

# **KGHM POLSKA MIEDŹ S.A.**

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## **FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2008**

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**Lubin, September 2008**

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KGHM Polska Miedź S.A.  
Half-year financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2008 to 30 June 2008  
(amounts in tables in thousand PLN, unless otherwise stated)

**Balance sheet**

| Balance sheet                                |      | At                |                   |
|--|------|-------------------|-------------------|
|  | Note | 30 June 2008      | 31 December 2007  |
| <b>Assets</b>                                |      |                   |                   |
| <b>Non-current assets</b>                    |      |                   |                   |
| Property, plant and equipment                | 4    | 4 954 188         | 4 832 630         |
| Intangible assets                            | 5    | 71 873            | 74 830            |
| Shares in subsidiaries                       | 6    | 1 830 706         | 1 803 390         |
| Investments in associates                    | 6    | 438 559           | 438 559           |
| Deferred tax assets                          | 18   | 156 840           | 160 781           |
| Available-for-sale financial assets          | 7    | 30 234            | 32 935            |
| Held-to-maturity investments                 | 8    | 57 254            | 43 893            |
| Derivative financial instruments             | 9    | 8 154             | 33 395            |
| Trade and other receivables                  | 10   | 18 330            | 11 012            |
|  |      | <b>7 566 138</b>  | <b>7 431 425</b>  |
| <b>Current assets</b>                        |      |                   |                   |
| Inventories                                  | 11   | 1 698 400         | 1 603 487         |
| Trade and other receivables                  | 10   | 1 200 242         | 772 279           |
| Available-for-sale financial assets          | 7    | 100 623           | -                 |
| Derivative financial instruments             | 9    | 16 049            | 81 444            |
| Cash and cash equivalents                    | 12   | 3 172 398         | 2 534 995         |
|  |      | <b>6 187 712</b>  | <b>4 992 205</b>  |
| <b>Non-current assets held for sale</b>      | 4    | <b>550</b>        | <b>-</b>          |
| <b>TOTAL ASSETS</b>                          |      | <b>13 754 400</b> | <b>12 423 630</b> |
| <b>Equity and liabilities</b>                |      |                   |                   |
| <b>EQUITY</b>                                |      |                   |                   |
| Share capital                                | 13   | 2 000 000         | 2 000 000         |
| Other reserves                               | 14   | 9 450             | 13 783            |
| Retained earnings                            | 15   | 6 966 856         | 6 952 166         |
| <b>TOTAL EQUITY</b>                          |      | <b>8 976 306</b>  | <b>8 965 949</b>  |
| <b>LIABILITIES</b>                           |      |                   |                   |
| <b>Non-current liabilities</b>               |      |                   |                   |
| Trade and other payables                     | 16   | 14 320            | 6 305             |
| Borrowings and finance lease liabilities     | 17   | 15 146            | 20 319            |
| Derivative financial instruments             | 9    | -                 | 3 087             |
| Liabilities due to employee benefits         | 19   | 877 436           | 853 096           |
| Provisions for other liabilities and charges | 20   | 522 056           | 556 589           |
|  |      | <b>1 428 958</b>  | <b>1 439 396</b>  |
| <b>Current liabilities</b>                   |      |                   |                   |
| Trade and other payables                     | 16   | 3 189 530         | 1 510 841         |
| Borrowings and finance lease liabilities     | 17   | 9 838             | 8 612             |
| Current corporate tax liabilities            |      | 28 523            | 343 022           |
| Derivative financial instruments             | 9    | 61                | 14 335            |
| Liabilities due to employee benefits         | 19   | 68 507            | 66 199            |
| Provisions for other liabilities and charges | 20   | 52 677            | 75 276            |
|  |      | <b>3 349 136</b>  | <b>2 018 285</b>  |
| <b>TOTAL LIABILITIES</b>                     |      | <b>4 778 094</b>  | <b>3 457 681</b>  |
| <b>TOTAL EQUITY AND LIABILITIES</b>          |      | <b>13 754 400</b> | <b>12 423 630</b> |

The notes presented on pages 7 to 89 represent an integral part of these financial statements

## Income statement

| CONTINUED ACTIVITIES                               | Note | For the period                         |  |
|--|------|--|--|
|  |      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Sales  | 21   | 6 030 935                              | 5 860 077                              |
| Cost of sales                                      | 22   | (3 508 126)                            | (3 201 584)                            |
| <b>Gross profit</b>                                |      | <b>2 522 809</b>                       | <b>2 658 493</b>                       |
| Selling costs                                      | 22   | (36 601)                               | (41 015)                               |
| Administrative expenses                            | 22   | (265 811)                              | (278 497)                              |
| Other operating income                             | 24   | 522 858                                | 1 251 419                              |
| Other operating costs                              | 25   | (548 755)                              | (1 323 124)                            |
| <b>Operating profit</b>                            |      | <b>2 194 500</b>                       | <b>2 267 276</b>                       |
| Finance costs - net                                | 26   | (17 813)                               | (12 184)                               |
| <b>Profit before income tax</b>                    |      | <b>2 176 687</b>                       | <b>2 255 092</b>                       |
| Income tax expense                                 | 27   | (361 997)                              | (397 421)                              |
| <b>Profit for the period</b>                       |      | <b>1 814 690</b>                       | <b>1 857 671</b>                       |
| <b>Earnings per share for the half-year period</b> |      |  |  |
| (in PLN per share)                                 | 28   |  |  |
| - basic  |      | 9.07                                   | 9.29                                   |
| - diluted  |      | 9.07                                   | 9.29                                   |

The notes presented on pages 7 to 89 represent an integral part of these financial statements

## Statement of changes in equity

|  | Note | Share capital    | Other reserves   | Retained earnings | Total equity     |
|--|------|------------------|------------------|-------------------|------------------|
| <b>At 1 January 2007</b>                                     |      | <b>7 413 573</b> | <b>(431 526)</b> | <b>1 133 767</b>  | <b>8 115 814</b> |
| Impact of cash flow hedging valuation                        | 32   | -                | 698 586          |                   | 698 586          |
| Fair value losses on available-for-sale financial assets     |      |                  | (1 480)          |                   | (1 480)          |
| Deferred tax   |      | -                | (137 452)        |                   | (137 452)        |
| <b>Total income/(expenses) recognised directly in equity</b> |      | <b>-</b>         | <b>559 654</b>   |                   | <b>559 654</b>   |
| Profit for the period  |      | -                |                  | 1 857 671         | 1 857 671        |
| <b>Total recognised income/(expenses)</b>                    |      | <b>-</b>         | <b>559 654</b>   | <b>1 857 671</b>  | <b>2 417 325</b> |
| Dividend for 2006  |      | -                | -                | (3 394 000)       | (3 394 000)      |
| <b>At 30 June 2007</b>                                       |      | <b>7 413 573</b> | <b>128 128</b>   | <b>(402 562)</b>  | <b>7 139 139</b> |
| <b>At 1 January 2008</b>                                     |      | <b>2 000 000</b> | <b>13 783</b>    | <b>6 952 166</b>  | <b>8 965 949</b> |
| Impact of cash flow hedging valuation                        | 32   | -                | (2 095)          | -                 | (2 095)          |
| Fair value losses on available-for-sale financial assets     |      | -                | (2 079)          | -                 | (2 079)          |
| Deferred tax   | 18   | -                | (159)            | -                 | (159)            |
| <b>Total income/(expenses) recognised directly in equity</b> |      | <b>-</b>         | <b>(4 333)</b>   | <b>-</b>          | <b>(4 333)</b>   |
| Profit for the period  |      | -                | -                | 1 814 690         | 1 814 690        |
| <b>Total recognised income/(expenses)</b>                    |      | <b>-</b>         | <b>(4 333)</b>   | <b>1 814 690</b>  | <b>1 810 357</b> |
| Dividend for 2007  | 29   |                  |                  | (1 800 000)       | (1 800 000)      |
| <b>At 30 June 2008</b>                                       |      | <b>2 000 000</b> | <b>9 450</b>     | <b>6 966 856</b>  | <b>8 976 306</b> |

The notes presented on pages 7 to 89 represent an integral part of these financial statements

## Cash flow statement

|   |      | For the period                         |  |
|---|------|--|--|
|   | Note | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| <b>Cash flow from operating activities</b>  |      |  |  |
| Cash generated from operating activities  | 30   | 1 867 209                              | 2 272 097                              |
| Income tax paid   |      | (672 714)                              | (584 496)                              |
| <b>Net cash generated from operating activities</b>   |      | <b>1 194 495</b>                       | <b>1 687 601</b>                       |
| <b>Cash flow from investing activities</b>  |      |  |  |
| Purchase of shares in subsidiaries  |      | (102 317)                              | (30 426)                               |
| Purchase of property, plant and equipment and intangible assets                                     |      | (461 481)                              | (421 752)                              |
| Proceeds from sale of property, plant and equipment and intangible assets                           | 30   | 3 779                                  | 1 830                                  |
| Purchase of held-to-maturity investments  |      | -                                      | (41 847)                               |
| Proceeds from sale of held-to-maturity investments  |      | -                                      | 12 400                                 |
| Purchase of available-for-sale financial assets   |      | (100 267)                              | (200 000)                              |
| Proceeds from sale of available-for-sale financial assets   |      | 151                                    | 61 254                                 |
| Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund           |      | (13 361)                               | (32 152)                               |
| Proceeds from sale of held-to-maturity investments financed from the resources of Mine Closure Fund |      | -                                      | 22 096                                 |
| Loans granted   |      | (7 056)                                | (1 436)                                |
| Proceeds from repayments of loans   |      | 53                                     | 9 575                                  |
| Interest received   |      | 43                                     | 290                                    |
| Dividends received  |      | 136 619                                | 205 167                                |
| Other investment expenses   |      | (8 320)                                | (9 686)                                |
| <b>Net cash used in investing activities</b>  |      | <b>(552 157)</b>                       | <b>(424 687)</b>                       |
| <b>Cash flow from financing activities</b>  |      |  |  |
| Repayments of loans   |      | (3 000)                                | (3 000)                                |
| Payments of liabilities due to finance leases   |      | -                                      | (4 040)                                |
| Interest paid   |      | (249)                                  | (432)                                  |
| <b>Net cash used in financing activities</b>  |      | <b>(3 249)</b>                         | <b>(7 472)</b>                         |
| <b>Total net cash flow</b>  |      | <b>639 089</b>                         | <b>1 255 442</b>                       |
| Exchange losses on cash and cash equivalents  |      | (1 686)                                | (16 288)                               |
| <b>Movements in cash and cash equivalents</b>   |      | <b>637 403</b>                         | <b>1 239 154</b>                       |
| <b>Cash and cash equivalents at beginning of the period</b>   | 12   | <b>2 534 995</b>                       | <b>2 093 436</b>                       |
| <b>Cash and cash equivalents at end of the period</b>   | 12   | <b>3 172 398</b>                       | <b>3 332 590</b>                       |
| including restricted cash and cash equivalents  |      | 1 472                                  | 1 932                                  |

The notes presented on pages 7 to 89 represent an integral part of these financial statements

## **Notes to the financial statements of KGHM Polska Miedź S.A. (the "Company") prepared for the first half of 2008**

### **1. General information**

#### **Company name, registered office, business activities**

KGHM Polska Miedź S.A. (the "Company") with its registered office in Lubin at ul. M.Skłodowskiej-Curie 48 is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Company was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764. KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 Divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), Ore Enrichment Plant, Tailings Plant, Mine-Smelter Emergency Rescue Unit and Data Center.

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

The principal activities of the Company comprise:

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

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

#### **Period of operation**

KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Company has an unlimited period of operation.

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

#### **Composition of the Management Board**

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

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

On 17 January 2008, the Supervisory Board recalled Krzysztof Skóra from the function of President of the Management Board and Dariusz Kaśków from the function of Vice President of the Management Board and decided that the Management Board of KGHM Polska Miedź S.A. shall be comprised of three Members. The Supervisory Board has appointed Ireneusz Reszczyński, I Vice President of the Management Board of KGHM Polska Miedź S.A. as the acting President of the Management Board of KGHM Polska Miedź S.A. until the President of the Management Board is appointed.

## 1. General information (continuation)

On 17 April 2008 the Supervisory Board of the Company appointed Mirosław Krutin to the position of President of the Management Board as of 23 April 2008.

On 23 April 2008 the Supervisory Board recalled from the position of Member of the Management Board - Vice President of the Management Board: Marek Fusiński, Stanisław Kot and Ireneusz Reszczyński. Simultaneously, the Supervisory Board of the Company has appointed Herbert Wirth to the position of Member of the Management Board - I Vice President of the Management Board (Development) and Maciej Tybura to the position of Member of the Management Board - Vice President of the Management Board (Finance).

As at the date of authorisation of these financial statements for issue, the composition of the Management Board and segregation of duties were as follows:

|                   |  |
|-------------------|--|
| - Mirosław Krutin | President of the Management Board                      |
| - Herbert Wirth   | I Vice President of the Management Board (Development) |
| - Maciej Tybura   | Vice President of the Management Board (Finance)       |

### Authorisation of the financial statements

These financial statements were authorised for issue and signed by the Management Board of the Company on 16 September 2008.

### Going concern assumption

These financial statements were prepared under the assumption that the Company will continue as a going concern during a period of at least 12 months from the balance sheet date in an unaltered form and business scope, and there are no reasons to suspect any intentional or forced discontinuation or significant limitation of its current activities. At the date of signing of the financial statements the Management Board of the Company is not aware of any facts or circumstances that would indicate a threat to the going concern assumption in the foreseeable future.

In order to fully understand the financial position and the results of the activities of KGHM Polska Miedź S.A. as the parent entity of the Group, these financial statements should be read jointly with the half-year consolidated financial statements for the period ended 30 June 2008. These financial statements will be available on the website of the Company [www.kghm.pl](http://www.kghm.pl) on dates consistent with the current report concerning dates of publication of the half-year report and the consolidated half-year report for the first half of 2008.

## 2. Main accounting policies

### 2.1 Basis of preparing financial statements

The financial statements of KGHM Polska Miedź S.A. for the period ended 30 June 2008 are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. These financial statements were prepared using the same principles for the current and comparable periods.

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

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

### Standards and interpretations in force applied in the Company as at 1 January 2008

#### IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions"

Application of this interpretation has no effect on the financial statements of the Company.

#### IFRIC 12 "Service Concession Arrangements"

Application of this interpretation has no effect on the financial statements of the Company.

#### IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

Application of this interpretation has no effect on the financial statements of the Company.

IFRIC 12 and IFRIC 14 had not been approved by the European Union by the publication date of these financial statements.

In these financial statements any standard or interpretation prior to its coming into force and approval by the European Union has not been applied.



## **2. Main accounting policies (continuation)**

### **2.1 Basis of preparing financial statements (continuation)**

#### **Standards and Interpretations published by 30 June 2008 which did not come into force by the publication date of these financial statements:**

##### IAS 1 "Presentation of Financial Statements"

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

##### IAS 23 "Borrowing costs"

The amended IAS 23 was published by the International Accounting Standards Board on 29 March 2007. This standard relates to the accounting treatment of borrowing costs incurred in connection with a qualifying asset. The amended IAS 23 removes the benchmark treatment that requires that borrowing costs are recognised in the profit or loss and are capitalised. Although this change will affect the Company, it is believed that its impact on the financial statements will be immaterial. The amended standard becomes operative for annual periods beginning on or after 1 January 2009; however, after evaluating the effects of any changes and following acceptance of this amended Standard by the European Union, the Company will consider its earlier application.

##### IFRS 3 "Business Combinations"

The amended IFRS 3 was issued by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IFRS 3. The amended Standard is connected with the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. The amended Standard gives more detailed guidance for application of the purchase method for business combinations. The Standard becomes effective for annual periods beginning on or after 1 July 2009 and will be applied to the accounting for business combinations effected after this date.

##### IAS 27 "Consolidated and Separate Financial Statements"

The amended IAS 27 was published by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IAS 27. Implementation of this standard relates to the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. IAS 27 requires the recognition of changes in the share held in a subsidiary as an equity transaction. For this reason such a change does not affect goodwill, and there is no recognition of gains or losses. The amended standard also changes the manner of recognising losses incurred by a subsidiary, exceeding the value of the investment, as well as the manner of recognising loss of control over the subsidiary. The amended Standard becomes effective for annual periods beginning on or after 1 July 2009. As these changes are to be applied prospectively, they will affect future acquisitions and transactions with minority interest.

##### Amended IFRS 2 "Share-based Payment"

The amended IFRS 2 was published by the International Accounting Standards Board on 17 January 2008. Amendments to IFRS 2 relates to vesting conditions to cash other assets or equity instruments of the Company as part of the share based payment transaction. Changes in this Standard become effective for annual periods beginning on or after 1 July 2009 and will not have any effect on the financial statements of the Company.

##### Amended IAS 32 „Financial Instruments: Disclosure and Presentation"

The amended IAS 32 was published by the International Accounting Standards Board on 14 February 2008. The amendments related to the specific type of financial instruments, which are similar to ordinary equity instruments, but allow their holder to present them for redemption by issuer if certain, indicated in the Standard, circumstances materialised. To date, in accordance with IAS 32, this type instruments were classified as financial liabilities. The amended IAS 32 requires that such instruments are not classified as liabilities but rather as equity. Standard amendments become effective for annual periods beginning on or after 1 January 2009 and will not have any effect on the financial statements of the Company.

## 2. Main accounting policies (continuation)

### 2.1 Basis of preparing financial statements (continuation)

#### Amended IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27, "Consolidated and Separate Financial Statements"

On 22 May 2008 the International Accounting Standards Board issued amendments to IFRS 1 and IAS 27 as the conclusion of an exposure draft titled „Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate”. The amendments address the recognition of investments in a subsidiaries, jointly controlled entities or associates in the separate financial statements, and are applicable to specific (as described in the standard) types of group reorganisation, and change the definition of initial cost. The amendments to IFRS 1 and IAS 27 will be in effect for periods beginning on or after 1 January 2009. The amendments to IFRS 1 are not applicable in the Company, while the amendments to IAS 27 will be applicable for future equity investments.

#### IFRIC 13 "Customer Loyalty Programmes"

On 28 June 2007, the International Accounting Standards Board issued interpretation 13 *Customer Loyalty Programmes*. This interpretation addresses the method of accounting for payments related to the sale of goods or services included in customer loyalty programmes. This interpretation becomes effective for annual periods beginning on or after 1 July 2008, and will not affect the financial statements of the Company.

#### IFRIC 15 "Agreements for the Construction of Real Estate"

On 3 July 2008 the International Accounting Standards Board issued interpretation 15 "Agreements for the Construction of Real Estate". This interpretation addresses the issue of units constructed by real estate developers (both directly and through sub-contractors) and standardises the accounting of revenues from the sale of real estate units (such as apartments or houses) prior to transfer of the risk and benefits associated with the construction of the given property.

This interpretation will be in effect for periods beginning on or after 1 January 2009, and will not affect the financial statements of the Company.

#### IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

On 3 July 2008 the International Accounting Standards Board issued interpretation 16 "Hedges of a Net Investment in a Foreign Operation". This interpretation addresses the issue of entities which hedge their net investment in a foreign operation, and provides guidance and clarification on when, and in what manner, such hedges may be made. The main decision eliminates the possibility of applying hedge accounting to exchange differences between the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. This interpretation will be in effect for periods beginning on or after 1 October 2008, and will not affect the financial statements of the Company.

#### "Improvements to International Financial Reporting Standards" 2008

On 22 May 2008 the International Accounting Standards Board issued the first Standard published under the IASB's annual improvements process, Improvements to IFRS 2008. This is a collection of amendments and minor corrections which are needed, but which are not so urgent or important as to require a separate draft. Altogether they include 35 amendments, of which 15 may cause changes in presentation, recognition or measurement, while the remaining 20 are terminological or editorial changes which have no or minimal effect on accounting. Each change has an individual effective date, although most will come into effect for periods beginning on or after 1 January 2009, with earlier, retrospective adoption permitted. Adoption of the amended and improved Standards will not significantly affect the financial statements of the Company.

#### "Eligible Hedged Items" (an amendment to IAS 39 "Financial Instruments: Recognition and Measurement")

On 31 July 2008 the International Accounting Standards Board issued an amendment to IAS 39 "Eligible Hedged Items". This amendment clarifies the principles for qualification as well as the conditions which a financial position must meet to be qualified as hedged. The changes introduced clarify how the existing principles underlying hedge accounting should be applied in two particular situations, and in particular in a situation of (1) a one-sided risk in a hedged item (i.e. changes in the cash flows or fair value of a hedged item above or below a specified price or other variable), and (2) changes in inflation representing a portion of the cash flow of a financial hedged item. The introduction of Application Guidance was necessary due to the diversity of solutions being practiced in this regard. This amendment, which requires retrospective application, will be in effect for periods beginning on or after 1 July 2009, and will not affect the financial statements of the Company.

## 2. Main accounting policies (continuation)

### 2.1 Basis of preparing financial statements (continuation)

**Standards and Interpretations published by 30 June 2008 which had been adopted by the European Union by the publication date of these financial statements:**

#### IFRS 8 "Operating segments"

IFRS 8, *Operating segments*, was published by the International Accounting Standards Board on 30 November 2006, and replaces IAS 14, *Segment Reporting* and becomes effective for annual periods beginning on or after 1 January 2009. This standard introduces a management approach to segment reporting, and underlines the necessity to disclose indicators and other measures used to monitor and evaluate activities to enable the users of the financial statements to evaluate the nature and financial results of various forms of activity carried out by the Company. KGHM will apply IFRS 8 beginning with the financial statements published from 1 January 2009, and will include in them informational disclosures in accordance with the management approach of the Company.

### 2.2 Accounting policies

#### 2.2.1 Property, plant and equipment

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

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

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

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

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

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

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

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

As at the balance sheet date, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses.

Subsequent expenditures on items of property, plant and equipment (for example to increase the usefulness of an item, for spare parts or renovation) are recognised in the carrying amount of a given item only if it is probable that future economic benefits associated with the item will flow to the entity, and the cost of the item can be measured reliably. All other expenditures on repairs and maintenance are recognised in profit or loss in the period in which they are incurred.

## 2. Main accounting policies (continuation)

### 2.2 Accounting policies (continuation)

#### 2.2.1 Property, plant and equipment (continuation)

Items of property, plant and equipment (excluding land) are **depreciated** using the straight-line method over their anticipated useful life. The residual value and useful life of an asset and the method of depreciation applied to items of property, plant and equipment are reviewed at least at the end of each financial year.

The useful lives, and therefore the depreciation rates of items of property, plant and equipment used in the production of copper, are adapted to the plans for the closure of mining operations.

For individual groups of assets, the following useful lives have been adopted:

- Buildings and civil engineering objects: 25-60 years,
- Machines and equipment: 4-15 years,
- Motor vehicles: 3-14 years,
- Other - the useful life is set individually for specific items of property, plant and equipment.

Depreciation begins when an item of property, plant and equipment is available for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale (or included as part of a disposal group which is classified as held for sale) in accordance with IFRS 5 "*Non-current assets held for sale and discontinued operations*" or when it is derecognised upon disposal or retirement.

The basis for the calculation of depreciation is the cost of an item of property, plant and equipment less its residual value.

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given asset as a whole and whose cost is significant in comparison to the cost of the item of property, plant and equipment as a whole, are depreciated separately, applying depreciation rates reflecting their anticipated useful lives.

An asset's carrying amount is written down to its recoverable amount, if the carrying amount of the asset (or a cash-generating unit to which it belongs) is greater than its estimated recoverable amount.

The asset's carrying amount includes costs of necessary regular major overhauls, including for the purpose of certification.

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

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

#### 2.2.2 Intangible assets

Intangible assets include:

- development costs,
- software,
- acquired concessions, patents, licenses,
- other intangible assets, and
- intangible assets not yet available for use (under construction).

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.2 Intangible assets (continuation)**

On initial recognition, intangible assets are measured at cost.

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

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

Intangible assets are amortised using the straight-line method over their anticipated useful lives, which for individual groups of intangible assets are as follows:

- Software – 2 – 5 years,
- Licenses for computer software – 2 – 5 years,
- Rights to geological information – 50 years,
- Acquired property rights – over a useful life set separately for individual property rights.

KGHM Polska Miedź S.A. does not report other intangible assets with indefinite useful life, however it has reported intangible assets not yet available for use (under construction). The Company does not amortise such items of intangible assets, however they are tested for impairment annually. Any potential impairment loss is recognised in the income statement.

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

#### **Development and research costs**

The Company carries out development projects which are primarily aimed at reducing copper production costs, increasing the production capacity of smelters and mines, improving the technical parameters of manufactured products, improving copper production technology.

An intangible asset arising from development is recognised if the entity can demonstrate:

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

The cost of internally-generated development work recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.

