

**KGHM** POLSKA MIEDŹ S.A.

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**REPORT ON THE ACTIVITIES  
OF THE GROUP  
IN THE FIRST HALF OF 2008**

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Lubin, October 2008

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

### 1.1. Structure of the Group

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

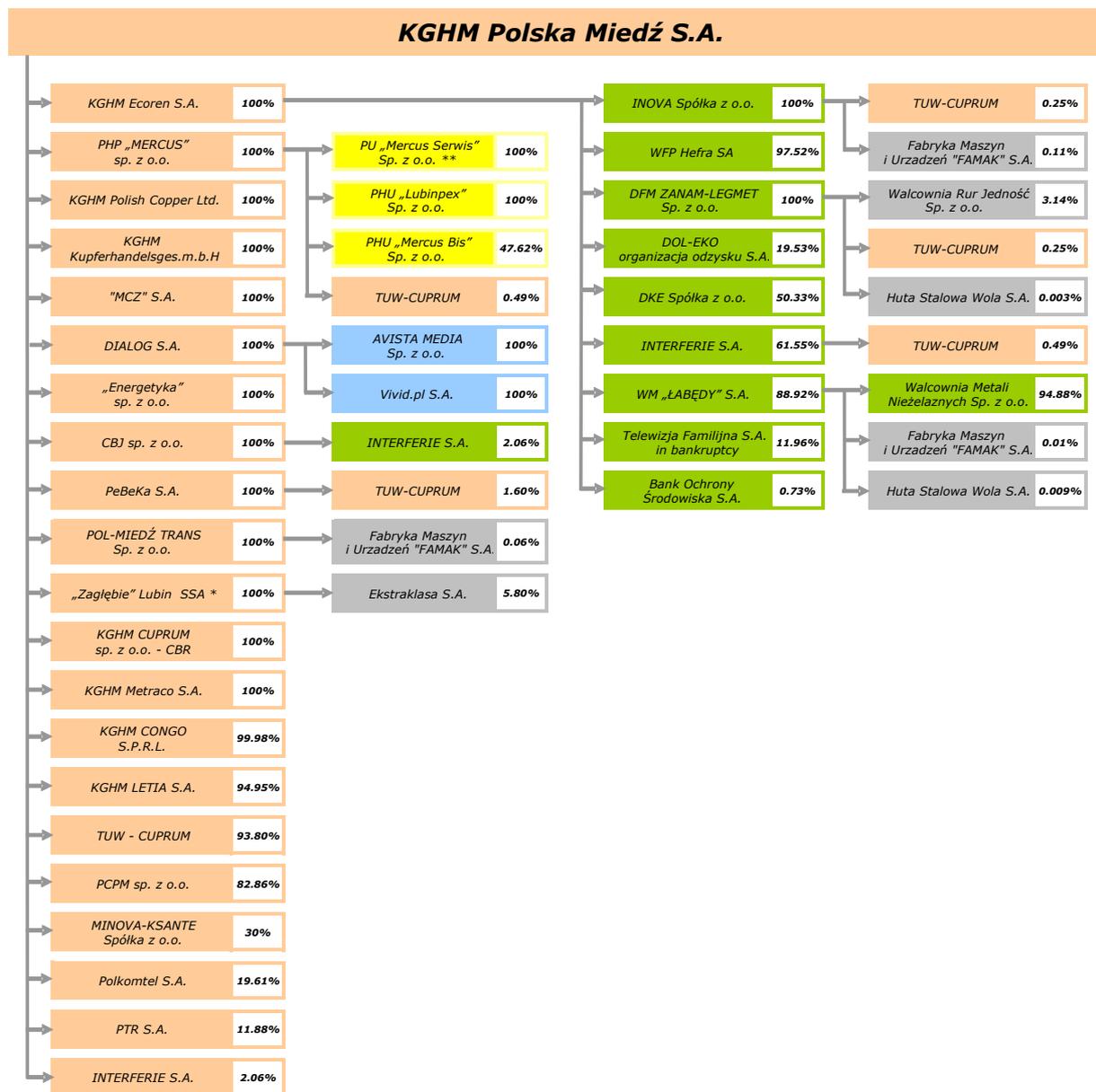
At 30 June 2008 KGHM Polska Miedź S.A. owned, directly or indirectly, shares in 39 commercial law companies, including in:

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

During the first half of 2008 there were no changes carried out in the structure of the Group.

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 30 June 2008



\* 14 July 2008 company name changed (currently Zagłębie Lubin S.A.)

\*\* 5 September 2008 company name changed (currently „Mercus Software” sp. z o.o.)

## 1.2. 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
<b>Segment I</b>		
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.	Walcownia Metali Nieżelaznych spółka z o.o.	non-ferrous metals processing
4.	KGHM Polish Copper Ltd.	copper trading
5.	KGHM Kupferhandelsges.m.b.H.	copper trading
6.	WM „ŁABĘDY” S.A.	trading in coal, grinding mediums used in the production of copper concentrate
7.	KGHM Metraco S.A.	trading of metals, chemicals, copper scrap
<b>Segment II</b>		
1.	DIALOG S.A.	telecommunications services
2.	Vivid.pl. S.A.	internet sales
3.	AVISTA MEDIA Sp. z o.o.	multimedia services
<b>Segment III</b>		
1.	KGHM Ecoren S.A.	the production and sale of road-building materials and of rhenium compounds
2.	PeBeKa S.A.	construction of mines with infrastructure; building of roadway, railway and subway tunnels, underground construction
3.	DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery, machinery repairs
4.	„Energetyka” sp. z o.o.	generation, distribution and sale of electrical and heating energy, water-sewage management
5.	POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport, passenger and cargo road transport, trade in fuels
6.	PHP „MERCUS” sp. z o.o.	trade in consumer goods, production of bundled electrical cables

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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.	technology transfer, promotion of scientific achievements, sale and rental of property
13.	TUW-CUPRUM	mutual insurance services for its members
14.	WFP Hefra SA	production and sale of rust-proof, semi-silver-plated and silver-plated 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.

### SEGMENT I

The most important entity in the Group is **KGHM Polska Miedź S.A.** A description of the activities of the Parent Entity in the first half of 2008 may be found in the KGHM Polska Miedź S.A. report published on 23 September 2008.

#### **KGHM Polish Copper Ltd.**

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

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

This company trades in the products of KGHM Polska Miedź S.A., i.e. wire rod, cathodes and billets. 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.

### SEGMENT II

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

DIALOG S.A. operates in three telecom segments:

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

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

**Table 2.** Market share of DIALOG S.A. in 2007 by segment

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

Source: PMR Publications, 2007

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

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

In 2007, in terms of value, DIALOG S.A. held approx. 3.64% of the fixed-line voice telephony market. The position of the company may be described as stable, despite a falling trend evident for years in the sector.

