 74.5 % to 88.92 %, due to the acquisition of shares in the increased share capital of this company, with a total nominal value of PLN 30 936 thousand, with their coverage by a contribution in kind in the form of a block of 60.11% of the shares in Walcownia Metali Nieżelaznych Sp. z o.o. As a result, KGHM Ecoren S.A. no longer owns direct shares in Walcownia Metali Nieżelaznych Sp. z o.o., while the share of WM „ŁABĘDY” S.A. in the share capital of this company increased from 34.77 % to 94.88 %. Court registration of the increase in share capital of WM „ŁABĘDY” S.A. occurred in June 2007.
- The process of liquidating the company Energetyka Spółka Specjalnego Przeznaczenia sp. z o.o. in liquidation was completed. The company was removed from the National Court Register in June 2007. „Energetyka” sp. z o.o. was the owner of 100% of the shares of the company.
- The bankruptcy process of Przedsiębiorstwa Eksploatacji Wód AQUAKONRAD S.A. was completed. The court decision which concluded the bankruptcy process of the company was issued in October 2007. The owner of 90.40% of the shares of the company was KGHM Ecoren S.A.

## 1.3. Activities of Group Companies

Three business segments have been identified:

- Segment I - metals (copper, precious metals), other smelter products – extraction, processing, production, trade and promotion;
- Segment II - telecommunications;
- Segment III - other sectors, comprising the activities of Group subsidiaries which are not encompassed by segments I and II.

The table below lists the activities of companies by segment.

**Table 1.** Activities of significant Group companies, by segment

Item	Entity	Type of activity
<b>Segment I</b>		
1.	KGHM Polska Miedź S.A.	copper ore mining; the production of non-ferrous and precious metals and salt; the casting of light and non-ferrous metals; the management of waste; activities related to financial holding associations; geological-exploratory activities, research and technical analysis; professional rescue services; telecommunications and IT services

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Report on the activities of the Group in 2007

2.	KGHM CONGO S.P.R.L	copper and cobalt extraction services
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 metals, chemicals, copper scrap
<b>Segment II</b>		
1.	DIALOG S.A.	telecommunications services
2.	Vivid.pl. S.A.	internet sales
3.	AVISTA MEDIA sp. z o.o.	multimedia services
<b>Segment III</b>		
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, silver-plated and semi-silver-plated table settings
15.	PCPM sp. z o.o.	promotion of copper products
16.	„Zagłębie” Lubin SSA	management of a football club, organisation of professional sporting events
17.	PHU „Lubinpex” Sp. z o.o.	food industry and catering services

Following is information on the activities of significant entities of the Group.

#### SEGMENT I

The most important entity in the Group is **KGHM Polska Miedź S.A.** A description of the activities of the Parent Entity in 2007 may be found in the R 2007 annual report of KGHM Polska Miedź S.A. published on 11 March 2008.

### KGHM Polish Copper Ltd

This company conducts sales of the products of KGHM Polska Miedź S.A. through the London Metal Exchange, and is also involved in supplying smelting materials to KGHM Polska Miedź S.A. The activities of this company are strongly dependent on conditions on the metals market.

### KGHM Kupferhandelsges.m.b.H.

This company trades in the products of KGHM Polska Miedź S.A., i.e. wire rod, cathodes and billets. Wire rod holds the largest share in the sales structure – 60 %. The company operates in central and southern Europe. Its main business is conducted in Austria. In 2007 67% of its sales were in this market. The second largest market by sales is the Czech Republic - 26%.

### KGHM Metraco S.A.

KGHM Metraco S.A. is one of the strategic commercial companies of KGHM Polska Miedź S.A. It is involved in the supply of materials and minerals which guarantee the uninterrupted operation of KGHM Polska Miedź S.A. divisions and companies of the Group, as well as external sales of by-products of the core business of KGHM Polska Miedź S.A. The company concentrates primarily on wholesale business: finished goods from copper, precious metals and chemicals, as well as waste, scrap and raw materials and semi-products. In 2007 sales began of refined lead, whose main customers are global manufacturers of batteries and lead oxides.

## SEGMENT II

### DIALOG S.A.

DIALOG S.A. operates in two telecom segments:

- the fixed-line voice segment (traditional voice services provided directly or indirectly, intelligent network services, additional VAS voice services, traffic transit);
- the fixed-line network data transmission segment (data transmission, communications leasing, and narrow and broadband Internet access using ground lines and radio).

DIALOG S.A. is one of the most important alternative operators to TP S.A., apart from Netia and Exatel.

**Table 2.** Market share of DIALOG S.A. by segment

Market segment / ratio	2006 *	2007 *
Fixed-line voice telephony – active fixed lines	3.87%	4.65%
Fixed-line voice telephony – sales	3.46%	3.64%
DLISP / data transmission in fixed-line networks – broadband household connections and SOHO	2.21%	2.47%
DLISP / data transmission in fixed-line networks – sales	1.63%	1.86%

Source: PMR Publications, 2007

\* internal estimates by DIALOG S.A. based on PMR Research, TP S.A., internal data; the data presented are estimates, any error in estimating market share should not exceed +/- 0.5 percentage points

DIALOG S.A. is one of the largest alternative operators in Poland (the largest in terms of the number of active ringing lines using its own infrastructure; third, after Netia and Exatel, in terms of sales; and second, after Tele2, in terms of the number of active WLR lines).

In 2007, in terms of value, DIALOG S.A. held approx. 3.64% of the fixed-line voice telephony market. The position of the company may be described as stable, despite a falling trend evident for years in the sector. The estimated increase in the share of DIALOG S.A. in 2007 is due to a lower-than-market decrease in revenues from traditional voice services, related among others to the appearance of new revenues from wholesale sales of WLR subscriber services.

The position of DIALOG S.A. in the DLISP data transmission segment is somewhat weaker (approx. 1.86% of the market in terms of sales), although a rising trend may be seen in the revenues generated by the company from its broadband Internet access and data transmission services. They also represent an increasingly important place in the sales structure. This is in line with the directions of growth on the telecom market.

Due to liberalisation of the market in 2007 the company began sales of services based on the infrastructure of the incumbent operator:

- WLR – wholesale subscriber sales (in the fixed-line voice telephony segment),
- BSA – Internet services using the TP S.A. network (in the DLISP segment).

During the year preparations were made to initiate Internet tv services – IPTV (Dialog media), which were introduced in February 2008 (DLISP segment).

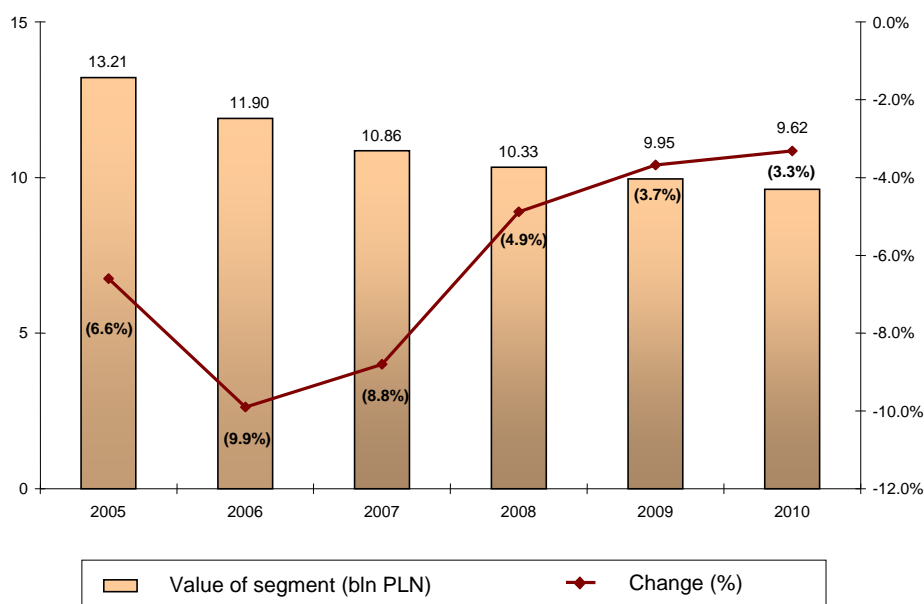
### Conditions in the sector

The value of the fixed-line voice telephony segment in Poland is experiencing a downward trend, while the fixed-line data transmission segment is increasing.

DIALOG S.A. intends to compensate for the lost sales from voice services by increasing sales from the Internet access and data transmission segment as well as from WLR. The development of xDSL, VPN, BSA, WLR, MVNO, communications leasing and new multimedia offers (including IPTV) over the next several years will lead to a further dynamic increase in company sales from the growing data transmission segment in fixed-line networks. In addition, DIALOG S.A. plans to acquire operators from the ISP segment.

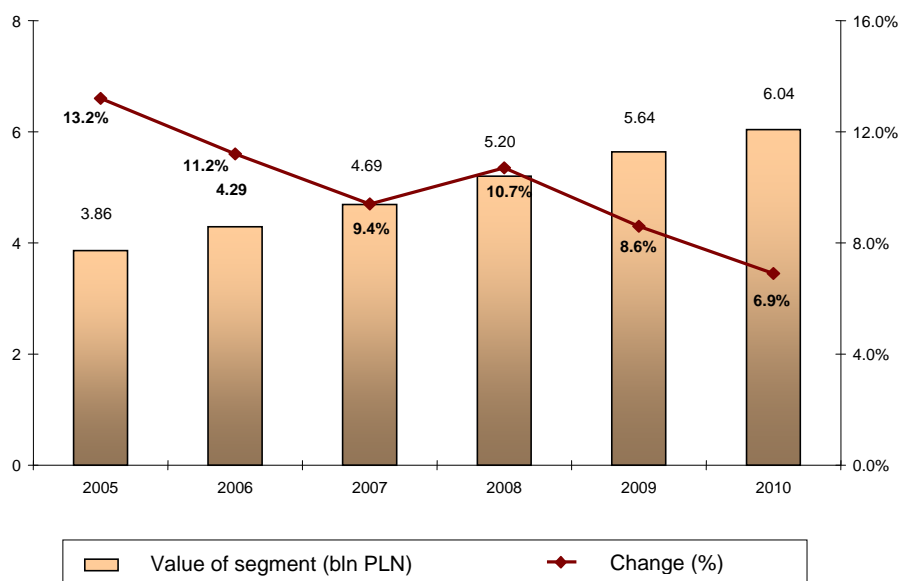
**Diagram 2.** Value of the fixed-line telephony segment in Poland

Source: PMR Publications, 2007



**Diagram 3.** Value of the DLISP segment in Poland (Internet, data transmission, communications leasing)

Source: PMR Publications, 2007



### SEGMENT III

#### KGHM Ecoren S.A.

This company is primarily involved in the production and sale of road-building material, products recovered from limestone (powder, coarse stone, key aggregate, sorbates), ammonium perrhenate and metallic rhenium, and from slag granulate.

##### Road-building material

The road-building material offered by KGHM Ecoren S.A. is used in the production of mineral-asphalt mixtures and for foundations. All of its products are designed for the road construction market. The company sells its products in north-western Poland. Its share in the crushed material market (this group of products includes material produced by the company) is estimated at around 2-3%. The customers of the company include the largest road construction companies, such as Strabag, NCC and Skanska.

Forecasts of production and demand for road-building material predict that a period of healthy demand should continue until around the year 2015, with its peak falling in the years 2011-2012.

