

KGHM POLSKA MIEDŹ S.A.

**REPORT OF THE MANAGEMENT BOARD
OF THE PARENT ENTITY
ON THE ACTIVITIES OF THE GROUP
IN 2008**

Lubin, March 2009

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

1.1. Structure of the Group

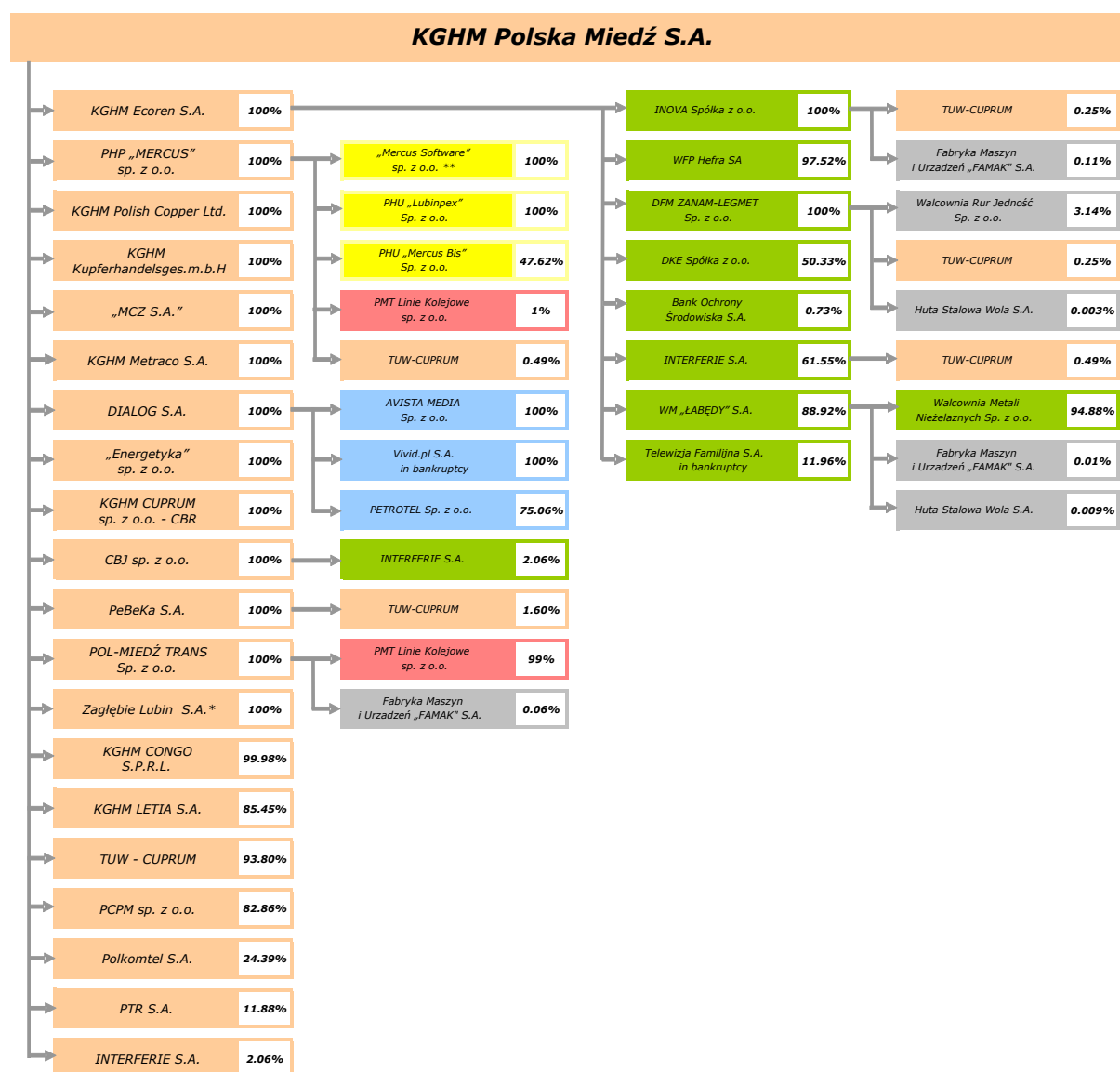
The Parent Entity of the Group is KGHM Polska Miedź S.A.

At 31 December 2008 KGHM Polska Miedź S.A. owned, directly or indirectly, shares in 38 commercial law companies, including in:

- 30 subsidiaries,
- 2 associates,
- 6 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 2008



* 14 July 2008 change in company name (previously „Zagłębie” Lubin SSA)

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

1.2. Changes in the structure of the Group in 2008

In 2008 the KGHM Polska Miedź S.A. Group was expanded by two subsidiaries:

- in August 2008 POL-MIEDŹ TRANS Sp. z o.o. founded a company called PMT Linie Kolejowe Sp. z o.o., with founder's capital of PLN 100 thousand, acquiring 99 % of the shares. The remaining 1 % of the share capital was acquired by another company in the Group, PHP „MERCUS” sp. z o.o. The new entity was founded for the purpose of pursuing the principle of organisational diversification of entities involved in railway transport and of those managing railway infrastructure, in accordance with the Act on railway transport.
- in November and December 2008 DIALOG S.A. acquired from PKN Orlen S.A. and from minority shareholders 75.06 % of the shares of PETROTEL Sp. z o.o. with a nominal value of PLN 6 155 thousand in order to acquire modern telecom infrastructure, currently being used by over 20 thousand fixed-line customers and 10 thousand internet users in the city and vicinity of Płock.

Over the course of 2008, all of the shares held in three companies of associate or other status were sold:

- in August 2008 KGHM Polska Miedź S.A. sold its shares in MINOVA-KSANTE Spółka z o.o., representing 30 % of the share capital, back to the company for the purpose of redemption.
- in October 2008 KGHM Ecoren S.A. sold its shares in DOL-EKO organizacja odzysku S.A., representing 19.53 % of the share capital, to Ms. Aneta Frączak.
- in July 2008 Zagłębie Lubin S.A. sold its shares in Ekstraklasa S.A., representing 5.8 % of the share capital, to Gliwicki Klub Sportowy.

In terms of assets invested, significant changes in the structure of the KGHM Polska Miedź S.A. Group include the increase of the share of KGHM Polska Miedź S.A. in Polkomtel S.A. from 19.61 % to 24.39 %. In December 2008 KGHM Polska Miedź S.A. acquired from TDC A/S 4.78% of the shares of the company based on an agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A. dated 10 March 2006.

1.3. Activities of Group Companies

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

- Segment I - metals (copper, precious metals), other smelter products – extraction, processing, production, trade and promotion;
- Segment II - telecommunications,
- Segment III - 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
Segment I		
1.	KGHM Polska Miedź S.A.	metals ore mining; the production of non-ferrous and precious metals and salt; the casting of light and non-ferrous metals; waste management; holding management activities; geological-exploratory activities, research and technical analysis; professional rescue services; telecommunications and IT services
2.	KGHM CONGO S.P.R.L	copper and cobalt extraction
3.	WMN sp. z o.o.	non-ferrous metals processing
4.	KGHM Polish Copper Ltd.	copper trading
5.	KGHM Kupferhandelsges.m.b.H.	copper trading
6.	WM „ŁABĘDY” S.A.	trading in coal, grinding mediums used in the production of copper concentrate

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7.	KGHM Metraco S.A.	trading of non-ferrous metals, chemicals, copper scrap
Segment II		
1.	DIALOG S.A.	telecommunications services
2.	PETROTEL Sp. z o.o.	telecommunications services
3.	AVISTA MEDIA sp. z o.o.	multimedia services
Segment III		
1.	KGHM Ecoren S.A.	the production and sale of road-building materials and of rhenium compounds
2.	PeBeKa S.A.	construction of mines with infrastructure; building of roadway, railway and subway tunnels, underground construction
3.	DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery, machinery repairs
4.	„Energetyka” sp. z o.o.	generation, distribution and sale of electrical and heating energy, water-sewage management
5.	POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport, passenger and cargo road transport, trade in fuels
6.	PHP „MERCUS” sp. z o.o.	trade in consumer goods, production of bundled electrical cables
7.	INTERFERIE S.A.	tourism services, including holiday resorts, health spas and hotels
8.	„MCZ” S.A.	medical services
9.	KGHM CUPRUM sp. z o.o. - CBR	R&D activities
10.	CBJ sp. z o.o.	research and chemical-physical analysis
11.	INOVA Spółka z o.o.	electrical engineering, attestation and expertise, certification
12.	KGHM LETIA S.A.	sale and rental of property, promotion of scientific achievements, technology transfer
13.	TUW-CUPRUM	mutual insurance services for its members
14.	WFP Hefra SA	production and sale of rust-proof, semi-silver-plated and silverplated table settings
15.	PCPM sp. z o.o.	promotion of copper products
16.	Zagłębie Lubin S.A.	management of a football club, organisation of professional sporting events
17.	PHU „Lubinpex” Sp. z o.o.	food industry and catering services

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

I SEGMENT

The most important entity in the Group is **KGHM Polska Miedź S.A.** A description of the activities of the Parent Entity in 2008 may be found in the KGHM Polska Miedź S.A. report (R 2008) published on 2 April 2009.

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. The company operates in central and southern Europe. Its main business is conducted in Austria.

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 raw materials 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.

II SEGMENT

DIALOG S.A.

DIALOG S.A. operates in three telecom segments:

- the fixed-line voice segment,
- DLISP –internet access, data transmission and communications leasing, and
- the pay-tv segment.

In 2008 the company prepared to commence activities in a fourth market segment – mobile telephone services, which is planned in the second half of 2009.