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

The estimated market share of DIALOG S.A. at 30 June 2008 in terms of numbers of active customers is as follows:

- 17.1 % in the WLR market,
- 2.5 % in the BSA market.

In February 2008, internet tv services – IPTV (Dialog media) were added to the company's product line.

### Conditions in the sector

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

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

## SEGMENT III

### KGHM Ecoren S.A.

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

#### Road-building material

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

#### Metals and their chemical compounds – rhenium

The company is familiar with the production and sale of ammonium perrhenate and with the further perspectives for metallic rhenium. Ammonium perrhenate is the company's main product. Current production capacity and the stable quality of the product enable its sale as a standard 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 benzine or catalytic converters). A potential sales market for ammonium perrhenate in Poland is the petrochemical industry.

Over the last several years there has been a significant increase in demand for this material by manufacturers of high temperature alloys, which is directly related to the healthy condition of the air transport market, the space industry and the military aircraft industry.

The company's share in the global ammonium perrhenate production market is around 5 %.

#### 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.

With respect to construction and civil engineering, PeBeKa S.A. mainly operates on the local market (LGOM) and in Warsaw in building the Warsaw Metro. The company has built some of the stations and tunnels for the Warsaw Metro. Its contracts are carried out as part of a consortium with PRG Metro Spółka z o.o. PeBeKa S.A. is one of the leading contractors in Poland in the construction of underground tunnels (tunnel boring method, blasting method).

PeBeKa S.A., in a consortium with HOCHTIEF Polska Sp. z o.o. and HOCHTIEF Construction A.G., is building a sports stadium on behalf of Zagłębie Lubin S.A.

#### **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 also sells its products on external markets, although here it has heavy competition from large domestic and foreign companies, such as SANDVICK (TAMROCK) from Finland, ATLAS COPCO/WAGNER from Sweden, PAUS MACHINENFABRIK from Germany, MINE MASTER from Poland (together with GHH Fahrzeuge), and BUMAR/FADROMA from 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 in the former Legnica voivodeship. It is produced in conjunction with heat, all of which is supplied to KGHM Polska Miedź S.A. The company is one the largest producers of heat in western Poland and the largest in the former Legnica voivodeship.

With respect to water-sewage management, the company primarily serves industrial customers on the local market, 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 market share of the company in the Polish transport-spedition-logistics market is around 2.5%. The company holds sixth place amongst private domestic railway carriers, in terms of carriage work measured in tonnes per kilometre. It holds a 4.4 % share of this market.

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

#### **PHP „MERCUS” sp. z o.o.**

The activities of the company comprise three main sectors:

- material logistics – mainly on behalf of the divisions of KGHM Polska Miedź S.A. and companies of the Group,
- production – bundled electrical cables and high-pressure hydraulic lines, 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 are ELECTROLUX, GENERAL ELECTRIC and PATELEC ELPENA.

#### **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 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. The company is at 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 science funds.

KGHM CUPRUM sp. z o.o. - CBR is one of the few institutions in Poland with extensive experience in the mining and processing of copper ore. The company is expanding its activities into examining the possibilities of carrying out research into the chemical and biochemical processing of brown coal using underground coal gasification (UCG).

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

CBJ sp. z o.o. operates in the analytical services sector, mainly to serve the needs of the mining and non-ferrous metals smelting industries, with respect to research and physical-chemical analysis, mainly in the fields of industrial and environmental research. In the first half of 2008 the company implemented 23 new research methods.

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

### **1.3. 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 by period

Description	2007	I-VI 2007	I-VI 2008	Change *
White collar	8 428	8 383	8 639	102.5
Blue collar	19 264	19 047	19 587	101.7
<b>Total employees</b>	<b>27 692</b>	<b>27 430</b>	<b>28 226</b>	<b>101.9</b>

\* 2007 = 100

The highest average level of employment in the first half of 2008, at 18 375 positions, was recorded by the Parent Entity. Among the remaining Group companies the highest average number of employees in the first half of 2008 was recorded by:

- PeBeKa S.A. – 1 695 positions,
- POL – MIEDŹ TRANS Sp. z o.o. – 1 490 positions,
- ZANAM – LEGMET Sp. z o.o. – 1 058 positions,
- DIALOG S.A. – 968 positions,
- „Energetyka” sp. z o.o. – 810 positions.

In the first half of 2008 average employment in the Group increased in comparison to 2007 by 534 positions. The largest increase in average employment, i.e. by 386 positions, was in the Parent Entity. This increase in employment was mainly among underground miners, and was due to the need to ensure a proper level of employment to carry out planned production.

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

##### KGHM Polska Miedź S.A.

On 27 February 2008 a side protocol was signed to the Collective Labour Agreement which increased basic wage rates by PLN 150.

As negotiations on setting the wages increase index in the Parent Entity for 2008 did not conclude with the reaching of an agreement with the trade unions, the wages increase index was set by the Management Board of the Parent Entity as follows:

- |   |      |
|---|------|
| – average total wage                      | 1.0% |
| – average wage excluding the annual bonus | 2.3% |

##### Other Group companies

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

- setting the wages increase index in 2008, and
- contributions to the Social Fund.

In the company „MCZ” S.A., at the beginning of the year the trade unions carried out strike referendums. No strikes however were initiated. Negotiations were held as a result of which it was determined that any strikes will depend on the results of negotiations over the wages increase index for 2008. In January and July of 2008 basic wages were increased for the company's employees. Negotiations on increasing the average wages increase index in „MCZ” S.A. for 2008 will be continued. Until then the representatives of the trade unions have committed themselves not to organise protest actions.

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 and increased contributions to the Social Fund. For several months the Management Board of the company engaged in negotiations on the amount of the wages increase index. Finally, in August the Management Board of INOVA Spółka z o.o. signed an agreement with the representatives of the trade unions which concluded the collective dispute.

#### **1.5. 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.

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

At 30 June 2008, the share capital of the Parent Entity amounted to PLN 2 billion and was divided into 200 million shares, series A, with a face value of PLN 10 each. All shares are bearer shares. KGHM Polska Miedź S.A. has not issued preference shares. Each share gives the right to one vote at the General Shareholders' Meeting. In the first half of 2008 there was no change in share capital.

At 30 June 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 the Parent Entity 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.

### 1.5.2. Bodies of the Parent Entity

#### Supervisory Board

The composition of the 6th-term Supervisory Board of KGHM Polska Miedź S.A. during the period from 1 January 2008 to 13 February 2008 was as follows:

- 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 re-appointed the following persons to their respective functions: Chairman – Marek Trawiński, Deputy Chairman – Jacek Kuciński, and Secretary – Marek Panfil.

#### Management Board

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

- 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.

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

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

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

In addition the Supervisory Board appointed Herbert Wirth as I Vice President of the Management Board.

### **1.5.3. Remuneration in the Bodies of the Parent Entity**

Information on remuneration in the bodies of KGHM Polska Miedź S.A. is provided in note no. 40 of the financial statements for the first half of 2008.