Capitalised development costs are recognised as an intangible asset not available for use and are not amortised until the moment when the given intangible asset is successfully completed and the decision has been taken to implement it. Such intangible assets are, however, tested annually for impairment. The amount of the impairment is recognised in the profit or loss.

Internally generated intangible assets are amortised using the straight-line method over the period of their anticipated use.

Research expenditure is recognised as an expense as incurred.

#### **2.2.3 Equity investments**

##### **Subsidiaries**

In the financial statements, investments in subsidiaries which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*, where impairment losses are measured by comparing their carrying amount with the higher of the following amounts:

- fair value, and
- value in use.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.3 Equity investments (continuation)**

Combinations of business entities under common control are accounted for by applying the pooling of interests method.

#### **Associates**

Associated entities are those entities over which the Company has significant influence but not control, and in which it participates in setting both the financial and operational policy of a given entity, which is commonly associated with the ownership of from 20% to 50% of the total number of votes in the entity's governing bodies or the possibility of affecting its operations in another manner.

In the financial statements of the Company, shares in associates which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, i.e. based on its direct interest in equity, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*.

#### **2.2.4. Financial Instruments**

##### **2.2.4.1 Classification of financial instruments**

Financial instruments are classified into one of the following categories:

- financial assets measured at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments,
- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

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

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

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

#### **Financial assets and liabilities measured at fair value through profit or loss**

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

- a) such classification eliminates or significantly reduces any inconsistency in respect of measurement or recognition (also defined as "an accounting mismatch"), that would otherwise arise from measuring assets or liabilities or recognising gains or losses using different basis; or

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.1 Classification of financial instruments (continuation)**

- b) a group of financial instruments is managed properly and the performance of the group is evaluated on the fair value basis, in accordance with a documented risk management or investment strategy.

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

Assets in this category are classified as current if they are available for sale and if the carrying amount is realised within a period of up to 12 months from the balance sheet date.

##### **Loans and receivables (L&R)**

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

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

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

##### **Held-to-maturity investments (HtM)**

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

##### **Available-for-sale financial assets (AfS)**

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

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

##### **Other financial liabilities**

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.1 Classification of financial instruments (continuation)**

###### **Hedging instruments (HI)**

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

##### **2.2.4.2. Initial measurement and derecognition of financial instruments**

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

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

##### **2.2.4.3. Measurement at the balance sheet date**

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

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

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

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

The disposal of investments of the same type but with a different cost basis is accounted for using the FIFO method, i.e the assets disposed of are valued successively at the prices of those assets which were acquired earlier.

###### **Loans and receivables, held-to-maturity investments**

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

###### **Other financial liabilities**

After initial recognition, the Company measures all financial liabilities, apart from those classified as at fair value through profit or loss, at amortised cost using the effective interest rate method except for:



## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.3. Measurement at the balance sheet date (continuation)**

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition (when the continuing involvement approach applies),

If the transfer of financial assets does not qualify them for derecognition because the Company retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Company continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the Company recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;

- financial guarantee agreements, measured at the higher of:
  - the amount determined in accordance with note 2.2.14 Provisions, or
  - the amount initially recognised less, when appropriate, cumulative amortisation recognised according to International Accounting Standard No 18 *Revenue*.

##### **2.2.4.4. Fair value**

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

At the balance sheet date, the fair value of financial instruments, for which an active market exists, is established based on the current bid/ask prices. If the market for a financial instrument is not active (and in relation to non-quoted financial instruments), the Company establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques/models which are commonly used by market participants, adjusted to the characteristics and parameters of the fair valued financial instrument and the situation of the issuer.

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the balance sheet date. Where possible, transactions are fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In case of copper, the official LME closing prices and volatility estimates as at the balance sheet date are obtained from the Reuters news service. For silver and gold, the LBM fixing price at the balance sheet date is used. In the case of volatility and silver and gold forward rates, quotations given by Banks/Brokers are used. Currency interest rates and currency volatility ratios are obtained from Reuters are used. Forwards and swaps on copper market are priced based on forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to Black-Scholes model is used for Asian options pricing on commodity markets, whereas standard German-Kohlhagen model is used for currency of European option pricing.

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

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.5. Impairment of financial assets**

At each balance sheet date an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered a significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the disappearance of an active market for a given financial instrument, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the prolonged decrease of the fair value of a financial instrument below its cost.

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

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

Loans and receivables, as well as held-to-maturity investments which are measured at amortised cost, are individually tested for impairment at each balance sheet date. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio). However, due to the nature of the sales of KGHM Polska Miedź S.A. and the conduct of a restrictive policy towards credit risk, the Company analyses receivables primarily on an individual basis (regardless of their significance) in terms of the existence and recognition of impairment allowances.

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

##### **2.2.4.6. Embedded derivatives**

###### **Initial recognition of derivatives**

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

- the hybrid (combined) instrument not measured at fair value, with changes in fair value recognised in other operating income or other operating costs,
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.6. Embedded derivatives (continuation)**

Re-assessment of contracts for possible bifurcation of embedded instruments is made whenever there is a significant change to the contract that significantly modifies cash flows arising from the contract.

These criteria in particular are deemed as being met for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase. In such cases the Company accounts for the embedded derivative instrument separately from the host sale/purchase contract. From the moment of bifurcation, the embedded derivative instrument is measured at fair value at each balance sheet date. From the date of bifurcation, the embedded derivative instrument is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative instrument is accounted for as an adjustment respectively of revenues from sales or costs of sales.

##### **2.2.4.7 Hedge accounting**

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

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

##### **Derivatives used in cash flow hedges**

In a cash flow hedge, a derivative used as a hedging instrument is an instrument which:

- hedges the exposure to volatility of cash flows which is attributable to a particular type of risk associated with a recognised asset or liability, or a highly probable forecast transaction, and
- will affect reported net profit or loss.

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

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

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.4 Financial Instruments (continuation)**

##### **2.2.4.7 Hedge accounting (continuation)**

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

##### **Discontinuation of hedge accounting**

The Company ceases to account for derivative instruments as hedging instruments when they expire, are sold, terminated or settled, or when the Company revokes its designation of a given instrument as a hedging instrument. The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk.

In such case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in equity until the hedged item affects profit or loss.

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

##### **2.2.5 Inventories**

Inventories consist of the following items:

- materials,
- semi-products and work in progress,
- finished goods, and
- goods for resale.

**Inventory additions** are measured in accordance with the following principles:

- materials and goods for resale – at cost,
- finished goods, semi-products – at actual manufacturing cost,
- work in progress – based on valuation of the work-in-progress inventories.

**Inventory disposals** are measured in accordance with the following principles:

- materials and goods for resale – at average cost based on the weighted average cost of a given item,
- finished goods and semi-products – by way of valuating the difference between inventories closing balance and the value of any additions, and giving due regard to the opening balance.

**Inventories** are measured in accordance with the following principles:

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

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

##### **2.2.6 Trade and other receivables**

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.6 Trade and other receivables (continuation)**

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

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

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

#### **Recognised as receivables are:**

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

#### **2.2.7 Cash and cash equivalents**

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

#### **2.2.8 Non-current assets (or disposal groups) held for sale**

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

Before the initial classification of assets (or disposal groups) as held for sale, the carrying amount of the asset is measured in accordance with applicable standards. At the moment of reclassification these assets are measured at the lower of carrying amount and fair value less costs to sell.

#### **2.2.9 Impairment of non-financial assets**

Intangible assets not yet available for use, are not amortised, but are tested annually for impairment.

A depreciable asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. An impairment loss is recognised as the amount of the carrying value of the given asset which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

For the purpose of impairment assessment, assets are grouped at the lowest level at which they generate cash inflows that are largely independent of those from other assets (cash-generating units).

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.9 Impairment of non-financial assets (continuation)**

Cash-generating units are determined separately each time an impairment test is to be performed.

If an impairment test indicates that the recoverable amount (i.e. the higher of the asset's fair value less costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit.

Any impairment loss is initially allocated to goodwill, if any. The remaining amount of the impairment is allocated to assets within the cash-generating units proportionally to their share of the carrying amount of the entire unit. If such allocation is made, the carrying amount of the asset may not be lower than the highest of the following amounts: fair value less costs to sell, value in use and zero.

Impairment losses are recognised in profit or loss.

Non-financial non-current assets, other than goodwill, for which an impairment loss was recognised in prior periods, are tested at each balance sheet date to determine whether there is any indication of the possibility that an impairment loss may be reversed.

#### **2.2.10 Equity**

Equity in the financial statements of the Company consists of:

1. Share capital at nominal value,
2. Other reserves, which consist of:
  - revaluation reserve set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge, and adjusted by deferred tax, and
  - revaluation reserve for the re-measurement of financial assets classified as available-for-sale to fair value, adjusted by deferred tax.
3. Retained earnings, composed of:
  - undistributed profit or unabsorbed losses from previous years (accrued profit/loss from prior years),
  - reserve capital created in accordance with the Code of Commercial Companies,
  - reserve capital created and used in accordance with the Statutes of the Company,
  - profit or loss for the period.

#### **2.2.11 Liabilities**

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

Liabilities comprise:

- liabilities arising from bank loans, other loans (borrowings) and finance lease liabilities,
- trade payables,
- other financial liabilities, and
- other non-financial liabilities.

Current trade payables are recognised in the balance sheet at their nominal value. The carrying amount of these liabilities reflects the approximate amount representing the level of amortised cost, calculated using the effective interest rate. Current trade payables are not discounted.

Liabilities not classified as financial liabilities are measured at the amount due.

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.12 Accrued expenses**

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

Accruals include:

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

#### **2.2.13 Deferred income**

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

#### **2.2.14 Provisions**

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

Provisions are recognised, in particular, in respect of the following:

- future costs of mine decommissioning, i.e. after the conclusion of mining activities, costs of decommissioning of other technological facilities in the copper smelters and other facilities (jointly: decommissioning costs) in cases where the law provides for the obligation to dismantle and remove such assets after the conclusion of mining activities and to restore the sites to their original condition,
- the effects of court proceedings and of disputed issues,
- guarantees granted.

Provisions are recognised in an amount representing the best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditure expected to be required to settle the obligation.

The provision for future decommissioning costs of mines and other facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore exploitation forecasts (for mining facilities), and technical-economic expertise prepared either by specialist external firms or within the Company. Provisions are reviewed at the balance sheet date.

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

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

#### **2.2.15 Employee benefits**

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.15 Employee benefits (continuation)**

and such a situation does exist in Poland, the interest rate on government bonds at the balance sheet date should be applied.

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

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

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

#### **2.2.16 Income taxes (including deferred tax)**

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

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

Deferred tax is determined using tax rates (and laws) that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

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

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

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

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:

- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax is recognised in the income statement for a given period, unless the deferred tax:

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

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



## 2. Main accounting policies (continuation)

### 2.2 Accounting policies (continuation)

#### 2.2.17 Contingent items and other off-balance sheet items.

Contingent liabilities are:

- a) possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- b) a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  - the amount of the obligation (liability) cannot be measured with sufficient reliability.

The contingent liabilities of the Company include, among others:

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

Other off-balance sheet liabilities of the Company include, among others:

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

#### 2.2.18 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from sales which are recognised at such an amount are adjusted at each balance sheet date by any change in the fair value of embedded derivative instruments, which are separated from the host sales contract in accordance with point 2.2.4.6. Sales revenues are adjusted for the gain or loss from the settlement of derivative instruments hedging future cash flows, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of income statement in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

Recognised in sales revenues are revenues arising from ordinary operating activities of the Company, i.e. revenues from sales of products, services, goods for resale and materials, reflecting any rebates granted and any other decreases in selling prices.

In addition, revenue for the given reporting period which affects the financial result of the period includes **other operating income**, which are indirectly related to the activities carried out, in particular:

- income and gains from investments,
- gains from the measurement and realisation of trading derivative instruments and the ineffective portion of gains from the realisation and re-measurement to fair value of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- reversal of impairment losses on held-to-maturity investments, available-for-sale financial assets, and loans and shares in subsidiaries and associates,
- release of unused provisions, previously charged to other operating costs, and
- gains on disposal of property, plant and equipment and intangible assets,

**finance income**, representing primarily income related to financing of the activities of the Company, including:

- net foreign exchange gains arising exclusively on liabilities from sources of financing of the Company's activities (loans, credits, bonds, finance leases etc.),
- gains on realisation and re-measurement to fair value of derivative hedging instruments used to hedge liabilities financing the Company's activities.

## 2. Main accounting policies (continuation)

### 2.2 Accounting policies (continuation)

#### 2.2.18 Revenues (continuation)

##### **Moment of recognition of revenues**

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

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

Revenues from the sale of services are recognised when:

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

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

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

#### 2.2.19 Costs

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

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals. In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the balance sheet date is adjusted at each balance sheet date by any change in the fair value of embedded derivative instruments, which are separated from the host purchase contract in accordance with point 2.2.4.6.

Costs are accounted for both by type and by the cost centres, and are reported in the income statement using the costs by function (cost of sales) format as the primary cost reporting format.

The total cost of products, goods for resale and materials sold (cost of sales) comprises:

- the manufacturing cost of products sold,
- the cost of goods for resale and materials sold,
- selling costs, and
- administrative expenses.

In addition, costs for the given reporting period which affect the financial result of the period include:

**other operating costs**, indirectly connected with operating activities, including in particular:

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

and also **finance costs** related to financing of the activities of the Company, including in particular:

- overdraft interest,
- interest on short- and long-term loans, credits and other sources of finance, including discounted liabilities,

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.19 Costs (continuation)**

- net foreign exchange losses arising on liabilities from sources of financing of the Company's activities,
- changes in the level of provisions arising from the approach of the time to settle the obligation (the so-called unwinding of the discount effect).

#### **2.2.20 Foreign currency transactions and the measurement of items denominated in foreign currencies**

##### **Functional and presentation currency**

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

##### **Transactions and balances**

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:

- at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities,
- at the average exchange rate set for a given currency by the NBP (National Bank of Poland) prevailing on the date of the transaction. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day proceeding the transaction day,
- at the rate set for foreign currency revenues, in the case of establishing foreign currency bank accounts.

At each balance sheet date:

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

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

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

#### **2.2.21 Borrowing costs**

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

#### **2.2.22 Leases**

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

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

## **2. Main accounting policies (continuation)**

### **2.2 Accounting policies (continuation)**

#### **2.2.23 Government grants**

Non-monetary grants are accounted for at fair value.

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

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

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

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

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

#### **2.2.24 Management of capital**

The management of capital in KGHM Polska Miedź S.A. is aimed at maintaining the capacity to continue operations, including the realisation of planned investments, in a manner allowing the Company to generate returns for its shareholders and bring benefits to other stakeholders.

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

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

#### **2.2.25 Earnings per share**

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

#### **2.2.26 Cash flow statement**

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

## **3. Important estimates and assumptions**

### **3.1 Classification and measurement of financial instruments**

In accordance with the guidelines of IAS 39 relating to the classification of non-derivative financial instruments with fixed or determinable payments, these assets are classified as held-to-maturity investments. In making this judgement, the intended use and possibility of holding such investments to maturity are evaluated. Should the Company fail to hold such instruments to maturity, apart from the situation described in IAS 39, it would have to reclassify all such assets recognised in this group as available-for-sale. In such a situation, the reclassified investments would be measured at fair value, and not at amortised cost.

At each balance sheet date the Company analyses significance of the impact of bifurcated embedded derivative instruments on the financial statements. Following this analysis, the Company determined that bifurcation of these instruments at 30 June 2008 will not have a significant impact on the financial statements.

### **3. Important estimates and assumptions (continuation)**

#### **3.2 Estimation of provisions**

1. Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses and post-employment coal equivalent payments are estimated using actuarial methods. A change in the financial factors being the basis for estimation, i.e.

- an increase in the discount rate by 1% and an increase by 1 % in the coal price and wages increase rate would cause an increase in the provision by PLN 4 066 thousand,
- a decrease in the discount rate by 1% and an increase by 1 % in the coal price and wages increase rate would cause an increase in the provision by PLN 247 021 thousand,
- an increase in the discount rate by 1% and a decrease by 1 % in the coal price and wages increase rate would cause a decrease in the provision by PLN 171 075 thousand,
- a decrease in the discount rate by 1% and a decrease by 1 % in the coal price and wages increase rate would cause a decrease in the provision by PLN 4 102 thousand.

2. Provisions for decommissioning costs of mines and other facilities.

These provisions represent the equivalent of the estimated future decommissioning costs of mines and other facilities, discounted to present value. Revaluation of these provisions at the balance sheet date is affected by the following indicators:

- a) the index of changes in prices in the construction-assembly sector published by Main Statistical Office (GUS),
- b) the real discount rate calculated based on the nominal percentage rate and on the rate of inflation (a quotient of the nominal rate and inflation), where:
  - the nominal percentage rate is based on 3M WIBOR published by the Reuters news service on the last day of the month in which the provision is measured, plus an average margin applied to bank loans drawn by KGHM Polska Miedź S.A.,
  - the rate of inflation is determined for the last 12 months (current to base period), based on the data published by GUS.

If the real discount rate used to estimate the amount of the provisions for decommissioning costs of mines and other facilities decreased by 1%, the carrying amount of the provisions for decommissioning costs and other facilities would be PLN 165 975 thousand higher.

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits.

#### **3.3 Deferred tax assets/liabilities**

The deferred tax assets/liabilities are measured using the tax rates which are expected to apply at the moment when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted at the balance sheet date.

The probability of realising deferred tax assets is considered certain.

#### **3.4 Presentation**

The Company recognises income and costs related to financial investments under other operating activities in the income statement on the grounds that these activities (in particular investments in the telecom sector) are connected with the operating activities of KGHM Polska Miedź S.A. Detailed principles of recognition of income and costs have been described in Note 2 point 2.2.18 and 2.2.19.

#### 4. Property, plant and equipment

|                                   | <b>At</b>           |                         |
|-----------------------------------|---------------------|-------------------------|
|                                   | <b>30 June 2008</b> | <b>31 December 2007</b> |
| Land                              | 14 307              | 14 307                  |
| Buildings and constructions       | 2 230 775           | 2 248 789               |
| Technical equipment and machinery | 1 968 278           | 1 909 889               |
| Motor vehicles                    | 35 110              | 33 432                  |
| Other fixed assets                | 14 559              | 15 541                  |
| Assets under construction         | 691 159             | 610 672                 |
| <b>Total</b>                      | <b>4 954 188</b>    | <b>4 832 630</b>        |

KGHM Polska Miedź S.A.  
Half-year financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2008 to 30 June 2008  
(amounts in tables in thousand PLN, unless otherwise stated)

#### 4. Property, plant and equipment (continuation)

##### Changes in property, plant and equipment in the period from 1 January 2007 to 30 June 2008

|   | Note | Land   | Buildings and constructions | Technical equipment and machinery | Motor vehicles | Other fixed assets | Assets under construction | Total       |
|---|------|--------|-----------------------------|-----------------------------------|----------------|--------------------|---------------------------|-------------|
| <b>At 1 January 2007</b>  |      |        |                             |                                   |                |                    |                           |             |
| Gross carrying amount   |      | 10 875 | 5 556 456                   | 4 556 875                         | 121 899        | 58 129             | 557 360                   | 10 861 594  |
| Accumulated depreciation  |      | -      | (3 411 518)                 | (2 937 744)                       | (91 177)       | (42 597)           | -                         | (6 483 036) |
| Impairment losses   |      | -      | -                           | (257)                             | -              | -                  | -                         | (257)       |
| Net carrying amount   |      | 10 875 | 2 144 938                   | 1 618 874                         | 30 722         | 15 532             | 557 360                   | 4 378 301   |
| <b>Changes in the 1<sup>st</sup> half of 2007</b>   |      |        |                             |                                   |                |                    |                           |             |
| Settlement of assets under construction   |      | 87     | 45 604                      | 272 727                           | 2 409          | 980                | (321 807)                 | -           |
| Settlement of assets under construction – other (leases, warehouse acceptance, without effect)      |      | -      | -                           | -                                 | -              | -                  | (37)                      | (37)        |
| Direct purchases  |      | -      | -                           | -                                 | -              | -                  | 297 618                   | 297 618     |
| Disposal  |      | -      | (122)                       | (772)                             | (808)          | -                  | -                         | (1 702)     |
| Scrapping/decommissioning or write-off  |      | -      | (5 043)                     | (55 440)                          | (489)          | (308)              | -                         | (61 280)    |
| Reclassification to non-current assets classified as held for sale or inclusion in a disposal group |      | -      | (3 496)                     | -                                 | (263)          | -                  | -                         | (3 759)     |
| Change in amount of provisions for costs of decommissioning   | 20   | -      | 58 227                      | -                                 | -              | -                  | -                         | 58 227      |
| Transfer between groups   |      | -      | (14)                        | 14                                | -              | -                  | -                         | -           |
| Depreciation  | 22   | -      | (62 111)                    | (131 063)                         | (3 472)        | (1 941)            | -                         | (198 587)   |
| Decrease in accumulated depreciation due to scrapping, sale and other                               |      | -      | 7 163                       | 54 935                            | 1 483          | 304                | -                         | 63 885      |
| Reversal of impairment losses   |      | -      | -                           | -                                 | -              | -                  | -                         | -           |
| Impairment losses   |      | -      | -                           | -                                 | -              | -                  | -                         | -           |
| <b>At 30 June 2007</b>  |      |        |                             |                                   |                |                    |                           |             |
| Gross carrying amount   |      | 10 962 | 5 651 612                   | 4 773 404                         | 122 748        | 58 801             | 533 134                   | 11 150 661  |
| Accumulated depreciation  |      | -      | (3 466 466)                 | (3 013 872)                       | (93 166)       | (44 234)           | -                         | (6 617 738) |
| Impairment losses   |      | -      | -                           | (257)                             | -              | -                  | -                         | (257)       |
| Net carrying amount   |      | 10 962 | 2 185 146                   | 1 759 275                         | 29 582         | 14 567             | 533 134                   | 4 532 666   |
| <b>At 1 January 2007</b>  |      |        |                             |                                   |                |                    |                           |             |
| Gross carrying amount   |      | 10 875 | 5 556 456                   | 4 556 875                         | 121 899        | 58 129             | 557 360                   | 10 861 594  |
| Accumulated depreciation  |      | -      | (3 411 518)                 | (2 937 744)                       | (91 177)       | (42 597)           | -                         | (6 483 036) |
| Impairment losses   |      | -      | -                           | (257)                             | -              | -                  | -                         | (257)       |
| Net carrying amount   |      | 10 875 | 2 144 938                   | 1 618 874                         | 30 722         | 15 532             | 557 360                   | 4 378 301   |
| <b>Changes in 2007</b>  |      |        |                             |                                   |                |                    |                           |             |
| Settlement of assets under construction   |      | 3 432  | 163 459                     | 576 715                           | 9 759          | 3 948              | (757 313)                 | -           |
| Settlement of assets under construction – other (leases, warehouse acceptance, without effect)      |      | -      | -                           | -                                 | -              | -                  | (4 508)                   | (4 508)     |
| Direct purchases  |      | -      | -                           | -                                 | -              | -                  | 812 492                   | 812 492     |
| Disposal  |      | -      | (122)                       | (9 344)                           | (2 046)        | (52)               | -                         | (11 564)    |
| Scrapping/decommissioning or write-off  |      | -      | (14 992)                    | (160 929)                         | (3 195)        | (1 184)            | -                         | (180 300)   |
| Reclassification to non-current assets classified as held for sale or inclusion in a disposal group |      | -      | (3 496)                     | -                                 | -              | -                  | -                         | (3 496)     |
| Donations and no-cost acquisitions  |      | -      | -                           | -                                 | -              | 4                  | -                         | 4           |
| Donations and no-cost transfers   |      | -      | -                           | -                                 | (176)          | -                  | -                         | (176)       |
| Other changes   |      | -      | 6 859                       | (781)                             | 123            | (220)              | 2 641                     | 8 622       |
| Change in amount of provisions for costs of decommissioning   | 20   | -      | 64 850                      | -                                 | -              | -                  | -                         | 64 850      |
| Transfer between groups   |      | -      | 1 247                       | (1 247)                           | -              | -                  | -                         | -           |
| Depreciation  |      | -      | (125 222)                   | (272 768)                         | (6 897)        | (3 929)            | -                         | (408 816)   |
| Decrease in accumulated depreciation due to scrapping, sale and other                               |      | -      | 11 268                      | 162 247                           | 5 142          | 1 442              | -                         | 180 099     |
| Impairment losses   |      | -      | -                           | (2 878)                           | -              | -                  | -                         | (2 878)     |
| <b>At 31 December 2007</b>  |      |        |                             |                                   |                |                    |                           |             |
| Gross carrying amount   |      | 14 307 | 5 774 261                   | 4 961 289                         | 126 364        | 60 625             | 610 672                   | 11 547 518  |
| Accumulated depreciation  |      | -      | (3 525 472)                 | (3 048 265)                       | (92 932)       | (45 084)           | -                         | (6 711 753) |
| Impairment losses   |      | -      | -                           | (3 135)                           | -              | -                  | -                         | (3 135)     |
| Net carrying amount   |      | 14 307 | 2 248 789                   | 1 909 889                         | 33 432         | 15 541             | 610 672                   | 4 832 630   |
| <b>Changes in the 1<sup>st</sup> half of 2008</b>   |      |        |                             |                                   |                |                    |                           |             |
| Settlement of assets under construction   |      | -      | 75 501                      | 221 590                           | 5 956          | 984                | (304 031)                 | -           |
| Settlement of assets under construction – other (leases, warehouse acceptance, without effect)      |      | -      | -                           | -                                 | -              | -                  | (68)                      | (68)        |
| Direct purchases  |      | -      | -                           | -                                 | -              | -                  | 382 224                   | 382 224     |
| Disposal  |      | -      | (2 465)                     | (3 349)                           | -              | (24)               | -                         | (5 838)     |
| Scrapping/decommissioning or write-off  |      | -      | (10 879)                    | (81 590)                          | (2 244)        | (949)              | -                         | (95 662)    |
| Reclassification to non-current assets classified as held for sale or inclusion in a disposal group |      | -      | -                           | -                                 | (550)          | -                  | -                         | (550)       |
| Other changes   |      | -      | 577                         | 1 047                             | -              | (584)              | 2 362                     | 3 402       |
| Change in amount of provisions for costs of decommissioning   | 20   | -      | (32 551)                    | -                                 | -              | -                  | -                         | (32 551)    |
| Transfer between groups   |      | -      | (852)                       | 852                               | -              | -                  | -                         | -           |
| Depreciation  | 22   | -      | (57 740)                    | (162 932)                         | (3 729)        | (1 953)            | -                         | (226 354)   |
| Decrease in accumulated depreciation due to scrapping, sale and other                               |      | -      | 10 395                      | 82 771                            | 2 245          | 1 544              | -                         | 96 955      |
| <b>At 30 June 2008</b>  |      |        |                             |                                   |                |                    |                           |             |
| Gross carrying amount   |      | 14 307 | 5 803 592                   | 5 099 839                         | 129 526        | 60 052             | 691 159                   | 11 798 475  |
| Accumulated depreciation  |      | -      | (3 572 817)                 | (3 128 426)                       | (94 416)       | (45 493)           | -                         | (6 841 152) |
| Impairment losses   |      | -      | -                           | (3 135)                           | -              | -                  | -                         | (3 135)     |
| Net carrying amount   |      | 14 307 | 2 230 775                   | 1 968 278                         | 35 110         | 14 559             | 691 159                   | 4 954 188   |

#### 4. Property, plant and equipment (continuation)

Depreciation of property, plant and equipment used in production or in providing services was recognised in profit or loss as a cost of sales in the amount of PLN 218 616 thousand (for the period from 1 January to 30 June 2007, PLN 189 716 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 7 731 thousand (for the period from 1 January to 30 June 2007, PLN 8 864 thousand) and in selling costs in the amount of PLN 7 thousand (for the period from 1 January to 30 June 2007, PLN 7 thousand)

|   | At           |                  |
|---|--------------|------------------|
|   | 30 June 2008 | 31 December 2007 |
| <b>Non-current assets held for sale</b> | 550          | -                |
| Property, plant and equipment           | <b>550</b>   | -                |

In the first half of 2008, a reclassification was made of property, plant and equipment to non-current assets held for sale. By a resolution of the Management Board, the Company put up for sale by open tender six automobiles.