##### Metals and their chemical compounds – rhenium

The company is familiar with the production and sale of ammonium perrhenate and with the further perspectives for metallic rhenium. Ammonium perrhenate is the company's main product. Current production capacity and the stable quality of the product enable its sale as a standard catalyst. This product is used and purchased by companies which process it into metallic rhenium for superalloy producers. Superalloys are mainly used in the aircraft industry (in the production of jet engines) and the petrochemical industry (in the production of high octane benzene or catalytic converters). A potential sales market for ammonium perrhenate in Poland is the petrochemical industry.

Over the last several years there has been a significant increase in demand for this material by manufacturers of high temperature alloys, which is directly related to the healthy condition of the air transport market, the space industry and the military aircraft industry. Manufacturers in this sector (incl. Rolls-Royce) have announced a need for large amounts of rhenium, in order to develop strategic inventories and to assure themselves of supply channels over the next several years.

Global production of rhenium is approx. 52 tonnes, while market demand for this material is 60-70 tonnes. Forecasts of demand for and production of rhenium predict that over the next several years demand for this metal should continue.

##### Slag granulate

Sales of slag granulate are aimed at producers of abrasives. Due to the basic uses of this product, conditions in this sector primarily depend on the situation in the ship-building industry (this product is used to clean ship hulls and steel constructions).

#### PeBeKa S.A.

This company is involved in:

- mining construction – this involves work on mine tunnels and shafts (including drifts; the building of shafts and foreshafts plus their outfitting);
- construction and engineering services – comprising general construction services, hydrotechnology, engineering and specialty services (including the construction of industrial facilities, tunnels and metro stations, and the construction and repair of pipelines).

PeBeKa S.A. specialises in mine construction. It is the main supplier to KGHM of mine tunnel and shaft construction services.

It also plays a significant role in work associated with accessing the new deposit (Głogów Głęboki). With respect to mine work it also provides services to the German company Deutsche Steinkohle AG.

The company has built some of the stations and tunnels for the Warsaw Metro. Its contracts are carried out as part of a consortium with PRG Metro Spółka z o.o.

For three years there has been a systematic increase in the rate of construction-assembly work in Poland. The commencement and development of investment financing by the EU and the successful bid by Poland and Ukraine to host the EURO 2012 football world cup provides the opportunity for the more rapid and more efficient realisation of construction investments. In 2007 PeBeKa S.A. entered into a consortium with HOCHTIEF Polska Sp. z o.o. and HOCHTIEF Construction A.G., which signed with „Zagłębie” Lubin SSA a contract for the turnkey design, construction and outfitting of the sports stadium in Lubin.

In the years 2008-2012 an average annual increase in the construction industry of 20% is expected, with an average annual increase in GDP of 7%.

In the sector described PeBeKa S.A. operates primarily on the local market (LGOM) and in Warsaw on construction of the metro. In both of these markets it is one of the chief contractors.

The company is one of the leading contractors in Poland in the construction of underground tunnels (tunnel boring method, blasting method).

#### ZANAM-LEGMET Sp. z o.o.

This company is a producer of mining equipment, for use in methane-free, underground non-ferrous metals and salt mining tunnels. Among the products produced by the company which determine its market position are mining machinery (loaders, haulage rigs, drilling-roof bolting rigs, auxiliary machinery) as well as conveyor belts. In addition, the company produces castings, construction elements built on the basis of submitted documentation, and boilers.



ZANAM-LEGMET Sp. z o.o. has a dominant position on the domestic market with respect to its assortment of underground, self-hauling mining machinery. The company also sells its products on foreign markets, but these sales are only marginal. The company has heavy competition from large Polish and foreign companies, i.e.: SANDVICK (TAMROCK) – Finland, ATLAS COPCO/WAGNER – Sweden, PAUS MACHINENFABRIK – Germany, MINE MASTER – Poland (together with GHH Fahrzeuge), and BUMAR/FADROMA – Poland. The company fulfils a strategic role for the core business of KGHM Polska Miedź S.A., as a significant supplier and servicer of mining machinery and equipment.

#### **„Energetyka” sp. z o.o.**

The basic activities of the company are:

- the generation, distribution and sale of electricity,
- the generation, distribution and sale of heating energy, steam and hot water,
- the intake, purification and distribution of water, and
- the collection and treatment of waste.

„Energetyka” sp. z o.o. is the largest producer of electricity in the former Legnica voivodeship. It is produced in conjunction with heat, all of which is supplied to KGHM Polska Miedź S.A. The company is one the largest producers of heat in western Poland and the largest in the former Legnica voivodeship.

With respect to water-sewage management, the company primarily serves industrial customers in the former Legnica voivodeship, and is the main supplier for the divisions of KGHM Polska Miedź S.A. and companies of the Group. It also has a small share in the local market for individual customers.

„Energetyka” sp. z o.o. operates in an attractive sector with significant growth potential. Its strong position on the local market and the resources and know-how it possesses provide great opportunities for growth by expanding into new fields. On the other hand, rationalisation of heat consumption by its customers requires the modernisation of its production assets, and strict environmental standards force it to commence research into renewable energy sources.

#### **POL-MIEDŹ TRANS Sp. z o.o.**

The company offers complex services in railway and road transport and carries out wholesale and retail sales of oil-based products.

POL-MIEDŹ TRANS Sp. z o.o. is among a group of entities which fulfil a strategic role for the core business of KGHM Polska Miedź S.A. – it is the leading source of railway and road transport, and is a direct supplier of fuels to the divisions.

The company has a Polish market share of around 2.5% in terms of the transport-spedition-logistics market, while its share in the commodities railway transport market is around 1%.

The company intends to develop its railway transport capabilities, including an increased share in sales to the external market.

#### **PHP „MERCUS” sp. z o.o.**

The activities of the company comprise three main sectors:

- material logistics – mainly on behalf of the divisions of KGHM Polska Miedź S.A. and companies of the Group,
- production – bundled electrical cables and high-pressure hydraulic lines,
- wholesale and retail sales – department stores, warehouses.

The company fulfils a strategic role for KGHM Polska Miedź S.A. as the coordinator of supply to the core business of materials and spare parts. It has a firm position as a producer and supplier of bundled electrical cables for manufacturers of household electrical goods. Its main customers are ELECTROLUX, GENERAL ELECTRIC and PATELEC ELPENA. In 2007 a new bundled electrical cables unit was brought into production in Legnica, near a factory belonging to strategic customers.

#### **KGHM CUPRUM sp. z o.o. – CBR**

KGHM CUPRUM sp. z o.o. – CBR is engaged in research and development work in the following sectors: geology, mining, the processing of minerals resources and environmental protection. Its activities comprise every stage of R&D work, from basic research to design, the evaluation of environmental impact, and feasibility analysis, to supervision of its execution.

The company is a contractor for most R&D investment projects realised by KGHM Polska Miedź S.A. which are involved with the core business. The company stores the technical (geological) and technological documentation of KGHM Polska Miedź S.A.

KGHM CUPRUM sp. z o.o. – CBR holds a renowned position amongst Polish R&D institutions. In 2006 it reached the second level in the classification of R&D institutions (after several years of being at the third level). This success was the result of years of effort based on improving its qualifications, promoting its know-how, taking actions both domestically and abroad, putting the results of its research to practical use, and obtaining patents, certificates etc. The classification which it held improved access to state budget research funds.

The low expenditures on R&D, from both the state budget as well as from industry, have caused the company to seek new sources for financing its activities. Great hope has been generated by EU assistance programs. Currently the company is engaged in intensive efforts to obtain funds from these EU programs.

#### **CBJ sp. z o.o.**

CBJ sp. z o.o. operates in the analytical services sector, mainly to serve the needs of the mining and non-ferrous metals smelting industries, with respect to research and physical-chemical analysis, mainly in the fields of industrial and environmental research.

The company is the main provider of industrial research and analysis for the core business of KGHM Polska Miedź S.A.

In the years 2006-2007 there was an increase in the laboratory services sector, mainly related to the introduction of further legal requirements as respects environmental protection and employee health, and with steady growth in monitoring of the quality of finished goods, semi-products and raw materials by various organisations.

### **1.4. Employment in the Group**

The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

**Table 3.** Average employment in the years 2006-2007

Description	2006	2007	Change 2006=100
white collar	8 385	8 428	100.5
blue collar	18 544	19 264	103.9
<b>Total workers</b>	<b>26 929</b>	<b>27 692</b>	<b>102.8</b>

The highest average level of employment in 2007, at 17 989 persons, was recorded by the Parent Entity. Among the remaining Group companies the highest average number of employees in 2007 was recorded by:

- PeBeKa S.A. – 1 661 employees,
- POL – MIEDŹ TRANS Sp. z o.o. – 1 515 employees,
- ZANAM – LEGMET Sp. z o.o. – 1 019 employees,
- DIALOG S.A. – 991 employees,
- „Energetyka” sp. z o.o. – 817 employees.

In 2007 average employment in the Group increased in comparison to 2006 by 763.

The largest rate of increase in employment was in the following companies: KGHM Ecoren S.A. (an increase by 27%, i.e. by 37 employees), PeBeKa S.A. (an increase by 14.4%, i.e. by 209 employees) and in PHU „MERCUS” sp. z o.o. (an increase by 14.2%, i.e. by 92 employees). This increase was mainly in blue-collar positions, and was due to the need to insure realisation of increasing production tasks.

The increase in employment in KGHM Ecoren S.A. was due to its creation of a new Raw Materials Recovery Division, based on acquired assets, i.e. the production line of the Ore Enrichment Plants Division.

The increase in employment in PeBeKa S.A. is related to the increased scope of work on the construction of the Warsaw Metro and to realisation of mining work related to accessing the Głogów Głęboki deposit.

PHU „MERCUS” sp. z o.o. increased employment due to the dynamic growth of the Electro-Mechanical Production Plant.

### **1.5. Relations with the trade unions in the Group**

#### KGHM Polska Miedź S.A.

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

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

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

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

In 2007 two trade unions initiated collective disputes:

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

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

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

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

#### Other Group companies

In 2007 Group companies entered into agreements with the trade unions operating within the given entities, mainly respecting:

- setting the wages increase index in 2007,
- contributions to the Social Fund, and
- labour rules.

In the company „MCZ” S.A. 4 separate collective disputes were initiated, mainly with respect to increasing the wages of various employee groups. Four of the six trade unions operating within the company joined these disputes, i.e.:

- 1) the Interdivisional Copper Industry Trade Union at „MCZ” S.A. (Międzyzakładowy Związek Zawodowy Pracowników Przemysłu Miedziowego przy „MCZ” S.A.),
- 2) the Divisional Committee of the trade union NSZZ „Solidarność” at „MCZ” S.A. (NSZZ „Solidarność” Komisja Zakładowa przy „MCZ” S.A.),
- 3) the „MCZ” S.A. Section of the Doctors’ Trade Union of Poland (Oddział Terenowy Ogólnopolskiego Związku Zawodowego Lekarzy przy „MCZ” S.A.),
- 4) the Interdivisional Polish National Union of Nurses and Medical Assistants at „MCZ” S.A. (Międzyzakładowa Organizacja Związkowa Ogólnopolskiego Związku Zawodowego Pielęgniarek i Położnych przy „MCZ” S.A.)

Negotiations were held with these trade unions in 2007 and protocols of dispute were signed. Mediation was also held, including with the participation of external mediators. As at the end of 2007 no remuneration agreements had been signed with them.