## **2. Activities of the KGHM Polska Miedź S.A. Group in the first half of 2008**

### **2.1. Equity investments**

#### **Equity investments in the Group**

In the first half of 2008, two companies carried out increases of share capital in directly-related entities.

- KGHM Polska Miedź S.A. acquired shares in the increased share capital of „Energetyka” sp. z o.o. in the total amount of PLN 27 317 thousand, which were paid for in cash. The funds obtained were allocated toward investments. The share capital of the company following the increase amounted to PLN 248 793 thousand. KGHM Polska Miedź S.A. owns 100 % of the company's shares. This increase in capital was registered by the court in June 2008.
- PHP „MERCUS” sp. z o.o. acquired shares in the increased share capital of PU „Mercus Serwis” Sp. z o.o. in the total amount of PLN 1 500 thousand, which were covered by a contribution in kind in the form of real estate. The share capital of the company following the increase amounts to PLN 2 200 thousand. PHP „MERCUS” sp. z o.o. owns 100 % of the shares of the company. This increase in capital was registered by the court in March 2008.

#### **Other equity investments**

In the first half of 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 30 June 2008 was PLN 7 964 thousand.

In the first half of 2008, the Parent Entity received a total amount of PLN 151 thousand from the AIG Fund, representing gains realised from the redemption of acquired shares. Simultaneously, KGHM Polska Miedź S.A. paid a management fee of PLN 46 thousand.

### **2.2. Decreases of share capital**

In April 2008 there was a court registered 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, by a decrease in the face value of all of the existing shares of the company from PLN 100.00 to PLN 25.00 per share.

The funds arising from this decrease in capital were allocated to cover the losses from prior years in the amount of PLN 913 150 thousand, and to reserve capital in the amount of PLN 556 700 thousand. KGHM Polska Miedź S.A. owns 100 % of the company's shares.

### **2.3. Loans to Group companies**

In April 2008 KGHM Polska Miedź S.A. granted loans to two Group companies:

- Zagłębie Lubin S.A. – a loan in the amount of PLN 7 000 thousand for partial payment of its obligations in arrears towards Social Insurance Institution (ZUS). The loan will be repaid by 31 December 2010,
- KGHM CONGO S.P.R.L. - a loan in the amount of USD 25 thousand to cover investment expenditures. The loan was repaid by 30 June 2008.

In January and April 2008 two annexes were signed to a loan agreement in the amount of USD 800 thousand, entered into with KGHM CONGO S.P.R.L. in June 2007. The repayment dates were prolonged for individual loan instalments totalling USD 500 thousand. It was determined that the final loan instalment would be paid by 15 October 2009.

In the first half of 2008, KGHM Ecoren S.A. granted a loan to WFP Hefra S.A. in the amount of PLN 2 889 thousand. The principal amount of loan liabilities by WFP Hefra S.A. towards KGHM Ecoren S.A. at 30 June 2008 was PLN 3 274 thousand (PLN 385 thousand – liabilities from 2007). The deadline for repayment is 31 October 2008.

## 2.4. Payment of dividends to the Parent Entity

In the first half of 2008, as a result of distribution of profit for 2007, 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,
- CBJ sp. z o.o.	PLN 2 000 thousand.

*\* total dividends for 2007 amount to PLN 244 764 thousand, of which: an interim payment of PLN 61 905 thousand paid in December 2007, PLN 91 409 thousand in the first half of 2008, and PLN 91 450 thousand to be paid on 27 November 2008*

In June 2008 the Extraordinary General Shareholders' Meeting of PTR S.A. distributed its profit for 2007, as a result of which KGHM Polska Miedź S.A. was allocated a dividend of PLN 228 thousand. The dividend was paid in August 2008.

## 2.5. Information on contracts of significance

In the first half of 2008, the following contracts of significance were entered into:

- On 30 January 2008 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. for the sale in 2008 of 8 mm copper wire rod, produced in a continuous-cast method under the standard PN-EN 1977:2000, and oxygen-free copper rod produced under the standard PN-EN 1977:2000. The estimated value of the contract is from around USD 658 461 thousand (PLN 1 613 296 thousand) to around USD 844 362 thousand (PLN 2 068 771 thousand). This estimated value, depending on the amount of tonnage under option, is based on the forecast copper price (using the forward curve from 29 January 2008) and on the NBP exchange rate from 30 January 2008.
- On 19 March 2008 a contract was signed between KGHM Polska Miedź S.A. and Glencore International AG for the sale of copper cathodes in the years 2008 – 2009. This estimated value, depending on the amount of tonnage under option, varies from USD 413 201 thousand to USD 557 417 thousand, i.e. from PLN 927 223 thousand to PLN 1 250 844 thousand. This estimated value is based on the forecast copper price (using a forward curve) and on the NBP exchange rate from 18 March 2008. The contract foresees contractual penalties for late payments.
- On 18 March 2008 a contract was signed between KGHM Polska Miedź S.A. and KGHM Polish Copper Ltd. for the sale of copper cathodes in 2008. This estimated value, depending on the amount of tonnage under option, varies from USD 245 048 thousand to USD 306 276 thousand, i.e. from PLN 552 828 thousand to PLN 690 959 thousand. This estimated value is based on the forecast copper price (using a forward curve) and on the NBP exchange rate from 17 March 2008. The contract foresees contractual penalties for late payments.

## 2.6. Activities of major Group entities

Among the most important entities of the Group are:

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

### KGHM Polska Miedź S.A.

The financial results and description of activities of the Parent Entity for the first half of 2008 can be found in the KGHM Polska Miedź S.A. report published on 23 September 2008.

### Polkomtel S.A.

At 30 June 2008, the carrying amount of the shares of Polkomtel S.A. in the financial statements of KGHM Polska Miedź S.A. was PLN 437 250 thousand.

KGHM Polska Miedź S.A.  
Report on the activities of the Group in the first half of 2008

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

**Table 4.** Financial results of Polkomtel S.A. ('000 PLN)

	2007	I-VI 2007	I-VI 2008	Change *
Sales	7 799 020	3 758 796	4 117 743	109.5
Operating profit	1 771 713	836 759	1 011 920	120.9
EBITDA	2 832 633	1 366 033	1 602 779	117.3
Profit for the period	1 358 676	632 924	773 278	122.2

\* I-VI 2007 = 100

Polkomtel S.A. earned a profit for the first half of 2008 higher than for the comparable prior period by PLN 140 354 thousand, i.e. by 22.2%. During this same period the company's sales increased by PLN 358 947 thousand, i.e. by 9.5%. The higher sales are mainly due to the introduction of new, attractive services and to an increase in the customer base. The total customer base increased in the first half of 2008 by 4.3%

On 25 March 2008 the Arbitration Tribunal in Vienna issued a so-called partial verdict on the claim filed on 10 March 2006 by Vodafone Americas Inc. with the International Court of Arbitration of the Federal Chamber of Commerce in Vienna against six entities, naming TDC Mobile International A/S as the Principal Respondent, Polkomtel S.A. as the First Auxiliary Respondent and KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. as further Auxiliary Respondents. In the statement of its claims, Vodafone Americas Inc. challenged, among others, the method of setting the price by TDC International A/S in the offer addressed to the other shareholders. This verdict, which is favourable to KGHM Polska Miedź S.A. and the remaining shareholders, confirms the validity of the contract dated 10 March 2006 between KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węglokoks S.A. with TDC Mobile International A/S on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A. This agreement was described in detail in a current report dated 10 March 2006 and in the consolidated annual report for 2007.