Table 2. Market share of DIALOG S.A. in 2008 by segment

Market segment / ratio	national market	local market *
Fixed-line voice telephony	4.10%	23.90%
DLISP	1.70%	10.20%
Pay-tv	0.03%	0.08% **

Source: internal estimates based on Audytel, Informa, operator data

* by local market is meant the area of eight numerical zones (formerly licensed areas)

** excluding TV services on the Warsaw market – specifically the Marina neighbourhood

With respect to fixed-line telephony, in 2008 DIALOG S.A. operated on the basis of its own network infrastructure, and offered services using the Telekomunikacja Polska network (WLR). In the case of voice services using its own network, the main competitors were Telekomunikacja Polska S.A. and CaTV networks. The company also competed with substitute voice services offered by mobile network operators (PTK Centertel/Orange, Polkomtel/Plus, PTC/Era). In the WLR network, the main competitor for DIALOG S.A. was Netia, which in June 2008 took over another large competitor – Tele2 Polska. In the voice services segment in fixed-line networks, the estimated share of the local market, understood as being the area of eight numerical zones (formerly licensed areas), was nearly 24%. Taking into consideration only network areas (those in which the company possesses its own telecommunications infrastructure network, so-called last mile infrastructure) and the number of customers served by its own network, the estimated share of DIALOG S.A. in the non-corporate market at the end of 2008 was 56%, and 59% on the business market.

In the DLISP segment the largest competitor of DIALOG S.A. in 2008 was TP S.A. In internet access services using its own infrastructure, the company also competed with large cable network operators, as well as local ISP networks (local internet suppliers). With respect to internet access services using the TP S.A. network (BSA), the largest player was Netia. With respect to advanced services for business (data transmission, communications leasing), other large competitors apart from TP S.A. were Exatel, Netia and GTS Energis. Taking into consideration network areas and the number of customers served by its own infrastructure, the share of DIALOG S.A. in DSL services (broadband internet access) in the non-corporate market segment may be estimated at 30%, and the business segment at 58%.

In the pay-tv segment DIALOG S.A. competed mainly with large digital platform operators (such as Cyfrowy Polsat) and large CaTV networks (such as Multimedia Polska, UPC, Vectra), and to a lesser degree with IPTV service providers (TP S.A.). The share of the company in this segment is minimal, due to the fact that 2008 was the market debut year of DIALOGmedia.

III SEGMENT

KGHM Ecoren S.A.

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

Ammonium perrhenate

Ammonium perrhenate is the company's main product. Current production capacity and the stable quality of the product enable its sale as a standard catalyser. 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).

Annual global production of rhenium is around 52 tonnes, while market demand is estimated at 60-70 tonnes. The main competitors of the company are Molybdenosy Metale (Molymet) – Chile, Phelps Dodge Corp. – USA, Kazakhmys Corp. and Zhezkazganredmet – Kazakhstan.

KGHM Ecoren S.A. has a 6 % share of the rhenium production market, giving it fourth place amongst global rhenium producers. The customers of the company include Rolls-Royce plc and Johnson Matthey plc in the United Kingdom.

In 2008 the company continued to work on commencing the production of metallic rhenium and the recovery of rhenium from used superalloys.

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%. The customers of the company include the largest road construction companies, such as Strabag, NCC and Skanska.

Competitors of the company with respect to road-building material are crushed material mines located in the Sudety foothills and German mines in the vicinity of Dresden.

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 first line of the Warsaw Metro. Its contracts are carried out as part of a consortium with PRG Metro Spółka z o.o. It is currently seeking to win a contract to build a second line for the Warsaw Metro.

In 2007 PeBeKa S.A. entered a consortium with HOCHTIEF Polska Sp. z o.o. and HOCHTIEF Construction A.G., which signed a contract with Zagłębie Lubin S.A. for the turnkey design, construction and outfitting of a sport stadium in Lubin. In the first half of 2008 work began on this investment, with planned completion in the first quarter of 2010.

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.

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. The company is the sole supplier of haulage rigs and a significant supplier of conveyor belts and steel constructions on this market.

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, MINE MASTER – Poland (with GHH Fahrzeuge) and BUMAR/FADROMA – Poland.

„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 and heating energy in the former Legnica voivodeship and one the largest producers of heat in western Poland.

Electricity is produced in conjunction with heat, all of which is supplied to KGHM Polska Miedź S.A.

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 holds sixth place amongst private railway transporters, in terms of transport work and the amount of freight volume transported by the network of PKP PLK. Significant competitors of the company amongst private railway transporters are: CTL Rail, PCC Holding, Lotos Kolej, PTK Holding, Rail Polska and Freightliner PL. The company intends to expand its railway transport capacity, and therefore increase its share of services sold on the external market.

In 2008 the company gained a license for the railway transport of passengers.

In August 2008 POL-MIEDŹ TRANS Sp. z o.o. founded the company PMT Linie Kolejowe Sp. z o.o., whose activities comprise the management of railway lines and maintenance of railway infrastructure.

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, and
- 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 of bundled electrical cables are ELECTROLUX, GENERAL ELECTRIC and PATELEC ELPENA. In 2008 the company gained the status leading supplier for the ELECTROLUX factory in Siewierz.

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. The company was engaged in preparations to realise research as part of the 7th EU Framework Program and the Sector Point of Contact for the Balanced Development of the Copper and Brown Coal Extractive Industries of South-West Poland.

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 nonferrous 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 2008 the company implemented new research methods, which enabled it to expand its range of services offered, mainly with respect to research into technology, working conditions and the environment.

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 2007-2008

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

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

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

In 2008 average employment in the Group increased in comparison to 2007 by 786. This was mainly due to increased employment in KGHM Polska Miedź S.A. (an increase of 497, i.e. by 2%). Employment increased in the mining divisions. The hiring of new workers was dictated on the one hand by the need to ensure an adequate level of employment to eliminate overtime work, and on the other to ensure staffing in newly-created sections (preparatory mining work and assembly-repair work) as well as to expand the conveyor belt system which is critical to maintaining the continuous removal of ore.

Employment also increased in the Group due to the addition of a new entity, PETROTEL Sp. z o.o., with average employment in 2008 of 114. Among the remaining entities, the largest increase in employment was recorded by AVISTA MEDIA sp. z o.o. (an increase of 136.5% i.e. by 71), due to the development of call center services.

1.5. Relations with the trade unions in the Group

KGHM Polska Miedź S.A.

Negotiations on setting the wages increase index for 2008 in KGHM Polska Miedź S.A. did not conclude with an agreement being reached with the trade unions. The wages increase index for 2008 was set by the Management Board of the Parent Entity in the following amounts:

- average total wage – 1.0%,
- average wage excluding the additional annual bonus – 2.3%.

To achieve these indicators, at 1 January 2008 basic wage rates were increased by PLN 150, which caused an increase in the average monthly wage by PLN 460, i.e. by 7.8%. On 27 February 2008 side protocol was signed to the Collective Labour Agreement reflecting these changes.

In the third quarter of 2008 seven trade unions initiated collective disputes, demanding an increase in the employee table of basic wages by PLN 200 monthly, and withdrawal from the Mines Integration Project, the integration of the smelters and the separation of Data Center from the structure of KGHM Polska Miedź S.A.

On 14-16 October 2008 the trade unions carried out a strike referendum. According to representatives of the unions 14 400 employees took part in the referendum, representing 77% of the total workforce. As a result of this referendum the trade unions resolved to organise the following:

- on 29 October 2008 a public hearing at the Head Office of KGHM Polska Miedź S.A.,
- on 5 November 2008 a 24-hour strike in all of the divisions of KGHM Polska Miedź S.A.

The dialogue with the trade unions, consisting of both negotiations and mediation, concluded on 27 October 2008 with the signing of an agreement, according to which the Management Board withdrew its plans to pursue projects to create a Combined Mines division, to consolidate the smelters and to create an IT company Teleinformatyka based on the assets of Data Center, while the trade unions withdrew their wage demands and called off plans for a strike and a public hearing. In addition it was agreed that the parties to the Collective Labour Agreement would analyse the achieved level of wages no later than in December. Due to the domestic and global economic crisis, in the month of December, following an analysis of the wages in KGHM Polska Miedź S.A., no additional wage payments were made.

Other Group companies

In 2008 Group companies entered into agreements with the trade unions operating within the given entities, mainly respecting:

- setting the wages increase index in 2008,
- changes in the Collective Labour Agreement,
- contributions to the Social Fund.

In „MCZ” S.A. in 2008 there were unresolved collective disputes from 2007 based on national pay demands by medical personnel. During the year agreement was reached on wage increases in 2008 and on freezing wage increases in the first quarter of 2009.

In January 2008 a collective dispute was initiated by the trade unions active in INOVA Spółka z o.o. The subject of this dispute was the demand for higher wages. In August 2008 following a strike referendum, an agreement was signed which concluded the collective dispute.

1.6. Parent Entity

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

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

1.6.1. Share capital and ownership structure of the Parent Entity

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

In the year ended 31 December 2008 there was no change in share capital.

There is no limitation to the transferral of ownership rights to the shares of the 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.

At 31 December 2008, 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.

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

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

In 2008 KGHM Polska Miedź S.A. did not buy back any of its shares and does not have an employee share incentive program.