#### KGHM Polska Miedź S.A. as a lessor leased out the following property, plant and equipment based on operating lease agreements

|  | At            |                             |                          |                     |                  |                             |                          |                     |
|--|---------------|-----------------------------|--------------------------|---------------------|------------------|-----------------------------|--------------------------|---------------------|
|  | 30 June 2008  |                             |                          |                     | 31 December 2007 |                             |                          |                     |
|  | Cost          | Depreciation for the period | Accumulated depreciation | Net carrying amount | Cost             | Depreciation for the period | Accumulated depreciation | Net carrying amount |
| <b>Land</b>                                | 1 864         | -                           | -                        | 1 864               | 1 864            | -                           | -                        | 1 864               |
| <b>Buildings and constructions</b>         | 73 063        | 865                         | 40 351                   | 32 712              | 78 212           | 1 851                       | 42 102                   | 36 110              |
| <b>Technical equipment and machinery</b>   | 5 445         | 109                         | 4 434                    | 1 011               | 7 187            | 219                         | 6 080                    | 1 107               |
| <b>Other property, plant and equipment</b> | 901           | 17                          | 829                      | 72                  | 871              | 26                          | 811                      | 60                  |
| <b>Total</b>                               | <b>81 273</b> | <b>991</b>                  | <b>45 614</b>            | <b>35 659</b>       | <b>88 134</b>    | <b>2 096</b>                | <b>48 993</b>            | <b>39 141</b>       |

#### Amount of compensation from parties external to the Company, recognised in profit or loss, with respect to property, plant and equipment for which an impairment loss was recognised

|  | For the period                      |                                     |
|--|-------------------------------------|-------------------------------------|
|  | from 1 January 2008 to 30 June 2008 | from 1 January 2007 to 30 June 2007 |
| <b>Amount of compensation recognised in profit or loss</b> | 1 066                               | 370                                 |

Information about value of collateral established on tangible assets for payables payment KGHM Polska Miedź S.A. is presented in note 17.1 Loans



#### 4. Property, plant and equipment (continuation)

##### Perpetual usufruct of land

At 30 June 2008 the Divisions of the Company used land based on perpetual usufruct rights comprising a total area of 5 742 hectares.

|                                    | <b>At 30 June 2008</b> |
|------------------------------------|------------------------|
|                                    | <b>(in hectares)</b>   |
| Lubin Mine                         | 56                     |
| Polkowice-Sieroszowice Mine        | 119                    |
| Rudna Mine                         | 92                     |
| Ore Enrichment Plants              | 61                     |
| Głogów Smelter                     | 2 047                  |
| Legnica Smelter                    | 236                    |
| Cedynia Wire Rod Plant             | 48                     |
| Tailings Plant                     | 3 072                  |
| Mine-smelter Emergency Rescue Unit | 2                      |
| Data Center                        | 3                      |
| Head Office                        | 6                      |

The Company received these rights free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the core business of the Company, which also includes protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company. Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights at 30 June 2008.

Since 31 December 2007 there has been no change in the total area of land used by the Divisions based on perpetual usufruct rights.

**Off-balance sheet liabilities of the Company due to the perpetual usufruct of land estimated on the basis of annual fee rates resulting from the recent administrative decisions and the useful life of the land subject to this right.**

| <b>Total value of future minimum fees due to perpetual usufruct of land</b> | <b>At</b>           |                         |
|---|---------------------|-------------------------|
|   | <b>30 June 2008</b> | <b>31 December 2007</b> |
| Under one year  | 5 958               | 5 929                   |
| From one to five years  | 23 613              | 23 644                  |
| Over five years   | 338 178             | 343 526                 |
| <b>Total:</b>   | <b>367 749</b>      | <b>373 099</b>          |

|  | <b>For the period</b>                      |  |
|--|--|--|
|  | <b>from 1 January 2008 to 30 June 2008</b> | <b>from 1 January 2007 to 30 June 2007</b> |
| <b>Fees due to perpetual usufruct of land recognised in profit or loss</b> | <b>5 390</b>                               | <b>5 362</b>                               |

#### 4. Property, plant and equipment (continuation)

##### Major investment projects recognised at 30 June 2008 under assets under construction

|  |                |
|--|----------------|
| Construction of the SW-4 shaft   | 171 916        |
| Construction of the Głogów Głęboki – Przemysłowy shaft   | 152 837        |
| Mining region infrastructural development in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine       | 88 232         |
| Investments in power and communications facilities   | 37 034         |
| Conveyor belt and pipeline transport investment in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine | 22 046         |
| Purchase of mining machinery   | 20 804         |
| <b>Total</b>   | <b>492 869</b> |

##### Major investment projects recognised at 31 December 2007 under assets under construction

|  |                |
|--|----------------|
| Construction of the SW-4 shaft   | 153 475        |
| Construction of the Głogów Głęboki – Przemysłowy shaft   | 115 496        |
| Mining region infrastructural development in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine       | 77 701         |
| Pyrometallurgy modernisation in Głogów Mine  | 32 159         |
| Conformatory work in Rudna Mine, Legnica Smelter, Głogów Smelter                                       | 27 128         |
| Conveyor belt and pipeline transport investment in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine | 19 320         |
| <b>Total</b>   | <b>425 279</b> |

##### Capital commitments at the balance sheet date but not recognised in the balance sheet

|  | At             |                  |
|--|----------------|------------------|
|  | 30 June 2008   | 31 December 2007 |
| For the acquisition of property, plant and equipment | 438 482        | 259 830          |
| For the acquisition of intangible assets             | 25 146         | 9 393            |
| <b>Total capital commitments:</b>                    | <b>463 628</b> | <b>269 223</b>   |

#### 5. Intangible assets

|   | At            |                  |
|---|---------------|------------------|
|   | 30 June 2008  | 31 December 2007 |
| Development costs                           | 1 176         | 1 421            |
| Software                                    | 2 303         | 2 305            |
| Acquired concessions, patents, licenses     | 19 497        | 15 015           |
| Other intangible assets                     | 34 084        | 34 461           |
| Intangible assets not yet available for use | 14 813        | 21 628           |
| <b>Total</b>                                | <b>71 873</b> | <b>74 830</b>    |

## 5. Intangible assets (continuation)

### Changes in intangible assets in the period from 1 January 2007 to 30 June 2008:

|   | Note | Development costs | Software     | Acquired concessions, patents, licenses | Other intangible assets | Intangible assets not yet available for use | Total           |
|---|------|-------------------|--------------|---|-------------------------|---|-----------------|
| <b>At 1 January 2007</b>  |      |                   |              |   |                         |   |                 |
| Gross carrying amount   |      | 9 500             | 21 444       | 41 974                                  | 37 102                  | 18 189                                      | <b>128 209</b>  |
| Accumulated amortisation  |      | (6 858)           | (18 725)     | (25 315)                                | (1 887)                 | -   | <b>(52 785)</b> |
| Impairment losses   |      | -                 | -            | -                                       | -                       | -   | -               |
| Net carrying amount   |      | <b>2 642</b>      | <b>2 719</b> | <b>16 659</b>                           | <b>35 215</b>           | <b>18 189</b>                               | <b>75 424</b>   |
| <b>Changes in the 1<sup>st</sup> half of 2007</b>                       |      |                   |              |   |                         |   |                 |
| Transfer from intangible assets not yet available for use               |      | -                 | 254          | 910                                     | -                       | (1 164)                                     | -               |
| Direct purchases  |      | -                 | -            | -                                       | -                       | 1 499                                       | <b>1 499</b>    |
| Liquidation or write-off  |      | -                 | (19)         | -                                       | -                       | -   | <b>(19)</b>     |
| Other changes   |      | -                 | -            | -                                       | -                       | 2 703                                       | <b>2 703</b>    |
| Amortisation  | 22   | (619)             | (457)        | (3 907)                                 | (377)                   | -   | <b>(5 360)</b>  |
| Impairment losses   |      | -                 | -            | -                                       | -                       | -   | -               |
| Decrease in accumulated amortisation due to liquidation, sale and other |      | -                 | 19           | -                                       | -                       | -   | <b>19</b>       |
| <b>At 30 June 2007</b>  |      |                   |              |   |                         |   |                 |
| Gross carrying amount   |      | 9 500             | 21 679       | 42 884                                  | 37 102                  | 21 227                                      | <b>132 392</b>  |
| Accumulated amortisation  |      | (7 477)           | (19 163)     | (29 222)                                | (2 264)                 | -   | <b>(58 126)</b> |
| Impairment losses   |      | -                 | -            | -                                       | -                       | -   | -               |
| Net carrying amount   |      | <b>2 023</b>      | <b>2 516</b> | <b>13 662</b>                           | <b>34 838</b>           | <b>21 227</b>                               | <b>74 266</b>   |
| <b>At 1 January 2007</b>  |      |                   |              |   |                         |   |                 |
| Gross carrying amount   |      | 9 500             | 21 444       | 41 974                                  | 37 102                  | 18 189                                      | <b>128 209</b>  |
| Accumulated amortisation  |      | (6 858)           | (18 725)     | (25 315)                                | (1 887)                 | -   | <b>(52 785)</b> |
| Impairment losses   |      | -                 | -            | -                                       | -                       | -   | -               |
| Net carrying amount   |      | <b>2 642</b>      | <b>2 719</b> | <b>16 659</b>                           | <b>35 215</b>           | <b>18 189</b>                               | <b>75 424</b>   |
| <b>Changes in 2007</b>  |      |                   |              |   |                         |   |                 |
| Transfer from intangible assets not yet available for use               |      | -                 | 467          | 5 302                                   | -                       | (5 769)                                     | -               |
| Direct purchases  |      | -                 | -            | -                                       | -                       | 8 007                                       | <b>8 007</b>    |
| Liquidation or write-off  |      | (737)             | (1 239)      | (2 568)                                 | (14)                    | (737)                                       | <b>(5 295)</b>  |
| Other changes   |      | -                 | -            | -                                       | -                       | 2 703                                       | <b>2 703</b>    |
| Amortisation  |      | (1 154)           | (881)        | (6 946)                                 | (754)                   | -   | <b>(9 735)</b>  |
| Impairment losses   |      | (67)              | -            | -                                       | -                       | (765)                                       | <b>(832)</b>    |
| Decrease in accumulated amortisation due to liquidation, sale and other |      | 737               | 1 239        | 2 568                                   | 14                      | -   | <b>4 558</b>    |
| <b>At 31 December 2007</b>  |      |                   |              |   |                         |   |                 |
| Gross carrying amount   |      | 8 763             | 20 672       | 44 708                                  | 37 088                  | 22 393                                      | <b>133 624</b>  |
| Accumulated amortisation  |      | (7 275)           | (18 367)     | (29 693)                                | (2 627)                 | -   | <b>(57 962)</b> |
| Impairment losses   |      | (67)              | -            | -                                       | -                       | (765)                                       | <b>(832)</b>    |
| Net carrying amount   |      | <b>1 421</b>      | <b>2 305</b> | <b>15 015</b>                           | <b>34 461</b>           | <b>21 628</b>                               | <b>74 830</b>   |
| <b>Changes in the 1<sup>st</sup> half of 2008</b>                       |      |                   |              |   |                         |   |                 |
| Transfer from intangible assets not yet available for use               |      | -                 | 524          | 8 921                                   | -                       | (9 445)                                     | -               |
| Direct purchases  |      | -                 | -            | -                                       | -                       | 2 708                                       | <b>2 708</b>    |
| Liquidation or write-off  |      | (242)             | (564)        | (3)                                     | -                       | -   | <b>(809)</b>    |
| Other changes   |      | -                 | -            | -                                       | -                       | (78)  | <b>(78)</b>     |
| Amortisation  | 22   | (245)             | (526)        | (4 439)                                 | (377)                   | -   | <b>(5 587)</b>  |
| Decrease in accumulated amortisation due to liquidation, sale and other |      | 242               | 564          | 3                                       | -                       | -   | <b>809</b>      |
| <b>At 30 June 2008</b>  |      |                   |              |   |                         |   |                 |
| Gross carrying amount   |      | 8 521             | 20 632       | 53 626                                  | 37 088                  | 15 578                                      | <b>135 445</b>  |
| Accumulated amortisation  |      | (7 278)           | (18 329)     | (34 129)                                | (3 004)                 | -   | <b>(62 740)</b> |
| Impairment losses   |      | (67)              | -            | -                                       | -                       | (765)                                       | <b>(832)</b>    |
| Net carrying amount   |      | <b>1 176</b>      | <b>2 303</b> | <b>19 497</b>                           | <b>34 084</b>           | <b>14 813</b>                               | <b>71 873</b>   |

## 5. Intangible assets (continuation)

At 30 June 2008, the most significant item of intangible assets of KGHM Polska Miedź S.A. is the documentation of geological information on the "Głogów Głęboki" deposit, included under other intangible assets, with a carrying amount of PLN 29 706 thousand (at 31 December 2007: PLN 30 029 thousand) and the established mining rights for extracting copper ore from the "Głogów Głęboki" deposit with a carrying amount of PLN 4 037 thousand (at 31 December 2007: PLN 4 080 thousand). The remaining amortisation period of both items of intangible assets is 46 years.

The amortisation of intangible assets utilised in the production or in the providing of services was recognised under cost of sales in the income statement in the amount of PLN 5 135 thousand (for the period from 1 January to 30 June 2007: PLN 4 316 thousand). The amortisation of other intangible assets was recognised in administrative expenses in the amount of PLN 452 thousand (for the period from 1 January to 30 June 2007: PLN 1 044 thousand).

## 6. Investments in subsidiaries and associates

|  | Investments in<br>subsidiaries | Investments in<br>associates |
|--|--------------------------------|------------------------------|
| <b>At 1 January 2007</b>                       |                                |                              |
| Amount at cost                                 | 2 854 763                      | 438 559                      |
| Impairment losses                              | (1 171 554)                    | -                            |
| <b>Net carrying amount at 1 January 2007</b>   | <b>1 683 209</b>               | <b>438 559</b>               |
| Changes in the first half of 2007              |                                |                              |
| - Taking up shares                             | 34 726                         | -                            |
| - Decrease of share capital                    | (10 052)                       | -                            |
| <b>At 30 June 2007</b>                         |                                |                              |
| Amount at cost                                 | 2 879 437                      | 438 559                      |
| Impairment losses                              | (1 171 554)                    | -                            |
| <b>Net carrying amount at 30 June 2007</b>     | <b>1 707 883</b>               | <b>438 559</b>               |
| <b>At 1 January 2007</b>                       |                                |                              |
| Amount at cost                                 | 2 854 763                      | 438 559                      |
| Impairment losses                              | (1 171 554)                    | -                            |
| <b>Net carrying amount at 1 January 2007</b>   | <b>1 683 209</b>               | <b>438 559</b>               |
| Changes in 2007                                |                                |                              |
| - Acquisition of shares                        | 19 714                         | -                            |
| - Taking up shares                             | 134 726                        | -                            |
| - Decrease of share capital                    | (10 051)                       | -                            |
| - Impairment losses                            | (24 208)                       | -                            |
| <b>At 31 December 2007</b>                     |                                |                              |
| Amount at cost                                 | 2 999 152                      | 438 559                      |
| Impairment losses                              | (1 195 762)                    | -                            |
| <b>Net carrying amount at 31 December 2007</b> | <b>1 803 390</b>               | <b>438 559</b>               |
| <b>At 1 January 2008</b>                       |                                |                              |
| Amount at cost                                 | 2 999 152                      | 438 559                      |
| Impairment losses                              | (1 195 762)                    | -                            |
| <b>Net carrying amount at 1 January 2008</b>   | <b>1 803 390</b>               | <b>438 559</b>               |
| Changes in the first half of 2008              |                                |                              |
| - Taking up shares                             | 27 316                         | -                            |
| <b>At 30 June 2008</b>                         |                                |                              |
| Amount at cost                                 | 3 026 468                      | 438 559                      |
| Impairment losses                              | (1 195 762)                    | -                            |
| <b>Net carrying amount at 30 June 2008</b>     | <b>1 830 706</b>               | <b>438 559</b>               |

## 6. Investments in subsidiaries and associates (continuation)

### Investments in subsidiaries as at 30 June 2008

| Entity                           | Head office | Subject of activities  | % of share capital held | % of voting rights held | Indirect share |
|----------------------------------|-------------|--|-------------------------|-------------------------|----------------|
| KGHM CUPRUM Sp. z o.o. – CBR     | Wrocław     | R&D activities   | 100                     | 100                     | -              |
| KGHM Polish Copper Ltd.          | London      | copper trading   | 100                     | 100                     | -              |
| "MIEDZIOWE CENTRUM ZDROWIA" S.A. | Lubin       | medical services   | 100                     | 100                     | -              |
| KGHM Ecoren S.A.                 | Lubin       | production of other products from non-metallic mineral resources             | 100                     | 100                     | -              |
| "Energetyka" sp. z o.o.          | Lubin       | generation, distribution and sale of electricity and heat                    | 100                     | 100                     | -              |
| CBJ sp. z o.o.                   | Lubin       | technical research and analyses  | 100                     | 100                     | -              |
| KGHM Kupferhandelsges m.b.H.     | Vienna      | copper trading   | 100                     | 100                     | -              |
| POL-MIEDŹ TRANS Sp. z o.o.       | Lubin       | transport services   | 100                     | 100                     | -              |
| DIALOG S.A.                      | Wrocław     | telecommunications services, telecommunications, IT and information services | 100                     | 100                     | -              |
| KGHM Congo S.P.R.L.              | Lubumbashi  | ore production services  | 99.98                   | 99.98                   | -              |
| KGHM Metraco S.A.                | Legnica     | trade, agency and representative services                                    | 100                     | 100                     | -              |
| "Zagłębie" Lubin SSA             | Lubin       | participation in and organisation of professional sporting events            | 100                     | 100                     | -              |
| INTERFERIE S.A.                  | Lubin       | tourism, hotel and spa services  | 2.06                    | 2.06                    | 63.61          |
| PeBeKa S.A.                      | Lubin       | underground and mining construction, construction of tunnels                 | 100                     | 100                     | -              |
| PHP "MERCUS" sp. z o.o.          | Polkowice   | trade, production of bundled electrical cables                               | 100                     | 100                     | -              |
| KGHM LETIA S.A                   | Legnica     | promotion of innovation  | 94.95                   | 94.95                   | -              |

Since 31 December 2007 the subsidiary list has not been changed.

## 6. Investments in subsidiaries and associates (continuation)

|                         | At                             |                |                                |                |
|-------------------------|--------------------------------|----------------|--------------------------------|----------------|
|                         | 30 June 2008                   |                | 31 December 2007               |                |
|                         | MINOVA-KSANTE<br>Spółka z.o.o. | POLKOMTEL S.A. | MINOVA-KSANTE<br>Spółka z.o.o. | POLKOMTEL S.A. |
| Head office             | Polkowice                      | Warsaw         | Polkowice                      | Warsaw         |
| % of share capital held | 30                             | 19.61          | 30                             | 19.61          |
| % of voting rights held | 30                             | 19.61          | 30                             | 19.61          |
| Total assets            | 11 741                         | 8 268 748      | 9 740                          | 8 453 373      |
| Non-current liabilities | -                              | 1 137 470      | -                              | 1 170 048      |
| Current liabilities     | 1 002                          | 3 781 492      | 634                            | 3 776 386      |
| Sales                   | 8 412                          | 4 117 743      | 16 760                         | 7 799 020      |
| Profit for the period   | 1 599                          | 775 393        | 3 006                          | 1 358 676      |

Polkomtel S.A., in which KGHM Polska Miedź S.A. holds 19.61% of the shares, is an associated entity. 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.

## 7. Available-for-sale financial assets

|   | Note      | At             |                  |
|---|-----------|----------------|------------------|
|   |           | 30 June 2008   | 31 December 2007 |
| Shares in unlisted companies  | 31        | 22 270         | 22 270           |
| Share in the AIG investment fund  | 31        | 7 964          | 10 665           |
| <b>Non-current available-for-sale financial assets</b>                        | <b>31</b> | <b>30 234</b>  | <b>32 935</b>    |
| Participation units in the specialist open-end investment fund KBC GAMMA SFIO |           |                |                  |
| <b>Current available-for-sale financial assets</b>                            | 31        | 100 623        | -                |
|   | <b>31</b> | <b>100 623</b> | <b>-</b>         |
| <b>Total available-for-sale financial assets</b>                              |           | <b>130 857</b> | <b>32 935</b>    |

## 8. Held-to-maturity investments

|   |             | At            |                  |
|---|-------------|---------------|------------------|
|   | Note        | 30 June 2008  | 31 December 2007 |
| <b>Non-current held-to-maturity investments</b> |             | <b>57 254</b> | <b>43 893</b>    |
| Commercial papers                               |             | 57 254        | 43 893           |
| <b>Current held-to-maturity investments</b>     |             | <b>-</b>      | <b>-</b>         |
| <b>Total held-to-maturity investments:</b>      | <b>31.1</b> | <b>57 254</b> | <b>43 893</b>    |

The Company is required by the Law on Geology and Mining, dated 4 February 1994 (Journal of Laws No. 228 item 1947 dated 14 November 2005) and the Ruling of the Minister of the Economy of 24 June 2002 regarding the specific principles for the creation and functioning of mine closure funds (Journal of Laws No. 108, item 951) to accumulate monetary resources in a separate bank account called the Mine Closure Fund (MCF) to cover future decommissioning costs of mines and other facilities. As these funds will only be utilised in future periods, the Company has determined that, despite the fact that they are not invested in long-term financial instruments, they are in fact restricted from being used to settle liabilities within at least twelve months from the balance sheet date (IAS 1 para. 57 d.) and therefore it is more appropriate to present them under non-current assets.