#### DIALOG S.A.

The KGHM Polska Miedź S.A. Group has prepared consolidated financial statements in conformity with IFRS since 1 January 2005. DIALOG S.A. has maintained accounts and prepared financial statements in conformity 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 5.** Financial results of DIALOG S.A. ('000 PLN)

	2007	I-VI 2007	I-VI 2008	Change *
Sales	496 042	241 793	278 861	115.3
Operating profit/(loss)	17 152	27 331	(14 964)	(54.7)
EBITDA	119 022	75 483	41 199	54.6
Profit/(loss) for the period	63 372	24 303	(21 202)	(87.2)

\* I-VI 2007 = 100

The result of the investments carried out in 2007 and the actions undertaken by DIALOG S.A. to gain customers is that the customer base since 2007 has had a visible impact on the company's revenues.

The strong competition from mobile phone operators means that the company is continuing to experience a fall in voice service subscribers using the DIALOG S.A. network. At the end of the first half of 2008, the company had 395.9 thousand ringing lines in its network. There is however dynamic growth in the base of customers to whom DIALOG S.A. provides services based on the TP S.A. network (so-called WLR). At the end of June 2008 the company had 131.3 thousand active WLR customers. In addition the company is expanding its base of Internet customers, in particular with respect to broadband Internet access. At the end of June 2008 it had 124.5 thousand Internet subscribers, including 6.1 thousand BSA service users.

In the first quarter of 2008 sales of a new service – Internet television – also began, which will be an additional service to Internet customers.

The company expects that the dynamic increase in customers will lead to an increase in revenues in 2008. In 2008 DIALOG S.A. will continue the strategy aimed at increasing the number of its subscribers, both as respects voice as well as internet services.

## 2.7. Research and development

The highest research and development expenditures in the Group in the first half of 2008 were incurred by the Parent Entity, and amounted to PLN 594 thousand. They were financed primarily by the internal funds of KGHM Polska Miedź S.A.

**Table 6.** R&D expenditures in the Parent Entity ('000 PLN)

	2007	I-VI 2007	I-VI 2008	Change *
Mining	4 414	786	285	36.3
Smelting	1 662	129	309	x2.4
<b>Total</b>	<b>6 076</b>	<b>915</b>	<b>594</b>	<b>65.0</b>

\* I-VI 2007 = 100

Research and development work is the core activity of KGHM CUPRUM sp. z o.o. – CBR.

It is the contractor for most R&D investment projects realised by KGHM Polska Miedź S.A. In the first half of 2008, the company continued work on two projects within the Sector Operating Program financed by the Ministry of Science and Higher Education, i.e.:

- „Scenarios for the technological development of the brown coal extraction and processing industry”, of which KGHM CUPRUM sp. z o.o. – CBR is a consortium member,
- „Scenarios for the technological development of the copper ore and associated minerals industry in Poland”, which is coordinated by KGHM CUPRUM sp. z o.o. – CBR,

At the turn of 2007/2008 the following project was completed: „Research into the development of a balanced method for utilising black shales, through the use of BIOSHALE biotechnology”, realised as part of the 6th Framework Program of the EU. The results of the BIOSHALE project will provide the most advanced knowledge into the possibilities and limitations of bioleaching technology in terms of copper ore and its semi-products, which could also be used to a limited degree to improve the operations of the existing facilities.

The Mining Office based in Freiberg has authorised KGHM CUPRUM sp. z o.o. - CBR to conduct geological and exploratory work into copper ore deposits within Saxony (the territory of Weisswasser to the border with Poland) for a three-year period.

The following entities of the Group also carried out R&D work:

### KGHM Ecoren S.A.

The major achievements of the company in terms of R&D include the following:

- the beginning of design work on an installation for the recovery of rhenium from washing acids of the Głogów I smelter, and research into the adjustment of currently-owned technology for the recovery of rhenium to the conditions prevailing in the Głogów I smelter;
- the beginning of design work on an installation for the production of metallic rhenium from ammonium perrhenate produced in KGHM Ecoren S.A.;
- the development, in cooperation with the Non-Ferrous Metals Institute in Gliwice, of verifiable assumptions for the development of technology for the purification of nickel sulphate;
- commencement of the first stage of internal research on a project titled „Laboratory research into the leaching of slimes from the wet dedusting of throat gases for the recovery of rhenium” in the Minerals Recovery section of KGHM Ecoren;
- the issuance in April 2008 of a patent for an invention titled „Backfill mixture and a method for producing mining backfill”;
- recognition for the company by the Polish Agency for Enterprise Development of the title „Hydrometallurgical technology for the purification of crude nickel sulphate” during the eleventh edition of the competition „Polish Product of the Future”

In addition, KGHM Ecoren S.A. is participating in the MATTRANS project, whose aim is to design new products with improved mechanical properties for the automotive and aerospace sectors.

#### **INOVA Spółka z o.o.**

In the first half of 2008, work was carried out on the project „Research and development aimed at developing a new range of transformer stations”. Technical documentation was developed for three prototype transformer stations and one prototype station.

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

In the first half of 2008, the company carried out development work on two projects:

- IPTV – interactive tv and video on demand,
- MVNO – mobile virtual network operators.

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

The company worked on a project titled „The development and creation of analytical models of waste and converter slag”. The aim of this work is to maintain research capacity and development with respect to x-ray fluorescence spectrometry.

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

#### **KGHM Polska Miedź S.A.**

On 24 April 2008 the Management Board of KGHM Polska Miedź S.A. resolved to change the organisational structure of the Head Office. As a result the segregation of duties of the Members of the Management Board is 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)      |

#### **Other Group companies**

In the first half of 2008, changes were carried out to the Management and Supervisory Boards of Group companies, reducing the number of their members. This was aimed at limiting the number of members in the bodies of the companies to the absolute minimum, while ensuring their proper functioning.

In addition, the following events occurred in the Group as respects organisation and management:

- in the companies ZANAM-LEGMET Sp. z o.o. and „Energetyka” sp. z o.o. integrated IT systems of the company Microsoft Dynamice AX were implemented,
- work was carried out in Group companies with respect to implementation of an information security management system.

### **3. Financial position**

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

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

The consolidated financial statements presented cover:

- the current period from 1 January to 30 June 2008,
- the comparative period from 1 January to 30 June 2007.