### **1.6. Parent Entity**

KGHM Polska Miedź S.A. is registered in the Wrocław Fabryczna Regional Court, Section IX (Economic) of the National Court Register, under KRS no. 23302. The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange and, in the form of GDRs (Global Depositary Receipts), on the London Stock Exchange.

KGHM Polska Miedź S.A. has been in business since 12 September 1991. The legal antecedent of the Parent Entity was the State-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi in Lubin, which was transformed into a State-owned, joint stock company pursuant to the provisions of the law dated 13 July 1990 on the privatisation of State-owned enterprises.

#### **1.6.1. Share capital and ownership structure of the Parent Entity**

At 31 December 2007, the share capital of the Parent Entity amounted to PLN 2 billion and was divided into 200 million shares, series A, with a face value of PLN 10 each. All shares are bearer shares. The KGHM Polska Miedź S.A. has not issued preference shares. Each share gives the right to one vote at the General Shareholders’ Meeting. In 2007 there was no change in share capital.

There is no limitation to the transferral of ownership rights to the shares of the Parent Entity or with respect to the execution of voting rights attached to the shares of KGHM Polska Miedź S.A., other than those generally prescribed by laws in force. The Parent Entity has not issued securities which would grant special proprietary rights in respect of it. The State Treasury, as a shareholder of KGHM Polska Miedź S.A., may take advantage of special privileges arising from the act dated 3 June 2005 on the specific entitlements of the State Treasury and their execution in joint stock companies of significant importance for public order or public security.

At 31 December 2007, the only shareholder of the Parent Entity 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 KGHM Polska Miedź S.A. and the same number of votes at the General Shareholders’ Meeting.

The remaining shareholders of KGHM Polska Miedź S.A. (including Deutsche Bank Trust Company Americas, depositary bank in the depositary receipts program) held shares representing less than 5% of the share capital

– a total of 116 410 100 shares, representing 58.21% of the share capital and the same number of votes at the General Shareholders' Meeting.

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

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

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

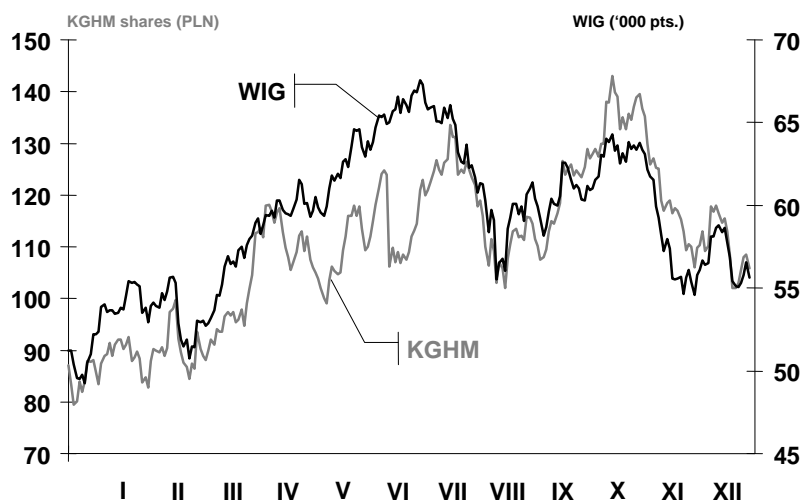
In 2007 KGHM Polska Miedź S.A. neither bought back any of its shares, nor had an employee share incentive program.

### 1.6.2. Parent Entity quotations on the Securities Markets

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Parent Entity 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 (GDRs) of KGHM Polska Miedź S.A. have been traded since July 1997 on the London Stock Exchange.

The share price of KGHM Polska Miedź S.A. in 2007 increased by 19%, reaching PLN 105.80 at the close of the last market session of the year - 28 December 2007, and on 15 October 2007 the closing price reached its highest level in history – PLN 143.00. During this same period the WIG index increased by 10%, and the WIG20 index by 5%. The share price of KGHM Polska Miedź S.A. in 2007 compared to the WIG index is shown in the chart below:

**Diagram 4.** Share price of KGHM Polska Miedź S.A. versus the WIG index



In 2007 the share prices of KGHM Polska Miedź S.A. on both exchanges – Polish and British – were similar.

### 1.6.3. Bodies of the Parent Entity

#### Supervisory Board

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

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

- Józef Czyczerski - Secretary
- Leszek Hajdacki
- Ryszard Kurek

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

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

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

- as well as the following employee-elected members:

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

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

During the period from 1 January 2007 to 13 March 2007, the composition of the Management Board, and the respective segregation of duties, was as follows:

- On 13 March 2007, the Management Board of KGHM Polska Miedź S.A. resolved to change the organisational structure of the Head Office. As a result, the segregation of duties amongst the Members of the Management Board was as follows:

- On 6 November 2007, the Supervisory Board dismissed Maksymilian Bylicki from the function of Member of the Management Board – I Vice President of the Management Board. Dariusz Kaśków was appointed to the Management Board. The Supervisory Board appointed Ireneusz Reszczyński to the function of I Vice President of the Management Board.

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

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

In accordance with §12 of the Statutes of KGHM Polska Miedź S.A., Members of the Management Board are appointed and dismissed by the Supervisory Board. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec.1 point 6 of the Statutes of KGHM Polska Miedź S.A., any increase in share capital or issuance of shares requires the approval of the General Shareholders Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of KGHM Polska Miedź S.A.). The Management Board of the Parent Entity does not have the authority to increase the share capital or issue the shares of KGHM Polska Miedź S.A. under conditions specified in art. 444-446 of the Code of Commercial Companies.

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

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

#### 1.6.4. Remuneration in the Bodies of the Parent Entity

Presented below is information on the total amount of remuneration, bonuses or benefits paid or due to management and supervisory personnel of the Parent Entity, and information on the value of remuneration and bonuses received by them due to functions performed in the bodies of subsidiaries, co-subsidiaries and associates.

**Table 4.** Comparison of remuneration in the Supervisory Board of the Parent Entity in the years 2006-2007 ('000 PLN)

Description	2006	2007
Remuneration due to service in the Supervisory Board, salaries and other short-term employee benefits	920	1 010

**Table 5.** Comparison of remuneration in the Management Board of the Parent Entity in the years 2006-2007 ('000 PLN)

Description	2006	2007
Salaries and other short-term employee benefits	7 350	4 120
Benefits due to termination of the employment relationship	741	441
Post-employment benefits	51	70
<b>Total</b>	<b>8 142</b>	<b>4 631</b>

Detailed information on remuneration, bonuses or benefits of supervisory and management personnel may be found in Note No. 32 of the Financial Statements.

## **2. Activities of the KGHM Polska Miedź S.A. Group in 2007**

### **2.1. Equity investments of the Parent Entity**

In 2007, KGHM Polska Miedź S.A. realised equity investments in the total amount of PLN 154 590 thousand.

The Company purchased and acquired shares in the following companies:

#### **„Energetyka” sp. z o.o.**

In March 2007 an increase in share capital was registered for „Energetyka” sp. z o.o. by PLN 30 426 thousand. KGHM Polska Miedź S.A. acquired and paid for in cash all of the shares in the increased share capital. The purpose of this increase was to ensure that the company has funds for modernisation and preparatory works related to the expansion of power generation capacity, and for repayment of a loan to KGHM Polska Miedź S.A. in the amount of PLN 9 000 thousand.

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

#### **„MIEDZIOWE CENTRUM ZDROWIA” S.A.**

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

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

#### **„Zagłębie” Lubin SSA**

In October 2007 an increase in share capital was registered for „Zagłębie” Lubin SSA by PLN 100 000 thousand. KGHM Polska Miedź S.A. acquired all of the shares in the new issuance.

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

1st tranche: PLN 25 000 thousand – to 30 September 2007 (paid),

2nd tranche: PLN 50 000 thousand – to 31 March 2008 (paid),

3rd tranche: PLN 25 000 thousand – to 30 June 2008.

The funds obtained from this increase will be used for construction of a sports stadium.

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

#### **KGHM LETIA S.A.**

In August 2007 the court issued a decision on entering KGHM LETIA Legnicki Park Technologiczny spółka akcyjna with its registered head office in Legnica into the Register of Entrepreneurs. The share capital of the company amounts to PLN 20 000 thousand. KGHM Polska Miedź S.A. acquired and paid for in cash 18 990 shares of the newly-created company with a total nominal value of PLN 18 990 thousand, representing 94.95% of the share capital. The remaining shares were acquired by the following: Voivodeship of Lower Silesia – 1 000 shares, representing 5% of the share capital; Wrocław University of Technology – 10 shares, representing 0.05% of the share capital.

#### **PCPM sp. z o.o.**

In September 2007 KGHM Polska Miedź S.A. acquired 29 shares of Polskie Centrum Promocji Miedzi sp. z o.o. with its registered head office in Wrocław, with a total nominal value of PLN 87 thousand, representing 82.857 % of the share capital of this company, from entities of the KGHM Polska Miedź S.A. Group based on four contracts:

- from KGHM Ecoren S.A. the company acquired 26 shares of PCPM sp. z o.o., representing 74.286% of the share capital of PCPM sp. z o.o.,
- from each of the following companies: Walcownia Metali „Łabędy” S.A., KGHM Metraco S.A., KGHM CUPRUM sp. z o.o. – CBR, the company acquired 1 share of PCPM sp. z o.o., representing 2.857% of the share capital of PCPM sp. z o.o.

The transfer of ownership rights to the shares of PCPM sp. z o.o. to KGHM Polska Miedź S.A. occurred in October 2007. The share of KGHM Polska Miedź S.A. in the share capital of this company is currently 82.857 %. This transaction improves the structure of the KGHM Polska Miedź S.A. Group.

#### **KGHM Metraco S.A.**

In September 2007 KGHM Polska Miedź S.A. carried out a mandatory buyout of 53 shares of KGHM Metraco S.A. with a total nominal value of PLN 27 thousand, representing 1.04 % of the share capital of this company, from the only minority shareholder of the company.

As a result the share of KGHM Polska Miedź S.A. in the share capital of this company increased from 98.96% to 100 %.

#### **Other equity investments**

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

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

## **2.2. Equity investments of other Group companies**

### **Equity investments of DIALOG S.A.**

#### **AVISTA MEDIA sp. z o.o. (until 13.07.2007 Tele Video Media Sp. z o.o.)**

In July 2007, an increase in the share capital of AVISTA MEDIA sp. z o.o. was registered by PLN 4 000 thousand. DIALOG S.A. acquired and paid for in cash all of the shares in the increased share capital. The company designated the funds acquired from this increase for the purchase from DIALOG S.A. of an organised part of the company in the form of a Telecenter and for the purchase of additional, necessary equipment and tools related to the opening of a Telecenter within the company.

The share capital of AVISTA MEDIA sp. z o.o. after this increase amounts to PLN 10 000 thousand. DIALOG S.A. owns 100% of the shares of the company.

Simultaneously with this increase in share capital, the company changed and registered its name from Tele Video Media Sp. z o.o. to AVISTA MEDIA Sp. z o.o.

#### **Vivid.pl S.A.**

In January 2007, DIALOG S.A. acquired from Sovereign Capital S.A. 10% of the shares of Vivid.pl S.A. having a nominal value of PLN 530 thousand, for the amount of PLN 528 thousand, thereby increasing its share in the company to 100%.