Management of the MCF assets primarily involves their investment in short-term bank deposits or debt securities with a maturity of up to 1 year from the date of acquisition. Consequently, the change in this item shows the balance resulting from closures of accounts and disposals of securities versus acquisitions of securities and the opening of accounts, at the balance sheet date. MCF assets at the balance sheet date were mainly invested in commercial papers with an amortised cost of PLN 57 561 thousand.

The value of interest on commercial papers calculated using the effective interest rate amounted at the balance sheet date to PLN 532 thousand. This interest, as accrued interest, was not recognised at the balance sheet date, as the value of the Fund could not be increased by non-monetary assets.

Information on the fair value of held-to-maturity investments was presented in Note 31.2.

## 9. Derivative financial instruments

|  |             | <b>At</b>           |                         |
|--|-------------|---------------------|-------------------------|
|  | <b>Note</b> | <b>30 June 2008</b> | <b>31 December 2007</b> |
| <b>Non-current assets, of which:</b>                                   |             |                     |                         |
| hedging instruments  |             | 8 154               | 30 308                  |
| trade instruments  |             | -                   | 3 087                   |
| <b>Non-current assets due to derivative financial instruments</b>      |             | <b>8 154</b>        | <b>33 395</b>           |
| <b>Current assets, of which:</b>                                       |             |                     |                         |
| hedging instruments  |             | 15 665              | 68 075                  |
| trade instruments  |             | 384                 | 13 369                  |
| <b>Current assets due to derivative financial instruments</b>          |             | <b>16 049</b>       | <b>81 444</b>           |
| <b>Total assets arising from derivative instruments</b>                | <b>31</b>   | <b>24 203</b>       | <b>114 839</b>          |
| <b>Non-current liabilities, of which:</b>                              |             |                     |                         |
| trade instruments  |             | -                   | 3 087                   |
| <b>Non-current liabilities due to derivative financial instruments</b> |             | <b>-</b>            | <b>3 087</b>            |
| <b>Current liabilities, of which:</b>                                  |             |                     |                         |
| hedging instruments  |             | -                   | 964                     |
| trade instruments  |             | 61                  | 13 371                  |
| <b>Current liabilities due to derivative financial instruments</b>     |             | <b>61</b>           | <b>14 335</b>           |
| <b>Total liabilities arising from derivative instruments</b>           | <b>31</b>   | <b>61</b>           | <b>17 422</b>           |

Transactions involving derivative financial instruments made on the metals market are settled on the second working day of the month following the month in which the average settlement price was determined. This means that transactions involving derivatives made in June 2008 were settled on 2 July 2008. As at the balance sheet date, these transactions were re-measured to fair value and recognised under trade receivables and other receivables as receivables in respect of unsettled derivatives, or under trade liabilities and other liabilities as liabilities arising from derivative financial instruments. For details, see Note 32.1.8.



**9. Derivative financial instruments (continuation)**

| TRADE DERIVATIVES  |   |  | 30 June 2008     |                 |                       |                 | 31 December 2007 |                 |                       |                 |
|--|---|--|------------------|-----------------|-----------------------|-----------------|------------------|-----------------|-----------------------|-----------------|
| Type of financial instrument                               | Volume/<br>Notional                                     | Avg.<br>weighted<br>price/ex.<br>rate                | Financial assets |                 | Financial liabilities |                 | Financial assets |                 | Financial liabilities |                 |
|  | Cu ['000 t]<br>Ag ['000 troz]<br>Currency<br>['000 USD] | Cu [USD/t]<br>Ag [USD/troz]<br>Currency<br>[USD/PLN] | Current          | Non-<br>current | Current               | Non-<br>current | Current          | Non-<br>current | Current               | Non-<br>current |
|  |   |  |                  |                 |                       |                 |                  |                 |                       |                 |
| <b>Derivatives – Commodity contracts (metals) - Copper</b> |   |  |                  |                 |                       |                 |                  |                 |                       |                 |
| Swaps  | 0.525   | 8 264  | 323              |                 |                       |                 |                  |                 |                       |                 |
| Options  |   |  |                  |                 |                       |                 |                  |                 |                       |                 |
| Purchased put options                                      |   |  |                  |                 |                       |                 | 13 369           |                 |                       |                 |
| Written put options  |   |  |                  |                 |                       |                 |                  |                 | (13 371)              |                 |
| Purchased put options                                      | 33  | 5 200  | 61               |                 |                       |                 |                  | 3 087           |                       |                 |
| Written put options  | 33  | 5 200  |                  |                 | (61)                  |                 |                  |                 |                       | (3 087)         |
| <b>TOTAL:</b>  |   |  | <b>384</b>       |                 | <b>(61)</b>           |                 | <b>13 369</b>    | <b>3 087</b>    | <b>(13 371)</b>       | <b>(3 087)</b>  |
| <b>TOTAL:</b>  |   |  |                  |                 |                       |                 |                  |                 |                       |                 |
| <b>Embedded derivative instruments</b>                     |   |  |                  |                 |                       |                 |                  |                 |                       |                 |
| <b>Total trade derivatives</b>                             |   |  | <b>384</b>       |                 | <b>(61)</b>           |                 | <b>13 369</b>    | <b>3 087</b>    | <b>(13 371)</b>       | <b>(3 087)</b>  |

## 9. Derivative financial instruments (continuation)

| HEDGING DERIVATIVES                        |  |   | 30 June 2008  |         |                                    |         |                  |                 |                       |                 | 31 December 2007 |                 |                       |                 |
|--|--|---|---------------|---------|------------------------------------|---------|------------------|-----------------|-----------------------|-----------------|------------------|-----------------|-----------------------|-----------------|
|  | Volume/<br>Notional  | Avg.<br>weighted<br>price/<br>ex. rate                  | Maturity date |         | Period of<br>profit/loss<br>impact |         | Financial assets |                 | Financial liabilities |                 | Financial assets |                 | Financial liabilities |                 |
| Type of financial instrument               | Cu ['000 t]<br>Ag<br>['000 troz]<br>Currency<br>['000 USD] | Cu [USD/t]<br>Ag<br>[USD/troz]<br>Currency<br>[USD/PLN] | From          | Till    | From                               | Till    | Current          | Non-<br>current | Current               | Non-<br>current | Current          | Non-<br>current | Current               | Non-<br>current |
| Derivatives – Commodity contracts - Copper |  |   |               |         |                                    |         |                  |                 |                       |                 |                  |                 |                       |                 |
| Swaps                                      | 0.75   | 7 359   | July 08       | Sept 08 | Aug 08                             | Oct 08  | 1 954            |                 |                       |                 |                  |                 |                       | (964)           |
| Options                                    |  |   |               |         |                                    |         |                  |                 |                       |                 |                  |                 |                       |                 |
| Purchased put options                      | 125  | 5 907   | July 08       | May 09  | Aug 08                             | June 09 | 12 203           |                 |                       |                 | 63 140           |                 |                       |                 |
| Purchased put options                      | 10   | 6 200   | June 09       | June 09 | July 09                            | July 09 |                  | 3 883           |                       |                 |                  | 11 951          |                       |                 |
| TOTAL:                                     |  |   |               |         |                                    |         | 14 157           | 3 883           |                       |                 | 63 140           | 11 951          | (964)                 |                 |
| Derivatives – Commodity contracts - Silver |  |   |               |         |                                    |         |                  |                 |                       |                 |                  |                 |                       |                 |
| Swaps                                      |  |   |               |         |                                    |         |                  |                 |                       |                 |                  |                 |                       |                 |
| Options                                    |  |   |               |         |                                    |         |                  |                 |                       |                 |                  |                 |                       |                 |
| Purchased put options                      | 10 000   | 11.8800   | July 08       | May 09  | Aug 08                             | June 09 | 1 508            |                 |                       |                 | 4 935            |                 |                       |                 |
| Purchased put options                      | 5 600  | 12.0000   | June 09       | Dec 09  | July 09                            | Jan 10  |                  | 4 271           |                       |                 |                  | 18 357          |                       |                 |
| TOTAL:                                     |  |   |               |         |                                    |         | 1 508            | 4 271           |                       |                 | 4 935            | 18 357          |                       |                 |
| TOTAL hedging derivatives                  |  |   |               |         |                                    |         | 15 665           | 8 154           |                       |                 | 68 075           | 30 308          | (964)                 |                 |

The weighted average hedge contract prices/ exchange rates are aggregate amounts presented for informational purposes only. Their use in financial analysis in certain cases may lead to erroneous results. This relates to hedging levels and to levels of participation in option instruments, in the case of which the simulation of future settlement amounts may generate different results when the average weighted exercise price/ exchange rate is assumed and different results when the calculation is based on actual exercise prices/ exchange rates of options entered into by the Company.

## 10. Trade and other receivables

|   |               | At               |                  |
|---|---------------|------------------|------------------|
|   | Note          | 30 June 2008     | 31 December 2007 |
| <b>Non-current trade and other receivables</b>                        |               |                  |                  |
| Additional payment to capital   |               | 9 000            | 9 000            |
| Other financial receivables   |               | 1 421            | 1 480            |
| Loans granted   |               | 7 424            |                  |
| Impairment allowances   |               | -                | -                |
| <b>Total loans and financial receivables, net</b>                     | <b>31</b>     | <b>17 845</b>    | <b>10 480</b>    |
| Other non-financial receivables                                       |               | 17               | 44               |
| Prepayments, of which:  |               | 468              | 488              |
| Perpetual usufruct of land treated as operating lease                 |               | 415              | 422              |
| Impairment allowances   |               | -                | -                |
| <b>Total non-financial receivables, net</b>                           |               | <b>485</b>       | <b>532</b>       |
| <b>Non-current trade and other receivables, net</b>                   |               | <b>18 330</b>    | <b>11 012</b>    |
| <b>Current trade and other receivables</b>                            |               |                  |                  |
| Trade receivables   |               | 854 702          | 557 875          |
| Receivables due to unsettled derivative instruments                   |               | 517              | 8 877            |
| Loans granted   |               | 670              | 1 218            |
| Additional payment to capital   |               | 44 512           | 44 512           |
| Other financial receivables   |               | 125 634          | 47 377           |
| Impairment allowances   | <b>32.3.6</b> | (18 282)         | (20 839)         |
| <b>Total loans and financial receivables, net</b>                     | <b>31</b>     | <b>1 007 753</b> | <b>639 020</b>   |
| Other non-financial receivables, including:                           |               | 158 890          | 184 462          |
| Taxes, social security and other charge                               |               | 150 458          | 178 752          |
| Prepayments   |               | 58 304           | 2 351            |
| Impairment allowances   |               | (24 705)         | (53 554)         |
| <b>Total non-financial receivables, net</b>                           |               | <b>192 489</b>   | <b>133 259</b>   |
| <b>Current trade and other receivables, net</b>                       |               | <b>1 200 242</b> | <b>772 279</b>   |
| <b>Total non-current and current trade and other receivables, net</b> |               | <b>1 218 572</b> | <b>783 291</b>   |

### Impairment allowances on non-financial receivables

|   |    | For the period                         |  |
|---|----|--|--|
|   |    | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| <b>Impairment allowances at the beginning of the period</b>                 |    | <b>53 554</b>                          | <b>11 007</b>                          |
| Impairment allowances recognised in profit/loss for the period              | 25 | 170                                    | 11 364                                 |
| Impairment allowances reversed through profit or loss for the period        | 24 | (4 432)                                | -                                      |
| Impairment allowances charged to costs of legal proceedings                 |    | 6                                      | 2                                      |
| Impairment allowances utilised during the period                            |    | (24 589)                               | (1)                                    |
| Reversal of impairment allowances charged to the costs of legal proceedings |    | (4)                                    | (1)                                    |
| <b>Impairment allowances at the end of the period</b>                       |    | <b>24 705</b>                          | <b>22 371</b>                          |

## 11. Inventories

|   | At               |                  |
|---|------------------|------------------|
|   | 30 June 2008     | 31 December 2007 |
| Materials                                   | 268 368          | 127 676          |
| Semi-finished products and work in progress | 1 118 694        | 1 148 588        |
| Finished products                           | 310 506          | 327 223          |
| Goods for resale                            | 832              | -                |
| <b>Total carrying amount of inventories</b> | <b>1 698 400</b> | <b>1 603 487</b> |

|  | For the period                         |  |
|--|--|--|
|  | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| <b>Write-down of inventories in the financial period</b> |  |  |
| Write-down of inventories recognised in cost of sales    | 599                                    | 456                                    |
| Reversal of write-down recognised in cost of sales       | (635)                                  | (388)                                  |

Reversal of the write-down amounting to PLN 629 thousand was made due to the sale of finished products subject to revaluation at pre-revaluation prices. Reversal of the write-down amounting PLN 6 thousand relates to the balance sheet valuation of materials from precious metals, which includes their quotations on metal exchange and the NBP rate.

## 12. Cash and cash equivalents

|   | Note        | At               |                  |
|---|-------------|------------------|------------------|
|   |             | 30 June 2008     | 31 December 2007 |
| Cash in hand  |             | 70               | 58               |
| Cash at bank  |             | 4 724            | 1 570            |
| Other financial assets with a maturity of up to 3 months from the date of acquisition |             | 3 167 604        | 2 533 367        |
| <b>Total cash and cash equivalents</b>  | <b>31.1</b> | <b>3 172 398</b> | <b>2 534 995</b> |

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 2 685 121 thousand (as at 31 December 2007: PLN 2 451 985 thousand), debt securities in the amount of PLN 475 508 thousand (as at 31 December 2007: PLN 78 874 thousand) and interest accrued on financial assets in the amount of PLN 6 975 thousand (as at 31 December 2007: PLN 2 508 thousand).

Components of cash and cash equivalents presented in the cash flow statement are the same as those presented in the balance sheet.

### 13. Share capital

|   | <b>Registered<br/>share capital</b> | <b>Share capital revaluation<br/>due to hyperinflation</b> | <b>Total</b>     |
|---|-------------------------------------|--|------------------|
| At 1 January 2007   | 2 000 000                           | 5 413 573  | <b>7 413 573</b> |
| Transfer of share capital revaluation to<br>reserve capital | -                                   | (5 413 573)  | (5 413 573)      |
| At 31 December 2007   | 2 000 000                           | -  | <b>2 000 000</b> |
| At 30 June 2008   | 2 000 000                           | -  | <b>2 000 000</b> |

As at 30 June 2008, the Company's registered share capital amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares ("A" series), fully paid, with a nominal value of PLN 10 each. All shares are bearer shares. The Company did not issue preference shares. Each share gives right to one vote at the General Shareholders' Meeting. The Company does not have treasury shares. Subsidiaries and associated companies do not own shares in KGHM Polska Miedź S.A.

In the first half of 2008 and in the first half of 2007 there were no changes in the share capital registered or in the number of shares.

#### Ownership structure

At 30 June 2008, the only shareholder of the Company with shares representing at least 5% of the share capital and giving right to the same number of votes at the General Shareholders' Meeting, based on information dated 16 May 2007, was the State Treasury, which held 83 589 900 shares, with a total nominal value of PLN 835 899 000, which accounts for 41.79% of the Company's share capital.

Other shareholders (including Deutsche Bank Trust Company Americas, deposit bank in a depositary receipt program) held shares in the amount below 5% of the share capital i.e. total of 116 410 100 shares with a total nominal value of PLN 1 164 101 000, which account for 58.21% of the Company's share capital and give the same number of votes at the General Shareholders' Meeting.

In the first half of 2008 there were no changes in significant blocks of shares.

#### 14. Other reserves

|   | Note | Revaluation reserve<br>on available-for-sale<br>financial assets | Revaluation reserve<br>on cash flow hedging<br>financial instruments | Total other<br>reserves |
|---|------|--|--|-------------------------|
| <b>At 1 January 2007</b>  |      | <b>8 319</b>   | <b>(439 845)</b>   | <b>(431 526)</b>        |
| Fair value gains on available-for-sale financial assets   |      | 13 844   | -  | 13 844                  |
| Impact of effective cash flow hedging transactions entered into                                   | 32   | -  | 78 293   | 78 293                  |
| Amount transferred to profit or loss due to the settlement of available-for-sale financial assets |      | (15 324)   | -  | (15 324)                |
| Amount transferred to profit or loss due to the settlement of hedging instruments                 | 32   | -  | 620 293  | 620 293                 |
| Deferred tax  |      | 281  | (137 733)  | (137 452)               |
| <b>Total income/(expenses) recognised directly in equity</b>                                      |      | <b>(1 199)</b>   | <b>560 853</b>   | <b>559 654</b>          |
| <b>At 30 June 2007</b>  |      | <b>7 120</b>   | <b>121 008</b>   | <b>128 128</b>          |
| <b>At 1 January 2007</b>  |      | <b>8 319</b>   | <b>(439 845)</b>   | <b>(431 526)</b>        |
| Fair value gains on available-for-sale financial assets   |      | 14 197   | -  | 14 197                  |
| Impact of effective cash flow hedging transactions entered into                                   | 32   | -  | 131 890  | 131 890                 |
| Amount transferred to profit or loss due to the settlement of available-for-sale financial assets |      | (19 894)   | -  | (19 894)                |
| Amount transferred to profit or loss due to the settlement of hedging instruments                 | 32   | -  | 435 533  | 435 533                 |
| Deferred tax  | 18   | 1 082  | (117 499)  | (116 417)               |
| <b>Total income/(expenses) recognised directly in equity</b>                                      |      | <b>(4 615)</b>   | <b>449 924</b>   | <b>445 309</b>          |
| <b>At 31 December 2007</b>  |      | <b>3 704</b>   | <b>10 079</b>  | <b>13 783</b>           |
| <b>At 1 January 2008</b>  |      | <b>3 704</b>   | <b>10 079</b>  | <b>13 783</b>           |
| Fair value losses on available-for-sale financial assets  |      | (2 079)  | -  | (2 079)                 |
| Impact of effective cash flow hedging transactions entered into                                   | 32   | -  | 2 119  | 2 119                   |
| Amount transferred to profit or loss due to the settlement of hedging instruments                 | 32   | -  | (4 214)  | (4 214)                 |
| Deferred tax  | 18   | 395  | (554)  | (159)                   |
| <b>Total expenses recognised directly in equity</b>   |      | <b>(1 684)</b>   | <b>(2 649)</b>   | <b>(4 333)</b>          |
| <b>At 30 June 2008</b>  |      | <b>2 020</b>   | <b>7 430</b>   | <b>9 450</b>            |

The revaluation reserve presented in other reserves, set in the amount of the fair value of hedging instruments in the effective portion of the hedge and the re-measurement to fair value of available-for-sale financial assets, is not subject to distribution.

## 15. Retained earnings

|   | <b>Reserve capital<br/>created in<br/>accordance with<br/>the Code of<br/>Commercial<br/>Companies,<br/>art. 396</b> | <b>Reserve capital<br/>created from<br/>profit in<br/>accordance with<br/>the Statutes</b> | <b>Profit/(loss)<br/>from prior years</b> | <b>Retained<br/>earnings, total</b> |
|---|--|--|---|-------------------------------------|
| <b>At 1 January 2007</b>                                    | <b>660 000</b>   | <b>1 344 961</b>   | <b>(871 194)</b>                          | <b>1 133 767</b>                    |
| Profit for the period                                       | -  | -  | 1 857 672                                 | 1 857 672                           |
| <b>Total recognised<br/>income/(expenses)</b>               | <b>-</b>   | <b>1 130</b>   | <b>(3 395 130)</b>                        | <b>(3 394 000)</b>                  |
| Transfer to reserve capital                                 | -  | 1 130  | (1 130)                                   | -                                   |
| Dividend approved but unpaid                                | -  | -  | (3 394 000)                               | (3 394 000)                         |
| <b>At 30 June 2007</b>                                      | <b>660 000</b>   | <b>1 346 091</b>   | <b>(2 408 652)</b>                        | <b>(402 561)</b>                    |
| <b>At 1 January 2007</b>                                    | <b>660 000</b>   | <b>1 344 961</b>   | <b>(871 194)</b>                          | <b>1 133 767</b>                    |
| Profit for the period                                       | -  | -  | 3 798 826                                 | 3 798 826                           |
| <b>Total recognised<br/>income/(expenses)</b>               | <b>-</b>   | <b>5 414 703</b>   | <b>(3 395 130)</b>                        | <b>2 019 573</b>                    |
| Transfer of share capital<br>revaluation to reserve capital | -  | 5 413 573  | -   | <b>5 413 573</b>                    |
| Transfer to reserve capital                                 | -  | 1 130  | (1 130)                                   | -                                   |
| Dividend approved and paid                                  | -  | -  | (3 394 000)                               | (3 394 000)                         |
| <b>At 31 December 2007</b>                                  | <b>660 000</b>   | <b>6 759 664</b>   | <b>(467 498)</b>                          | <b>6 952 166</b>                    |
| <b>At 1 January 2008</b>                                    | <b>660 000</b>   | <b>6 759 664</b>   | <b>(467 498)</b>                          | <b>6 952 166</b>                    |
| Profit for the period                                       | -  | -  | 1 814 690                                 | 1 814 690                           |
| <b>Total recognised<br/>income/(expenses)</b>               | <b>-</b>   | <b>(2 267 498)</b>   | <b>467 498</b>                            | <b>(1 800 000)</b>                  |
| Transfer to reserve capital                                 | -  | 1 998 826  | (1 998 826)                               | -                                   |
| Coverage of losses by reserve<br>capital                    | -  | (4 266 324)  | 4 266 324                                 | -                                   |
| Dividend approved but unpaid                                | -  | -  | (1 800 000)                               | (1 800 000)                         |
| <b>At 30 June 2008</b>                                      | <b>660 000</b>   | <b>4 492 166</b>   | <b>1 814 690</b>                          | <b>6 966 856</b>                    |

Based on the Code of Commercial Companies, the Company is required to create reserve capital against any potential (future) or existing losses, to which no less than 8 percent of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.

At 30 June 2008 this statutory reserve capital in the Company amounts to PLN 660 000 thousand, and is recognised in equity under retained earnings.

## 16. Trade and other payables

|   |      | At               |                  |
|---|------|------------------|------------------|
|   | Note | 30 June 2008     | 31 December 2007 |
| <b>Non-current trade and other payables</b>                   |      |                  |                  |
| Trade payables  |      | 3 182            | 4 698            |
| Other financial liabilities                                   |      | 9 649            | -                |
| <b>Total non-current financial liabilities</b>                | 31   | <b>12 831</b>    | <b>4 698</b>     |
| Deferred income   |      | 1 489            | 1 607            |
| <b>Total non-current non-financial liabilities</b>            |      | <b>1 489</b>     | <b>1 607</b>     |
| <b>Total non-current trade and other payables</b>             |      | <b>14 320</b>    | <b>6 305</b>     |
| <b>Current trade and other payables</b>                       |      |                  |                  |
| Trade payables  |      | 534 966          | 560 957          |
| Payables due to unsettled derivative financial instruments    |      | 35               | 3 304            |
| Liabilities due to unpaid dividend for 2007                   |      | 1 800 000        | -                |
| Other financial liabilities                                   |      | 88 190           | 249 150          |
| <b>Total current financial liabilities</b>                    | 31   | <b>2 423 191</b> | <b>813 411</b>   |
| Liabilities due to taxes and social security                  |      | 234 893          | 261 633          |
| Other non-financial liabilities                               |      | 72 102           | 76 234           |
| Special funds   |      | 64 462           | 56 104           |
| Deferred income   |      | 68 753           | 22 616           |
| Accruals  |      | 326 129          | 280 843          |
| <b>Total current non-financial liabilities</b>                |      | <b>766 339</b>   | <b>697 430</b>   |
| <b>Total current trade and other payables</b>                 |      | <b>3 189 530</b> | <b>1 510 841</b> |
| <b>Total non-current and current trade and other payables</b> |      | <b>3 203 850</b> | <b>1 517 146</b> |

Accruals include PLN 165 805 thousand of accrued annual bonus, which will be paid according to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.