##### **Entities consolidated**

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

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

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

Three subsidiaries were not consolidated:

- PCPM sp. z o.o.,
- TUW-CUPRUM,
- „Mercus Software” sp. z o.o.

Exemption of these entities from consolidation was possible due to their being immaterial.

### 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 7. Consolidated balance sheet – Assets ('000 PLN)**

ASSETS	31 December 2007	30 June 2008	Structure %	Change *
1	2	3	4	5
<b>Non-current assets</b>	<b>7 932 257</b>	<b>8 021 312</b>	<b>54.0</b>	<b>101.1</b>
Property, plant and equipment	6 614 352	6 744 233	45.4	102.0
Intangible assets	119 231	118 047	0.8	99.0
Investment property	16 517	16 517	0.1	100.0
Investments in associates	690 096	659 760	4.4	95.6
Deferred tax assets	320 506	319 174	2.1	99.6
Available-for-sale financial assets	47 155	44 759	0.3	94.9
Held-to-maturity investments	43 934	57 292	0.4	130.4
Derivative financial instruments	33 395	8 154	0.1	24.4
Trade and other receivables	47 071	53 376	0.4	113.4
<b>Current assets</b>	<b>5 570 957</b>	<b>6 843 420</b>	<b>46.0</b>	<b>122.8</b>
Inventories	1 744 495	1 862 653	12.5	106.8
Trade and other receivables	925 367	1 411 543	9.5	152.5
Current corporate tax receivables	7 377	1 669	0.0	22.6
Available-for-sale financial assets	-	100 623	0.7	x
Derivative financial instruments	81 622	16 429	0.1	20.1
Cash and cash equivalents	2 812 096	3 450 503	23.2	122.7
<b>Non-current assets held for sale</b>	<b>184</b>	<b>550</b>	<b>0.0</b>	<b>298.9</b>
<b>TOTAL ASSETS</b>	<b>13 503 398</b>	<b>14 865 282</b>	<b>100.0</b>	<b>110.1</b>

\* I-VI 2007 = 100

In the first half of 2008, total assets increased by 10 %, i.e. by PLN 1 361 884 thousand, due to an increase in current assets mainly in the Parent Entity. The greatest change occurred in the following items:

- trade and other receivables, and
- cash and cash equivalents.

Current trade receivables increased by PLN 309 170 thousand, and their value at the end of the first half of 2008 amounted to PLN 1 047 237 thousand. Other current receivables were mainly in respect of taxation and other titles and financial receivables, and amounted to PLN 364 306 thousand. They include the dividend due to KGHM Polska Miedź S.A. from Polkomtel S.A. in the amount of PLN 91 450 thousand (the second instalment being payable in November 2008).

Cash and cash equivalents was the second largest item in assets, after property, plant and equipment. Their value increased in comparison to the end of 2007 by 23 %, i.e. by PLN 638 407 thousand. This was mainly due to the high prices on the copper market.

Property, plant and equipment was the largest item in assets. Their value during the first half of 2008 increased by 2%, mainly due to investment expenditures incurred by the Parent Entity. Their value, versus the comparable prior period, increased by 28 % and amounted to PLN 387 656 thousand. The most important investment related to development was construction of the SW-4 shaft and tunnels to access the Głogów Głęboki deposit.

### 3.3. Balance sheet: equity and liabilities

**Table 8.** Consolidated balance sheet – Equity and liabilities ('000 PLN)

<b>EQUITY AND LIABILITIES</b>	<b>31 December 2007</b>	<b>30 June 2008</b>	<b>Structure %</b>	<b>Change *</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>EQUITY</b>	<b>9 501 609</b>	<b>9 416 367</b>	<b>63.3</b>	<b>99.1</b>
Share capital	2 000 000	2 000 000	13.5	100.0
Other reserves	13 118	8 791	0.1	67.0
Retained earnings	7 440 870	7 360 280	49.5	98.9
<b>Equity attributable to shareholders of the Parent Entity</b>	<b>9 453 988</b>	<b>9 369 071</b>	<b>63.0</b>	<b>99.1</b>
<b>Minority interest</b>	<b>47 621</b>	<b>47 296</b>	<b>0.3</b>	<b>99.3</b>
<b>Non-current liabilities</b>	<b>1 710 812</b>	<b>1 616 133</b>	<b>10.9</b>	<b>94.5</b>
Trade and other payables	24 762	31 497	0.2	127.2
Borrowings and finance lease liabilities	162 909	69 756	0.5	42.8
Derivative financial instruments	3 087	-	0.0	x
Deferred tax liabilities	29 804	34 282	0.2	115.0
Liabilities due to employee benefits	919 923	944 331	6.4	102.7
Provisions for other liabilities and charges	570 327	536 267	3.6	94.0
<b>Current liabilities</b>	<b>2 290 977</b>	<b>3 832 782</b>	<b>25.8</b>	<b>167.3</b>
Trade and other payables	1 646 406	3 438 566	23.1	208.9
Borrowings and finance lease liabilities	113 201	195 165	1.3	172.4
Current corporate tax liabilities	343 377	30 159	0.2	8.8
Derivative financial instruments	14 335	61	0.0	0.4
Liabilities due to employee benefits	77 402	79 643	0.5	102.9
Provisions for other liabilities and charges	96 256	89 188	0.6	92.7
<b>TOTAL LIABILITIES</b>	<b>4 001 789</b>	<b>5 448 915</b>	<b>36.7</b>	<b>136.2</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13 503 398</b>	<b>14 865 282</b>	<b>100.0</b>	<b>110.1</b>

\* I-VI 2007 = 100

In comparison to the end of 2007 the share of equity in the structure of equity and liabilities decreased by 7 %. This was due to the approved but unpaid dividend for 2007 in the Parent Entity in the amount of PLN 1 800 000 thousand.

The value of equity at the end of the first half of 2008 did not significantly change, as the gains for the first half of 2008, mainly generated by KGHM Polska Miedź S.A., were similar in amount to the dividend approved for 2007.

The approved but unpaid dividend for 2007 in the Parent Entity was also a factor in the increase in current liabilities. These showed the greatest change. Their value increased by PLN 1 541 805 thousand, i.e. by 67 %.

The largest item in current liabilities is trade and other payables, whose main items are:

- liabilities due to the shareholders dividend – PLN 1 800 000 thousand,
- trade payables – PLN 648 922 thousand,
- liabilities due to accruals – PLN 391 800 thousand,

*(including the provision for wages, paid after approval of the annual financial statements in the amount of PLN 313 570 thousand)*

- liabilities due to taxation and social security – PLN 308 343 thousand.

At the end of the first half of 2008, there was a decrease in long-term bank loans and a simultaneous increase in short-term bank loans. This was mainly due to the reclassification of the bank loan to DIALOG S.A. in the amount of PLN 100 000 thousand from non-current to current liabilities, in accordance with the repayment schedule.