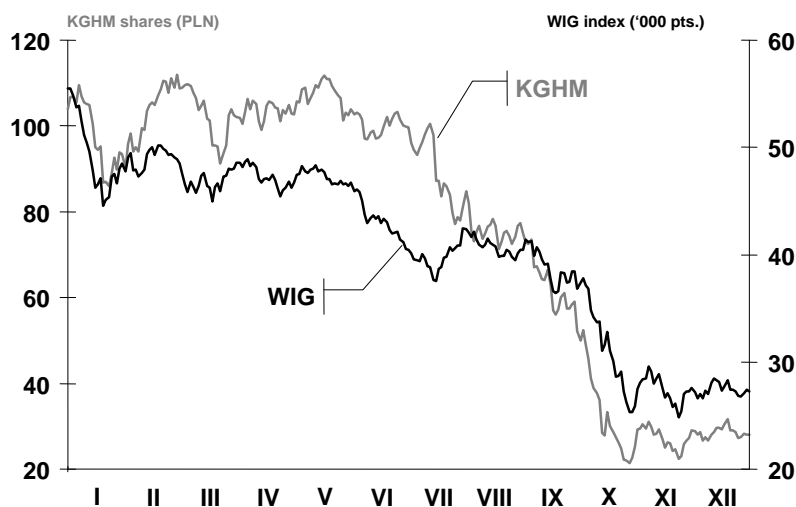
1.6.2. Parent Entity quotations on the Securities Markets

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 of KGHM Polska Miedź S.A. (GDRs) have been traded since July 1997 on the London Stock Exchange.

In 2008 the main indices of the Warsaw Stock Exchange decreased in value. The WIG index decreased by 51%, and the WIG20 decreased by 48%. The share price of KGHM Polska Miedź S.A. at the close of trading on 31

December 2008 was PLN 28.12 and was 73% lower than on the last trading day of the prior year. The share price of the Parent Entity in 2008 compared to the WIG index is shown in the chart below.

Diagram 2. Share price of KGHM Polska Miedź S.A. versus the WIG index in 2008



1.6.3. Bodies of the Parent Entity

Supervisory Board

In 2008 the 6th-term Supervisory Board of KGHM Polska Miedź S.A. began its work in the following form:

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

as well as the following employee-elected members:

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

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

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

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

Due to the completion of the 6th-term Supervisory Board, the Ordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. on 26 June 2008 appointed the following persons to the 7th-term Supervisory Board:

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

as well as the following employee-elected members:

- Józef Czyczerski,
- Leszek Hajdacki,
- Ryszard Kurek.

At its meeting on 21 July 2008 the Supervisory Board appointed Marek Trawiński as Chairman of the Supervisory Board, Jacek Kuciński as Vice Chairman, and Marek Panfil as Secretary.

In accordance with the Statutes of KGHM Polska Miedź S.A. the members of the Supervisory Board are appointed and dismissed by the General Shareholders' Meeting.

Management Board

In 2008 the 6th-term Management Board of KGHM Polska Miedź S.A. began its work in the following form:

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

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

- it dismissed Krzysztof Skóra from the function of President of the Management Board,
- it dismissed Dariusz Kaśków from the function of Member of the Management Board,
- 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.,
- it set the size of the Management Board of the company at three members.

Following these changes the Management Board of KGHM Polska Miedź S.A. was comprised of the following persons:

- Ireneusz Reszczyński Acting President of the Management Board
I Vice President of the Management Board (Sales),
- Marek Fusiński Vice President of the Management Board (Finance),
- Stanisław Kot Vice President of the Management Board (Production).

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

On 23 April 2008 the Supervisory Board dismissed the following persons from the Management Board: Ireneusz Reszczyński, Marek Fusiński and Stanisław Kot, and appointed the following persons to the Management Board as Vice Presidents: Herbert Wirth and Maciej Tybura. In addition Herbert Wirth was appointed as I Vice President of the Management Board.

Following the segregation of duties by the Management Board among the members of the Management Board, it was composed as follows:

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

In accordance with the Statutes of KGHM Polska Miedź S.A. the 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 the Statutes of KGHM Polska Miedź S.A., any increase in share capital or issuance of shares or bonds requires the approval of the General Shareholders' Meeting. 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 state that, in case of the dismissal of a Member of the Management Board and the termination of their contract prior to the time stipulated in the contract, the said Member of the Management Board shall receive compensation due to the loss of an existing source of income and to the premature termination of a contract in an amount equalling the 10 basic monthly wages. Employment contracts describe those cases in which a Member of the Management Board shall not receive the above-mentioned compensation.

Employment contracts do not foresee compensation with respect to forbidding any activities which would be competitive towards KGHM. The principle of forbidding competition following termination of employment and the amount of compensation due in this regard are regulated by the parties in a separate contract.

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 2007-2008 ('000 PLN)

Description	2007	2008
Remuneration due to service in the Supervisory Board, wages and other short-term employee benefits	1 010	1 279

Table 5. Comparison of remuneration in the Management Board of the Parent Entity in the years 2007-2008 ('000 PLN)

Description	2007	2008
Wages and other short-term employee benefits	4 120	4 320
Benefits due to termination of the employment relationship	441	2 895
Post-employment benefits	70	0
Total	4 631	7 215

The significant increase in Parent Entity Management Board remuneration costs in 2008 versus the prior year is mainly due to changes in the composition of the Management Board, necessitating the payment of compensation to dismissed members of the Management Board due to termination of employment.

Detailed information on remuneration, bonuses or benefits of supervisory and management personnel may be found in Note No. 40 of the Financial Statements.

2. Activities of the KGHM Polska Miedź S.A. Group in 2008

2.1. Equity investments of the Parent Entity

In 2008, KGHM Polska Miedź S.A. realised equity investments in the total amount of PLN 793 072 thousand. The Company purchased and acquired shares in the following companies.

„Energetyka” sp. z o.o.

In June 2008 KGHM Polska Miedź S.A. acquired and paid for in cash, at nominal value, shares in the increased share capital of „Energetyka” sp. z o.o. in the total amount of PLN 27 317 thousand. The funds obtained were used for modernisation work related to the expansion of electrical generation capacity. The share capital of this company following the increase amounts to PLN 248 793 thousand. The share of KGHM Polska Miedź S.A. in the share capital of the company was unchanged and amounts to 100 %.

PeBeKa S.A.

KGHM Polska Miedź S.A. acquired and paid for in cash, at nominal value, shares in the increased share capital of PeBeKa S.A. :

- in August 2008 in the total amount of PLN 18 715 thousand,
- in December 2008 in the total amount of PLN 15 100 thousand.

The funds obtained from this increase in share capital were used for the purchase of mining machinery.

The share capital of this company following the increase amounts to PLN 64 638 thousand. The share of KGHM Polska Miedź S.A. in the share capital of the company was unchanged and amounts to 100%.

KGHM LETIA S.A.

In September 2008 the share capital of KGHM LETIA S.A. was increased by PLN 7 428 thousand. KGHM Polska Miedź S.A. acquired shares in the increased share capital of KGHM LETIA S.A. in the total amount of PLN 4 448 thousand and covered, based on nominal value, by a contribution in kind in the form of property and documentation in the amount of PLN 4 447 thousand and cash in the amount of PLN 1 thousand.

In 2008 the Voivodeship of Lower Silesia increased its stake in the company, covering the shares acquired, based on their nominal value, by a contribution in kind in the form of property in the amount of PLN 2 980 thousand.

Following this increase the share capital of the company amounts to PLN 27 428 thousand. The ownership percentage of KGHM Polska Miedź S.A. in the share capital of the company changed from 94.95 % to 85.45%.

„MCZ” S.A.

In December 2008 KGHM Polska Miedź S.A. made a cash acquisition, based on nominal value, of shares in the increased share capital of „MCZ” S.A. in the total amount of PLN 1 101 thousand.

The funds obtained were used to purchase medical equipment. Following this increase the share capital of the company amounts to PLN 52 218 thousand. The ownership percentage of KGHM Polska Miedź S.A. in the share capital of the company remained unchanged and amounts to 100%.

Polkomtel S.A.

In December 2008 KGHM Polska Miedź S.A. acquired 980 486 ordinary registered shares of Polkomtel S.A., in the total nominal amount of PLN 98 049 thousand, representing approx. 4.78% of the share capital of Polkomtel S.A., based on an agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A. dated 10 March 2006, entered into between KGHM Polska Miedź S.A., PKN ORLEN S.A., Polskie Sieci Elektroenergetyczne S.A. (currently PGE Polska Grupa Energetyczna S.A.) and WĘGLOKOKS S.A., as the purchasers, and TDC Mobile International A/S (currently TDC A/S) as the seller. The purchase price of this block of shares was PLN 726 391 thousand. As a result of this transaction the percentage ownership of KGHM Polska Miedź S.A. in the share capital of this company changed from 19.61 to 24.39 %.

Other equity investments

In 2008 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 2008 is PLN 11 264 thousand.

In 2008 the company received a total amount of PLN 151 thousand from the AIG Fund, representing gains realised from the redemption of acquired shares. Simultaneously, the company also paid a management fee of PLN 85 thousand.

2.2. Equity investments of other Group companies

POL-MIEDŹ TRANS Sp. z o.o.

In August 2008 r. POL-MIEDŹ TRANS Sp. z o.o. founded a company called PMT Linie Kolejowe sp. z o.o., which was registered by the court in September 2008. The share capital of the newly-founded entity amounts to PLN 100 thousand. POL-MIEDŹ TRANS Sp. z o.o. acquired 99 shares with a nominal value of PLN 1 000 per share, with a total nominal value of PLN 99 thousand, representing 99% of the share capital of this company and granting the right to the same number of votes at the General Shareholders' Meeting. These shares were covered by cash, based on their nominal value. The remaining 1 % of the share capital was acquired by another Group company, PHP „MERCUS” sp. z o.o.

The founding of this company was aimed among others at its takeover of the management of the railway infrastructure of POL - MIEDŹ TRANS Sp. z o.o., which will enable the collection of fees for the use of this infrastructure by other carriers.

DIALOG S.A.