## 17. Borrowings and finance lease liabilities

|  | Note | At            |                  |
|--|------|---------------|------------------|
|  |      | 30 June 2008  | 31 December 2007 |
| <b>Non-current loans and finance lease liabilities</b>       |      |               |                  |
| Loans  | 31   | 5 000         | 7 000            |
| Finance lease liabilities                                    | 31   | 10 146        | 13 319           |
| <b>Total non-current loans and finance lease liabilities</b> |      | <b>15 146</b> | <b>20 319</b>    |
| <b>Current loans and finance lease liabilities</b>           |      |               |                  |
| Loans  | 31   | 5 001         | 6 022            |
| Finance lease liabilities                                    | 31   | 4 837         | 2 590            |
| <b>Total current loans and finance lease liabilities</b>     |      | <b>9 838</b>  | <b>8 612</b>     |
| <b>Total loans and finance lease liabilities</b>             | 31   | <b>24 984</b> | <b>28 931</b>    |

### 17.1 Loans

#### Loans as at 30 June 2008

| Loan<br>currency | Interest | The value of<br>the loan at<br>balance sheet<br>date | Of which payable in: |                       |
|------------------|----------|--|----------------------|-----------------------|
|                  |          |  | 2009<br>(current)    | 2009<br>(non-current) |
| PLN              | Fixed    | 10 001   | 5 001                | 5 000                 |

#### Loans as at 31 December 2007

| Loan<br>currency | Interest | The value of<br>the loan at<br>balance sheet<br>date | Of which payable in: |       |       |
|------------------|----------|--|----------------------|-------|-------|
|                  |          |  | 2008<br>(current)    | 2009  | 2010  |
| PLN              | Fixed    | 13 022   | 6 022                | 4 000 | 3 000 |

As at 30 June 2007 the Company had a loan from the Regional Fund for Environmental Protection and Water Management in the amount of PLN 10 001 thousand, including PLN 1 001 thousand payable by 16 December 2008 and PLN 9 000 thousand payable by 16 September 2010. Interest rate on the above loans is 4%. One of the collaterals established for the loan is registered pledge on gas dedusting installations for anode furnaces. The carrying amount of assets being the collateral established for the loan as at 30 June 2008 amounts to PLN 16 487 thousand. The collateral amounts to PLN 1 001 thousand. The repayment of the remaining part of the loan is guaranteed with a blank promissory note and Borrower's statement on submission to the enforcement regime under loan agreement.

Until 28 March 2008, KGHM Polska Miedź S.A., based on signed contracts, had credit facilities in current accounts. Due to positive cash flow generated from operating activities and a significant balance of cash and cash equivalents, KGHM Polska Miedź S.A. did not prolong these contracts for credit facilities.

## 17. Borrowings and finance lease liabilities (continuation)

### 17.2 Finance lease liabilities

As at 30 June 2008, the carrying amount of the Company's finance lease liabilities amounted to PLN 14 983 thousand.

The commitment results from an agreement with the State Treasury. Based on this agreement the State Treasury is providing an access to geological information for a fee. This information was acquired with the purpose to prepare a licensing application to obtain a license for the extraction of ore from the Głogów Głęboki - Przemysłowy deposit. This license was granted in November 2004. Payments to the State Treasury are being made in 10 equal instalments. The last instalment will be settled on 30 June 2014. Those non interest-bearing liabilities were recognised in the books of the Company at a discounted amount. As the payments are in EUR, the liability is exposed to currency risk due to changes in foreign exchange rates at the date of payment. The carrying amount of the liabilities resulting from this agreement is PLN 14 983 thousand (EUR 4 467 thousand), while the carrying amount of the related intangible assets at the balance sheet date amounts to PLN 29 706 thousand.

#### Finance lease liabilities as at 30 June 2008

|  | 2008<br>(current) | 2009<br>(current) | 2009         | 2010         | 2011-<br>2012 | 2013 and<br>beyond | Total         |
|--|-------------------|-------------------|--------------|--------------|---------------|--------------------|---------------|
| <b>Nominal value of minimum lease payments</b> | <b>2 482</b>      | <b>2 482</b>      | <b>2 482</b> | <b>2 482</b> | <b>4 964</b>  | <b>2 482</b>       | <b>17 374</b> |
| Future finance costs due to finance leases     | -                 | 127               | 248          | 359          | 1 014         | 643                | 2 391         |
| <b>Present value of minimum lease payments</b> | <b>2 482</b>      | <b>2 355</b>      | <b>2 234</b> | <b>2 123</b> | <b>3 950</b>  | <b>1 839</b>       | <b>14 983</b> |

#### Finance lease liabilities as at 31 December 2007

|  | 2008 (current) | 2009         | 2010         | 2011-<br>2012 | 2013 and<br>beyond | Total         |
|--|----------------|--------------|--------------|---------------|--------------------|---------------|
| <b>Nominal value of minimum lease payments</b> | <b>2 651</b>   | <b>2 651</b> | <b>2 651</b> | <b>5 301</b>  | <b>5 301</b>       | <b>18 555</b> |
| Future finance costs due to finance leases     | 61             | 172          | 281          | 869           | 1 263              | 2 646         |
| <b>Present value of minimum lease payments</b> | <b>2 590</b>   | <b>2 479</b> | <b>2 370</b> | <b>4 432</b>  | <b>4 038</b>       | <b>15 909</b> |

## 18. Deferred tax - changes

|  | Note | For the period                         |  |
|--|------|--|--|
|  |      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 31 December 2007 |
| Net deferred tax asset at the beginning of the period, of which: |      | 160 781                                | 289 997                                    |
| <b>Deferred tax assets at the beginning of the period</b>        |      | <b>509 119</b>                         | <b>640 783</b>                             |
| <b>Deferred tax liabilities at the beginning of the period</b>   |      | <b>348 338</b>                         | <b>350 786</b>                             |
| Charged to profit or loss  | 27   | (188 699)                              | (299 299)                                  |
| Credited to profit or loss                                       | 27   | 184 917                                | 286 500                                    |
| Decrease in equity   | 14   | (2 320)                                | (283 557)                                  |
| Increase in equity   | 14   | 2 161                                  | 167 140                                    |
| Net deferred tax asset at the end of the period, of which:       |      | 156 840                                | 160 781                                    |
| <b>Deferred tax assets at the end of the period</b>              |      | <b>505 382</b>                         | <b>509 119</b>                             |
| <b>Deferred tax liabilities at the end of the period</b>         |      | <b>348 542</b>                         | <b>348 338</b>                             |

## 18. Deferred tax – changes (continuation)

### Deferred tax assets prior to offsetting

|  | At 1 January<br>2007 based on<br>the rate of 19% | Credited/(Charged) to profit<br>or loss due to a change in the<br>balance of temporary<br>differences and tax loss | Increase/(Decrease)<br>in equity due to change<br>in the balance of<br>temporary differences | At 30 June 2007<br>based on<br>the rate of 19% |
|--|--|--|--|--|
| Exchange rate differences                                      | 16 807   | (5 859)  |  | 10 948   |
| Interest   | 8  | (5)  | -  | 3  |
| Allowances for impairment of<br>receivables                    | 7 780  | 1 650  | -  | 9 430  |
| Short-term accruals for wages                                  | 48 623   | 6 181  | -  | 54 804   |
| Employee benefits (holidays)                                   | 3 762  | (85)   | -  | 3 677  |
| Provision for decommissioning of mines<br>and other facilities | 87 192   | 15 933   | -  | 103 125  |
| Measurement of forward transactions                            | 114 381  | 25 956   | -  | 140 337  |
| Re-measurement of hedging<br>instruments                       | 125 805  | 5 402  | (117 619)  | 13 588   |
| Depreciation differences                                       | 10 766   | (901)  | -  | 9 865  |
| Liabilities due to future employee<br>benefits                 | 164 750  | 1 653  | -  | 166 403  |
| Unpaid wages with surcharges                                   | 44 150   | (14 762)   | -  | 29 388   |
| Other  | 16 759   | (4 766)  | -  | 11 993   |
| <b>Total</b>   | <b>640 783</b>                                   | <b>30 397</b>  | <b>(117 619)</b>   | <b>553 561</b>                                 |

|  | At 1 January<br>2007 based on<br>the rate of 19% | Credited/(Charged) to profit<br>or loss due to a change in the<br>balance of temporary<br>differences and tax loss | Increase/(Decrease)<br>in equity due to change<br>in the balance of<br>temporary differences | At 31 December<br>2007 based on<br>the rate of 19% |
|--|--|--|--|--|
| Exchange rate differences                                      | 16 807   | (13 106)   | -  | 3 701  |
| Interest   | 8  | (2)  | -  | 6  |
| Allowances for impairment of<br>receivables                    | 7 780  | 6 564  | -  | 14 344   |
| Short-term accruals for wages                                  | 48 623   | 5 061  | -  | 53 684   |
| Employee benefits (holidays)                                   | 3 762  | (748)  | -  | 3 014  |
| Provision for decommissioning of mines<br>and other facilities | 87 192   | 17 372   | -  | 104 564  |
| Measurement of forward transactions                            | 114 381  | (52 998)   | -  | 61 383   |
| Re-measurement of hedging<br>instruments                       | 125 805  | 1 512  | (117 500)  | 9 817  |
| Depreciation differences                                       | 10 766   | 96   | -  | 10 862   |
| Liabilities due to future employee<br>benefits                 | 164 750  | 9 915  | -  | 174 665  |
| Unpaid wages with surcharges                                   | 44 150   | 7 665  | -  | 51 815   |
| Other  | 16 759   | 4 505  | -  | 21 264   |
| <b>Total</b>   | <b>640 783</b>                                   | <b>(14 164)</b>  | <b>(117 500)</b>   | <b>509 119</b>                                     |

|  | At 1 January<br>2008 based on<br>the rate of 19% | Credited/(Charged) to profit<br>or loss due to a change in the<br>balance of temporary<br>differences and tax loss | Increase/(Decrease)<br>in equity due to change<br>in the balance of<br>temporary differences | At 30 June 2008<br>based on<br>the rate of 19% |
|--|--|--|--|--|
| Exchange rate differences                                      | 3 701  | (954)  | -  | 2 747  |
| Interest   | 6  | (5)  | -  | 1  |
| Allowances for impairment of<br>receivables                    | 14 344   | (1 451)  | -  | 12 893   |
| Short-term accruals for wages                                  | 53 684   | 3 515  | -  | 57 199   |
| Employee benefits (holidays)                                   | 3 014  | 296  | -  | 3 310  |
| Provision for decommissioning of mines<br>and other facilities | 104 564  | (3 798)  | -  | 100 766  |
| Measurement of forward transactions                            | 61 383   | 231  | -  | 61 614   |
| Re-measurement of hedging<br>instruments                       | 9 817  | (4 298)  | (119)  | 5 400  |
| Depreciation differences                                       | 10 862   | 2 063  | -  | 12 925   |
| Liabilities due to future employee<br>benefits                 | 174 665  | 5 064  | -  | 179 729  |
| Unpaid wages with surcharges                                   | 51 815   | (18 413)   | -  | 33 402   |
| Other  | 21 264   | 14 132   | -  | 35 396   |
| <b>Total</b>   | <b>509 119</b>                                   | <b>(3 618)</b>   | <b>(119)</b>   | <b>505 382</b>                                 |

## 18. Deferred tax – changes (continuation)

### Deferred tax liabilities prior to offsetting

|  | At 1 January 2007<br>based on the rate<br>of 19% | (Credited)/Charged to<br>profit or loss<br>due to a change in the<br>balance of temporary<br>differences | (Increase)/ Decrease<br>in equity due to change<br>in the balance of<br>temporary differences | At 30 June 2007<br>based on<br>the rate of 19% |
|--|--|--|---|--|
| Exchange rate differences                              | 9 147  | (5 607)  | -   | <b>3 540</b>                                   |
| Interest   | 782  | 334  | -   | <b>1 116</b>                                   |
| Measurement of forward<br>transactions                 | 46 445   | 8 376  | -   | <b>54 821</b>                                  |
| Re-measurement of hedging<br>instruments               | -  | -  | 20 114  | <b>20 114</b>                                  |
| Depreciation differences                               | 289 892  | 19 125   | -   | <b>309 017</b>                                 |
| Measurement of available-<br>for-sale financial assets | 1 887  | -  | (281)   | <b>1 606</b>                                   |
| Other  | 2 633  | (2 509)  | -   | <b>124</b>                                     |
| <b>Total</b>   | <b>350 786</b>                                   | <b>19 719</b>  | <b>19 833</b>   | <b>390 338</b>                                 |

|  | At 1 January 2007<br>based on the rate<br>of 19% | (Credited)/Charged to<br>profit or loss<br>due to a change in the<br>balance of temporary<br>differences | (Increase)/ Decrease in<br>equity due to change<br>in the balance of<br>temporary differences | At 31 December<br>2007 based on<br>the rate of 19% |
|--|--|--|---|--|
| Exchange rate differences                              | 9 147  | (7 502)  | -   | <b>1 645</b>                                       |
| Interest   | 782  | 2 222  | -   | <b>3 004</b>                                       |
| Measurement of forward<br>transactions                 | 46 445   | (36 889)   | -   | <b>9 556</b>                                       |
| Depreciation differences                               | 289 892  | 31 442   | -   | <b>321 334</b>                                     |
| Measurement of available-<br>for-sale financial assets | 1 887  | -  | (1 083)   | <b>804</b>   |
| Other  | 2 633  | 9 362  | -   | <b>11 995</b>                                      |
| <b>Total</b>   | <b>350 786</b>                                   | <b>(1 365)</b>   | <b>(1 083)</b>  | <b>348 338</b>                                     |

|  | At 1 January 2008<br>based on the rate<br>of 19% | (Credited)/Charged to<br>profit or loss<br>due to a change in the<br>balance of temporary<br>differences | (Increase)/ Decrease<br>in equity due to change<br>in the balance of<br>temporary differences | At 30 June 2008<br>based on<br>the rate of 19% |
|--|--|--|---|--|
| Exchange rate differences                              | 1 645  | (9)  | -   | <b>1 636</b>                                   |
| Interest   | 3 004  | (1 925)  | -   | <b>1 079</b>                                   |
| Measurement of forward<br>transactions                 | 9 556  | (3 425)  | -   | <b>6 131</b>                                   |
| Re-measurement of hedging<br>instruments               | -  | -  | 435   | <b>435</b>                                     |
| Depreciation differences                               | 321 334  | 3 090  | -   | <b>324 424</b>                                 |
| Measurement of available-<br>for-sale financial assets | 804  | -  | (395)   | <b>409</b>                                     |
| Other  | 11 995   | 2 433  | -   | <b>14 428</b>                                  |
| <b>Total</b>   | <b>348 338</b>                                   | <b>164</b>   | <b>40</b>   | <b>348 542</b>                                 |

## 19. Employee benefits

Changes in future employee benefits

|   | <b>TOTAL<br/>liabilities</b> | Jubilee awards | Retirement<br>and disability<br>benefits | Coal equivalent |
|---|------------------------------|----------------|--|-----------------|
| <b>Present value of obligations -<br/>at 1 January 2007</b>     | <b>879 756</b>               | <b>237 412</b> | <b>172 201</b>                           | <b>470 143</b>  |
| Interest costs  | 20 590                       | 5 628          | 4 012                                    | 10 950          |
| Current service cost  | 16 436                       | 6 825          | 4 717                                    | 4 894           |
| Benefits paid   | (39 982)                     | (9 450)        | (12 373)                                 | (18 159)        |
| Actuarial gains/(losses)  | 10 814                       | (9 348)        | 926                                      | 19 236          |
| <b>Present value of obligations -<br/>at 30 June 2007</b>       | <b>887 614</b>               | <b>231 067</b> | <b>169 483</b>                           | <b>487 064</b>  |
| Past service cost unrecognised at the<br>balance sheet date     | (11 804)                     | -              | (11 804)                                 | -               |
| <b>Carrying amount of liabilities -<br/>at 30 June 2007</b>     | <b>875 810</b>               | <b>231 067</b> | <b>157 679</b>                           | <b>487 064</b>  |
| of which:   |                              |                |  |                 |
| Carrying amount of non-current liabilities                      | 810 113                      | 205 329        | 143 492                                  | 461 292         |
| Carrying amount of current liabilities                          | 65 697                       | 25 738         | 14 187                                   | 25 772          |
|   | <b>TOTAL<br/>liabilities</b> | Jubilee awards | Retirement<br>and disability<br>benefits | Coal equivalent |
| <b>Present value of obligations -<br/>at 1 January 2007</b>     | <b>879 756</b>               | <b>237 412</b> | <b>172 201</b>                           | <b>470 143</b>  |
| Interest costs  | 41 242                       | 11 091         | 8 144                                    | 22 007          |
| Current service cost  | 32 872                       | 13 650         | 9 434                                    | 9 788           |
| Benefits paid   | (70 297)                     | (30 186)       | (16 713)                                 | (23 398)        |
| Actuarial gains   | 46 683                       | 11 241         | 6 905                                    | 28 537          |
| <b>Present value of obligations -<br/>at 31 December 2007</b>   | <b>930 256</b>               | <b>243 208</b> | <b>179 971</b>                           | <b>507 077</b>  |
| Past service cost unrecognised at the<br>balance sheet date     | (10 961)                     | -              | (10 961)                                 | -               |
| <b>Carrying amount of liabilities -<br/>at 31 December 2007</b> | <b>919 295</b>               | <b>243 208</b> | <b>169 010</b>                           | <b>507 077</b>  |
| of which:   |                              |                |  |                 |
| Carrying amount of non-current liabilities                      | 853 096                      | 216 515        | 153 330                                  | 483 251         |
| Carrying amount of current liabilities                          | 66 199                       | 26 693         | 15 680                                   | 23 826          |
|   | <b>TOTAL<br/>liabilities</b> | Jubilee awards | Retirement<br>and disability<br>benefits | Coal equivalent |
| <b>Present value of obligations -<br/>at 1 January 2008</b>     | <b>930 256</b>               | <b>243 208</b> | <b>179 971</b>                           | <b>507 077</b>  |
| Interest costs  | 25 423                       | 6 737          | 4 954                                    | 13 732          |
| Current service cost  | 17 330                       | 7 053          | 4 975                                    | 5 302           |
| Benefits paid   | (46 192)                     | (10 550)       | (9 596)                                  | (26 046)        |
| Actuarial gains   | 29 244                       | 693            | 4 501                                    | 24 050          |
| <b>Present value of obligations -<br/>at 30 June 2008</b>       | <b>956 061</b>               | <b>247 141</b> | <b>184 805</b>                           | <b>524 115</b>  |
| Past service cost unrecognised at the<br>balance sheet date     | (10 118)                     | -              | (10 118)                                 | -               |
| <b>Carrying amount of liabilities -<br/>at 30 June 2008</b>     | <b>945 943</b>               | <b>247 141</b> | <b>174 687</b>                           | <b>524 115</b>  |
| of which:   |                              |                |  |                 |
| Carrying amount of non-current liabilities                      | 877 436                      | 220 225        | 157 935                                  | 499 276         |
| Carrying amount of current liabilities                          | 68 507                       | 26 916         | 16 752                                   | 24 839          |

## 19. Employee benefits (continuation)

| <b>At</b>        | <b>Present value<br/>of employee benefits</b> |
|------------------|---|
| 30 June 2008     | 945 943                                       |
| 31 December 2007 | 919 295                                       |
| 31 December 2006 | 867 109                                       |
| 31 December 2005 | 831 352                                       |

### Total costs recognised in the income statement due to future employee benefits

| <b>Total costs recognised in the income statement</b> | <b>For the period</b>                          |  |
|---|--|--|
|   | <b>from 1 January 2008<br/>to 30 June 2008</b> | <b>from 1 January 2007<br/>to 30 June 2007</b> |
| Current service cost                                  | 17 330   | 16 436   |
| Interest costs  | 25 423   | 20 590   |
| Actuarial gains                                       | 29 244   | 10 814   |
| Past service cost                                     | 843  | 843  |
|   | <b>72 840</b>                                  | <b>48 683</b>                                  |

Actuarial gains/losses are caused by a change in assumptions relating to the increase in the discount rate, increases in coal prices and increases in wages.

For purposes of re-measuring the provision at the end of the current period, the Company assumed parameters based on available forecasts of inflation, an analysis of increases in coal prices and in the lowest wage, and also based on the anticipated profitability of highly-liquid securities.

| <b>Main actuarial assumptions:</b>    | <b>2008</b> | <b>2009</b> | <b>2010</b> | <b>2011<br/>and beyond</b> |
|---------------------------------------|-------------|-------------|-------------|----------------------------|
| - discount rate                       | 6.80%       | 6.60%       | 6.00%       | 5.70%                      |
| - rate of increase in coal prices     | 0.00%       | 3.80%       | 3.80%       | 3.50%                      |
| - rate of increase in the lowest wage | 0.00%       | 6.93%       | 4.80%       | 4.50%                      |
| - expected inflation                  | 3.80%       | 3.80%       | 3.80%       | 3.50%                      |
| - future expected increase in wages   | 0.00%       | 4.80%       | 4.80%       | 4.50%                      |

## 20. Provisions for other liabilities and charges

|   | Note | TOTAL          | Decommissioning costs of mines and other facilities | Costs of scrapping property, plant and equipment | Disputed issues and court proceedings | Other provisions |
|---|------|----------------|---|--|---------------------------------------|------------------|
| <b>Provisions at 1 January 2007</b>   |      | <b>524 560</b> | <b>459 254</b>                                      | <b>5 287</b>                                     | <b>15 372</b>                         | <b>44 647</b>    |
| Provisions recognised   |      | 147            | -   | -  | 30                                    | 117              |
| Changes in provisions arising from updating of estimates  |      | 72 134         | 73 583  | -  | -                                     | (1 449)          |
| Changes in provisions arising from approach of execution date of liabilities (unwinding of the discount effect) | 26   | 12 105         | 11 539  | -  | -                                     | 566              |
| Utilisation of provisions   |      | (9 519)        | (1 223)   | (40)   | (127)                                 | (8 129)          |
| Release of provisions   |      | (150)          | -   | (54)   | (5)                                   | (91)             |
| Transfer to Mine Closure Fund   |      | (6 092)        | (6 092)   | -  | -                                     | -                |
| <b>Provisions at 30 June 2007</b>   |      | <b>593 185</b> | <b>537 061</b>                                      | <b>5 193</b>                                     | <b>15 270</b>                         | <b>35 661</b>    |
| of which:   |      |                |   |  |                                       |                  |
| <b>Non-current provisions</b>   |      | <b>556 228</b> | <b>530 887</b>                                      | <b>-</b>   |                                       | <b>25 341</b>    |
| <b>Current provisions</b>   |      | <b>36 957</b>  | <b>6 174</b>  | <b>5 193</b>                                     | <b>15 270</b>                         | <b>10 320</b>    |

|   | Note | TOTAL          | Decommissioning costs of mines and other facilities | Costs of scrapping property, plant and equipment | Disputed issues and court proceedings | Other provisions |
|---|------|----------------|---|--|---------------------------------------|------------------|
| <b>Provisions at 1 January 2007</b>   |      | <b>524 560</b> | <b>459 254</b>                                      | <b>5 287</b>                                     | <b>15 372</b>                         | <b>44 647</b>    |
| Provisions recognised   |      | 27 117         | -   | -  | 352                                   | 26 765           |
| Changes in provisions arising from updating of estimates  |      | 81 382         | 82 847  | -  | -                                     | (1 465)          |
| Changes in provisions arising from approach of execution date of liabilities (unwinding of the discount effect) | 26   | 26 302         | 24 922  | 226  | -                                     | 1 154            |
| Utilisation of provisions   |      | (13 615)       | (3 839)   | (142)  | (149)                                 | (9 485)          |
| Release of provisions   |      | (1 234)        | (226)   | (561)  | (356)                                 | (91)             |
| Transfer to Mine Closure Fund   |      | (12 647)       | (12 647)  | -  | -                                     | -                |
| <b>Provisions at 31 December 2007</b>   |      | <b>631 865</b> | <b>550 311</b>                                      | <b>4 810</b>                                     | <b>15 219</b>                         | <b>61 525</b>    |
| of which:   |      |                |   |  |                                       |                  |
| <b>Non-current provisions</b>   |      | <b>556 589</b> | <b>527 623</b>                                      | <b>4 272</b>                                     |                                       | <b>24 694</b>    |
| <b>Current provisions</b>   |      | <b>75 276</b>  | <b>22 688</b>                                       | <b>538</b>                                       | <b>15 219</b>                         | <b>36 831</b>    |

|   | Note | TOTAL          | Decommissioning costs of mines and other facilities | Costs of scrapping property, plant and equipment | Disputed issues and court proceedings | Other provisions |
|---|------|----------------|---|--|---------------------------------------|------------------|
| <b>Provisions at 1 January 2008</b>   |      | <b>631 865</b> | <b>550 311</b>                                      | <b>4 810</b>                                     | <b>15 219</b>                         | <b>61 525</b>    |
| Provisions recognised   |      | 3 552          | -   | 600  | 2 363                                 | 589              |
| Changes in provisions arising from updating of estimates  |      | (35 439)       | (33 290)  | (22)   | -                                     | (2 127)          |
| Changes in provisions arising from approach of execution date of liabilities (unwinding of the discount effect) | 26   | 18 478         | 17 912  | 70   | -                                     | 496              |
| Utilisation of provisions   |      | (25 295)       | (4 387)   | -  | (300)                                 | (20 608)         |
| Release of provisions   |      | (345)          | (230)   | (38)   | (77)                                  | -                |
| Transfer to Mine Closure Fund   |      | (7 176)        | (7 176)   | -  | -                                     | -                |
| Other   |      | (10 907)       | -   | -  | -                                     | (10 907)         |
| <b>Provisions at 30 June 2008</b>   |      | <b>574 733</b> | <b>523 140</b>                                      | <b>5 420</b>                                     | <b>17 205</b>                         | <b>28 968</b>    |
| of which:   |      |                |   |  |                                       |                  |
| <b>Non-current provisions</b>   |      | <b>522 056</b> | <b>505 410</b>                                      | <b>4 320</b>                                     | <b>-</b>                              | <b>12 326</b>    |
| <b>Current provisions</b>   |      | <b>52 677</b>  | <b>17 730</b>                                       | <b>1 100</b>                                     | <b>17 205</b>                         | <b>16 642</b>    |



## 20. Provisions for other liabilities and charges (continuation)

As at 30 June 2008 the most significant item of provisions for other liabilities is the **provision for the costs of future decommissioning (liquidation) of mines and other technological facilities** with the carrying value of PLN 523 140 thousand (as at 31 December 2007: PLN 550 311 thousand), created in accordance with the methodology defined in the International Financial Reporting Standards.

