

CAPITAL GROUP
KGHM Polska Miedź S.A.

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

I. GENERAL NOTES

1. Background

The parent entity of the KGHM Polska Miedź S.A. Group (hereinafter 'the Group' or 'the Capital Group') is KGHM Polska Miedź S.A. ('the holding company', 'the Company').

The holding company was incorporated on the basis of a Notarial Deed dated 12 September 2001. The Company's registered office is located in Lubin at M. Skłodowskiej-Curie Street 48.

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

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

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, polish special edition chapter 13, title 29 page 609) and, based on the article 55.6a of the Accounting Act dated 29 September 1994 (uniform text: Journal of Laws of 2002, No. 76 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU.

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

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

The principal activities of the holding company are as follows:

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

The operations of the Group's subsidiaries and associates include the following activities:

- telecommunication and IT activities,
- general construction services relating to mining and production structures,
- the generation and distribution of electricity,
- transport services,
- waste management,
- the production of non-ferrous metals.

As at 31 December 2008, the Company's issued share capital amounted to 2,000,000 thousand zlotys. Equity as at that date amounted to 10,982,865 thousand zlotys.

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

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

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

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

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

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

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

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

2. Group Structure

As at 31 December 2008, the Capital Group KGHM Polska Miedź S.A. consisted of the following subsidiaries (direct or indirect):

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Energetyka Sp. z o.o.	Purchase accounting	qualified	Ernst & Young Audit Sp. z o.o.	31 December 2008
KGHM CUPRUM CBR Sp. z o.o.	Purchase accounting	unqualified	PKF Consult Sp. z o.o.	31 December 2008
KGHM Polish Copper Ltd.	Purchase accounting	audit in progress	Ernst & Young LLP	31 December 2008
Centrum Badań Jakości Sp. z o.o.	Purchase accounting	unqualified	Kancelaria Biegłych Rewidentów Sp. z o.o.	31 December 2008
KGHM ECOREN S.A.	Purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2008
Miedziowe Centrum Zdrowia S.A.	Purchase accounting	unqualified	AUDYTOR S.A.	31 December 2008
POL-MIEDŹ TRANS Sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2008
KGHM METRACO S.A.	Purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2008
KGHM Kupferhandelsges.m.b.H.	Purchase accounting	audit in progress	Ernst & Young Wirtschaftsprüfungsges. m.b.H	31 December 2008
Telefonia Dialog S.A.	Purchase accounting	audit in progress	Ernst & Young Audit Sp. z o.o.	31 December 2008
Zagłębie Lubin S.A.	Purchase accounting	audit in progress	Ernst & Young Audit Sp. z o.o.	31 December 2008
KGHM CONGO s.p.r.l.	Purchase accounting	unqualified	M&M Partners Congo s.p.r.l.	31 December 2008
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.	Purchase accounting	audit in progress	Ernst & Young Audit Sp. z o.o.	31 December 2008
INOVA Centrum Innowacji Technicznych Sp. z o.o	Purchase accounting	unqualified	Biuro Ekspertyz i Badania Bilansów „PIAST” Sp. z o.o.	31 December 2008
Dolnośląska Korporacja Ekologiczna Sp. z o.o.	Purchase accounting	unqualified	Biuro Ekspertyz i Badania Bilansów „Piaśt” Sp. z o.o.	31 December 2008
INTERFERIE S. A.	Purchase accounting	unqualified	Pricewaterhouse-Coopers Sp. z o.o.	31 December 2008
DFM Zanam - LEGMET Sp. z o.o.	Purchase accounting	unqualified	Ernst & Young Audit Sp. z o.o.	31 December 2008
WFP HEFRA S.A.	Purchase accounting	unqualified	Biuro Ekspertyz i Badania Bilansów „Piaśt” Sp. z o.o.	31 December 2008
Walcownia Metali Nieżelaznych Sp. z o.o.	Purchase accounting	unqualified	Biuro Usług Finansowo-księgowych i Podatkowych	31 December 2008