In November 2008 DIALOG S.A. acquired 6 150 shares in PETROTEL Sp. z o.o. with a nominal value of PLN 1 000 per share, representing 75 % of the share capital of this company, based on a contingent agreement for the acquisition of shares dated 22 September 2008 entered into between PKN ORLEN S.A. and DIALOG S.A. The purchase price of the shares was PLN 32 877 thousand. Based on this contingent agreement, DIALOG S.A. presented an offer to the minority shareholders to acquire the remaining 2 050 shares, representing 25 % of the share capital of this company. In December 2008 DIALOG S.A. purchased from these minority shareholders the first 5 shares with a nominal value of PLN 1 000 per share. The purchase price of the shares was PLN 26 thousand. Consequently, the share of DIALOG S.A. in the share capital of PETROTEL Sp. z o.o. at the end of 2008 amounted to PLN 75.06 %.

PHP „MERCUS” sp. z o.o.

In March 2008 court registration took place of an increase in the share capital of „Mercus Software” Sp. z o.o. by PLN 1 500 thousand. PHP „MERCUS” sp. z o.o. acquired all of the share in the increased share capital of the company, covering them with a contribution in kind in the form of property. The share capital of „Mercus Software” Sp. z o.o. following this increase amounts to PLN 2 200 thousand. PHP „MERCUS” sp. z o.o. owns 100 % of the shares of the company.

WM „ŁABĘDY” S.A.

In September 2008 court registration took place of an increase in the share capital of Walcownia Metali Nieżelaznych spółka z o.o. by PLN 32 800.00. WM „ŁABĘDY” S.A. acquired all of the share in the increased share capital of the company, covering them with a contribution in kind in the form of property. The share capital of Walcownia Metali Nieżelaznych spółka z o.o. following this increase amounts to PLN 43 194 thousand. Following this increase, WM „ŁABĘDY” S.A. owns 94.89 % of the shares of the company.

2.3. Other significant events in the Group

Disposal of shares

- In August 2008 KGHM Polska Miedź S.A. disposed of 13 500 shares of MINOVA-KSANTE Spółka z o.o., with a nominal value of PLN 1 350 thousand, representing 30 % of the share capital. The shares were sold to the company for the purpose of retirement. The sale price for the entire block of shares was PLN 8 542 thousand. As a result of this transaction KGHM Polska Miedź S.A. no longer owns shares of MINOVA-KSANTE Spółka z o.o.
- In October 2008 KGHM Ecoren S.A. disposed of 468 shares of DOL-EKO organizacja odzysku Spółka Akcyjna, with a nominal value of PLN 468 thousand, representing 19.53 % of the share capital. These shares were sold to Ms. Aneta Frączak. The sale price for the entire block of shares was PLN 842 thousand. As a result of this transaction KGHM Ecoren S.A. no longer owns shares of DOL-EKO organizacja odzysku Spółka Akcyjna.
- In August 2008 Zagłębie Lubin S.A. disposed of shares of Ekstraklasa S.A., with a nominal value of PLN 58 thousand, representing 5.8 % of the share capital. These shares were sold to Gliwicki Klub Sportowy at their nominal value. Sale of the shares of Ekstraklasa S.A. is related to relegation of Zagłębie Lubin S.A. to the 1st football league in the 2008/2009 season.

Decreases of share capital

In April 2008 court registration took place of a decrease in the share capital of DIALOG S.A. by PLN 1 469 850 thousand, i.e. from PLN 1 959 800 thousand to PLN 489 950 thousand, through a decrease in the then-nominal value of all existing company shares from PLN 100.00 to PLN 25.00 per share.

The funds obtained from this decrease in share capital were allocated to cover prior year losses in the amount of PLN 913 150 thousand and to reserve capital in the amount of PLN 556 700 thousand.

Bankruptcy proceedings

In September 2008 the Management Board of Vivid.pl S.A. submitted an application to the Regional Court for the City of Warsaw, Section X (Economic) for bankruptcy and remedial proceedings, announcing the bankruptcy of Vivid.pl S.A.

All of the shares of Vivid.pl S.A. are owned by DIALOG S.A. The net carrying amount of the shares of Vivid.pl S.A. in the assets of DIALOG S.A. amounted to PLN 4 279 thousand. Within a month the court announced the bankruptcy of Vivid.pl S.A. and appointed a court commissioner and a receiver. The bankruptcy came into legal force in October 2008.

Liquidation

On 13 May 2008 the Management Board of the Parent Entity resolved to undertake actions aimed at liquidating the company KGHM Polish Copper Ltd. By the end of 2008 the significant trade contracts of KGHM Polish Copper Ltd. were taken over by the Parent Entity, while the remaining trade contracts will expire in the first months of 2009. Further actions aimed at liquidation will be made in cooperation with a consultant, following issue of the auditor's opinion on the audit of financial statements of KGHM Polish Copper Ltd. for 2008.

2.4. Financing of Group companies

Loans and bank loans

In 2008 the Parent Entity granted loans to the following directly-related companies:

- Zagłębie Lubin S.A. - PLN 7 000 thousand to cover obligations in arrears towards the Social Insurance Institution (ZUS), interest rate based on WIBOR 1M + 1.2% annually. This loan is to be repaid by the end of 2010.
- KGHM CONGO S.P.R.L. – three loans totalling USD 265 thousand, to finance its operations, interest rate: USD 165 thousand – based on LIBOR 1M + 2% annually, USD 100 thousand – based on LIBOR 1M + 1.1% annually. Over the course of 2008 the amount of USD 25 thousand was repaid. The remaining amount will be repaid in 2009.
Over the course of 2008 two annexes were signed to a loan agreement entered into with KGHM CONGO S.P.R.L. in June 2007. The repayment period was prolonged for individual loan instalments in the total amount of USD 500 thousand. It was determined that the loan would be repaid by the end of October 2009. The interest rate of the loan did not change and amounts to LIBOR 1M + 1% annually.
- PCPM sp. z o.o. - PLN 100 thousand to finance its operations, interest rate based on WIBOR 1M + 1.2% annually. This loan is to be repaid by the end of March 2009.

KGHM Ecoren S.A. in 2008 granted a loan to the subsidiary WFP Hefra S.A. of PLN 3 939 thousand to finance its operations. Interest was set at the variable lombard credit rate. The loan is to be repaid by the end of 2009.

Among Group companies, in 2008 a significant bank loan was drawn by „Energetyka” sp. z o.o. The company drew a bank loan from PKO BP S.A. in Warsaw in the amount of PLN 50 000 thousand, to be used for the modernisation of two boilers. The bank loan was granted for a ten-year period, with interest of WIBOR 1M + 0.97 % annually.

Guarantees

KGHM Ecoren S.A. also granted a civil law guarantee to a loan drawn by WFP Hefra S.A. in Raiffeisen Bank Polska S.A. of PLN 2 000 thousand. The upper limit of the guarantee is PLN 2 200 thousand, with collateral of a blank promissory note with a declaration of rights thereunder, provision 0.2 %. By the end of 2008 the guarantee expired due to earlier-than-planned repayment of the loan.

Payments to capital

In 2008 KGHM Polska Miedź S.A. granted a returnable payment to the capital of KGHM CUPRUM Sp. z o.o. – CBR in the amount of PLN 1 500 thousand to be used for the financing of exploratory work in the region of Weisswasser. The date for returning this payment was set at the end of December 2009.

2.5. Dividends received

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

- | | |
|---------------------------|-----------------------|
| – Polkomtel S.A. | PLN 182 859 thousand, |
| – KGHM Ecoren S.A. | PLN 30 000 thousand, |
| – KGHM Metraco S.A. | PLN 13 209 thousand, |
| – KGHM Polish Copper Ltd. | PLN 8 877 thousand, |
| – CBJ sp. z o.o. | PLN 2 000 thousand, |
| – PTR S.A. | PLN 228 thousand. |

In 2008 PHP „MERCUS” sp. z o.o. received a dividend from its subsidiary PHU „Lubinpex” Sp. z o.o. in the amount of PLN 806 thousand.

2.6. Information on contracts of significance

Trade contracts

In 2008 the Parent Entity entered into the following significant trade contracts (value of contracts based on data current at the time contract signed):

- Contract for the sale of 8 mm copper wire rod and oxygen-free wire rod in 2008 signed on 30 January 2008 between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. The estimated value of this contract is from approx. USD 658 million (i.e. approx. PLN 1 613 million) to approx. USD 844 million (i.e. approx. PLN 2 069 million),

- Contract for the sale of copper cathodes in 2008 signed on 18 March 2008 between KGHM Polska Miedź S.A. and KGHM Polish Copper Ltd. in London. The estimated value of this contract, depending on the amount of tonnage under option, is from USD 245 million (i.e. approx. PLN 553 million) to USD 306 million (i.e. approx. PLN 691 million). This contract met the criteria to be considered a significant contract, together with other contracts entered into during the 12 months preceding its signing,
- Contract for the sale of copper cathodes in the years 2008-2009 signed on 19 March 2008 between KGHM Polska Miedź S.A. and Glencore International AG. The estimated value of this contract, depending on the amount of tonnage under option, is from USD 413 million (i.e. approx. PLN 927 million) to USD 557 million (i.e. approx. PLN 1 251 million). This contract met the criteria to be considered a significant contract, together with other contracts entered into during the 12 months preceding its signing,
- Contract for the sale of copper cathodes in the years 2009 - 2011 signed on 7 August 2008 between KGHM Polska Miedź S.A. and Wieland Werke AG. The estimated value of this contract, depending on the amount of tonnage under option, is from USD 370 million (i.e. approx. PLN 776 million) to USD 449 million (i.e. approx. PLN 942 million). This contract met the criteria to be considered a significant contract, together with other contracts entered into during the 12 months preceding its signing.

There was no instance of dependence by KGHM Polska Miedź S.A. on a single or multiple customers or suppliers. The only customer whose share in revenues from sales exceeds 10% is Tele-Fonika Kable S.A., with a share in revenues from sales of 12%.