Acquisition of full control over Vivid.pl S.A. by DIALOG S.A. took place in 2006, as the result of the appointment by the then-owner - Sovereign Capital S.A. - of three persons from DIALOG S.A. to the four-person Supervisory Board of Vivid.pl S.A. As a result, DIALOG S.A. in its balance sheet at 31 December 2006 presented 100 % of the shares of Vivid.pl S.A. at cost, i.e. PLN 3 279 thousand. The decision to acquire Vivid.pl S.A. is a result of the strategy implemented by DIALOG S.A. assuming an expansion of its product assortment on the dynamically-growing e-commerce market.

In March 2007, an increase in share capital was registered by the National Court Register by Vivid.pl S.A. of PLN 1 000 thousand. DIALOG S.A. acquired and paid for in cash all of the shares in the increased share capital. The company designated the funds acquired from this increase for reducing its debt and financing its current activities. The share capital of Vivid.pl S.A. after this increase amounts to PLN 6 300 thousand.

### **Equity investments of KGHM Ecoren S.A.**

In June 2007, KGHM Ecoren S.A. acquired shares of Bank Ochrony Środowiska S.A. w Warszawie in the total nominal amount of PLN 1 100 thousand, representing 0.73 % of the share capital of the company. The company treats this purchase of shares as a mid-term financial investment.

## **2.3. Other significant events in the Group**

### **Disposal of shares of INFOMONITOR BIURO INFORMACJI GOSPODARCZEJ S.A.**

In March 2007, KGHM Polska Miedź S.A. disposed of the entire block of shares it owned in INFOMONITOR BIURO INFORMACJI GOSPODARCZEJ S.A. in Warsaw, i.e. 669 thousand shares with a total nominal value of PLN 669 thousand, representing 16.73 % of the share capital of the company.

### **Decreases of share capital of Group companies**

- In October 2007 the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. decreased the share capital of KGHM Polska Miedź S.A. as reported in the separate financial statements and transferred the amount accumulated from share capital to reserve capital.  
The General Shareholders' Meeting of KGHM Polska Miedź S.A. decreased the share capital of the company, reported in the separate financial statements prepared as at the date of implementation of International Financial Reporting Standards and as at the date of the preparation of the first half-year financial statements according to IFRS, i.e. 30 June 2007, which after hyperinflationary revaluation amounted to PLN 7 413 573 thousand by PLN 5 413 573 thousand. Following this decrease the share capital remains in the amount of PLN 2 000 000 thousand. The General Shareholders' Meeting transferred the amount of PLN 5 413 573 thousand, being the amount by which the share capital was decreased, to reserve capital.
- In January 2007, a decrease in the share capital of Warszawska Fabryka Platerów Hefra Spółka Akcyjna was registered by PLN 28 705 thousand, through a decrease in the face value of its shares from PLN 6.40 to PLN 0.70 per share. The funds arising from this decrease were allocated for the coverage of prior year losses in the amount of PLN 24 962 thousand, while the remaining amount of PLN 3 743 thousand was transferred to the reserve capital of the company. The share capital of the company after this decrease is PLN 3 525 thousand.  
The owner of 97.52% of the shares of Warszawska Fabryka Platerów Hefra Spółka Akcyjna is KGHM Ecoren S.A.



- In March 2007, a decrease in the share capital of KGHM Ecoren S.A. was registered by PLN 10 052 thousand, through a decrease in the then face value of its shares, from PLN 10.00 to PLN 9.55 per share. KGHM Ecoren S.A. transferred the amount arising from this decrease in share capital in October 2007 to KGHM Polska Miedź S.A. The share capital of the company after this decrease is PLN 213 322 thousand. The owner of 100% of the shares of KGHM Ecoren S.A. is KGHM Polska Miedź S.A.
- In December 2007 the Extraordinary General Shareholders' Meeting of DIALOG S.A. resolved to decrease the share capital of the company from PLN 1 959 800 thousand to PLN 489 950 thousand, i.e. by PLN 1 469 850 thousand. The purpose of this operation was to improve the equity structure, i.e. to cover the accumulated losses incurred by the company in the amount of PLN 913 159 thousand and to change the face value of its shares in connection with the planned IPO of the company's shares. This decrease in capital was carried out without payout to the company's shareholders. In April 2008 this decrease was registered.

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

In 2007 KGHM Polska Miedź S.A., KGHM Ecoren S.A. and DIALOG S.A. financially supported projects realised by their subsidiaries by making additional payments to their capital and by loans.

### **KGHM Polska Miedź S.A.**

- During 2007 the company CONGO S.P.R.L. repaid to KGHM Polska Miedź S.A. USD 200 thousand as the final instalment of a loan granted to the company in 2005. During the year KGHM Polska Miedź S.A. entered into a new loan agreement with CONGO S.P.R.L. in the amount of USD 800 thousand, for the coverage of investment expenditures related to the replacement of production capacity. At the end of 2007 the principal amount of debt amounted to USD 500 thousand.
- During 2007 the company „Energetyka” sp. z o.o. repaid a loan of PLN 9 000 thousand granted to the company in 2004. The loan was repaid from funds acquired through an increase in share capital.
- In 2007 KGHM Polska Miedź S.A. granted a non-returnable additional payment to the capital of KGHM Kupferhandelsges.mbH of EUR 3 800 thousand.
- In 2007 KGHM Polska Miedź S.A. granted a returnable additional payment to the capital of KGHM CUPRUM Sp. z o.o. – CBR of PLN 9 000 thousand to be used for completing construction of the office building CUPRUM NOVUM. The date for returning this payment was set at 31 December 2010.

### **KGHM Ecoren S.A.**

- During 2007 the company WFP HEFRA SA repaid PLN 415 thousand to KGHM Ecoren S.A. due to a loan granted to the company in 2006 in the total amount of PLN 2 000 thousand. At the end of 2007 the principal amount of debt was PLN 385 thousand.
- During 2007 KGHM Ecoren S.A. granted two loans to WM „Łabędy” S.A. in the total amount of PLN 1 000 thousand, which were repaid by the end of the year.

### **DIALOG S.A.**

- In 2007 DIALOG S.A. granted two loans to Vivid.pl S.A. in the total amount of PLN 2 500 thousand, of which instalments were paid during the year in the total amount of PLN 1 610 thousand. Taking into account the loan granted to the company in 2006 in the amount of PLN 500 thousand, the debt of Vivid.pl S.A. towards DIALOG S.A. at the end of 2007 amounted to PLN 2 110 thousand.

## **2.5. Payment of dividends to the Parent Entity**

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

- |   |                      |
|---|----------------------|
| – Polkomtel S.A.<br>(incl. PLN 61 905 thousand as an interim dividend for 2007) | PLN 264 221 thousand |
| – CBJ sp. z o.o.  | PLN 2 000 thousand   |
| – Polskie Towarzystwo Reasekuracji S. A.  | PLN 396 thousand     |
| – MINOVA – KSANTE Spółka z o.o.   | PLN 852 thousand     |
| – KGHM Polish Copper Ltd.<br>(as an interim dividend for 2007).                 | PLN 2 895 thousand   |

## 2.6. Information on contracts of significance for the Group

In 2007, the following contracts of significance for the activities of the Group were entered into:

- a contract for the sale of 8 mm copper wire rod and oxygen-free copper rod Cu-OFE-8-Cl in 2007, signed on 8 January 2007 between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. The value of the contract is estimated to fall in the range from USD 556 783 thousand (PLN 1 658 546 thousand) to around USD 656 028 thousand (PLN 1 954 175 thousand). This estimated value, depending on the degree to which options are used, is based on the forecast copper price (based on the forward curve from 5 January 2007) and on the NBP rate from 8 January 2007.
- a contract for the sale of copper cathodes in 2007 signed on 18 January 2007 between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH. The value of the contract is estimated at USD 317 395 thousand, i.e. PLN 955 772 thousand. This estimated value is based on the forecast copper price (based on the forward curve) and on the NBP rates from 17 January 2007.
- a contract for the sale of copper cathodes in 2007 signed on 12 March 2007 between KGHM Polska Miedź S.A. and KGHM Polish Copper Ltd. in London (a subsidiary of KGHM Polska Miedź S.A.). The value of the contract is estimated at USD 265 937 thousand (PLN 784 701 thousand). This estimated value is based on the forecast copper price (based on the forward curve) and on the NBP rate from 9 March 2007. The contract provides for contractual penalties for failure to execute payments on time.

## 2.7. Activities of major Group entities

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.

The financial results and description of activities of the Company for 2007 can be found in the KGHM Polska Miedź S.A. report published on 11 March 2008.

### Polkomtel S.A.

At 31 December 2007, the carrying amount of the shares of Polkomtel S.A. in the financial statements of KGHM Polska Miedź S.A. was PLN 437 250 thousand.

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

**Table 6.** Financial results of Polkomtel S.A. ('000 PLN)

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

In 2007 the company, versus the comparable prior period of 2006, increased revenues from sales by 6 %. This increase in revenues was mainly due to a larger customer base, which increased during 2007 by 1 446 thousand persons, exceeding 13 454 thousand. The level of EBITDA generated in 2007 amounted to PLN 2 832 633 thousand, with a profit for the period of PLN 1 358 676 thousand.

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

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

In December 2005 a group of financial institutions announced a bid for the purchase of the shares in TDC. As a result of the settlement of this bid there was a change of control over this entity. Consequently, based on the

statutes of Polkomtel S.A., TDC Mobile International A/S offered to sell the shares it holds to the remaining shareholders.

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

On 10 March 2006, Vodafone Americas Inc. filed a claim with the International Court of Arbitration of the Federal Chamber of Commerce in Vienna against six entities, naming TDC Mobile International A/S as the Principle Respondent, Polkomtel S.A. as the First Auxiliary Respondent and KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglkokoks S.A. as further Auxiliary Respondents. In the statement of its claims, Vodafone Americas Inc. has challenged, among others, the method of setting the price by TDC International A/S in the offer addressed to the other shareholders of Polkomtel S.A.

On 28 March 2008 attorneys *ad litem* of the Parent Entity 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 Polkomtel S.A.

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. The legal consequences of this verdict are currently being analysed, and based on this analysis further steps may be taken in this matter.

## DIALOG S.A.

In 2007 the company generated revenues from sales of PLN 496 042 thousand, i.e. 1 % less than in the comparable period of 2006. Profit for the period amounted to PLN 63 372 thousand. Despite the general erosion of prices on the market and the strong competition from mobile phone operators, the company achieved EBITDA which was only slightly less than in the comparable period of 2006, i.e. PLN 119 022 thousand.

Basic financial data for the years 2006-2007 is presented in the table below:

**Table 7.** Financial results of DIALOG S.A. ('000 PLN)

	2006*	2007	Change 2006=100
Sales	500 959	496 042	99.0
Operating profit	29 835	17 152	57.5
EBITDA	121 496	119 022	98.0
Profit for the period	71 271	63 372	88.9

\* the financial data for 2006 under Polish Accounting Standards

The intensive development of new services (including mobile and IPTV) expected over the next several years is necessary, as the strong competition from mobile phone operators means that DIALOG S.A., like other fixed-line operators, is experiencing a fall in voice service subscribers. At the end of December 2007 the company had 409.7 thousand traditional ringing lines.

In accordance with the approved strategy and business plan of DIALOG S.A., the company expects, apart from the continuation of projects already begun, to commence in the near future a variety of investment projects and products which together are aimed at increasing revenues and expanding the activities of the company, as well as permanently improving its profitability. Thanks to an agreement entered into with TP S.A., in March 2007 the company commenced sales of its services beyond its own network by using the incumbent operator's network (WLR services). During the nine months following commencement of WLR services, 144.0 thousand contracts were signed, which was 25% higher than the planned amount.