Decommissioning schedule and estimates of decommissioning costs have been worked on since the beginning of 2001 by the Company's subsidiary, KGHM Cuprum Sp. z o.o. CBR. Revaluations of the basic decommissioning costs originally calculated in 2001 are made periodically based on the changes of price index for the construction-assembly industry, which are published by the Main Statistical Office, taking into account movements in tangible fixed assets. The exception to the above are mine shafts. In 2006, costs of shafts liquidation were revalued due to completion of the document called "Study of the project of liquidation of the P-III and P-IV mine shafts in the Polkowice Wschodnie Region and the project of excavation of deposits located in the safety pillars of those shafts – Stage III. 1. The project of liquidation of the P-III shaft, 2. The project of liquidation of the P-IV shaft" prepared by Cuprum and securing positive opinions for those projects of the Commission for Water, Waste Management and Mine Closure- Related Threats operating by the Main Mine Office – Resolution No. 2/2007 dated 6 September 2007. Detailed information included in technical projects developed for the P-III and P-IV shafts in the Polkowice Wschodnie Region provided the basis for verification of forecasts concerning costs of liquidation of other shafts in KGHM Polska Miedź S.A.

Subsequent revaluations have been made if significant economic events occurred which could have impact on the amount of the provision. The 2007 revaluation related mainly to the decommissioning schedule and was due to adoption by the Ministry of Natural Environment in January 2007 certain additions to the projects relating to ore deposits management at KGHM Polska Miedź S.A., which were underlying mining activities of the Company. These amended projects assume that ore excavation will continue until the year 2040.

The largest facility earmarked for decommissioning (restoration), which at the same time accounts for the largest share in the costs of decommissioning of all technological facilities, is the "Żelazny Most" tailings pond, together with the hydro-transportation network and cubage hydro-technical facilities. The "Żelazny Most" tailings pond is a hydro-technical facility created by way of a circumferential embankment of lowered area. At the same time, it serves as the central water management facility. The area and type of this tailings pond requires (apart from restoration activities carried out on a regular basis in the form of shaping of the slope of the reservoir using biological coat) several stages of site restoration and development. This is also due to the main underlying assumption that the "Żelazny Most" tailings pond will be operational until the last working day of mines and enrichment plants. During the final stage of operating this tailings pond, transfer to the method of centralised waste dump from the currently used circumferential one would be required in order to fill in the reservoir and create the coarse-grained layer for restoration of the inside of the tailings pond. After the "Żelazny Most" tailings pond has ceased being operational, during the course of mine liquidation, the discharge of mine waters will be carried out excepting this tailings pond. According to the current plan, preparatory works for the tailings pond liquidation and its partial restoration will commence in 2025 and will last until 2037. In 2038, the main stage of the tailings pond liquidation will commence and is expected to be completed in 2047. In the meantime, i.e. from the year 2025 to 2040, pipelines and accompanying cubage hydro-technical facilities will be decommissioned and the decommissioning will be carried out by way of dismantling, scrap recovery and utilisation of concrete elements, which, after crumbling, will be used as foundation for hardening. As regards the surface of the "Żelazny Most" tailings pond, application of the non-soil restoration method was adopted as possible and reasonable solution. It is planned that trees will be planted on the whole area of waste storage yard as it is done for protective greenery, after prior preparation of the surface of the tailings pond. It is also assumed that selected types of grass and mixes thereof will be used for land restoration purposes, together with mineral additives to improve the ground, as well as special techniques of cultivation and fertilization. The above site restoration method is comparable to those used in the EU countries. KGHM CUPRUM Sp. z o.o. CBR, in cooperation with the Natural Science University in Wrocław, are currently conducting research work in respect of this issue. The decommissioning project assumes a 10-year monitoring period for the facility.

The Company's method of estimating the required decommissioning provision is based on the prudence concept. The amount of the provision recognised in the balance sheet is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value. The amount of the provision is revalued at the end of each quarter by applying in the discounting model the ratios described in Note 3.3.

The balance of the decommissioning provision is adjusted for the amount transferred to the mine closure fund, which has been created based on article 26c of the act dated 27 July 2001 amending the act – Geological and Mining Law, Journal of Laws No. 110, item 1190, and calculated in accordance with principles set forth in the Decree of the Minister of Economy dated 24 June 2002 concerning detailed principles for creation and functioning of mine closure funds, i.e. 3% of the amount of depreciation of mines' fixed assets for each year. Cash transfers made to the Mine Closure Fund are invested by the Company in secure short-term securities or short-term deposits. Income from these investments increases the Fund's balance and the Company does not charge any fee for this cash management.

## 20. Provisions for other liabilities and charges (continuation)

It is expected that decommissioning costs will be incurred by the year 2047. The provision was estimated based on the currently used technology for decommissioning of mining facilities and using the current prices and the discount rate of 2.44%.

### Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other facilities

| Division | Facility   | Provision at<br>30 June 2008 | Provision at<br>31 December 2007 |
|----------|--|------------------------------|----------------------------------|
| ZH       | "Żelazny Most" tailings pond                       | 99 159                       | 90 692                           |
| ZWR      | ZWR Rudna Ore Enrichment Plant                     | 46 093                       | 50 239                           |
| ZH       | Other waste storage areas                          | 43 431                       | 43 758                           |
| ZWR      | ZWR Polkowice Ore Enrichment Plant                 | 38 346                       | 41 517                           |
| ZGR      | Central part of Rudna Mine (shafts: RI, RII, RV)   | 36 499                       | 39 630                           |
| ZWR      | ZWR Lubin Ore Enrichment Plant                     | 30 048                       | 32 641                           |
| ZH       | Pipelines and technological facilities             | 24 792                       | 26 146                           |
| ZGR      | Western part of Rudna Mine (shafts: RIII, RIV, RX) | 21 454                       | 23 295                           |
| ZGPS     | Eastern part of Polkowice Mine (shafts: PIII, PIV) | 19 703                       | 20 616                           |
| ZGL      | R6 - Central (shafts: LI, LII)                     | 16 875                       | 18 262                           |

**Provisions for disputed issues and court proceedings** represent a less significant item of provisions. They are mainly relating to:

- proceedings in a dispute concerning the payment of damages to BOBMARK INTERNATIONAL in the amount of PLN 11 839 thousand (as at 31 December 2007 in the amount of PLN 11 839 thousand),
- asserting copyright in the amount of PLN 2 982 thousand for the use of an invention (as at 31 December 2007 in the amount of PLN 2 982 thousand).

**Other provisions** relate mainly to:

- property tax on underground mining facilities in the amount of PLN 11 664 thousand (as at 31 December 2007 in the amount of PLN 14 283 thousand).

## 21. Sales

### Net revenues from the sale of products, goods for resale and materials (by type of activity)

|  | For the period                         |  |
|--|--|--|
|  | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Copper, precious metals, smelter by-products | 5 949 936                              | 5 784 601                              |
| Salt   | 9 393                                  | 8 191                                  |
| Services                                     | 22 699                                 | 23 246                                 |
| Other goods                                  | 5 394                                  | 8 436                                  |
| Goods for resale                             | 22 259                                 | 19 198                                 |
| Wastes and production materials              | 21 092                                 | 15 333                                 |
| Other materials                              | 162                                    | 1 072                                  |
| <b>Total</b>                                 | <b>6 030 935</b>                       | <b>5 860 077</b>                       |

### Net revenues from the sale of products, goods for resale and materials (by destination)

|  | For the period                         |  |
|--|--|--|
|  | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| <b>domestic</b>                              | <b>2 044 451</b>                       | <b>2 327 472</b>                       |
| Copper, precious metals, smelter by-products | 1 963 522                              | 2 250 842                              |
| Salt   | 9 393                                  | 8 191                                  |
| Services                                     | 22 629                                 | 23 246                                 |
| Other goods                                  | 5 394                                  | 8 436                                  |
| Goods for resale                             | 22 259                                 | 20 352                                 |
| Wastes and production materials              | 21 092                                 | 15 333                                 |
| Other materials                              | 162                                    | 1 072                                  |
| <b>export</b>                                | <b>3 986 484</b>                       | <b>3 532 605</b>                       |
| Copper, precious metals, smelter by-products | 3 986 413                              | 3 533 759                              |
| Services                                     | 71                                     | -                                      |
| Goods for resale and materials               | -                                      | (1 154)                                |
| <b>Total</b>                                 | <b>6 030 935</b>                       | <b>5 860 077</b>                       |

## 22. Costs by type

|   | Note | For the period                         |  |
|---|------|--|--|
|   |      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 4,5  | 231 941                                | 203 947                                |
| Employee benefit costs  | 23   | 1 181 706                              | 1 089 116                              |
| Materials and energy consumption  |      | 1 695 156                              | 1 374 005                              |
| External services   |      | 477 521                                | 406 589                                |
| Taxes and charges   |      | 153 413                                | 132 800                                |
| Advertising costs and representation expenses                                       |      | 11 191                                 | 19 151                                 |
| Property and personal insurance   |      | 6 161                                  | 6 919                                  |
| Research and development costs not capitalised in intangible assets                 |      | 682                                    | 628                                    |
| <b>Other costs, of which:</b>   |      | <b>5 650</b>                           | <b>8 860</b>                           |
| Write-down of inventories   | 11   | 599                                    | 456                                    |
| Allowance for impairment of receivables   | 31.3 | -                                      | 40                                     |
| Reversal of write-down of inventories   | 11   | (635)                                  | (388)                                  |
| Reversal of allowance for impairment of receivables                                 | 31.3 | (3)                                    | (2 374)                                |
| Losses from the disposal of financial instruments                                   | 31.3 | 829                                    | 235                                    |
| Other operating costs   |      | 4 860                                  | 10 891                                 |
| <b>Total costs by type</b>  |      | <b>3 763 421</b>                       | <b>3 242 015</b>                       |
| Cost of goods for resale and materials sold (+)                                     |      | 41 457                                 | 34 527                                 |
| Change in inventories of finished goods and work in progress (+/-)                  |      | 46 872                                 | 266 928                                |
| Cost of manufacturing products for internal use (-)                                 |      | (41 212)                               | (22 374)                               |
| <b>Total cost of sales, selling and administrative costs</b>                        |      | <b>3 810 538</b>                       | <b>3 521 096</b>                       |

## 23. Employee benefit costs

|  | For the period                         |  |
|--|--|--|
|  | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Remuneration   | 855 637                                | 793 200                                |
| Costs of social security and other benefits  | 299 421                                | 287 215                                |
| Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits | 26 648                                 | 8 701                                  |
| <b>Employee benefit costs</b>  | <b>1 181 706</b>                       | <b>1 089 116</b>                       |

## 24. Other operating income

|  | Note | For the period                         |  |
|--|------|--|--|
|  |      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Income and gains from financial instruments classified under other operating activities, resulting from: |      | 277 120                                | 1 037 087                              |
| Interest on financial instruments  | 31.3 | 62 108                                 | 54 423                                 |
| Gains from the disposal of financial instruments   | 31.3 | 3 997                                  | 15 625                                 |
| Measurement and realisation of derivative instruments  | 31.3 | 211 010                                | 966 764                                |
| Reversal of allowance for impairment of financial receivables  | 31.3 | 5                                      | 275                                    |
| Non-financial interest   |      | 4 445                                  | 127                                    |
| Reversal of allowance for impairment of other non-financial receivables                                  |      | 4 432                                  | -                                      |
| Dividends received   |      | 228 069                                | 205 167                                |
| Release of unused provisions   |      | 4 592                                  | 1 635                                  |
| Penalties and compensation received  |      | 2 008                                  | 1 074                                  |
| Excess payments of property tax  |      | -                                      | 1 666                                  |
| Government grants and other donations received   |      | 845                                    | 1 113                                  |
| Other operating income/gains   |      | 1 347                                  | 3 550                                  |
| <b>Total other operating income</b>  |      | <b>522 858</b>                         | <b>1 251 419</b>                       |

## 25. Other operating costs

|  | Note | For the period                         |  |
|--|------|--|--|
|  |      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Costs and losses on financial instruments classified as other operating costs: |      | 524 851                                | 1 268 322                              |
| Measurement and realisation of derivative instruments                          | 31.3 | 378 852                                | 1 220 278                              |
| Interest on overdue financial liabilities                                      | 31.3 | 16                                     | 111                                    |
| Foreign exchange losses  | 31.3 | 145 975                                | 47 922                                 |
| Allowances for impairment of other financial receivables                       | 31.3 | 8                                      | 11                                     |
| Allowances for impairment of other non-financial receivables                   |      | 170                                    | 11 364                                 |
| Losses on the sale of property, plant and equipment                            |      | 3 063                                  | 3 118                                  |
| Donations granted  |      | 7 183                                  | 6 092                                  |
| Interest on overdue non-financial liabilities                                  |      | 445                                    | 4 455                                  |
| Provisions for:  |      | 4 910                                  | 15 539                                 |
| Decommissioning of mines   |      | 1 358                                  | 15 356                                 |
| Disputed issues, pending court proceedings                                     |      | 2 363                                  | 30                                     |
| Other  |      | 1 189                                  | 153                                    |
| Penalties and compensation paid  |      | 1 359                                  | 1 455                                  |
| Amortisation of interest on receivables  |      | -                                      | 5 304                                  |
| Effects of the decision after tax control                                      |      | -                                      | 2 392                                  |
| Other operating costs/losses   |      | 6 774                                  | 5 083                                  |
| <b>Total other operating costs</b>   |      | <b>548 755</b>                         | <b>1 323 124</b>                       |

## 26. Net finance costs

|   | Note | For the period                         |  |
|---|------|--|--|
|   |      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Interest expense:   | 31.3 | 365                                    | 443                                    |
| On loans  |      | 243                                    | 366                                    |
| Due to finance leases   |      | 122                                    | 77                                     |
| Net exchange gains on borrowings                                | 31.3 | (1 030)                                | (364)                                  |
| Changes in the value of provisions due to unwinding of discount | 20   | 18 478                                 | 12 105                                 |
| Provisions for decommissioning of mines                         |      | 17 912                                 | 11 539                                 |
| Other   |      | 566                                    | 566                                    |
| <b>Total net finance costs</b>                                  |      | <b>17 813</b>                          | <b>12 184</b>                          |

## 27. Income tax

| Income tax   | Note | For the period                         |  |
|--|------|--|--|
|  |      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Current income tax                                   |      | 365 063                                | 401 025                                |
| Deferred income tax                                  | 18   | 3 782                                  | (10 678)                               |
| Adjustments to current income tax from prior periods |      | (6 848)                                | 7 074                                  |
| <b>Total</b>   |      | <b>361 997</b>                         | <b>397 421</b>                         |

|  | For the period                         |  |
|--|--|--|
|  | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Profit before tax                                    | 2 176 687                              | 2 255 092                              |
| Tax calculated at tax rates in force                 | 413 571                                | 428 468                                |
| Not taxable income                                   | (47 616)                               | (147 520)                              |
| Expenses not deductible for tax purposes             | 2 890                                  | 109 399                                |
| Adjustments to current income tax from prior periods | (6 848)                                | 7 074                                  |
| <b>Income tax expense</b>                            | <b>361 997</b>                         | <b>397 421</b>                         |

The applicable income tax rate was 19% (first half of 2007: 19%). The effective interest rate was 16.63% (first half of 2007: 17.62%).

## 28. Earnings per share

### Basic earnings/diluted earnings

|   | For the period                         |  |
|---|--|--|
|   | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Profit (loss) for the period                      | 1 814 690                              | 1 857 671                              |
| Weighted average number of ordinary shares ('000) | 200 000                                | 200 000                                |
| Basic/diluted earnings per share (PLN/share)      | 9.07                                   | 9.29                                   |

There are no dilutive potential ordinary shares.

## 29. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2008 of the Ordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. dated 26 June 2008 regarding the appropriation of Company profit for financial year 2007 and setting of the right to dividend date and dividend payment date, the amount of PLN 1 800 000 thousand, representing PLN 9.00 per share, was allocated as a shareholders dividend from profit for financial year 2007. The right to dividend date was set at 18 July 2008, and dividend payment date at 7 August 2008. All Company shares are ordinary shares.

### 30. Notes to the cash flow statement

#### Cash generated from operating activities

|  | For the period                         |  |
|--|--|--|
|  | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| <b>Profit for the period</b>   | <b>1 814 690</b>                       | <b>1 857 671</b>                       |
| <b>Adjustments:</b>  |  |  |
| Income tax from the income statement   | 361 997                                | 397 421                                |
| Depreciation/amortisation  | 231 941                                | 203 947                                |
| Losses on sales of property, plant and equipment and intangible assets                 | 3 055                                  | 3 116                                  |
| Gains on sales of available-for-sale financial assets and held-to-maturity investments | (166)                                  | (14 173)                               |
| Interest and share in profits (dividends)  | (227 780)                              | (205 335)                              |
| Foreign exchange losses  | 889                                    | 16 817                                 |
| Change in provisions   | 2 066                                  | 19 097                                 |
| Change in derivative instruments   | 71 179                                 | (100 882)                              |
| Other adjustments  | (28)                                   | (2 452)                                |
| <b>Changes in working capital:</b>   | <b>(390 634)</b>                       | <b>96 870</b>                          |
| Inventories  | (94 913)                               | 17 792                                 |
| Trade and other receivables  | (332 488)                              | (8 431)                                |
| Trade and other payables   | 36 767                                 | 87 509                                 |
| <b>Cash generated from operating activities</b>  | <b>1 867 209</b>                       | <b>2 272 097</b>                       |

#### Proceeds from sales of property, plant and equipment and intangible assets

|   | For the period                         |  |
|---|--|--|
|   | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal | 8 034                                  | 4 937                                  |
| Losses on sales of property, plant and equipment and intangible assets  | (3 055)                                | (3 116)                                |
| Change in receivables due to sales  | (1 200)                                | (6)                                    |
| Capitalised gains from the disposal of property, plant and equipment and intangible assets                    | -                                      | 15                                     |
| <b>Proceeds from sales of property, plant and equipment and intangible assets</b>                             | <b>3 779</b>                           | <b>1 830</b>                           |



KGHM Polska Miedź S.A.  
Half-year financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2008 to 30 June 2008  
(amounts in tables in thousand PLN, unless otherwise stated)

## 31. Financial instruments

### 31.1 Carrying amount

|      |  | At 30 June 2008 |  |  |  |  |  |  |  |
|------|--|-----------------|--|--|--|--|--|--|--|
| Note |  |                 |  |  |  |  |  |  |  |
|      |  |                 |  |  |  |  |  |  |  |
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### 31. Financial instruments (continuation)

#### 31.2 Fair values

| Classes of financial instruments                      | Note  | At<br>30 June 2008 |             | At<br>31 December 2007 |            |
|---|-------|--------------------|-------------|------------------------|------------|
|   |       | Carrying amount    | Fair Value  | Carrying amount        | Fair Value |
|   |       | 31.1               |             | 31.1                   |            |
| Debt securities                                       | 12, 8 | 534 980            | 535 511     | 122 895                | 122 978    |
| Shares  | 7     | 22 270             | 22 270      | 22 270                 | 22 270     |
| Shares and participation units in investment funds    | 7     | 108 587            | 108 587     | 10 665                 | 10 665     |
| Trade receivables (net)                               | 10    | 838 918            | 838 918     | 539 813                | 539 813    |
| Cash and cash equivalents up to 3 months              | 12    | 2 694 672          | 2 694 672   | 2 455 993              | 2 455 993  |
| Other financial assets (net)                          | 10    | 186 680            | 186 680     | 109 687                | 109 687    |
| Derivatives - Commodity contracts (metals), of which: | 9     | 24 142             | 24 142      | 97 417                 | 97 417     |
| Assets  |       | 24 203             | 24 203      | 114 839                | 114 839    |
| Liabilities   |       | (61)               | (61)        | (17 422)               | (17 422)   |
| Trade payables  | 16    | (538 148)          | (538 148)   | (565 655)              | (565 655)  |
| Loans   | 17    | (10 001)           | (10 001)    | (13 022)               | (13 022)   |
| Other financial liabilities                           | 16,17 | (1 912 857)        | (1 912 857) | (268 363)              | (268 363)  |

The methods and assumptions used for measuring the fair value of specific financial instruments are presented in notes 2.2.4.4 Fair value, 3. Important estimates and assumptions.

The Company is unable to reliably measure the fair value of shares held in companies which are not listed on active markets, classified as available-for-sale financial assets. As a result they are disclosed in the balance sheet at cost less impairment.

KGHM Polska Miedź S.A.  
Half-year financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2008 to 30 June 2008  
(amounts in tables in thousand PLN, unless otherwise stated)

**31. Financial instruments (continuation)**

**31.3 Items of income, costs, gains and losses recognised in the income statement for the period by categories of financial instruments**

| For the period from 1 January<br>2008 to 30 June 2008              | Note       | Financial assets/<br>liabilities measured<br>at fair value<br>through profit or<br>loss | Available-for-<br>sale financial<br>assets | Held-to-<br>maturity<br>investments | Loans and<br>receivables | Other financial liabilities                               |  | Hedging<br>instruments | Total<br>financial<br>instruments |
|--|------------|---|--|-------------------------------------|--------------------------|---|--|------------------------|-----------------------------------|
|  |            |   |  |                                     |                          | Financial<br>liabilities<br>measured at<br>amortised cost | Financial liabilities<br>due to factoring<br>and liabilities out of<br>the scope of IAS 39 |                        |                                   |
| Interest income/(expense)  | 24, 25, 26 |   |  |                                     | 62 108                   | (259)   | (122)  |                        | 61 727                            |
| Exchange gains/(losses)  | 25, 26     |   |  |                                     | (132 198)                | (13 795)  | 1 048  |                        | (144 945)                         |
| Impairment allowances  | 25         |   |  |                                     | (8)                      |   |  |                        | (8)                               |
| Reversal of impairment allowances                                  | 22, 24     |   |  |                                     | 8                        |   |  |                        | 8                                 |
| Adjustment to sales due to hedging<br>transactions                 | 32         |   |  |                                     |                          |   |  | 4 214                  | 4 214                             |
| Profit/losses from disposal of<br>financial instruments            | 22, 24     |   | 166  |                                     | 3 002                    |   |  |                        | 3 168                             |
| Gains on measurement and<br>realisation of derivative instruments  | 24         | 211 010   |  |                                     |                          |   |  |                        | 211 010                           |
| Losses on measurement and<br>realisation of derivative instruments | 25         | (378 852)   |  |                                     |                          |   |  |                        | (378 852)                         |
| <b>Total net gain/(loss)</b>                                       |            | <b>(167 842)</b>  | <b>166</b>                                 | <b>-</b>                            | <b>(67 088)</b>          | <b>(14 054)</b>   | <b>926</b>   | <b>4 214</b>           | <b>(243 678)</b>                  |

  

| For the period from 1 January<br>2007 to 30 June 2007              | Note       | Financial assets<br>measured at fair<br>value through profit<br>or loss | Available-for-<br>sale financial<br>assets | Held-to-<br>maturity<br>investments | Loans and<br>receivables | Other financial liabilities                               |  | Hedging<br>instruments | Total<br>financial<br>instruments |
|--|------------|---|--|-------------------------------------|--------------------------|---|--|------------------------|-----------------------------------|
|  |            |   |  |                                     |                          | Financial<br>liabilities<br>measured at<br>amortised cost | Financial liabilities<br>due to factoring<br>and liabilities out of<br>the scope of IAS 39 |                        |                                   |
| Interest income/(expense)  | 24, 25, 26 |   |  | 592                                 | 53 831                   | (477)   | (77)   |                        | 53 869                            |
| Exchange gains/(losses)  | 25, 26     |   | (892)                                      |                                     | (17 364)                 | (29 666)  | 364  |                        | (47 558)                          |
| Impairment allowances  | 22, 25     |   |  |                                     | (51)                     |   |  |                        | (51)                              |
| Reversal of impairment allowances                                  | 22, 24     |   |  |                                     | 2 649                    |   |  |                        | 2 649                             |
| Adjustment to sales due to hedging<br>transactions                 | 32         |   |  |                                     |                          |   |  | (620 293)              | (620 293)                         |
| Profit/losses from disposal of<br>financial instruments            | 22, 24     |   | 14 013                                     | 160                                 | 1 217                    |   |  |                        | 15 390                            |
| Gains on measurement and<br>realisation of derivative instruments  | 24         | 966 764   |  |                                     |                          |   |  |                        | 966 764                           |
| Losses on measurement and<br>realisation of derivative instruments | 25         | (1 220 278)   |  |                                     |                          |   |  |                        | (1 220 278)                       |
| <b>Total net gain/(loss)</b>                                       |            | <b>(253 514)</b>  | <b>13 121</b>                              | <b>752</b>                          | <b>40 282</b>            | <b>(30 143)</b>   | <b>287</b>   | <b>(620 293)</b>       | <b>(849 508)</b>                  |

### **31. Financial instruments (continuation)**

#### **31.4 Transfers not qualified for de-recognition**

KGHM Polska Miedź S.A. has transferred receivables in a way which does not qualify for derecognition as it has retained substantially all risks and rewards of ownership of these assets. This relates to trade receivables sold in a factoring with recourse transaction entered into between KGHM Polska Miedź S.A. and Bank Handlowy S.A. in Warsaw. In this type of factoring there is a risk that the debtor will fail to make payment of the liabilities to the factor (bank). Should the debtor fail to settle his liabilities, KGHM Polska Miedź S.A. is obliged to pay the outstanding balance to the bank (the factor) while the Company simultaneously has the right to demand payment of these liabilities from the debtor.