Information on contracts for the review or auditing of financial statements and other contracts entered into with the entity entitled to audit

The entity entitled to audit the separate and consolidated financial statements of the Parent Entity is Ernst & Young Audit Sp. z o.o. with its registered head office in Warsaw, Rondo ONZ 1, 00-124 Warsaw. The contract with Ernst & Young Audit Sp. z o.o. was signed on 30 April 2007, and is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2007, 2008 and 2009.

Ernst & Young Audit sp. z o.o. was also selected to audit the financial statements of the following subsidiaries: KGHM Ecoren S.A., DIALOG S.A., „Energetyka” sp. z o.o., KGHM Metraco S.A., PeBeKa S.A., POL-MIEDŹ TRANS Sp. z o.o., ZANAM-LEGMET Sp. z o.o. and Zagłębie Lubin S.A.

The amount of remuneration due for the review and audit of the financial statements and remuneration for other purposes is shown in the table below.

Table 6. Remuneration of the entity entitled to audit financial statements (in '000 PLN)

Company	2007	2008
Ernst & Young Audit Sp. z o.o.	2 989	2 533
Due to contract for the review and audit of financial statements, of which:	2 153	2 111
- audit of annual financial statements	1 631	1 588
- review of financial statements	522	523
Due to other contracts	836	422
Other companies from the Ernst & Young Group in Poland	1 882	803
of which due to tax consultancy	1 399	803

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 24.39% 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 Parent Entity in 2008 can be found in the KGHM Polska Miedź S.A. report published on 2 April 2009.

Polkomtel S.A.

At 31 December 2008, the carrying amount of the shares of Polkomtel S.A. in the financial statements of KGHM Polska Miedź S.A. was PLN 1 163 640 thousand.

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

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

	2007	2008	Change 2007=100
Sales	7 799 020	8 482 085	108.8
Operating profit	1 771 713	1 889 180	106.6
EBITDA	2 832 633	3 105 925	109.6
Profit for the period	1 358 676	1 361 239	100.2

In 2008 the company, in comparison to 2007, increased its revenues, which is related to an increase in the customer base by 1 019 thousand persons. At the end of 2008 the customer base exceeded 14 474 thousand. On 28 March 2008 the Ordinary General Shareholders' Meeting of Polkomtel S.A. resolved to distribute profit for 2007, pursuant to which the amount of PLN 1 248 245 thousand was allocated as a shareholder dividend. Of this amount, based on a resolution of the Supervisory Board of the company, in December 2007 an interim dividend payment of PLN 315 700 thousand was made to shareholders. The remainder, PLN 932 545 thousand, was paid in two instalments: PLN 466 170 thousand in May 2008, and PLN 466 375 thousand in November 2008. KGHM Polska Miedź S.A. received a total dividend for 2007 of PLN 244 764 thousand, proportionally to its shareholding in the company.

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

On 25 March 2008 the International Court of Arbitration in Vienna issued a so-called partial verdict, followed on 6 November 2008 by a final verdict in the matter of the claim filed on 10 March 2006 by Vodafone Americas Inc. at the International Court of Arbitration of the Federal Chamber of Commerce in Vienna. In the statement of its claims, Vodafone Americas Inc. had challenged, among others, the method of setting the price by TDC International A/S in the offer addressed to the other shareholders.

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

As a result of these verdicts, on 21 November 2008 the District Court in Warsaw issued a decision on cancellation of the prior decision of the Court dated 24 February 2006 prohibiting, among others, sale of the shares of Polkomtel S.A. held by TDC A/S. Once this decision became legally binding, the condition precedent of the „Agreement on the Acceptance of the Offer and Conditional Transfer of Shares in Polkomtel S.A.” dated 10 March 2006 was met.

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

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

DIALOG S.A.

The KGHM Polska Miedź S.A. Group has prepared consolidated financial statements in accordance with IFRS since 1 January 2005. DIALOG S.A. has kept accounts and prepared financial statements in accordance with IFRS since 1 January 2008. At the moment of transition of the Group to IFRS, a given level of significance was assumed in making adjustments adapting the financial statements of subsidiaries to the principles of IFRS, which vary from the level of significance assumed for the transition of the accounts of DIALOG S.A. to IFRS. The effect of assuming other levels of significance caused a difference between the equity of DIALOG S.A. at 1 January 2008 and the equity of this company established for the consolidated financial statements of the KGHM Polska Miedź S.A. Group in the amount of PLN 5 086 thousand. Due to its low level of significance in the consolidated financial statements, this amount decreased the financial result of the current period.

Table 8. Financial data of DIALOG S.A* ('000 PLN)

	2007	2008**	Change 2007=100
Sales	496 042	548 034	110.5
Operating profit/(loss)	17 152	(305 406)	x
EBITDA	119 022	***76 301	64.1
Profit/(loss) for the period	63 372	(292 139)	x

* included in the consolidated financial statements of KGHM Polska Miedź S.A.

** preliminary data, not verified by Auditor

*** EBITDA (EBIT adjusted by depreciation/amortisation and impairment)

In 2008 the company recorded a loss on operating activities, mainly due to remeasurement of the company's assets, including an impairment loss on property, plant and equipment (IAS 36) of PLN 268 270 thousand.

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

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

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

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

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

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

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

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

On 4 April 2008 court registration took place of a decrease in the share capital of DIALOG S.A. by PLN 1 469 850 thousand, which was described on page 15 of this Report.

2.8. Research and development

The highest research and development expenditures in the Group in 2008 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 funds.

Expenditures by KGHM Polska Miedź S.A. on R&D projects in 2008 amounted to PLN 5 886 thousand and were at a similar level to those in 2007. R&D work in the Parent Entity was closely connected to the company's strategy and was aimed at:

- development and expansion of the core business,
- diversifying activities, and
- supporting the development of KGHM Polska Miedź S.A.

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

Another permanent part of the innovation process is expenditures on feasibility studies and analysis in the research process (academic-technical expertise), on which PLN 11 959 thousand was spent in 2008.

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

- new methods for researching copper ore deposits and forecasting and managing the occurrence of associated and co-associated metals,
 - optimisation of existing applied technology for selected deposits and searching for new solutions in this regard for mining thin and/or thick deposits,
 - improving safety during mining operations under conditions of associated threats,
 - optimisation of processing in terms of an increasing number of recovered useful elements and reducing costs,
 - searching for possibilities to reduce production costs, improve the use of machinery and equipment and the consumption of materials and energy,
 - research into technically and economically justified technologies enabling a reduction in the amount of stored waste using the hydrotechnical method,
 - ensuring the safe operation of the Żelazny Most tailings pond,
- and in smelting:
- research into the usefulness of new technological solutions for the smelters of KGHM Polska Miedź S.A., in order to reduce processing costs,
 - minimalisation of the company’s environmental impact, including through the management of Pb and As which degrade the efficiency of smelter processes,
 - searching for possibilities to manufacture new products.

Amongst the remaining entities of the Group, important research and development work was realised by the following entities:

DIALOG S.A.

In 2008 DIALOG S.A. performed R&D work related to preparations for the introduction of new services: internet television (IPTV) and mobile television using an external operator’s infrastructure (MVNO). Total expenditures in this regard amounted to PLN 1 590 thousand.

IPTV internet television services, representing one of the strategic projects aimed at ensuring the permanent growth and competitive advantage of the company in the future (this service was commercially initiated in February 2008). Internet television services are significant from the point of view of growth of the fixed-line telephony services platform in order to minimise the tendency of customers to switch over from fixed lines to mobile phones. The expenditures allocated to R&D work on IPTV in 2008 amounted to PLN 287 thousand.

MVNO mobile telephony services are a second strategic project realised in 2008. In August 2008 multilevel technical tests began on the MVNO platforms and services, which were concluded in January 2009. Expenditures related to MVNO which were recognised under R&D work in 2008 amounted to PLN 1 303 thousand.

INOVA Sp. z o.o.

The company spent PLN 479 thousand on R&D work. This work involved the development of a new range of transformer stations.

KGHM Ecoren S.A.

In 2008 the company spent around PLN 214 thousand on R&D work. The most important work includes:

- R&D work titled „Technology for the recovery of thallium or the management of waste containing thallium” to assist the management of waste from the Legnica smelter lead refinery,
- R&D work titled „Molybdenum mass balance in the copper smelter production lines of KGHM Polska Miedź S.A.”,
- development work on the use of electric furnace slag for the production of road building material and pre-fabricated construction materials; the result of this work was the development of technology for the production of crushed material from electric furnace slag,
- R&D work titled „Research into the utility of tailings waste from the copper ore floatation process in KGHM Polska Miedź S.A. for the production of hydraulic binders”,
- R&D work titled „Possibilities of utilising waste slag from the electric furnace of the Głogów II smelter as a raw material in the production of casting materials”.

2.9. Changes in organisation and management in the Group

In 2008 changes were made to the compositions of company bodies. The number of members of management boards was reduced to the minimum necessary to ensure their proper functioning.

In addition the following events took place in the Group with respect to organisation and management:

- the assumption by DIALOG S.A. from the subsidiary AVISTA MEDIA Sp. z o.o. of authority over the management, maintenance and development of the IPTV platforms (internet television),
- the creation by KGHM Ecoren S.A. – based on the assets of the subsidiary WFP Hefra S.A. – of a Galvanisation Division,
- with respect to IT systems: in the companies ZANAM-LEGMET Sp. z o.o. and „Energetyka” sp. z o.o. the integrated IT system Microsoft Dynamics AX was implemented; in PeBeKa S.A. the integrated IT system SAP was implemented for the servicing of business processes.

In 2008 work was performed in Group companies with respect to the implementation of an information security management system.

3. Financial position

3.1. Entities consolidated

KGHM Polska Miedź S.A. – as the Parent Entity of the Group, fully consolidated 26 subsidiaries, and accounted for the shares of the associate Polkomtel S.A. using the equity method.