The Management Board expects that, over the next several years, WLR services will represent a significant share of the company's revenues.

The company is also expanding its broadband Internet access services. At the end of December 2007 the number of broadband Internet users amounted to 110.0 thousand.

In December 2007, the company signed a contract of cooperation with Polkomtel S.A., thanks to which in 2008 it will be able to begin offering mobile services as a so-called virtual operator (MVNO services).

In order to achieve its strategic goals, i.e. increasing its client base and increasing revenues and EBITDA, DIALOG S.A. is finalising transactions involving the takeover of other telephone operators. These transactions will permit an increase in the subscriber base of DIALOG S.A. and, thanks to the acquisition of infrastructure, will enable additional services to be provided, which will result in an increase in the company's sales and profitability.

On 22 February 2007, DIALOG S.A. finalised a transaction for the purchase of an organised part of an enterprise called E-wro. As part of this transaction, the company purchased an Ethernet technology network

together with a base of 6.5 thousand subscribers with Internet access, along with other tangible and intangible assets. The purchase of this network increases the ability of DIALOG S.A. to provide modern services (e.g. interactive television).

In the third quarter of 2007 the Management Board of DIALOG S.A. resolved to commence actions aimed at the public listing of this company on the Warsaw Stock Exchange. The market debut of the company is possible in 2008, although the final date will depend on an owner's analysis of the situation on the equity markets. As part of the preparations for this offer, on 6 December 2007 the Extraordinary General Shareholders' Meeting of Telefonía DIALOG S.A. resolved to decrease the share capital of the company from PLN 1 959 800 thousand to PLN 489 950 thousand, i.e. by PLN 1 469 850 thousand. The purpose of this operation was to improve the equity structure, i.e. to cover the accumulated losses in the amount of PLN 913 150 thousand, and to change the face value of the shares in connection with the planned IPO of the company's shares and their planned listing on a regulated market. This decrease in capital was carried out without payout to the company's shareholders.

## 2.8. Research and development

The highest research and development expenditures in the Group in 2007 were incurred by the Parent Entity. They were financed primarily by the internal funds of KGHM Polska Miedź S.A., and in certain cases through the use of public and EU funds.

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

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

**Table 8.** R&D expenditures in the Parent Entity ('000 PLN)

	2006	2007	Change 2006=100
Mining	3 670	4 414	120.3
Metallurgy	2 385	1 662	69.7
<b>Total</b>	<b>6 055</b>	<b>6 076</b>	<b>100.3</b>

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

KGHM CUPRUM sp. z o.o. – CBR is an entity of the Group whose basic activities involve research and development. The company is a contractor for most R&D investment projects realised by KGHM Polska Miedź S.A. Among the most important tasks realised by the company in 2007 are:

- identifying sources of nitrogen impurities in industrial water used in production (copper mines, enrichment plants, „Żelazny Most” tailings pond), and actions to resolve this problem,
- biotechnological methods for recovering non-ferrous metals and utilising waste – analysis of the resource base and characterising potential nickel resources,
- work carried out as part of the BIOSHALE project, dedicated to developing methods for the bioleaching of copper-bearing black shale deposits; this project was carried out by an international consortium of 13 representatives from the scientific and industrial communities throughout Europe; amongst the most important achievements of the consortium are the analysis of a variety of shale samples in terms of their bioleaching potential, and the development of technology for processing black shale deposits.

Following are the major projects of the remaining entities of the Group in R&D:

### DIALOG S.A.

In 2007 the company spent around PLN 3 000 thousand on R&D. This was for the realisation of two projects:

- IPTV – interactive television and video on demand,
- MVNO – a virtual operator in a mobile phone network.

#### **KGHM Ecoren S.A.**

In 2007 the company spent around PLN 1 000 thousand on R&D. Amongst the most important projects were the following:

- the development of technology for the purification of nickel sulphate as part of R&D work realised in the form of a target Project titled „Development of new technology for the purification of crude nickel sulphate and for controlling the process of extracting impurities, and commencing production of high-quality nickel compounds (II)”, performed in cooperation with the Non-Ferrous Metals Institute in Gliwice and the participation of the Ministry of Science and Higher Education,
- determining the rhenium balance in the production of the copper smelters of KGHM Polska Miedź S.A. and seeking new sources for the recovery of rhenium,
- conducting R&D projects to review technology for the recovery of rhenium from washing acids of the Legnica smelter; the development of technology for the production of metallic rhenium from ammonium perrhenate and the preparation of technical assumptions for the construction of an industrial installation.

## **2.9. Significant changes in organisation and management in the Group**

#### **KGHM Polska Miedź S.A.**

On 13 March 2007, the organisational structure of KGHM Polska Miedź S.A. was changed, combining the functional areas of the Vice President for Mining and the Vice President for Smelting under a single Vice President for Production.

The responsibility for coordination and direct supervision of the smelting divisions of KGHM Polska Miedź S.A. was assigned to the General Director for Smelting, while the General Director for Mining was assigned responsibility for the mining divisions, the Ore Enrichment Plants and the Tailings Plant.

#### **KGHM Ecoren S.A.**

In 2007 the company consistently pursued the strategy accepted in 2006, whose basic goal is to transform the company from that of an investment fund to that of a company with a production-service profile. Two processes are taking place in the company:

- reducing the scale and scope of activities respecting equity supervision – preparing to dispose of financial assets (companies), and
- increasing the scale of activities focused on production, commerce, marketing and development.

These actions required the adaptation of the organisational structure and management system to meet new demands.

In 2007 the company entered into a contract for the purchase and implementation of modules of the Microsoft Dynamice AX Standard IT System, aiding the management of various areas of the company's operations.

#### **INOVA Spółka z o.o.**

In 2007 INOVA Spółka z o.o. began to restructure both its assets and its human resources. Its plans for restructurisation in these areas were aimed at concentrating the activities of the company on its core business – the electrical engineering sector. As a result of these changes, the company was transformed from that of a multi-sector enterprise into an electrical engineering company. In 2007, within the context of the accepted strategy based on building strong foundations in the electrical engineering sector, key actions taken in restructuring the company were:

- disposal of the Ore Enrichment Division,
- disposal of the Rubber Goods Plant Division,
- organisational-staff restructurisation, adapting the structure to actual operations.

#### **PHP „MERCUS” sp. z o.o.**

In 2007, with respect to significant changes in organisation and management (incl. changes in IT systems), the company:

- opened a new Bundled Electrical Cable Production Section in Legnica,
- completed construction of a Furniture Salon in Głogów,
- completed work on a „Project for the computerisation of the sales outlets” by implementing in these outlets a unified IT platform comprised of the rapid retail sales system EuroPOS SM, an interface and quantity-value register and corporate sales servicing in MBS – Axapta.

#### **PeBeKa S.A.**

In 2007 the company began to implement the SAP system. The new system replaces a large part of the IT applications formerly used, and ensures the complete servicing of most of the company's operational areas.

#### **KGHM Metraco S.A.**

At the beginning of 2007 the representative office in Prague was closed.

### 3. Financial position

#### 3.1. Scope and nature of the data presented

##### Periods covered by the consolidated financial statements

The consolidated financial statements presented cover:

- the current period from 1 January to 31 December 2007,
- the comparative period from 1 January to 31 December 2006.

##### Entities consolidated

KGHM Polska Miedź S.A. – as the Parent Entity of the Group, fully consolidated 25 subsidiaries, while 2 associates were accounted for using the equity method:

- Polkomtel S.A.,
- MINOVA-KSANTE Spółka z o.o.

Polkomtel S.A., in which KGHM Polska Miedź S.A. owns a 19.61% interest is an associated entity which is accounted for using the equity method. The determination of significant influence is based on the fact that, in accordance with the shareholders agreement and the statutes of Polkomtel S.A., KGHM Polska Miedź S.A., through its representative on the Supervisory Board, has influence on resolutions related to the operating strategy of Polkomtel S.A., which in turn affects its operating and financial policies.

Three subsidiaries were not consolidated:

- PCPM sp. z o.o.,
- TUW-CUPRUM,
- PU „Mercus Serwis” Sp. z o.o.

Exemption of these entities from consolidation was possible as the effect of applying them is immaterial.

The shares of unconsolidated subsidiaries are presented in non-current available-for-sale financial assets and are measured at cost, adjusted by any impairment losses.

##### Audit of the financial statements

##### KGHM Polska Miedź S.A.

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

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

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

Ernst & Young Audit sp. z o.o. was also selected to audit the financial statements for 2007 of the following subsidiaries:

**KGHM Ecoren S.A.** – contract signed on 1 October 2007 with respect to: audit of the separate and consolidated financial statements and review of the half-year reporting packet for consolidation purposes; total remuneration amounts to PLN 160 thousand,

**DIALOG S.A.** – contract signed on 21 June 2007 with respect to audit of the following: the separate and consolidated financial statements and the group reporting packet for consolidation purposes, and review of the half-year reporting packet; total remuneration amounts to PLN 340 thousand; remuneration due to Ernst & Young Audit Sp. z o.o. with respect to 2007 for other purposes than those cited above amounts to PLN 415 thousand,

**„Energetyka” sp. z o.o.** – contract signed on 3 July 2007 with respect to audit of the following: the separate financial statements, the group reporting packet for consolidation purposes, and review of the half-year reporting packet; total remuneration amounts to PLN 120 thousand,

**KGHM Metraco S.A.** – contract signed on 14 November 2007 with respect to audit of the following: the separate financial statements and the group reporting packet for consolidation purposes; total remuneration amounts to PLN 85 thousand,

**PeBeKa S.A.** - contract signed on 22 October 2007 with respect to audit of the following: the separate financial statements and the group reporting packet for consolidation purposes; total remuneration amounts to PLN 128 thousand,

**POL-MIEDŹ TRANS Sp. z o.o.** - contract signed on 27 December 2007 with respect to audit of the following: the separate financial statements and the group reporting packet for consolidation purposes; total remuneration amounts to PLN 123 thousand,

**ZANAM-LEGMET Sp. z o.o.** - contract signed on 1 August 2007 with respect to audit of the following: the separate financial statements and the group reporting packet for consolidation purposes; total remuneration amounts to PLN 87 thousand,

**„Zagłębie” Lubin SSA-** contract signed on 26 October 2007 with respect to audit of the following: the separate financial statements, conducting agreed-upon procedures in accordance with the Licensing Handbook of the Polish Football Association (PZPN) on declarations submitted by the club to the Licensing Committee of PZPN; total remuneration amounts to PLN 85 thousand.

### 3.2. Balance sheet: assets

The structure of the assets of the KGHM Polska Miedź S.A. Group is dominated by the assets of the Parent Entity.