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

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
PHP Mercus Sp. z o.o.	Purchase accounting	unqualified	„BANKFIRM” Sp. z o.o. PKF Consult Sp. z o.o.	31 December 2008
PHU Lubinpex Sp. z o.o.	Purchase accounting	unqualified	AUDYTOR S.A.	31 December 2008
Walcownia Metali "Łabędy" S.A.	Purchase accounting	unqualified, with an emphasis of matter	Biuro Usług Finansowo-księgowych i Podatkowych „BANKFIRM” Sp. z o.o.	31 December 2008
Avista Media Sp. z o.o.	Purchase accounting	unqualified	MDDP Audyt Sp. z o.o.	31 December 2008
PMT Linie Kolejowe Sp. z o.o.	Purchase accounting	no audit obligation	no audit obligation	31 December 2008
Petrotel Sp. z o.o.	Purchase accounting	unqualified	DGA Audyt Sp. z o.o.	31 December 2008
KGHM LETIA Legnicki Park Technologiczny S.A.	Purchase accounting	unqualified	Kancelaria Doradztwa Podatkowego i Badania Bilansów „OPINIA”	31 December 2008
Vivid.pl S.A.	Purchase accounting	bankruptcy – no audit obligation	n/a	29 September 2008

As at 31 December 2008 shares in the following associates (direct and indirect) were recognised in the Group's consolidated financial statements using the equity method:

Name and registered office	Type of activity
Polkomtel S.A.	Telecommunication activities

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 4 of the summary of significant accounting policies and other explanatory notes (“the additional notes and explanations”) to the consolidated financial statements of the Group for the year ended 31 December 2008.

3. Consolidated Financial Statements

3.1 Auditors' opinion and audit of consolidated financial statements

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

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

Ernst & Young Audit sp. z o.o. and the certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the consolidated financial statements, as defined in Art. 66, clause 2 and 3 of the Accounting Act.

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

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

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

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

1. We have audited the attached consolidated financial statements of Capital Group KGHM Polska Miedź S.A. ('the Group'), for which the holding company is KGHM Polska Miedź S.A. ('the Company') located in Lubin at M. Skłodowskiej-Curie 48, for the year ended 31 December 2008 containing:
 - the consolidated balance sheet as at 31 December 2008 with total assets amounting to 15,000,105 thousand zlotys,
 - the consolidated income statement for the year from 1 January 2008 to 31 December 2008 with a net profit amounting to 2,765,866 thousand zlotys,
 - the consolidated statement of changes in equity for the year from 1 January 2008 to 31 December 2008 with a net increase in equity amounting to 1,481,256 thousand zlotys,
 - the consolidated cash flow statement for the year from 1 January 2008 to 31 December 2008 with a net cash outflow amounting to 786,762 thousand zlotys and
 - the summary of significant accounting policies and other explanatory notes ('the attached consolidated financial statements').
2. The truth and fairness¹ of the attached consolidated financial statements and the proper maintenance of consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair².
3. We conducted our audit of the attached consolidated financial statements in accordance with the following regulations being in force in Poland:
 - chapter 7 of the Accounting Act, dated 29 September 1994 ('the Accounting Act'),
 - the auditing standards issued by the National Chamber of Auditors,

in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached consolidated financial statements. The audit also included assessing the accounting

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

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

principles adopted and used and significant estimates made by the Management Board, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.

4. In our opinion, the attached consolidated financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Group's operations for the year from 1 January 2008 to 31 December 2008, as well as its financial position³ as at 31 December 2008;
 - have been prepared in all material aspects correctly, i.e. in accordance with International Financial Reporting Standards as adopted by the EU;
 - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the 'Directors' Report for the year from 1 January 2008 to 31 December 2008 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these consolidated financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).".

We conducted the audit of the consolidated financial statements during the period from 2 February 2009 to 27 March 2009. We were present at the holding company's head office from 2 February 2009 to 27 February 2009.