Table 9. Subsidiaries consolidated at 31 December 2008

Item	COMPANY	Percentage of share capital owned	Share capital
1	2	4	3
1.	KGHM Ecoren S.A.	100.00%	213 322 '000 PLN
2.	DIALOG S.A.	100.00%	489 950 '000 PLN
3.	"Energetyka" sp. z o.o.	100.00%	248 793 '000 PLN
4.	PeBeKa S.A.	100.00%	64 638 '000 PLN
5.	POL-MIEDŹ TRANS Sp. z o.o.	100.00%	140 418 '000 PLN
6.	KGHM Metraco S.A.	100.00%	2 545 '000 PLN
7.	PHP „MERCUS” sp. z o.o.	100.00%	10 733 '000 PLN
8.	CBJ sp. z o.o.	100.00%	2 918 '000 PLN
9.	KGHM CUPRUM sp. z o.o. - CBR	100.00%	8 507 '000 PLN
10.	„MCZ” S.A.	100.00%	52 218 '000 PLN
11.	Zagłębie Lubin S.A.	100.00%	113 689 '000 PLN
12.	ZANAM-LEGMET Sp. z o.o.	100.00%	35 970 '000 PLN
13.	INOVA Spółka z o.o.	100.00%	6 600 '000 PLN
14.	PHU „Lubinpex” Sp. z o.o.	100.00%	4 225 '000 PLN
15.	PMT Linie Kolejowe Sp. z o.o.	100.00%	100 '000 PLN
16.	AVISTA MEDIA Sp. z o.o.	100.00%	10 000 '000 PLN
17.	KGHM Polish Copper Ltd.	100.00%	2 000 '000 GBP
18.	KGHM Kupferhandelsges. m.b.H.	100.00%	254 '000 USD
19.	KGHM CONGO S.P.R.L.	99.98%	17 150 '000 EUR
20.	WFP Hefra S.A.	97.52%	3 525 '000 PLN
21.	WM "ŁABĘDY" S.A.	88.92%	54 704 '000 PLN
22.	KGHM LETIA S.A.	85.45%	27 428 '000 PLN
23.	PETROTEL Sp. z o.o.	75.06%	8 200 '000 PLN
24.	INTERFERIE S.A.	65.67%	72 821 '000 PLN
25.	WMN Sp. z o.o.	84.37%	43 194 '000 PLN
26.	DKE Spółka z o.o.	50.33%	765 '000 PLN

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 10. Consolidated balance sheet – Assets ('000 PLN)

ASSETS	31 December 2007	31 December 2008	Structure %	Change 2007=100
1	2	3	4	5
Non-current assets	7 932 257	9 113 159	60.8	114.9
Property, plant and equipment	6 614 352	7 136 307	47.6	107.9
Intangible assets	119 231	151 581	1.0	127.1
Investment property	16 517	18 083	0.1	109.5
Investments in associates	690 096	1 498 116	10.0	x2.2
Deferred tax assets	320 506	188 992	1.3	59.0
Available-for-sale financial assets	47 155	31 213	0.2	66.2
Held-to-maturity investments	43 934	59 592	0.4	135.6
Derivative financial instruments	33 395	6 501	0.0	19.5
Trade and other receivables	47 071	22 774	0.2	48.4
Current assets	5 570 957	5 856 959	39.0	105.1
Inventories	1 744 495	1 608 369	10.7	92.2
Trade and other receivables	925 367	1 469 959	9.8	158.9
Current corporate tax receivables	7 377	1 741	0.0	23.6
Derivative financial instruments	81 622	711 127	4.7	x8.7
Cash and cash equivalents	2 812 096	2 065 763	13.8	73.5
Non-current assets held for sale	184	29 987	0.2	x163
TOTAL ASSETS	13 503 398	15 000 105	100.0	111.1

Property, plant and equipment was the largest item in assets. At the end of 2008 they represented 48% of total assets. Their value increased during the year by PLN 521 955 thousand, mainly due to the investment program realised by the Parent Entity. Capital expenditures incurred by KGHM Polska Miedź S.A. in 2008 amounted to PLN 1 139 875 thousand and were twice that of depreciation/amortisation. Most of these expenditures were related to replacement. The most important tasks realised involved the replacement of mine machinery, continued work on the SW4 shaft, and continued development of drift tunnels to access the Głogów Głęboki deposit.

Significant investments realised by other Group companies include modernisation of a sport stadium by Zagłębie Lubin S.A., with expenditures of PLN 65 936 thousand incurred in 2008.

In non-current assets, the largest increase was recorded by investments in associates. Their value increased due to the acquisition by KGHM Polska Miedź S.A. of a block of 4.78 % of the shares of Polkomtel S.A., for PLN 726 391 thousand.

The largest item in current assets is cash and cash equivalents. Around 90% of this amount represent bank deposits with a maturity of up to 3 months. The value of cash and cash equivalents decreased in 2008 by PLN 746 333 thousand, mainly due to the payment of a shareholder dividend by the Parent Entity in the amount of PLN 1 800 000 thousand.

Among current assets the largest increase, by almost 9 times, was recorded in derivative financial instruments. At the end of 2008 they were measured at PLN 711 127 thousand. These are mainly copper price hedging instruments.

An important item, and the second in terms of increase, among current assets was current receivables. Around 50 % of this amount represent trade receivables. The value of receivables increased during the year by PLN 544 592 thousand, mainly with respect to unsettled derivative instruments in the Parent Entity (an increase by PLN 278 269 thousand) and non-financial receivables due to taxation and other benefits (an increase by PLN 220 423 thousand).

3.3. Balance sheet: equity and liabilities

Table 11. Consolidated balance sheet – Equity and liabilities ('000 PLN)

EQUITY AND LIABILITIES	31 December 2007	31 December 2008	Structure %	Change 2007=100
1	2	3	4	5
EQUITY	9 501 609	10 982 865	73.2	115.6
Share capital	2 000 000	2 000 000	13.3	100.0
Other reserves	13 118	517 456	3.4	x39.4
Retained earnings	7 440 870	8 407 049	56.0	113.0
Equity attributable to shareholders of the Parent Entity	9 453 988	10 924 505	72.8	115.6
Minority interest	47 621	58 360	0.4	122.6
Non-current liabilities	1 710 812	1 849 264	12.3	108.1
Trade and other payables	24 762	44 289	0.3	178.9
Borrowings and finance lease liabilities	162 909	98 055	0.7	60.2
Derivative financial instruments	3 087	-	-	x
Deferred tax liabilities	29 804	68 182	0.5	x2.3
Liabilities due to employee benefits	919 923	1 039 423	6.9	113.0
Provisions for other liabilities and charges	570 327	599 315	4.0	105.1
Current liabilities	2 290 977	2 167 976	14.5	94.6
Trade and other payables	1 646 406	1 756 752	11.7	106.7
Borrowings and finance lease liabilities	113 201	192 923	1.3	170.4
Current corporate tax liabilities	343 377	65 952	0.4	19.2
Derivative financial instruments	14 335	4 930	0.0	34.4
Liabilities due to employee benefits	77 402	83 531	0.6	107.9
Provisions for other liabilities and charges	96 256	63 888	0.4	66.4
TOTAL LIABILITIES	4 001 789	4 017 240	26.8	100.4
TOTAL EQUITY AND LIABILITIES	13 503 398	15 000 105	100.0	111.1

In 2008 the share of equity in the structure of equity and liabilities increased by 3 %. Their value during the year increased by PLN 1 481 256 thousand.

Equity was impacted by:

- an increase in the revaluation reserve on cash flow hedging financial instruments and on available-for-sale financial assets by PLN 504 338 thousand,
- the profit for 2008 of PLN 2 765 866 thousand,
- payment of the dividend for 2007 by the Parent Entity of PLN 1 800 000 thousand.

Total liabilities at the end of 2008 did not substantially change in comparison to the prior period. The largest item was current trade and other payables, as follows:

- trade payables – PLN 766 585 thousand,
- other payables – PLN 990 167 thousand,
of which: taxation and social insurance, PLN 264 678 thousand; accruals, PLN 329 157 thousand, mainly respecting the annual bonus in the Parent Entity.

A significant item in non-current liabilities is the liability due to employee benefits in the amount of PLN 1 039 423 thousand, which includes the coal equivalent payment, jubilee bonuses and retirement and disability benefits.

Liabilities due to borrowings increased in 2008 by 4.4 %. The largest item within borrowings is the borrowing of the subsidiary DIALOG S.A. in the amount of PLN 130 652 thousand (at the end of 2007, PLN 141 081 thousand).

3.4. Income statement

Table 12. Consolidated income statement ('000 PLN)

INCOME STATEMENT	2007	2008	Change 2007=100
1	2	3	4
Sales	13 494 128	12 674 885	93.8
Costs of sales	(7 578 224)	(8 489 581)	112.0
Gross profit	5 915 904	4 165 304	70.4
Selling costs	(210 044)	(225 540)	107.4
Administrative expenses	(737 874)	(778 127)	105.5
Other operating income	1 305 377	1 043 759	80.0
Other operating costs	(1 746 410)	(1 019 034)	58.4
Operating profit	4 526 953	3 186 362	70.4
Finance costs - net	(35 159)	(57 494)	163.5
Share in profits of associates accounted for using the equity method	265 093	267 579	100.9
Profit before income tax	4 756 887	3 396 447	71.4
Income tax expense	(821 371)	(630 581)	76.8
Profit for the period	3 935 516	2 765 866	70.3
attributable to:			
shareholders of the Parent Entity	3 934 559	2 766 179	70.3
minority interest	957	(313)	(32.7)
Earnings per share attributable to shareholders of the Parent Entity during the year (PLN per share)			
- basic	19.67	13.83	70.3
- diluted	19.67	13.83	70.3

The decrease in gross profit for 2008 is due to the decrease in revenues alongside higher costs.