As a result, at the balance sheet date receivables are still recognised in the amount of PLN 24 961 thousand (at 31 December 2007: PLN 29 610 thousand). Accordingly, the corresponding entry of a related liability has been recognised in an amount equal to that of the retained receivables.

#### **31.5 Situations concerning financial instruments which did not occur in the Company**

The following business events and situations, which are required to be disclosed, did not occur in the Company in the periods ended 30 June 2008 and 31 December 2007:

- as at balance sheet date, the Company did not designate a financial instrument to be measured at fair value through profit or loss (IFRS 7, par. 9, 10, 11),
- the Company did not reclassify a financial asset in a way which would result in a change of the method of measurement (IFRS 7, par. 12),
- the Company does not hold any collateral established on either category of assets which would improve crediting terms (IFRS 7, par. 15),
- the Company has not issued an instrument that contains both a liability and an equity component (IFRS 7, par. 17),
- the Company did not breach any contractual provisions (IFRS 7, par. 18),
- the Company invests assets accumulated in a separate bank account kept for the Mine Closure Fund, but does not receive any fee due to those fiduciary activities (IFRS 7, par. 20.c.ii),
- the Company did not recognise any interest income on impaired financial assets (IFRS 7, par. 20.d),
- the Company did not identify any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur (IFRS 7, par. 23.b),
- the Company did not make use of any hedging transactions which would subsequently result in the recognition of a non-financial asset or liability (IFRS 7, par. 23.e),
- the Company did not use fair value hedges or hedges of net investments in foreign operations (IFRS 7, par. 24 a, 24.c),
- the Company did not purchase any financial assets at a price different from their fair value (IFRS 7, par. 28),
- the Company did not acquire any assets by taking possession of a collateral (IFRS 7, par. 38).

## 32. Financial risk management

**The Company is exposed to risk in each area of its activities. Understanding those risks and the principles of their management allows the Company to better meet its objectives.**

Financial risk management includes the processes of risk identification, measurement and determination of appropriate methods to deal with those risks.

The Company is predominantly exposed to the following classes of financial risk:

- Market risks
  - Risk of changes in commodity prices (Commodity Risk),
  - Risk of changes in foreign exchange rates (Currency Risk),
  - Risk of changes in interest rates (Interest Rate Risk),
- Liquidity risk,
- Credit risk.

An appropriate policy, organisational structure and procedures support the financial risk management process.

### 32.1 Market risk

#### 32.1.1. Principles of market risk management

The Company declares active approach to managing its market risk exposure. The objectives of market risk management are:

- To limit fluctuations in profit before tax,
- To increase the probability of meeting budget assumptions,
- To maintain healthy financial condition,
- To support the process of undertaking strategic decisions relating to investing activity, with particular attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, while their realisation is dependant primarily upon the internal situation and market conditions.

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. For example, hedging transactions on the commodity market are related to contracts entered into on the currency market, as hedging prices of metals directly impacts the probability of achieving planned revenues from sales, which in turn represent hedged item for transactions dealt on the currency market. As a result, the Company has significantly greater flexibility in building hedging strategies.

The Company applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented, embracing an increasing share of production and sales revenues as well as extended time horizon. Consequently, the Company is hedged against unexpected plunges in both copper and silver prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notionals at a single price level.

The Company continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies. The Company applies hedge accounting to hedge the risk of changes of cash flows due to commodity and currency risk.

#### 32.1.2. Techniques for market risk management

The primary technique for market risk management is the use of hedging strategies involving derivative instruments. Apart from this, natural hedging is also used.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: current and forecasted market conditions, the internal situation of the Company, suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivative instruments are primarily used. The Company transacts only these derivative instruments for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company relies on information obtained from particular market leading banks, brokers and information services.

## **32. Financial risk management (continuation)**

### **32.1 Market risk (continuation)**

#### **32.1.2. Techniques for market risk management( continuation)**

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options,
- Structures combining the above instruments.

The instruments applied may be, therefore, either of standard parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments).

#### **32.1.3. Hedge effectiveness requirement**

According to the Company's policy hedging transactions can be entered into only if there is an appropriate instrument traded in a liquid market with a quoted reference price. Prior to the transaction the Company is required to confirm and document the existence of strong negative correlation between changes in value of the reference instrument and changes in value of actually-hedged exposure. Hedge effectiveness is subject to constant evaluation and monitoring.

#### **32.1.4. Measurement of market risk**

The Company quantifies and describes its market risk exposure using a consistent and comprehensive measure.

Market risk management is supported by simulations (such as scenario analysis, stress-tests, backtests) and calculated risk measures. The risk measures being used are mainly based on mathematical and statistical modelling, which uses historical and current market data concerning risk factors and takes into consideration the current exposure of the Company to market risk.

Since 2007 the Company has been using "Earnings at Risk" as one of the risk measures employed in market risk management. This measure indicates the lowest possible level of pre-tax profit for a selected level of confidence (for example, with 95% confidence the pre-tax profit for a given period will be not lower than...). The EaR methodology enables the calculation of pre-tax profit incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results.

However, due to the fact that none risk measure possesses the ability to completely reflect the reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

#### **32.1.5. Restrictions on entering into hedging transactions**

Due to the risk of unexpected production cutback (for example because of "force majeure") or failure to achieve planned foreign currency revenues, which could lead to overhedging of actual market risk exposure, the Company has set a limit for the volume of production or the amount of sales revenues for a given period that may be hedged, at a level of up to 80%. The maximum time horizon within which the Company makes decisions concerning hedging of market risk is set up in accordance with technical and economic planning process, and amounts to 5 years. However, it must be emphasised that regardless of the tool used to measure market risks, the results of such measurement for long time horizons (especially above 2 years) may be subject to significant uncertainty, and therefore are treated as estimates.

#### **32.1.6. Market risk exposure**

##### **32.1.6.1. Commodity risk**

The Company is exposed to the risk of changes in market prices of copper, silver and gold. The industry standard is that the price formulas used in physical delivery contracts are based on average monthly quotations from the London Metal Exchange for copper and from the London Bullion Market for silver and gold. The Company's commercial policy is to set the price base for physical delivery contracts as the average price of the month of dispatch (this is a typical price base, being in line with global industry standards). As a result the Company is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price.

## **32. Financial risk management (continuation)**

### **32.1 Market risk (continuation)**

#### **32.1.6. Market risk exposure (continuation)**

##### **32.1.6.1. Commodity risk(continuation)**

In a situation where a non-standard formula is used to set the sales price, the Company may enter into transactions (so-called adjustment hedge transactions) which changes the price base agreed with the customer to the average price of the month of dispatch. These transactions lead to a harmonisation of the base price applied to physical sales of products, and therefore harmonisation of the exposure to the risk of fluctuations in metals prices.

Due to the fact that the Company utilises in the production process materials purchased from external sources containing various metals, part of the sales is hedged naturally. Therefore, the analysis of the Company's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources from the volume of sales.

Exposure of the Company to commodity risk in the financial period is presented below:

|                      | <b>For the period</b>      |                  |                            |                  |
|----------------------|----------------------------|------------------|----------------------------|------------------|
|                      | <b>from 1 January 2008</b> |                  | <b>from 1 January 2007</b> |                  |
|                      | <b>to 30 June 2008</b>     |                  | <b>to 30 June 2007</b>     |                  |
|                      | <b>Sales</b>               | <b>Purchases</b> | <b>Sales</b>               | <b>Purchases</b> |
| Copper ['000 tonnes] | 265                        | 45               | 273                        | 41               |
| Silver [tonnes]      | 563                        | 9                | 582                        | 23               |

Sensitivity of the Company's financial instruments to commodity risk at the balance sheet date is presented in note 32.1.10 Sensitivity analysis of exposure to market risk.

##### **32.1.6.2. Currency risk**

The Company is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD. The base (functional) currency for the Company however is the PLN. As a result, the Company receives the equivalent in PLN or exchanges the USD it receives for PLN. Such exchanges lead to the risk associated with fluctuations in the USD/PLN exchange rate during the period from the moment of entering into the trade contract to the moment of determining the exchange rate. In a situation wherein foreign clients pay in local currency for the copper or precious metals which they have imported, the Company is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN.

Moreover, the Company is exposed to the risk of changes in currency rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the USD.

Sensitivity of the Company's financial instruments to the currency risk at the balance sheet date is presented in note 32.1.10 Sensitivity analysis of exposure to market risk.

##### **32.1.6.3. Interest rate risk**

The Company is exposed to interest rate risk resulting from fixed interest rate loans and borrowings, investments in bonds or bank deposits.

As at 30 June 2008 the Company had liabilities amounting to PLN 10 001 thousand due to loans (as at 31 December 2007: PLN 13 022 thousand) based on fixed interest rates.

The Company has granted a floating rate loan to the subsidiary with reference rate based on variable interest rates LIBOR 1M and WIBOR 1M. This exposes the Company to the risk of changes in cash flows resulting from changes in the reference interest rate. As at 30 June 2008 the balance of the loan amounted to PLN 8 094 thousand (as at 31 December 2007: PLN 1 218 thousand).

At the balance sheet date the Company had no instruments hedging against interest rate risk.

##### **32.1.7. Hedging exposure to market risk**

In the first half of 2008 copper hedging strategies represented approx. 28% (in the first half of 2007: 35%) of the sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 33% (in the first half of 2007: 10%). In the case of currency market, hedged revenues from sales represented 0% (in the first half of 2007: 5%) of total revenues from sales realised by the Company.

In the first half of 2008 the Company implemented copper price hedging strategies with a total volume of 60 thousand tonnes and a time horizon falling in the first half of 2009. The Company purchased put options.

## **32. Financial risk management (continuation)**

### **32.1 Market risk (continuation)**

#### **32.1.7. Hedging exposure to market risk (continuation)**

In addition, during the period the Company implemented adjustment hedge strategies with a total volume of 13 075 tonnes and a time horizon 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 on the silver market adjustment hedge transactions were implemented for 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 the Company did not implement hedging strategies to hedge the USD/PLN rate. During the analysed period no adjustment hedge transactions were entered into on the currency market.

The Company remains hedged for a portion of copper sales planned in the second half of 2008 (75 thousand t), and in 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). The Company has no open hedging transactions designated to hedge revenues from sales.

#### **32.1.8. Impact of derivatives on the Company's balance sheet**

As at 30 June 2008, the fair value of open positions in derivative instruments amounted to PLN 24 142 thousand, of which PLN 24 203 thousand relate to financial assets and PLN 61 thousand relate to financial liabilities.

Derivative instruments whose date of settlement was 2 July 2008 were measured at fair value and accounted for in trade and other receivables as receivables due to unsettled derivative instruments, or in trade and other liabilities as liabilities due to unsettled derivative instruments.

The fair value of these derivatives is as follows:

- PLN 517 thousand presented as other financial receivables (Note 10),
- PLN 35 thousand presented as other financial liabilities (Note 16).

Other information concerning derivatives is presented in Note 9 Derivative instruments and in Note 31.2 Fair value.

#### **32.1.9. Impact of derivatives on the Company's profit or loss and equity**

In the first half of 2008, the result on derivative instruments amounted to PLN (163 628) thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from equity to sales for the period amounted to PLN 4 214 thousand. Other operating income and costs arising from derivative instruments amounted to PLN (156 136) thousand and from the realisation of derivative instruments, PLN (11 706) thousand. Adjustment to other operating income and costs arising from the measurement of derivative instruments results mainly from changes of the time value of options, which will be settled in the future periods. Due to the hedge accounting principles applied by the Company, the change in the time value of options is not recognised in the revaluation reserve.

The impact of derivative instruments on the profit or loss of the current and comparable periods is presented below:

|  | <b>For the period</b>                          |  |
|--|--|--|
|  | <b>from 1 January 2008<br/>to 30 June 2008</b> | <b>from 1 January 2007<br/>to 30 June 2007</b> |
| <b>Impact on sales</b>   | <b>4 214</b>                                   | <b>(620 293)</b>                               |
| <b>Impact on other operating costs</b>                           | <b>(167 842)</b>                               | <b>(253 514)</b>                               |
| Losses from realisation of derivative instruments                | (11 706)                                       | (4 676)  |
| Losses from measurement of derivative instruments                | (156 136)                                      | (248 838)                                      |
| <b>Total impact of derivative instruments on profit or loss:</b> | <b>(163 628)</b>                               | <b>(873 807)</b>                               |

The value of adjustment to the other operating income for the first half of 2008 due to the ineffective portion of cash flow hedges amounted to PLN (168 365) thousand [in the first half of 2007: PLN (122 943) thousand], of which PLN (156 461) thousand is a loss on measurement of hedging instruments [in the first half of 2007 PLN (118 760) thousand] and PLN (11 904) thousand is a loss on the realisation of the ineffective portion of hedging instruments [in the first half of 2007: PLN (4 183) thousand].



## 32. Financial risk management (continuation)

### 32.1 Market risk (continuation)

#### 32.1.9. Impact of derivatives on the Company's profit or loss and equity (continuation)

The Company accounts for cash flow hedging instruments according to the principles presented in note 2.2.4.7 of "Main accounting policies". Those principles require recognition in equity of the effective portion of the change in the fair value of hedging transactions during the period in which these transactions are designated as a hedge of future cash flows. The amounts accumulated in equity are subsequently transferred to profit or loss in the period in which the hedged transaction is settled.

The effectiveness of hedging instruments used by the Company during the period is evaluated and measured by comparing the changes in the forward prices of hedged items with the changes in the prices of forward contracts or the changes in the intrinsic value of options, as appropriate.

The tables below present the balances and movements in equity resulting from the transfer of effective portion of the gain or loss from changes in the fair value of derivative instruments designated as hedging instruments in cash flow hedges:

#### AMOUNTS RECOGNISED IN EQUITY

|   | At           |                  |
|---|--------------|------------------|
|   | 30 June 2008 | 31 December 2007 |
| <b>Revaluation reserve</b> – commodity price risk hedging transactions (copper and silver) – derivatives          | <b>1 953</b> | <b>(964)</b>     |
| <b>Revaluation reserve</b> – currency risk hedging transactions – foreign currency loans                          | <b>5 847</b> | <b>10 859</b>    |
| <b>Total revaluation reserve from hedging instruments in cash flow hedges (excluding the deferred tax effect)</b> | <b>7 800</b> | <b>9 895</b>     |

|   | from<br>1 January 2008<br>to<br>30 June 2008 | For the period<br>from<br>1 January 2007<br>to 31<br>December 2007 | from<br>1 January 2007<br>to 30 June 2007 |
|---|--|--|---|
| <b>Gains or (losses) on hedging instruments in cash flow hedges recognised directly in equity</b>   |  |  |   |
| <b>Cumulative gain or loss arising from changes in the fair value of hedging instruments in cash flow hedges at the beginning of the period</b>                               | <b>9 895</b>                                 | <b>(557 528)</b>   | <b>(557 528)</b>                          |
| Amounts recognised in equity in the reporting period in respect of hedging transactions   | 2 119  | 131 890  | 78 293                                    |
| Amounts transferred from equity to the income statement   | (4 214)                                      | 435 533  | 620 293                                   |
| <b>Cumulative gain or loss arising from changes in the fair value of hedging instruments in cash flow hedges at the end of the period (excluding the deferred tax effect)</b> | <b>7 800</b>                                 | <b>9 895</b>   | <b>141 058</b>                            |

#### 32.1.10. Sensitivity analysis of exposure to market risk

In accordance with the market risk management policy, the Company identifies the following major market risks to which it is exposed:

- Commodity Risk,
- Currency Risk,
- Interest Rate Risk.

Currently the Company is mainly exposed to the risk of changes in copper and silver prices and changes in the USD/PLN and EUR/PLN currency exchange rates.

## **32. Financial risk management (continuation)**

### **32.1 Market risk (continuation)**

#### **32.1.10. Sensitivity analysis of exposure to market risk (continuation)**

For sensitivity analysis of commodity risk factors (copper and silver) the mean reverting Schwartz model (the geometrical Ornstein-Uhlenbeck process) is used, while the Black-Scholes model (the geometrical Brown motion) is used for the USD/PLN and EUR/PLN exchange rates. Quantiles from the model at the levels of 5% and 95% have been used as potential changes in a half-year time horizon. Commodity models have been calibrated to historical prices adjusted for the effects of the PPI inflation index in the USA, while currency models have been calibrated to the current structure of forward interest rates.

Potential changes in prices and currency rates have been presented in terms of percentages of the prices and currency rates used in the fair value measurement of financial instruments at the balance sheet date. Following is a sensitivity analysis for each significant type of market risk to which the Company was exposed at the balance sheet date, showing what the impact would be on the profit for the period and equity of potential changes in specific risk factors divided by classes of financial assets and financial liabilities.

In analysing the sensitivity of the item "Derivatives – Currency" and "Derivatives – Commodity contracts" it should be noted that the Company holds a position in derivative instruments hedging future cash flows from the sale of copper and silver. It should also be noted that the Company is exposed to risk in respect of the planned volume of copper and silver sales from its own production, adjusted by its position in hedging instruments.

## 32. Financial risk management (continuation)

### 32.1 Market risk (continuation)

#### 32.1.10. Sensitivity analysis of exposure to market risk (continuation)

#### SENSITIVITY ANALYSIS AS AT 30 JUNE 2008

| FINANCIAL<br>ASSETS AND<br>LIABILITIES             | VALUE<br>AT RISK | 30.06.2008<br>CARRYING<br>AMOUNT | FOREIGN EXCHANGE RISK |        |          |        |         |        |          |        | COMMODITY RISK        |        |        |        |                          |        |        |        |
|--|------------------|----------------------------------|-----------------------|--------|----------|--------|---------|--------|----------|--------|-----------------------|--------|--------|--------|--------------------------|--------|--------|--------|
|  |                  |                                  | USD/PLN               |        |          |        | EUR/PLN |        |          |        | COPPER PRICES [USD/t] |        |        |        | SILVER PRICES [USD/troz] |        |        |        |
|  |                  |                                  | 2.40                  |        | 1.89     |        | 3.58    |        | 3.18     |        | 10 775                |        | 6 350  |        | 24.93                    |        | 11.66  |        |
|  |                  |                                  | +13%                  |        | - 11%    |        | +7%     |        | - 5%     |        | +24%                  |        | - 27%  |        | +41%                     |        | -42%   |        |
|  | ['000<br>PLN]    | ['000<br>PLN]                    | P&L                   | Equity | P&L      | Equity | P&L     | Equity | P&L      | Equity | P&L                   | Equity | P&L    | Equity | P&L                      | Equity | P&L    | Equity |
| Shares and participation units in investment funds | 7 964            | 108 587                          | 856                   |        | (696)    |        |         |        |          |        |                       |        |        |        |                          |        |        |        |
| Trade receivables (net)                            | 387 947          | 838 918                          | 33 454                |        | (27 220) |        | 4 162   |        | (3 273)  |        |                       |        |        |        |                          |        |        |        |
| Cash and cash equivalents                          | 827 011          | 2 694 672                        | 33 667                |        | (27 393) |        | 27 889  |        | (21 934) |        |                       |        |        |        |                          |        |        |        |
| Other financial assets (net)                       | 2 120            | 186 680                          | 172                   |        | (140)    |        | 28      |        | (22)     |        |                       |        |        |        |                          |        |        |        |
| Derivatives – Commodity contracts (metals)         | 24 142           | 24 142                           | 2 385                 | 210    | (1 940)  | (171)  |         |        |          |        | (9 334)               | 1 771  | 60 617 | 11 878 | (4 105)                  | -      | 26 590 | 2 601  |
| Trade payables                                     | (62 673)         | (538 148)                        | (5 808)               |        | 4 726    |        | (468)   |        | 368      |        |                       |        |        |        |                          |        |        |        |
| Other financial liabilities                        | (27 217)         | (1 912 857)                      | (17)                  |        | 14       |        | (1 469) |        | 1 155    |        |                       |        |        |        |                          |        |        |        |
| <b>IMPACT ON PROFIT &amp; LOSS ACCOUNT</b>         |                  |                                  | 64 709                |        | (52 649) |        | 30 142  |        | (23 706) |        | (9 334)               |        | 60 617 |        | (4 105)                  |        | 26 590 |        |
| <b>IMPACT ON EQUITY</b>                            |                  |                                  |                       | 210    |          | (171)  |         | -      |          | -      |                       | 1 771  |        | 11 878 |                          | -      |        | 2 601  |

KGHM Polska Miedź S.A.  
Half-year financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2008 to 30 June 2008  
(amounts in tables in thousand PLN, unless otherwise stated)

**32. Financial risk management (continuation)**

**32.1 Market risk (continuation)**

**32.1.10. Sensitivity analysis of exposure to market risk (continuation)**

**SENSITIVITY ANALYSIS AS AT 30 JUNE 2007**

| FINANCIAL ASSETS<br>AND LIABILITIES                | VALUE AT<br>RISK | 30.06.2007<br><br>CARRYING<br>AMOUNT | CURRENCY RISK |          |          |        |         |        |          |        | COMMODITY RISK        |        |          |         |                          |        |                  |        |
|--|------------------|--------------------------------------|---------------|----------|----------|--------|---------|--------|----------|--------|-----------------------|--------|----------|---------|--------------------------|--------|------------------|--------|
|  |                  |                                      | USD/PLN       |          |          |        | EUR/PLN |        |          |        | COPPER PRICES [USD/t] |        |          |         | SILVER PRICES [USD/troz] |        |                  |        |
|  |                  |                                      | 3.09          |          | 2.52     |        | 4.04    |        | 3.52     |        | 10 090                |        | 5 050    |         | 14.60                    |        | 9.05             |        |
|  |                  |                                      | +10.4%        |          | - 10%    |        | +7.3%   |        | - 6.5%   |        | +31.4%                |        | - 34.2%  |         | +16.4%                   |        | -27.8%           |        |
|  |                  |                                      | P&L           | Equity   | P&L      | Equity | P&L     | Equity | P&L      | Equity | P&L                   | Equity | P&L      | Equity  | P&L                      | Equity | P&L              | Equity |
|  | ['000<br>PLN]    | ['000<br>PLN]                        |               |          |          |        |         |        |          |        |                       |        |          |         |                          |        |                  |        |
| Shares and participation units in investment funds | 11 787           | 216 038                              | 993           |          | (951)    |        |         |        |          |        |                       |        |          |         |                          |        |                  |        |
| Trade receivables (net)                            | 294 992          | 996 962                              | 13 780        |          | (13 203) |        | 7 751   |        | (6 948)  |        |                       |        |          |         |                          |        |                  |        |
| Cash and cash equivalents                          | 1 103 080        | 3 214 576                            | 37 228        |          | (35 668) |        | 38 995  |        | (34 956) |        |                       |        |          |         |                          |        |                  |        |
| Other financial assets (net)                       | 2 415            | 142 760                              | 124           |          | (119)    |        | 56      |        | (50)     |        |                       |        |          |         |                          |        |                  |        |
| Derivatives - Currency                             | 64 553           | 64 553                               | 547           | (76 872) | (192)    | 76 103 |         |        |          |        |                       |        |          |         |                          |        |                  |        |
| Derivatives – Commodity contracts (metals)         | 195 396          | 195 396                              | 5 655         | -        | (5 418)  | -      |         |        |          |        | (67 435)              | -      | (29 883) | 380 019 | (20 609)                 | -      | (24 640) 109 133 |        |
| Trade payables                                     | (147 751)        | (520 654)                            | (11 983)      |          | 11 481   |        | (325)   |        | 291      |        |                       |        |          |         |                          |        |                  |        |
| Other financial liabilities                        | (20 280)         | (3 678 388)                          | (51)          |          | 48       |        | (1 161) |        | 1 040    |        |                       |        |          |         |                          |        |                  |        |
| IMPACT ON PROFIT & LOSS ACCOUNT                    |                  |                                      | 46 293        |          | (44 022) |        | 45 316  |        | (40 623) |        | (67 436)              |        | (29 883) |         | (20 609)                 |        | (24 640)         |        |
| IMPACT ON EQUITY                                   |                  |                                      |               | (76 872) |          | 76 103 |         | -      |          | -      |                       | -      | 380 019  |         | -                        |        | 109 133          |        |

## 32. Financial risk management (continuation)

### 32.2. Liquidity risk and capital management

The Company is exposed to financial liquidity risk, where financial liquidity is understood as the ability to settle its liabilities within given timeframes. The fact that the activities are financed using external sources (loans, borrowings, buyer's credit) increases the risk of losing liquidity in the future.