3.2 Representations provided and data availability

The Management Board of the holding company confirmed its responsibility for the truth and fairness⁴ of the consolidated financial statements and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 27 March 2009, from the Management Board of the holding company confirming that:

- the information included in the consolidation documentation was complete,
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements,

and confirmed that the information provided to us was true and fair to the best of the holding company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

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

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

3.3 Consolidated financial statements for prior financial year

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

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

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

4. Analytical Review

4.1 Basic data and financial ratios

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

	2008	2007	2006
Total assets	15,000,105	13,503,398	13,227,869
Shareholders' equity	10,982,865	9,501,609	8,513,912
Net profit/ loss	2,765,866	3,935,516	3,479,380
Return on assets (%)	18.4	29.1	26.3
$\frac{\text{Net profit} \times 100}{\text{Total assets}}$			
Return on equity (%)	29.1	46.2	54.7
$\frac{\text{Net profit} \times 100}{\text{Shareholders' equity at the beginning of the period}}$			

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	2008	2007	2006
Profit margin (%)	21.9	29.2	27.0
Net profit x 100			
Sales of finished goods, goods for resale and raw materials			
Liquidity I	2.7	2.4	1.8
Current assets			
Short-term creditors			
Liquidity III	1.0	1.2	0.7
Cash and cash equivalents			
Short-term creditors			
Debtors days	21 days	19 days	33 days
Trade debtors x 365			
Sales of finished goods, goods for resale and raw materials			
Creditors days	33 days	31 days	32 days
Trade creditors x 365			
Costs of finished goods, goods for resale and raw materials sold			
Inventory days	69 days	84 days	83 days
Inventory x 365			
Costs of finished goods, goods for resale and raw materials sold			
Stability of financing (%)	90.4	88.2	80.6
(Equity + long-term provisions and liabilities) x 100			
Total liabilities, provisions and equity			
Debt ratio (%)	26.8	29.6	35.6
(Total liabilities and provisions) x 100			
Total assets			

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

	2008	2007	2006
Rate of inflation:			
Yearly average	4.2%	2.50%	1.00%
December to December	3.3%	4.00%	1.40%

4.2 Comments

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

- Return on assets at the end of 2008 was 18.4% and was lower than at the end of 2007 and 2006 when it was 29.1% and 26.3%, respectively.
- Return on equity at the end of 2008 was 29.1%, compared to 46.2% at the end of 2007 and 54.7% at the end of 2006.
- Liquidity I ratio at the end of 2008 was 2.7, compared to 2.4 at the end of 2007 and 1.8 at the end of 2006. Liquidity III ratio at the end of 2008 was 1.0, compared to 1.2 at the end of 2007 and 0.7 at the end of 2006.
- Debtors days ratio in 2008 was 21 days, compared to 19 days in 2007 and 33 days in 2006.
- Creditors days ratio in 2008 was 33 days, compared to 31 days in 2007 and 32 days in 2006.
- Inventory days ratio in 2008 was 69 days, compared to 84 days in 2007 and 83 days in 2006.
- Stability of financing in 2008 was 90.4%, compared to 88.2% at the end of 2007 and 80.6% at the end of 2006.
- Debt ratio decreased in 2008 to 26.8%, compared to 29.6% in 2007 and 35.6% in 2006.

4.3 Going concern

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

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

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 2 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2008.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2008.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method on determining impairment of goodwill, were presented in note 2 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including minority interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Minority shareholders' interest amounted to 58,360 thousand zlotys as at 31 December 2008. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 16, 17 and 18 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2008 and include the financial data for the period from 1 January 2008 to 31 December 2008, apart from subsidiary Vivid.pl S.A. whose financial data cover the period from 1 January 2008 to 29 September 2008 (date of bankruptcy).

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

The effects of the sale of all the shares of Minova-Ksante Sp. z o.o. were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

6. Items which have an impact on the group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2008.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

8. Additional Notes and Explanations to the Consolidated Financial Statements

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

9. Directors' Report

We have read the 'Directors' Report for the period from 1 January 2008 to 31 December 2008 and the rules of preparation of annual statements' ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and

conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259).

10. Conformity with Law and Regulations

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

11. Work of Experts

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

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

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

Marek Musiał
Certified Auditor No. 90036/7272

Jacek Hryniuk
Certified Auditor No. 9262/6958

Warsaw, 27 March 2009