**Table 9.** Consolidated balance sheet – Assets ('000 PLN)

ASSETS	31 December 2006	31 December 2007	Structure %	Change 2006=100
1	2	3	4	5
<b>Non-current assets</b>	<b>7 402 862</b>	<b>7 888 364</b>	<b>58.6</b>	<b>106.6</b>
Property, plant and equipment	6 052 286	6 614 352	49.1	109.3
Intangible assets	126 014	119 231	0.9	94.6
Investment property	18 853	16 517	0.1	87.6
Investments in associates	690 074	690 096	5.1	100.0
Deferred tax assets	388 468	320 506	2.4	82.5
Available-for-sale financial assets	92 932	47 155	0.4	50.7
Held-to-maturity investments	44	41	0.0	93.2
Derivative financial instruments	17 016	33 395	0.2	196.3
Trade and other receivables	17 175	47 071	0.3	274.1
<b>Current assets</b>	<b>5 800 500</b>	<b>5 570 957</b>	<b>41.4</b>	<b>96.0</b>
Inventories	1 768 750	1 744 495	13.0	98.6
Trade and other receivables	1 404 644	925 367	6.9	65.9
Current tax receivables	4 860	7 377	0.1	151.8
Held-to-maturity investments	19 070	-	-	x
Derivative financial instruments	282 045	81 622	0.6	28.9
Cash and cash equivalents	2 321 131	2 812 096	20.9	121.2
<b>Non-current assets held for sale</b>	<b>24 507</b>	<b>184</b>	<b>0.0</b>	<b>0.8</b>
<b>TOTAL ASSETS</b>	<b>13 227 869</b>	<b>13 459 505</b>	<b>100.0</b>	<b>101.8</b>

In 2007 there was a slight increase in total assets by PLN 231 636 thousand, i.e. by 1.8 %. The rate of increase of non-current assets was slightly higher, at 6.6%. Property, plant and equipment was the largest item of assets. Their value increased in comparison to 2006 by PLN 562 066 thousand. The more than nine percent increase in these assets is mainly due to realisation of the investment program by the Parent Entity. Capital expenditures in KGHM Polska Miedź S.A. amounted to PLN 828 089 thousand, i.e. nearly twice as much as depreciation. A significant portion of these expenditures were related to development (40%) and replacement (50%), including the exchange of mine machinery (PLN 190 303 thousand).

Current assets decreased in comparison to 2006. The largest decrease was in trade receivables, i.e. by PLN 479 277 thousand. The main cause of this was the decrease in current trade receivables of KGHM Polska Miedź S.A., including among others due to deliveries of copper wire rod on the domestic market. The decrease in the value of derivative financial instruments, respecting the Parent Entity, amounted to PLN 200 423 thousand.

The largest item in current assets is cash and cash equivalents. Their value increased during 2007 by PLN 490 965 thousand, i.e. by 21%. Around 90% of this amount is with respect to KGHM Polska Miedź S.A. The Company invested unallocated funds in financial assets, mainly short-term bank deposits and participation units in investment funds.

### 3.3. Balance sheet: equity and liabilities

**Table 10.** Consolidated balance sheet – Equity and liabilities ('000 PLN)

EQUITY	31 December 2006	31 December 2007	Structure %	Change 2006=100
1	2	3	4	5
<b>EQUITY</b>	<b>8 513 912</b>	<b>9 501 609</b>	<b>70.6</b>	<b>111.6</b>
Share capital	2 000 000	2 000 000	14.9	100.0
Other reserves	(431 161)	13 118	0.1	x
Retained earnings	6 900 311	7 440 870	55.3	107.8
<b>Equity attributable to shareholders of the Parent Entity</b>	<b>8 469 150</b>	<b>9 453 988</b>	<b>70.2</b>	<b>111.6</b>
<b>Minority interest</b>	<b>44 762</b>	<b>47 621</b>	<b>0.4</b>	<b>106.4</b>
<b>Non-current liabilities</b>	<b>1 553 290</b>	<b>1 710 812</b>	<b>12.7</b>	<b>110.1</b>
Trade and other payables	16 739	24 762	0.2	147.9
Borrowings and finance lease liabilities	150 568	162 909	1.2	108.2
Derivative financial instruments	1 486	3 087	0.0	207.7
Deferred tax liabilities	26 538	29 804	0.2	112.3
Liabilities due to employee benefits	864 950	919 923	6.8	106.4
Provisions for other liabilities and charges	493 009	570 327	4.2	115.7
<b>Current liabilities</b>	<b>3 157 365</b>	<b>2 247 084</b>	<b>16.7</b>	<b>71.2</b>
Trade and other payables	1 711 160	1 602 513	11.9	93.7
Borrowings and finance lease liabilities	54 756	113 201	0.8	206.7
Current tax liabilities	402 842	343 377	2.6	85.2
Derivative financial instruments	837 103	14 335	0.1	1.7
Liabilities due to employee benefits	72 603	77 402	0.6	106.6
Provisions for other liabilities and charges	78 901	96 256	0.7	122.0
<b>TOTAL LIABILITIES</b>	<b>4 710 655</b>	<b>3 957 896</b>	<b>29.4</b>	<b>84.0</b>
<b>Liabilities associated with non-current assets held for sale</b>	<b>3 302</b>	<b>-</b>	<b>-</b>	<b>x</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13 227 869</b>	<b>13 459 505</b>	<b>100.0</b>	<b>101.8</b>

In 2007 there was an increase in equity. This was due to:

- an increase in other reserves by PLN 444 279 thousand, due to the settlement of hedging transactions,
- the profit for 2007 in the amount of PLN 3 935 516 thousand, mainly earned by the Parent Entity,
- payment of the dividend for 2006 in the amount of PLN 3 394 000 thousand.

Non-current liabilities increased by 10%. This was however an insignificant amount, i.e. PLN 157 522 thousand. There was a significant change in current liabilities. Their value decreased by PLN 910 281 thousand. The largest decrease was in derivative financial instruments, i.e. by 98.3%, due to a change in the hedging strategy of the Parent Entity.

The largest item in current liabilities is trade and other payables, as follows:

- trade payables – 642 007 thousand,
- other liabilities – 960 506 thousand.  
including: taxation and social insurance, PLN 330 608 thousand, and accruals, PLN 322 775 thousand, mainly respecting the annual bonus in the Parent Entity.

In 2007 there was an increase in bank loans in the Group. The largest item was the debt of DIALOG S.A. At the end of 2007 it amounted to PLN 141 081 thousand, while at the end of 2006 it amounted to PLN 100 243 thousand.



### 3.4. Income statement

**Table 11.** Consolidated income statement ('000 PLN)

INCOME STATEMENT	2006	2007	Change 2006=100
1	2	3	4
Sales	12 862 899	13 494 128	104.9
Costs of sales	(7 760 218)	(7 578 224)	97.7
<b>Gross profit</b>	<b>5 102 681</b>	<b>5 915 904</b>	<b>115.9</b>
Selling costs	(193 001)	(210 044)	108.8
Administrative expenses	(697 242)	(737 874)	105.8
Other operating income	173 956	243 460	140.0
Other operating costs	(363 459)	(684 493)	188.3
<b>Operating profit</b>	<b>4 022 935</b>	<b>4 526 953</b>	<b>112.5</b>
Finance costs - net	(27 102)	(35 159)	129.7
Share in profits of associates accounted for using the equity method	220 780	265 093	120.1
<b>Profit before income tax</b>	<b>4 216 613</b>	<b>4 756 887</b>	<b>112.8</b>
Income tax expense	(737 233)	(821 371)	111.4
<b>Profit for the period</b>	<b>3 479 380</b>	<b>3 935 516</b>	<b>113.1</b>
attributable to:			
shareholders of the Parent Entity	3 479 183	3 934 559	113.1
minority interest	197	957	485.8
<b>Earnings per share attributable to shareholders of the Parent Entity during the year (PLN per share)</b>			
- basic	<b>17.40</b>	<b>19.67</b>	<b>113.0</b>
- diluted	<b>17.40</b>	<b>19.67</b>	<b>113.0</b>

During the analysed period the KGHM Polska Miedź S.A. Group increased its sales versus the comparable prior period by PLN 631 229 thousand. The increase in sales was mainly dictated by the increase in revenues achieved by the Parent Entity, mainly due to a lower adjustment of revenues due to hedging transactions and to the increase in copper and silver prices (Cu +6%; Ag +16%).

Gross profit increased slightly faster than sales. This was mainly due to the decrease in the negative result from the measurement of hedging transactions in KGHM Polska Miedź S.A.

The increase in other operating costs was due to the loss from the measurement and realisation of derivative instruments by PLN 161 401 thousand and to the exchange loss by PLN 120 745 thousand. Finally, profit for the period increased versus the prior year by 13.1 %, i.e. by 456 136 thousand.

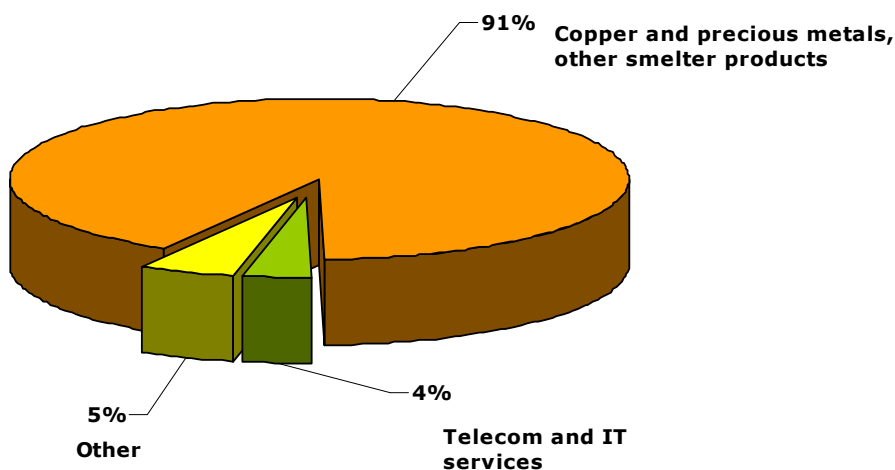
**Table 12.** Structure of the profit for the period of the KGHM Polska Miedź S.A. Group ('000 PLN)

Name of entity	Profit for 2007
<b>KGHM Polska Miedź S.A.</b>	<b>3 798 826</b>
<b>subsidiaries</b>	<b>114 948</b>
<i>of which:</i>	
DIALOG S.A.	63 372
KGHM Ecoren S.A.	33 052
KGHM Metraco S.A.	13 209
DFM Zanam- Legmet Sp. z o.o.	4 252
KGHM CONGO S.P.R.L.	3 732
Walcownia Metali Nieżelaznych Spółka z o.o.	3 359
PHP „MERCUS” sp. z o.o.	3 265
CBJ sp.z o.o.	2 855
<b>Associates - attributable to the Group</b>	<b>265 093</b>
<i>of which:</i>	
Polkomtel S.A.	264 191
Consolidation adjustment	(244 308)
<b>Profit for the period attributable to shareholders of the Parent Entity</b>	<b>3 934 559</b>

### 3.5. Structure of Group sales

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, which is nearly at the level of other sales.