### 3.4. Income statement

**Table 9.** Consolidated income statement ('000 PLN)

INCOME STATEMENT	for the period	for the period	Change *
	from 01.01.2007 to 30.06.2007	from 01.01.2008 to 30.06.2008	
1	2	3	4
Sales	6 467 899	6 750 769	104.4
Costs of sales	(3 639 149)	(4 054 068)	111.4
<b>Gross profit</b>	<b>2 828 750</b>	<b>2 696 701</b>	<b>95.3</b>
Selling costs	(95 652)	(113 216)	118.4
Administrative expenses	(344 774)	(347 739)	100.9
Other operating income	1 073 207	314 135	29.3
Other operating costs	(1 334 972)	(586 253)	43.9
<b>Operating profit</b>	<b>2 126 559</b>	<b>1 963 628</b>	<b>92.3</b>
Finance costs - net	(15 212)	(24 712)	162.5
Share in profits of associates accounted for using the equity method	122 430	152 524	124.6
<b>Profit before income tax</b>	<b>2 233 777</b>	<b>2 091 440</b>	<b>93.6</b>
Income tax expense	(408 136)	(372 281)	91.2
<b>Profit for the period</b>	<b>1 825 641</b>	<b>1 719 159</b>	<b>94.2</b>
attributable to:			
shareholders of the Parent Entity	1 825 334	1 719 410	94.2
minority interest	307	(251)	(81.8)
<b>Earnings per share attributable to shareholders of the Parent Entity for the half-year period</b> (PLN per share)			
- basic	<b>9.13</b>	<b>8.60</b>	<b>94.2</b>
- diluted	<b>9.13</b>	<b>8.60</b>	<b>94.2</b>

\* I-VI 2007 = 100

During the analysed period the KGHM Polska Miedź S.A. Group increased its sales versus the comparable prior period by PLN 282 870 thousand. Revenues increased from the sale of copper, precious metals and services.

Costs increased at a greater rate than revenues. Total costs of sales, selling costs and administrative expenses increased by PLN 465 448 thousand.

The increase in costs and the strengthening of the Polish zloty were factors decreasing profit for the period versus the comparable prior period. Profit for the period decreased by PLN 106 482 thousand.

The decrease in losses on hedging transactions had a positive impact on profit. In the first half of 2008, the result on derivative instruments amounted to PLN (163 628) thousand, while in the first half of 2007 it amounted to PLN (873 807) thousand.

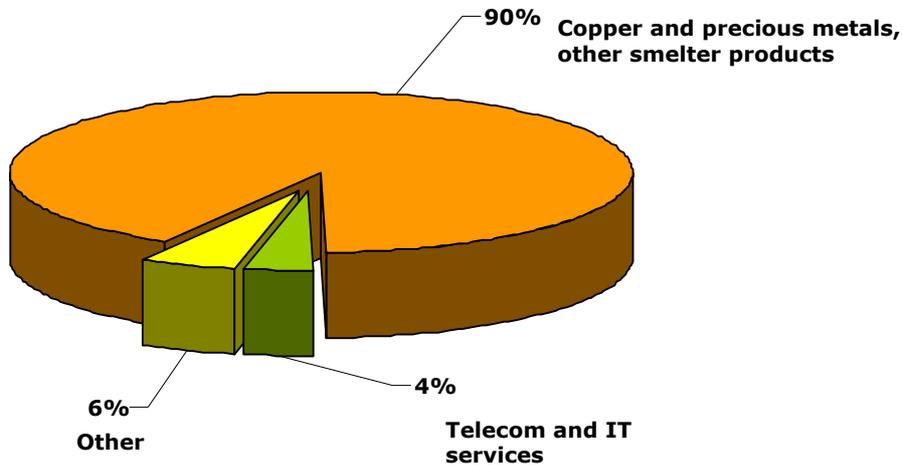
**Table 10.** Structure of the profit for the period of the KGHM Polska Miedź S.A. Group ('000 PLN)

Name of entity	Profit for the first half of 2008
<b>KGHM Polska Miedź S.A.</b>	<b>1 814 690</b>
<b>subsidiaries</b>	<b>(9 696)</b>
<i>of which:</i>	
- KGHM ECOREN S.A.	10 722
- KGHM Metraco S.A.	5 565
- DFM ZANAM-LEGMET Sp. z o.o.	3 947
- POL-MIEDŹ TRANS Sp. z o.o.	2 705
- CBJ sp. z o.o.	2 080
- PHP „MERCUS” sp. z o.o.	1 810
- PeBeKa S.A.	(13 539)
- DIALOG S.A.	(21 202)
<b>Associates - attributable to the Group</b>	<b>152 524</b>
<i>of which:</i>	
Polkomtel S.A.	152 044
Consolidation adjustment	(238 108)
<b>Profit for the period attributable to shareholders of the Parent Entity</b>	<b>1 719 410</b>

### 3.5. Structure of Group sales

The largest share in Group sales is held by the main segment of activities which involve the extraction and processing of copper and precious metals, the production of non-ferrous metals, trade and copper promotion. The remaining segments, i.e. the IT segment and other sectors, have an insignificant share in revenues.

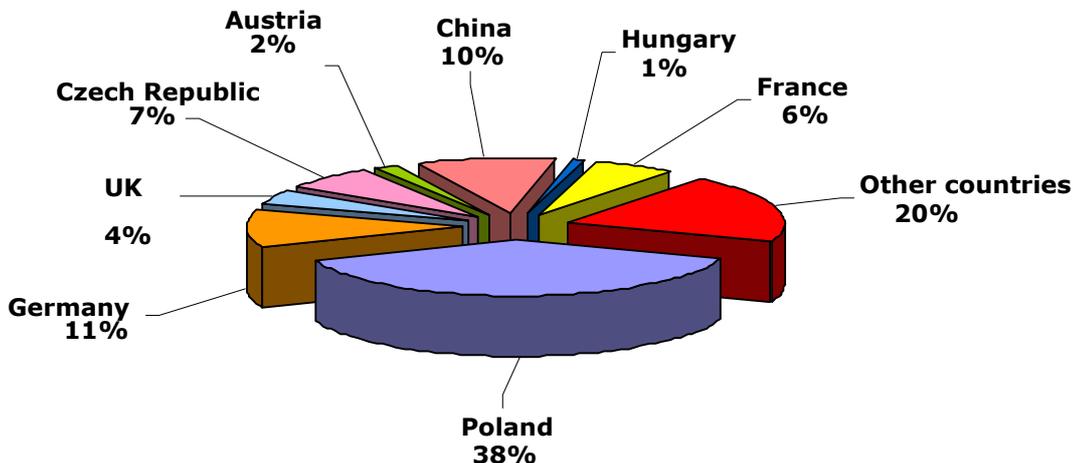
**Diagram 2.** Sales by segment in the first half of 2008



### 3.6. Sales markets – geographical structure

The largest portion, i.e. 38% of revenues from the sale of products, goods for resale and services achieved by the KGHM Polska Miedź S.A. Group, comes from the domestic market. The largest foreign recipient of the products, goods for resale and services offered by the Group is Germany at 11 %, and China at 10%.