The sales revenues of the Group in 2008 were lower compared to those in 2007 by PLN 839 243 thousand. This was mainly due to the strengthening of the PLN and the decrease in copper prices.

Costs of sales increased during the analysed period by PLN 911 357 thousand. This increase was mainly in respect of external services (an increase by PLN 444 334 thousand) and the impairment of fixed assets (an increase by PLN 282 577 thousand).

The impairment of property, plant and equipment is mainly in respect of the subsidiary DIALOG S.A. At 31 December 2008 impairment losses on property, plant and equipment in DIALOG S.A., recognised on the basis of tests for impairment performed in 2005 and on impairment recognised in the years 2006-2008 due to the withdrawal from use of MGW and DECT radio equipment and the write-off of unrealised project documentation, amounted to PLN 449 451 thousand (at 31 December 2007 respectively, PLN 185 950 thousand).

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

The share in profit of associates valued by the equity method caused an increase in profit for the period of PLN 267 579 thousand.

Finally, profit for 2008 decreased versus the prior year by 30 %, i.e. by PLN 1 169 650 thousand.

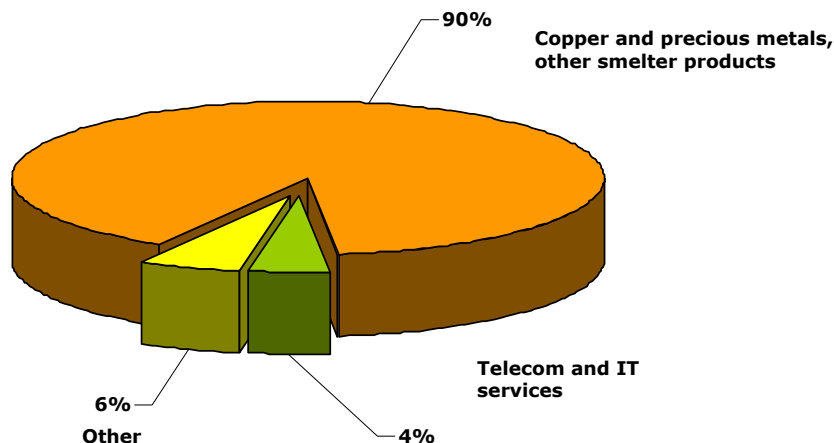
Table 13. Structure of the profit for the period of the KGHM Polska Miedź S.A. Group ('000 PLN)

Name of entity	Profit for 2008
KGHM Polska Miedź S.A.	2 920 378
subsidiaries	(247 518)
<i>of which:</i>	
- KGHM Ecoren S.A.	24 126
- KGHM Metraco S.A.	9 726
- DFM ZANAM-LEGMET Sp. z o.o.	5 113
- POL-MIEDŹ TRANS Sp. z o.o.	7 719
- CBJ sp. z o.o.	2 744
- PHP „MERCUS” sp. z o.o.	4 381
- Zagłębie Lubin S.A.	(11 046)
- DIALOG S.A.	(292 139)
Associates - attributable to the Group	267 579
<i>of which:</i>	
- Polkomtel S.A.	267 579
Consolidation adjustment	(174 260)
Profit for the period attributable to shareholders of the Parent Entity	2 766 179

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.

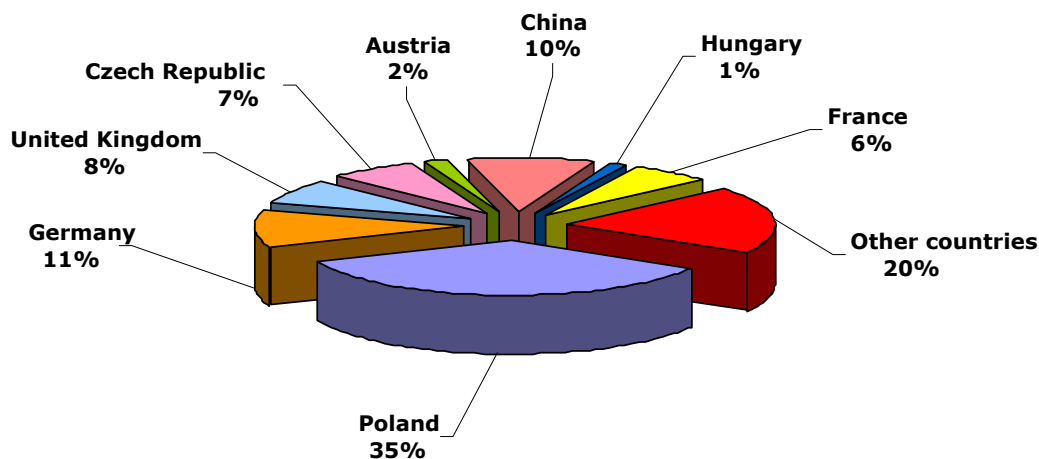
Diagram 3. Sales by segment in 2008



3.6. Sales markets – geographical structure

The largest portion, i.e. 35 %, 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 recipients of the products, goods for resale and services offered by the Group are Germany at 11 % and the Czech Republic at 7%.

Diagram 4. Sales by market in 2008



During the analysed period, in comparison to the sales structure in 2007, the following were clearly significant:

- a decrease in sales on the Polish market from 42 % to 35 %,
- a decrease in sales on the German market from 19 % to 11 %.

3.7. Financial ratios of the KGHM Polska Miedź S.A. Group

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

Table 14. Financial ratios

Ratios	31 December 2007	31 December 2008
1. Liquidity ratios		
- quick liquidity (multiple)	1.7	2.0
- current liquidity (multiple)	2.4	2.7
2. Profitability ratios		
- ROA - return on assets (%)	29.1	18.4
- ROE - return on equity (%)	41.4	25.2
3. Equity and liabilities ratios		
- debt ratio (%)	29.6	26.8
- durability of financing structure ratio (%)	83.0	85.5

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 an increase in current assets by 5% alongside a decrease in current liabilities by 5%.

The decrease in the profitability ratios was due to the decrease in profit for the period by 30% and the increase in total assets by 11%.

The decrease in the debt ratio was due to an increase in the share of equity in the structure of equity and liabilities by 3 %.

The increase in equity also led to an improvement in the durability of the financing structure.

3.8. 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.

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. Natural hedging is also used.

The following types of instruments are used:

- swaps,
- forwards and futures,
- options, and
- structures combining the above instruments.

At the balance sheet date the Group did not possess interest rate risk hedging instruments.

Risk management in the Parent Entity

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

In 2008 KGHM Polska Miedź S.A. implemented copper price hedging strategies of a total volume of 99 thousand tonnes and a maturity falling in the fourth quarter of 2008 and the first half of 2009. The Parent Entity made use of options. Additionally, during this period the Parent Entity implemented adjustment hedge transactions of a total volume of 24.8 thousand tonnes and a maturity falling in 2008 and 2009. In the case of the silver market, during the analysed period no strategies were implemented to hedge the price of this metal.

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

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

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

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

Mettraco S.A.

Mettraco S.A. is exposed to currency risk related to changes in exchange rates of currencies such as the EUR and USD. The company's core business is performed on the domestic market (79% of total sales realised in 2008), however, due to the significant impact of exchange differences generated on export-related financial operations (12% of total sales realised in 2008), these settlements are hedged by entering into forward transactions. The company does not apply hedge accounting. The derivative instruments used by the company are measured at fair value. The gains and losses generated by changes in the fair value of hedged positions and hedging instruments are recognised directly in profit or loss for the given financial period. The result on hedging transactions in 2008 amounts to PLN 4 017 thousand.

KGHM Ecoren S.A.

The company is an exporter of ammonium perrhenate. By entering into currency transactions with foreign customers, it is exposed to negative exchange rate fluctuations. In accordance with company regulations, i.e. the procedure for hedging the transactions of KGHM Ecoren S.A. against currency risk, since the start of 2008 the company has begun to enter into hedging transactions. The result on hedging instruments in 2008 was PLN (2 105) thousand.

Impact of derivative instruments on the balance sheet of the Group

At 31 December 2008, the fair value of open positions in derivative instruments amounted to PLN 712 698 thousand, of which financial assets represented PLN 717 628 thousand, and financial liabilities PLN 4 930 thousand.

Derivative instruments with a settlement date of 5 January 2009 were measured at fair value and were accounted for under trade and other receivables as receivables due to unsettled derivative instruments, or under trade and other payables as a liability due to unsettled derivative instruments.

The fair value of these instruments is as follows:

- PLN 287 146 thousand accounted for as a receivable due to unsettled derivative instruments,
- PLN 35 395 thousand accounted for as a liability due to unsettled derivative instruments.

Impact of derivative instruments on the financial result and equity of the Group

In 2008 the result on derivative instruments amounted to PLN 367 596 thousand. The effective part of the amount from the measurement of hedging instruments transferred from equity to profit or loss in the financial period amounted to PLN 579 991 thousand. Other operating costs due to the measurement of derivative instruments amounted to PLN (113 733) thousand, and costs due to the realisation of derivative instruments amounted to PLN (81 191) thousand. The adjustment of other operating income and costs due to the measurement of derivative instruments is mainly due to changes in the time value of options which are settled in future periods. Due to the hedge accounting principles applied, the change in the time value of options is not transferred to the revaluation reserve.

3.9. Forecast financial situation of the Group

Forecasts of the Group results are not prepared. The projected results of the Parent Entity are prepared and published. On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2009. The basis for preparation of the Budget were the preliminary results for 2008 and the assumptions contained in specific operating plans. The accepted Budget assumes the achievement in 2009 of revenues from sales in the amount of PLN 7 048 million and profit for 2009 of PLN 488 million.