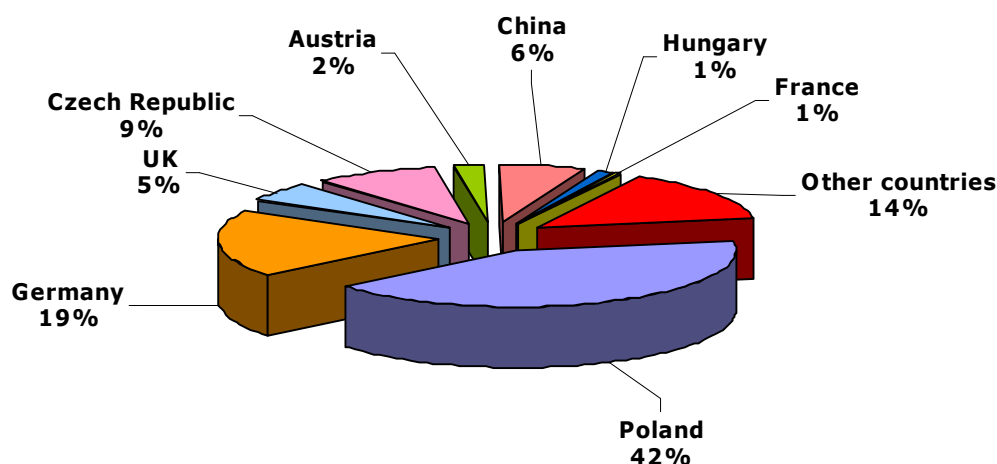
**Diagram 5.** Sales by segment in 2007



### 3.6. Sales markets – geographical structure

The largest portion, i.e. 42% of revenues from the sale of products, goods for resale and services achieved by the KGHM Polska Miedź S.A. Group, comes from the domestic market. The largest foreign recipient of the products, goods for resale and services offered by the Group is Germany at 19 %, and the Czech Republic at 9%.

**Diagram 6.** Sales by market in 2007



During the analysed period, in comparison to the sales structure in 2006, the following were clearly significant:

- an increase in sales on the Polish market from 37 % to 42 %,
- a decrease in sales on the German market from 27 % to 19 %.

### 3.7. Related party transactions

The value of transactions – sales and purchases – with related entities is presented below. State Treasury companies, as a related entity, were recognised in the item *other entities*.

**Table 13.** Sales to related parties ('000 PLN)

Sales	2006	2007
to associates	2 995	2 749
to key management and supervisory personnel	23	25
to other related entities	83 451	76 948
<b>Total</b>	<b>86 469</b>	<b>79 722</b>

In 2007, among the State Treasury subsidiaries, the KGHM Polska Miedź S.A. Group earned the largest revenues from sales to the entity Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej in Legnica (value PLN 24 907 thousand, share - 31% of total sales). These revenues were from sales of heating energy by „Energetyka” sp. z o.o.

**Table 14.** Purchases from related parties ('000 PLN)

Purchases	2006	2007
from associates	52 901	54 336
from other related entities	766 122	649 284
<b>Total</b>	<b>819 023</b>	<b>703 620</b>

Among the State Treasury subsidiaries, in 2007 the largest purchases by KGHM Polska Miedź S.A. Group were from the entity EnergiaPro Koncern Energetyczny S.A. (value PLN 483 846 thousand, share – 69% of total purchases).

### 3.8. Financial ratios of the KGHM Polska Miedź S.A. Group

Basic ratios describing the economic activities of the Group are presented below:

**Table 15.** Financial ratios

Ratios	31 December 2006	31 December 2007
<b>1. Liquidity ratios</b>		
- quick liquidity (multiple)	1.3	1.7
- current liquidity (multiple)	1.8	2.5
<b>2. Profitability ratios</b>		
- ROA - return on assets ( % )	26.3	29.2
- ROE - return on equity ( % )	40.9	41.4
<b>3. Equity and liabilities ratios</b>		
- debt ratio ( % )	35.6	29.4
- durability of financing structure ratio ( % )	76.1	83.3

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 29%.

The increase in the financial result by 13% alongside a slight increase in total assets by 1% caused an increase in the return on assets (ROA). The return on equity (ROE) ratio remained at a level similar to 2006.

The decrease in the debt ratio was due to a decrease in liabilities by 16%. The increase in the durability of financing structure ratio was mainly due to the increase in equity by 12%.

### 3.9. Risk management

The KGHM Polska Miedź S.A. Group is exposed to the following types of financial risk:

- market risk,
- liquidity risk, and
- credit risk.

The main goal of risk management is to minimise variability in profit before taxation, increase the probability of achieving budget plans, keep the companies in a good financial condition and support the process of undertaking strategic decisions as respects investments, with due regard to the sources for financing such investments.

The Group identifies the following main market risks to which it is exposed:

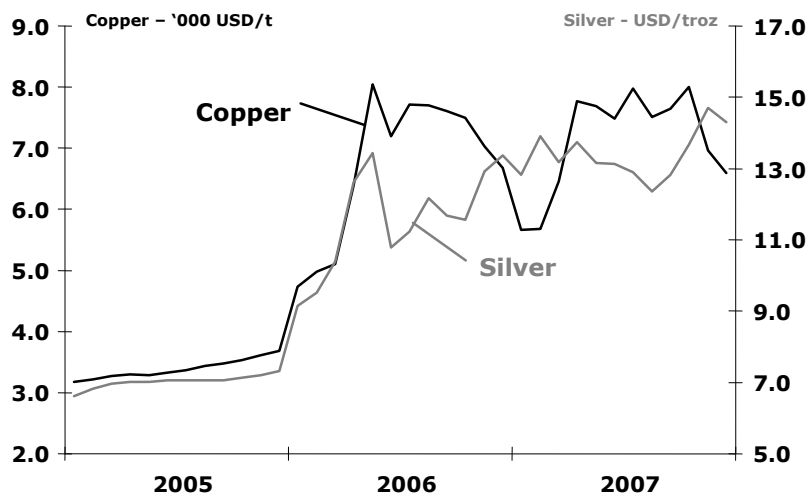
- the commodity risk,
- the currency risk, and
- the interest rate risk.

In 2007, as in the prior year, metals prices remained high alongside relatively high variability. The average electrolytic copper price on the London Metal Exchange was 7 126 USD/t, meaning an increase by 6% versus 2006, in which it amounted to 6 731 USD/t. The minimum average monthly copper price was recorded in January and amounted to 5 670 USD/t. The best month for copper producers was October, when the average price was 8 008 USD/t.

The average annual silver price on the global market in 2007 was 13.38 USD/troz (430 USD/kg). The average annual silver price according to the London Bullion Market Association was 16% higher than in 2006, when it amounted to 11.55 USD/troz (371 USD/kg). The minimum average monthly silver price was recorded in August and amounted to 12.36 USD/troz (397 USD/kg), while the highest price was observed in November – 14.70 USD/troz (473 USD/kg). This was also the highest average monthly silver price since January 1981.

The average monthly price of copper on the LME and silver on the LBMA in the years 2005-2007 is presented in the chart below.

**Diagram 7.** Copper quotations per the LME and silver quotations per the LBMA



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

The KGHM Polska Miedź S.A. Group actively manages that risk to which it is exposed.

The main technique applied in managing market risk is the use of hedging strategies with derivative instruments.

At 31 December 2007, the fair value of open positions in derivative instruments amounted to PLN 97 595 thousand, of which:

- financial assets (derivative instruments with a positive fair value) amounted to PLN 115 017 thousand,
- financial liabilities (derivative instruments with a negative fair value) amounted to PLN 17 422 thousand.

In 2007 the result on derivative instruments amounted to PLN (745 121) thousand, while in the prior year it amounted to PLN (2 479 216) thousand.

The result on cash flow hedging financial instruments accrued in equity at the end of the financial period (exclusive of the results in deferred tax) amounted to PLN 9 895 thousand, while at the end of the prior year it amounted to PLN (557 528) thousand.

### **Risk management in the Parent Entity**

In 2007 copper price hedging strategies represented approx. 25% (in 2006 34%) of sales of this metal realised by the Parent Entity. In the case of silver they amounted to approx. 6% (in 2006 31%). In the case of the currency market, hedged revenues from sales represented approx. 10% (in 2006 13%) of total revenues from sales realised by KGHM Polska Miedź S.A.

In 2007, the Parent Entity implemented copper price hedging strategies of a total volume of 150 thousand tonnes and a maturity falling in 2008. The company made use of options. Additionally, during this period the Parent Entity implemented adjustment hedge transactions of a total volume of 5 390 tonnes and a maturity falling in January, the period from March to July, September and October 2007, and for the period from April to September 2008. In the case of the silver market, during the analysed period strategies were implemented to hedge the price of this metal in a total volume of 19.2 million troz and a time horizon falling in 2008 and 2009. The Parent Entity made use of options. In 2007, there were no adjustment hedge transactions implemented on the silver market.

In the case of the forward currency market, in 2007 the Parent Entity implemented strategies hedging the USD/PLN rate for an amount of USD 300 million and a maturity falling in the second half of 2007. KGHM Polska Miedź S.A. made use of forward contracts. 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 2008 (150 thousand t) and for a portion of silver sales planned in 2008 (12.0 million troz) and in 2009 (9.6 million troz). The Parent Entity has no hedged positions with respect to revenues from sales (currency market).

### **Risk management in the other companies of the KGHM Polska Miedź S.A. Group**

In 2007 KGHM Metraco S.A. entered into currency risk hedging transactions. Export sales represent around 10% of the company's sales. Due to the significant impact of exchange differences generated by the settlement of operations on foreign markets at the level of financial income and costs, around 95% of revenues from export sales were covered by hedging transactions. In order to hedge against exchange risk, KGHM Metraco S.A. made use of derivative instruments in the form of forward contracts.

KGHM Polish Copper Ltd., due to the nature of its activities, is exposed to the risk of changes in metals prices and the risk of changes in exchange rates. The company uses natural hedging. In situations where natural hedging is not used, adjustment hedge transactions are used instead. Their scope, scale and structure depend on the internal situation of the company, current and forecast market conditions and the instruments applied, as well as their implementation costs. The following types of hedging instruments are used by the company: swaps, forwards, futures, and structures derived from these instruments.

At the end of 2007 KGHM Ecoren S.A. introduced currency risk hedging procedures. The company entered into its first hedging transactions in 2008.

The remaining companies of the Group possess internally-developed operating procedures for reducing exposure to certain types of market risk, in particular credit risk and liquidity risk. Adherence to these procedures in the process of selecting suppliers and clients, seeking external sources of financing and depositing free cash resources ensures these companies of minimalisation of risk in decision taking related to their business activities.

### **3.10. Forecast financial situation of the Group**

Forecasts of the Group results are not prepared. Forecasts of the projected results of the Parent Entity are prepared and published. On 27 March 2008 information on the approval by the Supervisory Board of KGHM Polska Miedź S.A. of the budget of the company for 2008 was published in a current report.

The approved Budget assumes the achievement in 2008 of revenues from sales of PLN 11 193 million and a net profit of PLN 2 904 million.

#### Important assumptions of the forecast:

Macroeconomic factors:

- average annual electrolytic copper price of 7 100 USD/t,
- average annual metallic silver price of 15.00 USD/troz (482 USD/kg),
- average annual exchange rate of 2.50 PLN/USD.

Internal factors:

- electrolytic copper production of 512 thousand t, including 94 thousand t from external copper-bearing materials,
- metallic silver production of 1 110 t,
- total unit cost of electrolytic copper production of 12 455 PLN/t,
- capital expenditures of PLN 1 637 million.

The macroeconomic assumptions used results mainly from assumed continuation of the situation on the metals market and of economic growth in Poland, which effects the PLN exchange rate.

The expected decrease in electrolytic copper production is mainly due to shorter working time in the mines and to the decrease in copper content in ore caused by mining operations moving into areas of lower copper content, as well as to pursuing a policy of rational deposit management.

The level of total planned unit copper production cost in 2008 (12 455 PLN/t Cu) will be affected mainly by:

- a decrease of electrolytic copper production volume,
- an increase of mine development works costs and amortisation,
- an increase in prices of technological materials and energy.

The level of capital expenditures is primarily related to:

- the replacement of worn-out assets, and
- the continuation of extraction at the planned level over the long term, mainly through the opening of new areas to mining.