**Diagram 3.** Sales by market in the first half of 2008



In comparison to the sales structure in the comparable prior period, i.e. the first half of 2007, the following were clearly significant:

- a decrease in sales on the Polish market from 44 % to 38 %, and on the German market from 17 % to 11 %,
- an increase in sales on the French market from 1 % to 6 %, and to the "other countries" group from 15 % to 20 %.

### 3.7. Related party transactions

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

**Table 11.** Sales to related parties ('000 PLN)

Sales	for the period from 1 January 2007 to 30 June 2007	for the period from 1 January 2008 to 30 June 2008
to associates	1 351	1 513
to key management and supervisory personnel	18	36
to other related entities	33 854	47 673
<b>Total</b>	<b>35 223</b>	<b>49 222</b>

In the first half of 2008, among the State Treasury subsidiaries, the KGHM Polska Miedź S.A. Group earned the largest revenues from sales from the entity Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej in Legnica (value PLN 12 649 thousand, share - 26% of total sales). These revenues were from sales of heating energy by „Energetyka” sp. z o.o.

**Table 12.** Purchases from related parties ('000 PLN)

Purchases	for the period from 1 January 2007 to 30 June 2007	for the period from 1 January 2008 to 30 June 2008
from associates	23 881	27 472
from other related entities	354 777	378 969
Total	378 658	406 441

In the first half of 2008, among the State Treasury subsidiaries, the largest purchases by KGHM Polska Miedź S.A. Group were from the entity EnergiaPro GRUPA TAURON S.A. (value PLN 276 190 thousand, share – 68% of total purchases).

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

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

**Table 13.** Financial ratios

Ratios	31 December 2007	30 June 2007	30 June 2008
<b>1. Liquidity ratios</b>			
- quick liquidity (multiple)	1.7	1.0	1.3
- current liquidity (multiple)	2.4	1.3	1.8
<b>2. Profitability ratios</b>			
- ROA - return on assets ( % )	29.1	12.4	11.6
- ROE - return on equity ( % )	41.4	24.8	18.3
<b>3. Equity and liabilities ratios</b>			
- debt ratio ( % )	29.6	50.1	36.7
- durability of financing structure ratio ( % )	83.0	61.1	74.2

The improvement in the liquidity ratios is due to the approval of a lower dividend for the shareholders of the Parent Entity (PLN 1.8 billion for 2007 versus PLN 3.4 billion for 2006) given a comparable profit for the period.

The decrease in the equity profitability ratio (ROE) is due to an increase in reserve capital of KGHM Polska Miedź S.A. from the profit for 2007 in the amount of PLN 1 998 825 thousand. During the prior period the entire profit for 2006 was allocated as a dividend.

The approval of a dividend which was lower than in the prior period also led to a decrease in the debt ratio through a change in the structure of equity and liabilities (an increase in equity and a decrease in liabilities).

### **3.9. Risk management**

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

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

The main goal of market 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.

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

In the first half of 2008 copper price hedging strategies represented approx. 28% (in the first half of 2007 35%) of sales of this metal realised by KGHM Polska Miedź S.A. In the case of silver they amounted to approx. 33% (in the first half of 2007 10%). In the case of the currency market, the Parent Entity had no hedged revenues (in the first half of 2007 5% of revenues from sales were hedged).

In the first half of 2008, the result on derivative instruments amounted to PLN (163 628) thousand (in the first half of 2007, PLN (873 807) thousand), of which:

- revenues from sales were adjusted by PLN +4 214 thousand (being the amount transferred from revaluation reserve to profit and loss in the financial period; in the first half of 2007, PLN (620 293) thousand),
- other operating income and costs due to the measurement of derivative instruments amounted to PLN (156 136) thousand (in the first half of 2007, PLN (248 838) thousand), and due to the realisation of derivative instruments, PLN (11 706) thousand (in the first half of 2007, PLN (4 676) thousand).

The adjustment of other operating income and costs due to the measurement of derivative instruments mainly results from changes of the time value of options which are to be settled in future periods. Due to the hedge accounting regulations applied by the Parent Entity, changes in the time value of options are not recognised in the revaluation reserve.

In the first half of 2008 KGHM Polska Miedź S.A. implemented copper price hedging strategies (the purchase of put options) of a total volume of 60 thousand tonnes and a maturity falling in the first half of 2009. Additionally, during this period the Parent Entity implemented adjustment hedge transactions of a total volume of 13 075 tonnes and a maturity falling in January 2008 and the period from March to December 2008.

In the case of the silver market, during the analysed period no strategies were implemented to hedge the price of this metal. In the first half of 2008 adjustment hedge transactions were implemented on the silver market in a total volume of 643 thousand troz and a time horizon falling in January 2008.

In the case of the forward currency market, in the first half of 2008 KGHM Polska Miedź S.A. did not enter into strategies hedging the USD/PLN exchange rate. 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 second half of 2008 (75 thousand t) and the first half of 2009 (60 thousand t), for a portion of silver sales planned in the second half of 2008 (6 million troz) and in 2009 (9.6 million troz). KGHM Polska Miedź S.A. does not hold hedged positions for revenues from sales (currency market).

The Parent Entity continuously monitors the commodity and currency markets, and these monitoring activities are the basis for taking decisions on implementing hedging strategies.

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

In the first half of 2008 KGHM Metraco S.A. entered into currency risk hedging transactions. Export sales represent around 10% of the company's sales. Due to the significant impact of exchange differences generated by the settlement of operations on foreign markets at the level of financial income and costs, around 95% of revenues from export sales were covered by hedging transactions. In order to hedge against exchange risk, KGHM Metraco S.A. made use of derivative instruments in the form of forward contracts.

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

KGHM Ecoren S.A. is exposed to currency risk due to its export sales of ammonium perchlorate. The company hedges itself against negative fluctuations in currency rates by entering into hedging transactions.

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

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

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

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

#### Important assumptions of the forecast:

Macroeconomic factors:

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

Internal factors:

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

In the first half of 2008 KGHM Polska Miedź S.A. earned revenues from sales of PLN 6 031 million and a profit for the period of PLN 1 815 million, meaning an achievement of the planned results respectively of 54% and 62%. The financial results after the first half of 2008 are consistent with the approved Budget for 2008.

Taking into consideration the current situation on financial markets, KGHM Polska Miedź S.A. is verifying the macroeconomic budget assumptions for the fourth quarter of 2008. The adjustment takes into account the deterioration in copper prices and the weakening of the Polish zloty versus the USD in this period.