Important assumptions of the forecast

Macroeconomic factors:

- average annual electrolytic copper price of 3 200 USD/t,
- average annual metallic silver price of 10.00 USD/troz (322 USD/kg),
- average annual exchange rate of 2.90 PLN/USD.

Internal factors:

- electrolytic copper production of 512 thousand t, including 98 thousand t from external copper-bearing materials,
- metallic silver production of 1 125 t,
- total unit cost of electrolytic copper production of 10 466 PLN/t,
- capital expenditure of PLN 1 235 million,
- equity investments of PLN 939 million.

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

The expected decrease in electrolytic copper production is mainly due to the planned maintenance halt in the Głogów smelter and a lower volume of external copper-bearing materials.

The decrease in the level of total planned unit copper production cost in 2009 (10 466 PLN/t Cu) results mainly from the lower cost of external copper-bearing materials.

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

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

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

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

Due to the assumptions of the investment program and the anticipated global economic weakness, the Budget for 2009 assumes leaving all the profit for 2008 in the company. During the period whilst economic conditions were positive, KGHM Polska Miedź S.A. paid an above-average dividend to its shareholders – altogether PLN 7.2 billion for the years 2005-2007, in accordance with the practice that extraordinary profits during the peak phase of the raw materials cycle are allocated to shareholders in the form of progressive dividends.

The final decision respecting the appropriation of profit of KGHM Polska Miedź S.A. for financial year 2008 will be made by the Ordinary General Shareholders' Meeting of KGHM Polska Miedź S.A.

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 Group 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.

3.10. 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 – energy and mining,
- realisation of investments supporting the core business,

- the development and increased effectiveness of Group entities.
- actions aimed at simplification the Group structure,

The Management Board of KGHM Polska Miedź S.A. has declared that energy and mining are significant directions for investment. Investments in energy assets involve the search for new, alternative sources of energy. Investments in mining will involve the acquisition of shares in exploratory entities and mining assets in order to geographically diversify the activities of the company.

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.

In 2009 PeBeKa S.A. carried out actions aimed at increasing productivity – increasing the range of services provided, related to realising preparatory mine work. Supporting this initiative is realisation of a program for the replacement of mining equipment, co-financed by KGHM Polska Miedź S.A.

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.

Realising its strategy with respect to the local community, KGHM Polska Miedź S.A. provides equity support to investments of social importance. Support by KGHM Polska Miedź S.A. in 2009 will involve the purchase of modern medical equipment in MCZ S.A.

Tasks related to simplifying and improving the structure of the KGHM Polska Miedź S.A. Group over the next several years will involve disposing of some entities unrelated to the core business of KGHM Polska Miedź S.A. and assuming direct supervisory control over entities directly related to KGHM Ecoren S.A. which are significant for the functioning of the core business. The creation is assumed in 2009 of a special fund for the management of selected Group entities.

The financial results of KGHM Polska Miedź S.A. for 2008 enable the realisation of the approved equity investment plan. In order to realise investment projects the use of internal funds is assumed.

4. Corporate governance

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

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

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, the company made the broadest possible use of both traditional as well as modern technology for the distribution of information about the company (recommendation I.1 of the "Code of Best Practice for WSE Listed Companies"). The company decided not to comply with the recommended on-line transmission of general shareholders' meetings due to the lack of legal uniformity in this regard, but has registered these meetings and made them available on the company website in both Polish and English. The efforts of the company with regard to information policy were recognised by the Warsaw Stock Exchange. The company received a special award for best investor communications.

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

4.1. General Shareholders' Meeting

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

The duties of the General Shareholders' Meeting include in particular:

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

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

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

Shareholders and their rights

The shareholders of KGHM Polska Miedź S.A. exercise their rights in the manner and within the limits prescribed by prevailing law, the Statutes of the company and the Regulations of the General Shareholders' Meeting.

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

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

The ownership structure of KGHM Polska Miedź S.A. is presented on page 11 of this report.

4.2. Supervisory Board

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

The changes in the composition of the Supervisory Board in 2008 are described on page 11 of this report.

Supervisory Board Committees

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

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

The rights, scope of action and manner of work of these Committees are described by regulations approved by the Supervisory Board. The specific duties and composition of the Committees are as follows:

Auditing Committee

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

- supervision, on behalf of the Supervisory Board, of the process of financial reporting in the company, including the process of reporting to the Supervisory Board,

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

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

- Leszek Hajdacki,
- Leszek Jakubów,
- Anna Mańk,
- Marcin Ślęzak.

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

- Marcin Dyl,
- Marek Panfil,
- Marzenna Weresa.

Remuneration Committee

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

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

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

- Remigiusz Nowakowski,
- Stanisław Andrzej Potycz,
- Jerzy Żyżyński.

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

- Leszek Hajdacki,
- Arkadiusz Kawecki,
- Jacek Kuciński.

At the end of the year the Auditing and Remuneration Committees submit a report of their activities to the Supervisory Board. These reports, following approval by the Supervisory Board, are made available to shareholders in the materials for the General Shareholders' Meeting.

4.3. Management Board

The Management Board conducts the business of the company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the company which have not otherwise been assigned by law or the Statutes to the duties of other company bodies. The Management Board operates based on prevailing law, the Statutes of the company and the Regulations of the Management Board of KGHM Polska Miedź S.A. in Lubin. The authority of the Management Board to pass decisions on the issuance

or redemption of shares is statutorily limited. In accordance with the Statutes of the company, any increase in share capital or issuance of shares or bonds requires the approval of the General Shareholders' Meeting. The Management Board of the company does not have the authority to increase the share capital or issue the shares of the company under conditions specified in art. 444-446 of the Code of Commercial Companies.

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

The changes in the composition of the Management Board in 2008 and the segregation of duties are described on page 12 of this report.

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

KGHM Polska Miedź S.A.

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

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

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

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

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

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

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

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

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

The body which supervises the process of financial reporting in KGHM and which cooperates with the independent auditor is the Auditing Committee, which is appointed by the Supervisory Board of the company. In addition, based on art. 4a of the Accounting Act dated 29 September 1994, the duties of the Supervisory Board include ensuring that the financial statements and the report on the activities of the company meet legal standards. The Supervisory Board is required to perform this duty as set out by the Code of Commercial

Companies and the Statutes of the company. This is the final stage in the verification and auditing process performed by the independent body, ensuring the truth and accuracy of the information presented in the separate financial statements and consolidated financial statements of KGHM Polska Miedź S.A.

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

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

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

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

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

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

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

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

Other Group companies

The companies of the KGHM Polska Miedź S.A. Group, as well as the Parent Entity, register, process and present economic and financial data based on their own procedures for the identification, documentation and control of economic operations.

The Accounting Policy approved by KGHM Polska Miedź S.A., based on International Financial Reporting Standards, requires the entities of the Group, with respect to the preparation of data packets for the preparation of the consolidated financial report. Each company prepares its own principles of economic and financial management, account plans and principles of inventorisation.

In addition, the companies apply their own internal procedures with respect to control systems and the evaluation of risk related to their activities.

The scope and principles of financial reporting are set in consultation with the Parent Entity.

The decided majority of Group entities maintain their accounts within an integrated IT system. Some companies are preparing to implement such systems. Documentation of the IT accounting system is periodically verified and updated.

The companies implement organisational and systemic solutions with respect to ensuring the proper use and protection of systems and data, as well as secure access to data and hardware. These entities develop their own security policies in the form of internal access to resources, the granting of rights, and of control over each stage of preparation of their financial statements.

All of the Group's companies have supervisory boards, which in accordance with art. 4a of the Accounting Act dated 29 September 1994, are responsible for ensuring the conformance of the financial statements and the reports on the activities of the company with the laws in force.

Internal control in the Group's companies functions on the basis of regulations approved by the management boards of the entities. In most companies, internal control has an institutional character, i.e. it is realised by a separate organisational unit. The companies themselves regulate their internal control systems, depending on the scale of activities and the needs of the management board. Control activities have a direct or indirect impact on the veracity of the financial statements.

The companies of the Group are exposed, in a similar way as is the Parent Entity, to various types of risk. Amongst the most important are market risks (copper and silver prices and the USD/PLN and EUR/PLN exchange rates). The companies most exposed to currency risk make use of derivative financial instruments to manage this risk.

5. Subsequent events

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

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

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

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

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

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

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

Termination of contracts with PGNiG

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

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

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

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

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

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

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

Approval by the Supervisory Board of the Budget for 2009 and the „Strategy of KGHM Polska Miedź S.A. for the years 2009-2018”

On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the company's Budget for 2009 as presented by the Management Board as well as the „Strategy of KGHM Polska Miedź S.A. for the years 2009-2018”. Details of the approved documents are presented in the Report of the Management Board on the Company's Activities in 2008.

6. Annexes

6.1. Methodology of calculating ratios used in the report

$$\begin{aligned} \text{ROE} &= \frac{\text{profit for the period}}{\text{equity}} \times 100 \\ \text{ROA} &= \frac{\text{profit for the period}}{\text{total assets}} \times 100 \\ \text{Quick liquidity} &= \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}} \\ \text{Current liquidity} &= \frac{\text{current assets}}{\text{current liabilities}} \\ \text{debt ratio} &= \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100 \\ \text{Durability of financing structure} &= \frac{\text{equity} + \text{non-current liabilities}}{\text{equity and liabilities}} \times 100 \end{aligned}$$

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KGHM Polska Miedź S.A.
Report of the Management Board of the Parent Entity on the activities of the Group in 2008

Signatures of all Members of the Management Board			
Date	First name, surname	Position/Function	Signature
<i>27 March 2009</i>	<i>Mirosław Krutin</i>	President of the Management Board
<i>27 March 2009</i>	<i>Herbert Wirth</i>	I Vice President of the Management Board
<i>27 March 2009</i>	<i>Maciej Tybura</i>	Vice President of the Management Board