The subsidiaries follow unified principles for budgeting and planning. The structure of annual budgets and five year plans is based on separate centers of responsibility. The plans of entities are evaluated based on their conformance with the Strategy of the Parent Entity and Group, from which in turn arise basic questions associated with the directions of equity investment, the development of specific areas of activities and with the dividend policy. A significant role in Group planning is played by the effective management of cash flow, the optimal financing of current activities, risk management and controlling costs.

Execution of these plans is continuously monitored by the supervisory boards of these entities as well as by the equity supervision unit of the Parent Entity. The KGHM Polska Miedź S.A. Group also applies unified reporting principles. The specific financial and economic condition of Group entities is evaluated on a quarterly basis, with monthly monitoring.

Planning and budgeting in Group entities is supported by the integrated IT systems which have been implemented in these companies.

#### **4. Intentions of the Parent Entity as regards equity investments**

The intentions of KGHM Polska Miedź S.A. as regards equity investments are mainly aimed at:

- investments in the areas considered by KGHM Polska Miedź S.A. as strategic,
- realisation of investments supporting the core business of KGHM Polska Miedź S.A.,
- actions aimed at improving the Group structure, and
- increasing the liquidity of assets and their reallocation in accordance with strategic investment directions.

The actions of KGHM Polska Miedź S.A. related to supporting the core business assume the realisation of projects aimed at modernising the technology of copper extraction and processing and reducing production costs. In carrying out these strategic intentions, those subsidiaries which provide services to the Divisions of KGHM Polska Miedź S.A. have developed investment plans aimed at these aspects.

„Energetyka” sp. z o.o. is continuing an investment project related to the modernisation and development of its power generation capacity, arising from a current evaluation of the energy needs of the Divisions of KGHM Polska Miedź S.A., and to reducing its production costs. The funds allocated for the partial financing of this program, in the form of an increase in the share capital of „Energetyka” sp. z o.o., represent a significant part of the equity investment plan of KGHM Polska Miedź S.A. for the years 2008-2012.

As a result of the implementation of this project, „Energetyka” sp. z o.o. has held discussions with PGNiG S.A. with the participation of KGHM Polska Miedź S.A. aimed at adapting contracts to the current energy needs of KGHM Polska Miedź S.A. and ensuring the profitability of the venture. Preliminarily, in the course of negotiations new, adjusted to needs, gas amounts, dates of starting deliveries, gas prices and way of its indexation were set. KGHM Polska Miedź S.A. and „Energetyka” sp. z o.o. are awaiting the final attitude of PGNiG S.A. in this matter.

In 2008 KGHM Polska Miedź S.A. is planning to increase the share capital of PeBeKa S.A. in order to finance the purchase of a modern tunnel drilling combine for the divisions of KGHM. In addition, PeBeKa S.A. has undertaken actions aimed at increasing its expertise in specialty construction and tunnelling. KGHM Polska Miedź S.A. will partially finance these investments through an increase in share capital.

In realising the strategy of increasing its value through investing in development-related areas, KGHM Polska Miedź S.A. also provides equity support to other investments by the entities of the Group, aimed at strengthening their positions in those sectors in which they operate.

A significant part in the realisation of development-related investment plans will be played by POL-MIEDŹ TRANS Sp. z o.o., in which expenditures are planned for realising investments aimed at increasing its expertise in railway transport. KGHM Polska Miedź S.A. will allocate significant amounts towards this goal over the next five years.

Significant investments with respect to the accepted strategy, with equity support by KGHM Polska Miedź S.A., will be realised by KGHM Ecoren S.A. This company aims to develop its activities in areas related to the production of road-building materials, utilising waste and recovering elements associated with the non-ferrous metals ores.

Realising its strategy with respect to the local community, KGHM Polska Miedź S.A. provides equity support to investments of social importance. In 2008 financing will continue for construction of a stadium for „Zagłębie” Lubin SSA, an investment begun in 2007. KGHM Polska Miedź S.A. will also support the purchase of new medical equipment in MCZ S.A.

Tasks related to simplifying and improving the structure of the KGHM Polska Miedź S.A. Group over the next several years will involve disposing of some entities unrelated to the core business of KGHM Polska Miedź S.A. and assuming direct supervisory control over entities directly related to KGHM Ecoren S.A. which are significant for the functioning of the core business.

With respect to telecom investments, KGHM Polska Miedź S.A. assumes that it will increase its ownership stake in Polkomtel S.A. from 19.6% to over 24% of the share capital of this company.

The financial results of KGHM Polska Miedź S.A. for 2007 permit realisation of the accepted equity investment plan. To realise these investment projects the use of internal funds is assumed.

## **5. Corporate governance**

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

A report on the application of corporate governance principles, in accordance with the Warsaw Stock Exchange Rules, was published together with the annual report of KGHM Polska Miedź S.A. on 11 March 2008.

Corporate governance principles are also applied by INTERFERIE S.A., whose shares are listed on the Warsaw Stock Exchange. A report on the application by this company of corporate governance principles was also published together with the annual report of the company on 11 March 2008.

## **6. Subsequent events**

### **Changes in the Management Board of the Parent Entity**

At its meeting on 17 January 2008, the Supervisory Board of KGHM Polska Miedź S.A. dismissed Krzysztof Skóra from the function of President of the Management Board of KGHM Polska Miedź S.A. and Dariusz Kaśków from the function of Member of the Management Board – Vice President of the Management Board of KGHM Polska Miedź S.A.

The Supervisory Board of the Parent Entity set the size of the Management Board of KGHM Polska Miedź S.A. at three members.

The Supervisory Board appointed Ireneusz Reszczyński, serving as I Vice President of the Management Board of KGHM Polska Miedź S.A., to fill the function of President of the Management Board until the appointment of the President of the Management Board.

### **Resignation of a Member of the Supervisory Board of the Parent Entity**

On 13 February 2008, Marcin Ślęzak, a Member of the Supervisory Board of KGHM Polska Miedź S.A., submitted his resignation from membership on the Supervisory Board of KGHM Polska Miedź S.A.

### **Changes in the Supervisory Board of the of the Parent Entity**

On 14 February 2008, the Extraordinary General Shareholders' Meeting dismissed the following people from the Supervisory Board:

1. Leszek Jakubów
2. Anna Mańk
3. Remigiusz Nowakowski
4. Stanisław Andrzej Potycz
5. Jerzy Żyżyński

Simultaneously on 14 February 2008 the following people were appointed to the Supervisory Board:

1. Marcin Dyl
2. Arkadiusz Kawecki
3. Jacek Kuciński
4. Marek Panfil
5. Marek Trawiński
6. Marzenna Weresa

On 25 February 2008 the Supervisory Board appointed Marek Trawiński as Chairman of the Supervisory Board, Jacek Kuciński as Vice Chairman, and Marek Panfil as Secretary.

### **Announcement of a recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A.**

The Supervisory Board of the Parent Entity on 12 March 2008, resolved to commence the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A.

The press announcement on the recruitment process was published on 14 March 2008 in the Polish dailies "Rzeczpospolita" and "Gazeta Wyborcza" as well as on the internet website of KGHM Polska Miedź S.A.

On 27 March 2008 the Supervisory Board decided to continue the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. through additional publication of the announcement in the press well as on the internet website on 28 March 2008.

This recruitment process will be carried out in accordance with the "Regulations on the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A." as approved by the Supervisory Board on 12 March 2008.

#### **Approval by the Supervisory Board of KGHM Polska Miedź S.A. of the Budget for 2008**

On 27 March 2008 the Supervisory Board of the Parent Entity approved the Budget of KGHM Polska Miedź S.A. for 2008 as submitted by the Management Board.

The Budget for 2008 was developed based on the results of 2007 and on the assumptions of individual operating plans reflecting initiatives and projects deriving from the Strategy of the Parent Entity.

The approved Budget assumes the achievement in 2008 of revenues from sales of PLN 11 193 million and a net profit of PLN 2 904 million.

#### **Dividend from Polkomtel S.A. from 2007 profit**

On 28 March 2008 the Ordinary General Shareholders Meeting of Polkomtel S.A. passed a resolution on the appropriation of profit for 2007. In accordance with this decision the shareholders of the company allocated PLN 1 248 245 thousand to be paid as a dividend from profit for 2007. Due to the fact that in December 2007 an interim dividend of PLN 315 700 thousand was paid, the amount of PLN 932 545 thousand remained outstanding. This amount will be paid in two instalments: PLN 466 170 thousand by 28 May 2008 and PLN 466 375 thousand by 27 November 2008.

The total amount of the dividend from profit for 2007 attributable to KGHM Polska Miedź S.A. is PLN 244 764 thousand, of which PLN 61 905 thousand was paid to the Parent Entity as an interim dividend in December 2007, PLN 91 409 thousand will be paid by 28 May 2008, and the remainder of PLN 91 450 thousand will be paid by 27 November 2008.

#### **Registration of a change in the share capital of DIALOG S.A.**

On 4 April 2008 a decrease in share capital was registered at the Regional Court for Wrocław-Fabryczna in Wrocław, Section VI (Economic) of the National Court Register for the subsidiary DIALOG S.A., from PLN 1 959 800 thousand to PLN 489 950 thousand, through the decrease in the face value of all existing shares of the company from PLN 100.00 to PLN 25.00 per share.

PLN 913 150 thousand of the amount obtained from the decrease in share capital was used to cover the loss from prior years, while PLN 556 700 thousand will be transferred to reserve capital.

The share capital of DIALOG S.A. after registration amounts to PLN 489 950 thousand and is divided into 19 598 000 shares of PLN 25.00 each. The total number of votes attached to all issued shares after registration is 19 598 000.

#### **Commercial contract**

On 30 January 2008 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. for the sale of 8 mm copper wire rod and oxygen-free copper rod. The estimated value of this contract is from approx. USD 658 461 thousand (PLN 1 613 296 thousand) to approx. USD 844 362 thousand (PLN 2 068 771 thousand).

#### **Significant contract with Glencore International AG**

On 19 March 2008 a contract was entered into between the Parent Entity and Glencore International AG for the sale of copper cathodes in years 2008-2009.

The estimated value of this contract, depending on the amount of tonnage under option, is from USD 413 201 thousand to USD 557 417 thousand, i.e. from PLN 927 223 thousand to PLN 1 250 844 thousand. This amount was estimated based on the forecast copper price (using a forward curve) and the National Bank of Poland exchange rate from 18 March 2008.

This contract foresees contractual penalties for failure to execute payments on time.

The total estimated value of contracts entered into between KGHM Polska Miedź S.A. and Glencore International AG over the last 12 months is from PLN 991 187 thousand to PLN 1 314 807 thousand. The highest-value contract signed during this period is the above-mentioned contract.



## 7. Annexes

### 7.1. Methodology for calculation of ratios used in this report

$$\text{ROE} = \frac{\text{profit for the period}}{\text{equity}} \times 100$$

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

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

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

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

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

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KGHM Polska Miedź S.A.  
Report on the activities of the Group in 2007

Signatures of all Members of the Management Board			
Date	First, last name	Position	Signature
<i>15 April 2008</i>	<i>Ireneusz Reszczyński</i>	Acting President of the Management Board I Vice President of the Management Board	.....
<i>15 April 2008</i>	<i>Marek Fusiński</i>	Vice President of the Management Board	.....
<i>15 April 2008</i>	<i>Stanisław Kot</i>	Vice President of the Management Board	.....