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

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

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

#### **4. Subsequent events**

##### **Commercial contract**

On 7 August 2008 a contract was signed between KGHM Polska Miedź S.A. and Wieland Werke AG for the sale of copper cathodes in years 2009-2011.

The estimated value of this contract, depending on the amount of tonnage under option, is from USD 369 727 thousand to USD 448 955 thousand, i.e. from 775 503 thousand to PLN 941 683 thousand. This amount was estimated based on the forecast copper price (using a forward curve) and the National Bank of Poland exchange rate from 7 August 2008.

##### **Increase of share capital in subsidiary**

On 12 August 2008 the Extraordinary General Shareholders' Meeting of PeBeKa S.A. resolved to increase the share capital of the company by PLN 18 715 thousand, through the issuance of 306 804 registered shares with a face value of PLN 61.00 each, covered in cash by the sole shareholder, i.e. KGHM Polska Miedź S.A. The funds from this increase in share capital will be allocated to company development. This increase in capital was court registered on 26 August 2008.

##### **Sale of shares of MINOVA-KSANTE Spółka z o.o.**

On 26 August 2008 KGHM Polska Miedź S.A. sold to MINOVA-KSANTE Spółka z o.o. 13 500 shares of this company, representing 30% of the share capital of MINOVA KSANTE Spółka z o.o. and granting the right to 30% of the votes at the General Shareholders' Meeting.

These shares were sold based on an agreement entered into between KGHM Polska Miedź S.A. and MINOVA KSANTE Spółka z o.o. titled "Agreement for the buy-back of shares for the purpose of their retirement" dated 26 August 2008. The sale price for these 13 500 shares, having a total nominal value of PLN 1 350 thousand, amounts to PLN 8 542 thousand (PLN 632.75 per share). This amount is to be paid within two weeks of the Court registration of the decrease in the share capital of MINOVA KSANTE Spółka z o.o. due to the retirement of the shares acquired based on the above agreement.

Following this transaction KGHM Polska Miedź S.A. no longer owns any of the share capital of MINOVA-KSANTE Spółka z o.o.

##### **Court decision regarding payment of damages due to deterioration of water caused by the activities of the Parent Entity**

At a trial dated 29 August 2008 the Regional Court in Legnica, Civil Section dismissed the claim of Bobmark International Sp. z o.o. in its entirety, judging it as obviously unfounded. The decision is not legally binding. (For details, see Report on the activities of KGHM Polska Miedź S.A., page 21).

##### **Removal of the company Przedsiębiorstwo Eksploatacji Wód AQUAKONRAD Spółka Akcyjna in bankruptcy from the Register of Entrepreneurs**

On 20 March 2008 the company Przedsiębiorstwo Eksploatacji Wód AQUAKONRAD Spółka Akcyjna in bankruptcy was removed from the Register of Entrepreneurs.

##### **Payment to the capital of a subsidiary**

On 17 September 2008 the Extraordinary General Shareholders' Meeting of KGHM CUPRUM sp. z o.o.-CBR resolved to make a payment to its capital in the amount of PLN 1 500 thousand, to be used for financing the first stage of exploratory work in the Weisswasser region. This payment was executed two weeks from the date of the resolution of the General Shareholders' Meeting. This is a refundable payment, with the return of funds to be made by 31 December 2009.

##### **Contingent agreement for the acquisition of shares**

On 22 September 2008 Telefonía DIALOG S.A. entered into a contingent agreement with PKN Orlen S.A. for the acquisition of shares of Petrotel Sp. z o.o. with its registered head office in Płock.

As a result of signing this agreement, Telefonía DIALOG S.A. will acquire 6 150 shares of Petrotel Sp. z o.o., with a face value of PLN 1 000 per share, and a total nominal value of PLN 6 150 thousand, representing 75% of the share capital and the total number of votes at the General Shareholders' Meeting of Petrotel Sp. z o.o. The purchase price for 75% of the shares of Petrotel Sp. z o.o. is PLN 32 411 thousand, i.e. PLN 5 270 per share.

Ownership of these shares will be transferred to Telefonía DIALOG S.A. under condition that the remaining shareholders of Petrotel Sp. z o.o. decline to make use of their pre-emption right to these shares, in accordance with § 13 of the Articles of Association of the company Petrotel Sp. z o.o., and the full payment of the amount representing the purchase price for these shares. The process of realising the pre-emption right to acquire these shares will be completed within approx. 3-4 weeks from the date of signing the agreement.

### **Filing of a bankruptcy petition for the company Vivid.pl S.A.**

On 24 September 2008 the Management Board of Vivid.pl S.A. filed a bankruptcy petition for the company Vivid.pl S.A. with the Regional Court for the City of Warsaw in Warsaw, Section X (Economic) for bankruptcy and remedial proceedings.

100% of the shares of Vivid.pl S.A. are owned by Telefonía DIALOG S.A. The net carrying amount of these shares in the assets of Telefonía DIALOG S.A. amounts to PLN 4 279 thousand.

### **Declaration of bankruptcy of Vivid.pl S.A.**

On 29 September 2008 Regional Court for the City of Warsaw in Warsaw, Section X (Economic) for bankruptcy and remedial proceedings, issued a ruling dated 29 September 2008 upon declaration of bankruptcy of the company Vivid.pl S.A. with its registered head office in Warsaw. The court appointed a court commissioner - Regional Court Judge, Arkadiusz Zagrobelny, and a receiver - Jacek Filiks.

The ruling on this bankruptcy will come into legal force on 10 October 2008.

### **Acquisition of shares by POL-MIEDŹ TRANS sp. z o.o. in a newly-created company**

On 19 September 2008 the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register issued a decision on entering the following company into the National Court Register - Register of Entrepreneurs: PMT Linie Kolejowe sp. z o.o. with its registered head office in Polkowice. The share capital of this newly-created entity amounts to PLN 100 thousand and is divided into 100 shares of PLN 1 000 each.

POL-MIEDŹ TRANS Sp. z o.o. has acquired 99 shares in the newly-founded company PMT Linie Kolejowe sp. z o.o. These shares have a per-share face value of PLN 1000 and a total nominal value of PLN 99 thousand, represent 99% of the share capital of this company and grant the right to the same number of votes at the General Shareholders' Meeting.

The shares were entirely paid for in cash for a price equal to their nominal value.

1% of the shares of the newly-created entity is owned by PHP „MERCUS” sp. z o.o.

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

## **5. Annexes**

### **5.1. Methodology for calculation of ratios used in this report**

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

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

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

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

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

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

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KGHM Polska Miedź S.A.  
Report on the activities of the Group in the first half of 2008

Signatures of all Members of the Management Board			
Date	First, last name	Position	Signature
<i>7 October 2008</i>	<i>Mirosław Krutin</i>	President of the Management Board	.....
<i>7 October 2008</i>	<i>Herbert Wirth</i>	I Vice President of the Management Board	.....
<i>7 October 2008</i>	<i>Maciej Tybura</i>	Vice President of the Management Board	.....