The Company must have permanent access to financial markets, and is therefore exposed to the risk of losing the ability to acquire new financing, as well as to refinance its current debt. This risk is primarily dependent on market conditions and on the evaluation of the creditworthiness of the Company.

The Company decides about the choice of investments and maturities of those investments taking into account the maturities of its liabilities.

Due to positive cash flows from operating activities and significant amount of cash balances in the Company, in the first half of 2008, as well as in 2007, the Company barely used external sources of financing.

#### Liquidity analysis for financial liabilities as at 30 June 2008

|  | Contractual maturities from the balance sheet date |              |               |              |               | Total (without discounting) | Carrying amount  |
|--|--|--------------|---------------|--------------|---------------|-----------------------------|------------------|
|  | Up to 3 months                                     | 3-12 months  | 1-3 years     | 3-5 years    | Over 5 years  |                             |                  |
| <b>Financial liabilities</b>                   |  |              |               |              |               |                             |                  |
| Trade payables                                 | 534 415  | 567          | 2 316         | 810          | 405           | <b>538 513</b>              | <b>538 148</b>   |
| Loans, including bank loans                    | 115  | 5 212        | 5 141         | -            | -             | <b>10 468</b>               | <b>10 001</b>    |
| Derivatives – Commodity contracts (metals)     | -  | -            | -             | -            | -             | -                           | <b>61</b>        |
| Other financial liabilities                    | 1 889 449  | 3 740        | 7 480         | 7 480        | 10 658        | <b>1 918 807</b>            | <b>1 912 857</b> |
| <b>Total financial liabilities by maturity</b> | <b>2 423 979</b>                                   | <b>9 519</b> | <b>14 937</b> | <b>8 290</b> | <b>11 063</b> | <b>2 467 788</b>            |                  |

#### Liquidity analysis for financial liabilities as at 31 December 2007

|  | Contractual maturities from the balance sheet date |               |               |              |              | Total (without discounting) | Carrying amount |
|--|--|---------------|---------------|--------------|--------------|-----------------------------|-----------------|
|  | Up to 3 months                                     | 3-12 months   | 1-3 years     | 3-5 years    | Over 5 years |                             |                 |
| <b>Financial liabilities</b>                   |  |               |               |              |              |                             |                 |
| Trade payables                                 | 560 590  | 371           | 3 364         | 865          | 865          | <b>566 055</b>              | <b>565 655</b>  |
| Loans, including bank loans                    | 146  | 6 288         | 7 267         | -            | -            | <b>13 701</b>               | <b>13 022</b>   |
| Derivatives – Commodity contracts (metals)     | -  | 964           | -             | -            | -            | <b>964</b>                  | <b>17 422</b>   |
| Other financial liabilities                    | 227 454  | 27 651        | 5 301         | 5 301        | 5 301        | <b>271 008</b>              | <b>268 363</b>  |
| <b>Total financial liabilities by maturity</b> | <b>788 190</b>                                     | <b>35 274</b> | <b>15 932</b> | <b>6 166</b> | <b>6 166</b> | <b>851 728</b>              |                 |

The values presented in Liquidity analysis in respect of financial liabilities arising from derivatives are their intrinsic values, excluding the effects of discounting.

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

## 32. Financial risk management (continuation)

### 32.2. Liquidity risk and capital management (continuation)

In accordance with a market practice, the Company monitors its capital, among others based on the *equity ratio* and the *ratio of Debt/EBITDA*. The *equity ratio* is calculated as the relation of net tangible assets (equity less intangible assets) to total assets. The ratio of *Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities to EBITDA (EBITDA is operating profit plus depreciation and amortisation).

In order to maintain financial liquidity and the capacity to acquire external financing at a reasonable cost, the Company assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Debt/EBITDA* at a level of up to 2.0.

The above ratios at 30 June 2008, 31 December 2007 and 30 June 2007 are presented below:

|  | At           |                  |              |
|--|--------------|------------------|--------------|
|  | 30 June 2008 | 31 December 2007 | 30 June 2007 |
| Equity                                   | 8 976 306    | 8 965 949        | 7 139 139    |
| Less: intangible assets                  | 71 873       | 74 830           | 74 266       |
| Net tangible assets                      | 8 904 433    | 8 891 119        | 7 064 873    |
| Total assets                             | 13 754 400   | 12 423 630       | 13 876 601   |
| <b>Equity ratio</b>                      | <b>0.65</b>  | <b>0.72</b>      | <b>0.51</b>  |
| Operating profit                         | 2 194 500    | 4 682 034        | 2 267 276    |
| Plus: depreciation/amortisation          | 231 941      | 418 551          | 203 947      |
| EBITDA                                   | 2 426 441    | 5 100 585        | 2 471 223    |
| Borrowings and finance lease liabilities | 24 984       | 28 931           | 32 973       |
| <b>Ratio of Debt/EBITDA*</b>             | <b>0.005</b> | <b>0.006</b>     | <b>0.007</b> |

\*for half-year periods, EBITDA is statistically annualised

Due to the low level of financial debt of the Company as at 30 June 2008, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.005.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.65 at 30 June 2008. The increase in this ratio at 30 June 2008 versus the level at 30 June 2007 results from the fact that net tangible assets increased by 25%, with the relatively small change in the total assets value.

In 2007 and 2008 there were no external capital requirements imposed on the Company.

### 32.3. Credit risk

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- The creditworthiness of the customers with whom physical sale transactions are undertaken,
- The creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken,
- The creditworthiness of the entities in which investments are made, or whose securities are purchased.

Financial instruments for which credit risk exposure with different characteristics from those mentioned above arises, are as follows:

- Cash and cash equivalents,
- Derivative instruments,
- Trade receivables,
- Loans granted,
- Debt securities and participation units in investment funds,
- Guaranties granted.

## **32. Financial risk management (continuation)**

### **32.3. Credit risk (continuation)**

#### **32.3.1. Credit risk related to cash and cash equivalents**

All entities with which deposit transactions are entered into operate in the financial sector. These are mainly banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with high credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of the Company to a single bank in respect of cash and cash equivalents amounts to 18% as at 30 June 2008.

Given the above as well as the short-term nature of those investments, the Company estimates credit risk associated with cash and cash equivalents as low.

#### **32.3.2. Credit risk related to derivative transactions**

All entities with which derivative transactions are entered into operate in the financial sector. These are financial institutions (mainly banks), with the highest (92%) or medium (8%) credit ratings. They have appropriate levels of equity and strong, stable market positions. The maximum exposure of the Company to a single entity in respect of derivative instruments amounts to 20.3%.

Fair value of derivative instruments at 30 June 2008 amounted to:

PLN 24 142 thousand (positive balance on the valuation of hedging transactions), of which:  
PLN 61 thousand represent financial liabilities,  
PLN 24 203 thousand represent financial assets.

Due to geographical and institutional diversification of creditors and cooperation with financial institutions having a high credit rating, the Company is not materially exposed to credit risk due to derivatives.

The Company has entered into framework agreements on the net settlement of hedging transactions in order to reduce cash flows and the credit risk to the level of positive fair value of hedging transactions with the given counterparty.

#### **32.3.3. Credit risk related to trade and other receivables**

The Company has been cooperating for many years with a number of geographically diversified clients. Vast majority of sales goes to the EU countries, including Poland.

#### **Geographical concentration of credit risk for trade receivables arising from sales of copper and silver:**

|                   | At           |                   |                 |                  |                   |                 |
|-------------------|--------------|-------------------|-----------------|------------------|-------------------|-----------------|
|                   | 30 June 2008 |                   |                 | 31 December 2007 |                   |                 |
|                   | Poland       | EU (excl. Poland) | Other Countries | Poland           | EU (excl. Poland) | Other Countries |
| Trade receivables | 49.9%        | 33.6%             | 16.5%           | 53.7%            | 30.5%             | 15.8%           |

The Company makes the majority of its sales transactions based on prepayments. The Company monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom the buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always 100% secured. The Company has secured the majority of its receivables by promissory notes<sup>1</sup>, frozen funds on bank accounts, bank guarantees and documentary collection. In addition, the majority of contracts where customers are provided with a buyer's credit contain an ownership rights reservation clause confirmed by a date certain<sup>2</sup>.

<sup>1</sup> In order to speed up any potential collection of receivables, each promissory note is accompanied by a notarial enforcement declaration.

<sup>2</sup> A trade contract clause officially certified by a notary means that the ownership of goods is transferred to the buyer only upon payment, regardless of their physical delivery.

## **32. Financial risk management (continuation)**

### **32.3. Credit risk (continuation)**

#### **32.3.3. Credit risk related to trade and other receivables (continuation)**

The total value of the Company's trade receivables as at 30 June 2008, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 838 918 thousand (at 31 December 2007: PLN 539 812 thousand). The increase in the level of receivables compared to the end of 2007 mainly results from increased sales in the 2nd quarter of 2008 compared to the 4th quarter of 2007.

The concentration of credit risk in the Company results from the fact that key clients are allowed extended terms of payment. Consequently, at 30 June 2008 the balance of receivables from 7 of the Company's largest clients, calculated as a percentage of trade receivables at the balance sheet date, represents 70.4% of the balance of trade receivables (at 31 December 2007: 65%). Despite this concentration of receivables from key clients (most of whom operate in the European Union), the Company believes that, given the available historical data as well as long-lasting history of cooperation, the level of credit risk is low.

#### **32.3.4. Credit risk related to loans granted**

The Company granted a loan to a subsidiary. Due to the fact that the financial situation and the financial results of Group companies are closely monitored, the Company estimates that the level of credit risk related to the granted loan is low.

#### **32.3.5. Credit risk related to investments in debt securities and participation units in investment funds**

The Company invested its free cash resources in corporate bonds issued or guaranteed by companies granted an investment rating by the respectable international rating agencies (Standard&Poor's, Moody's, Fitch). The Company has also purchased participation units in money market investment funds during the first half of 2008.

Given the above as well as the short-term nature of the investments, the Company estimates that the level of credit risk for the above investments is low.

#### **32.3.6. Other information related to credit risk**

**Aging analysis of financial assets overdue as at balance sheet date, for which no impairment loss has been recognised**

| <b>At 30 June 2008</b> |               |                      |                           |                           |                            |                    |
|------------------------|---------------|----------------------|---------------------------|---------------------------|----------------------------|--------------------|
|                        | <b>Value</b>  | <b>Up to 1 month</b> | <b>From 1 to 3 months</b> | <b>From 3 to 6 months</b> | <b>From 6 to 12 months</b> | <b>Over 1 year</b> |
| Trade receivables      | <b>23 757</b> | 23 322               | 428                       | 3                         | 4                          | -                  |
| Other receivables      | <b>638</b>    | 127                  | 55                        | 455                       | -                          | 1                  |

  

| <b>At 31 December 2007</b> |               |                      |                           |                           |                            |                    |
|----------------------------|---------------|----------------------|---------------------------|---------------------------|----------------------------|--------------------|
|                            | <b>Value</b>  | <b>Up to 1 month</b> | <b>From 1 to 3 months</b> | <b>From 3 to 6 months</b> | <b>From 6 to 12 months</b> | <b>Over 1 year</b> |
| Trade receivables          | <b>25 127</b> | 23 932               | 1 166                     | 24                        | 3                          | 2                  |
| Other receivables          | <b>229</b>    | 135                  | 71                        | 20                        | 2                          | 1                  |



## 32. Financial risk management (continuation)

### 32.3. Credit risk (continuation)

#### 32.3.6. Other information related to credit risk (continuation)

Except for trade receivables and other financial assets, no other classes of financial instruments were identified as overdue but not impaired at the balance sheet date.

Changes in allowances for impairment of financial assets by asset classes are presented in the tables below:

#### a) trade receivables (category: loans and financial receivables)

|   |      | For the period                            |   |
|---|------|---|---|
|   | Note | from 1 January<br>2008<br>to 30 June 2008 | from 1 January<br>2007 to<br>30 June 2007 |
| <b>Impairment allowance at the beginning of the period</b>          | 10   | <b>18 062</b>                             | <b>35 706</b>                             |
| Impairment allowance recognised in profit or loss                   |      | -   | 1   |
| Impairment allowance reversed through profit or loss                |      | (3)                                       | (2 389)                                   |
| Revaluation of impairment allowance on foreign exchange differences |      | (2 274)                                   | (925)                                     |
| Impairment allowance utilised during the period                     |      | -   | (337)                                     |
| Reversal of impairment allowance on costs of legal proceedings      |      | -   | (24)                                      |
| <b>Impairment allowance at the end of the period</b>                | 10   | <b>15 785</b>                             | <b>32 032</b>                             |

#### b) other financial assets (category: loans and financial receivables)

|   |      | For the period                            |   |
|---|------|---|---|
|   | Note | from 1 January<br>2008<br>to 30 June 2008 | from 1 January<br>2007 to 30 June<br>2007 |
| <b>Impairment allowance at the beginning of the period</b>          | 10   | <b>2 777</b>                              | <b>3 092</b>                              |
| Impairment allowance recognised in profit or loss                   |      | 8   | 50  |
| Impairment allowance reversed through profit or loss                |      | (5)                                       | (260)                                     |
| Revaluation of impairment allowance on foreign exchange differences |      | (3)                                       | (13)                                      |
| Impairment allowance utilised during the period                     |      | (246)                                     | (73)                                      |
| Impairment allowance on costs of legal proceedings                  |      | -   | 1   |
| Reversal of impairment allowance on costs of legal proceedings      |      | (34)                                      | -   |
| <b>Impairment allowance at the end of the period</b>                | 10   | <b>2 497</b>                              | <b>2 797</b>                              |

### 33. Related party transactions

State Treasury Companies (Companies list as at 31 December 2007) meet the definition of related entities. Turnover and balances with these entities have been reflected in the disclosures presented in this note.

#### For the period from 1 January 2008 to 30 June 2008

| <b>Sales to related entities</b>       | <b>Sales of products</b> | <b>Sales of goods for resale and materials</b> | <b>Other transactions</b> |
|--|--------------------------|--|---------------------------|
| To subsidiaries                        | 767 106                  | 26 881   | 263                       |
| To associates                          | 100                      | 90   | 10                        |
| To State Treasury Companies            | 10 653                   | -  | 6                         |
| <b>Total sales to related entities</b> | <b>777 859</b>           | <b>26 971</b>                                  | <b>279</b>                |

KGHM Polska Miedź S.A. received dividends from subsidiaries in the amount of PLN 45 209 thousand (as at 30 June 2007: PLN 2 000 thousand) and dividends from associates in the amount of PLN 182 860 thousand (as at 30 June 2007: PLN 203 167 thousand).

During the period from 1 January to 30 June 2008, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

Significant sales to State Treasury Companies during the period from 1 January to 30 June 2008:

|   |       |
|---|-------|
| 1. Fabryka Przewodów Energetycznych S.A.                          | 6 969 |
| 2. Huta Będzin S.A.   | 3 603 |
| 3. Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej w Legnicy S.A. | 34    |
| 4. Kopalnie Surowców Skalnych S.A.                                | 32    |

#### For the period from 1 January 2007 to 30 June 2007

| <b>Sales to related entities</b>       | <b>Sales of products</b> | <b>Sales of goods for resale and materials</b> | <b>Other transactions</b> |
|--|--------------------------|--|---------------------------|
| To subsidiaries                        | 866 325                  | 22 223   | 5 948                     |
| To associates                          | 117                      | 89   | 7                         |
| To State Treasury Companies            | 9 686                    | -  | 123                       |
| <b>Total sales to related entities</b> | <b>876 128</b>           | <b>22 312</b>                                  | <b>6 078</b>              |

During the period from 1 January to 30 June 2007, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

Significant sales to State Treasury Companies during the period from 1 January to 30 June 2007:

|   |       |
|---|-------|
| 1. Fabryka Przewodów Energetycznych S.A.                          | 5 240 |
| 2. Huta Będzin S.A.   | 4 400 |
| 3. EnergiaPro Koncern Energetyczny S.A.                           | 123   |
| 4. Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej w Legnicy S.A. | 37    |

### 33. Related party transactions (continuation)

| For the period from 1 January 2008 to 30 June 2008 |                      |  |   |                    |
|--|----------------------|--|---|--------------------|
| Purchases from related entities                    | Purchase of services | Purchase of goods for resale and materials | Purchase of property, plant and equipment, intangible assets, investment property | Other transactions |
| From subsidiaries                                  | 279 497              | 868 006                                    | 170 456   | 3 404              |
| From associates                                    | 827                  | 2 497                                      | 16  | -                  |
| From State Treasury Companies                      | 304 387              | 31 660                                     | 3 921   | 14                 |
| <b>Total purchases from related entities</b>       | <b>584 711</b>       | <b>902 163</b>                             | <b>174 393</b>  | <b>3 418</b>       |

Significant purchases from State Treasury Companies during the period from 1 January to 30 June 2008:

|                                   |         |
|-----------------------------------|---------|
| 1. EnergiaPro Grupa TAURON S.A.   | 274 420 |
| 2. Polskie Górnictwo Naftowe S.A. | 43 578  |
| 3. NITROERG S.A.                  | 19 603  |

| For the period from 1 January 2007 to 30 June 2007 |                      |  |   |                    |
|--|----------------------|--|---|--------------------|
| Purchases from related entities                    | Purchase of services | Purchase of goods for resale and materials | Purchase of property, plant and equipment, intangible assets, investment property | Other transactions |
| From subsidiaries                                  | 273 303              | 826 974                                    | 152 674   | 6 991              |
| From associates                                    | 732                  | 3 387                                      | -   | -                  |
| From State Treasury Companies                      | 281 460              | 12 703                                     | 177   | -                  |
| <b>Total purchases from related entities</b>       | <b>555 495</b>       | <b>843 064</b>                             | <b>152 851</b>  | <b>6 991</b>       |

Significant purchases from State Treasury Companies during the period from 1 January to 30 June 2007:

|   |         |
|---|---------|
| 1. EnergiaPro Koncern Energetyczny S.A.         | 250 472 |
| 2. Polskie Górnictwo Naftowe i Gazownictwo S.A. | 37 668  |
| 3. PGNiG-przesył Sp. z o.o.                     | 3 620   |
| 4. Zakłady Koksownicze WAŁBRZYCH S.A.           | 1 287   |

### 33. Related party transactions (continuation)

|   | For the period                         |  |
|---|--|--|
|   | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| <b>Remuneration of the Supervisory Board</b>  |  |  |
| Remuneration due to service in the Supervisory Board, wages and other current employee benefits | 728                                    | 529                                    |
| <b>Total</b>  | <b>728</b>                             | <b>529</b>                             |

|  | For the period                         |  |
|--|--|--|
|  | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| <b>Remuneration of the Management Board</b>                |  |  |
| Wages and other current employee benefits                  | 2 255                                  | 2 194                                  |
| Benefits due to termination of the employment relationship | 391                                    | 442                                    |
| Post-employment benefits                                   | -                                      | 16                                     |
| <b>Total</b>   | <b>2 646</b>                           | <b>2 652</b>                           |

Due to the dismissal in the first half of 2008 of Members of the Management Board, the Company created a provision in the amount of PLN 1 849 thousand for compensation resulting from their dismissal. This compensation will be paid following the dismissal period, i.e. in the second half of 2008.

|  | At             |                  |
|--|----------------|------------------|
|  | 30 June 2008   | 31 December 2007 |
| <b>Trade receivables from related entities</b> |                |                  |
| From subsidiaries                              | 236 072        | 190 975          |
| From associates                                | 91 503         | 50               |
| From State Treasury Companies                  | 895            | 1 695            |
| <b>Total receivables from related entities</b> | <b>328 470</b> | <b>192 720</b>   |

Significant receivables due to sales transactions with State Treasury Companies at 30 June 2008:

|   |     |
|---|-----|
| 1. Huta Będzin S.A.   | 808 |
| 2. Giełda Papierów Wartościowych                                  | 34  |
| 3. Powszechny Zakład Ubezpieczeń                                  | 14  |
| 4. Wojewódzkie Przedsiębiorstwo Energetyki Ciepłej w Legnicy S.A. | 14  |

#### Allowances for impairment of trade receivables from related entities

|   | For the period                         |  |
|---|--|--|
|   | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 31 December 2007 |
| <b>Impairment allowance at the beginning of the period</b>              | <b>17 852</b>                          | <b>35 014</b>                              |
| Impairment allowance recognised in profit or loss for the period        | -                                      | 67   |
| Impairment allowance through profit or loss for the period              | -                                      | (13 990)                                   |
| Impairment allowances utilised during the period                        | (244)                                  | (267)                                      |
| Reversal of impairment allowance on costs of legal proceedings          | (33)                                   | -  |
| Revaluation of impairment allowance due to foreign exchange differences | (2 278)                                | (2 972)                                    |
| <b>Impairment allowance at the end of the period</b>                    | <b>15 297</b>                          | <b>17 852</b>                              |

|  | At             |                  |
|--|----------------|------------------|
|  | 30 June 2008   | 31 December 2007 |
| <b>Trade payables towards related entities</b> |                |                  |
| Towards subsidiaries                           | 257 046        | 292 769          |
| Towards associates                             | 697            | 761              |
| Towards State Treasury Companies               | 64 513         | 56 170           |
| <b>Total payables towards related entities</b> | <b>322 256</b> | <b>349 700</b>   |

Significant payables due to purchases from State Treasury Companies at 30 June 2008:

|                              |        |
|------------------------------|--------|
| 1. Grupa TAURON ENERGIAPRO   | 57 510 |
| 2. Nitroerg S.A.             | 4 257  |
| 3. Polskie Górnictwo Naftowe | 1 552  |

|   | At           |                  |
|---|--------------|------------------|
|   | 30 June 2008 | 31 December 2007 |
| <b>Guarantees received</b>                            | -            | -                |
| <b>No-cost guarantees granted to related entities</b> | <b>1 459</b> | <b>5 532</b>     |

### 34. Off-balance sheet liabilities due to operating leases

#### Total value of future minimum payments due to non-rescindable contractual periods for operating leases and rental contracts

|                        | At            |                  |
|------------------------|---------------|------------------|
|                        | 30 June 2008  | 31 December 2007 |
| Up to one year         | 5 950         | 5 288            |
| From one to five years | 10 633        | 11 041           |
| Over five years        | 5 237         | 6 173            |
| <b>Total:</b>          | <b>21 820</b> | <b>22 502</b>    |

|   | For the period                         |  |
|---|--|--|
|   | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 30 June 2007 |
| Lease payments recognised in profit or loss |  |  |
| Value of minimum lease payments             | 3 812                                  | 3 294                                  |

### 35. Contingent items and other off-balance sheet items

|   | At             |                  |
|---|----------------|------------------|
|   | 30 June 2008   | 31 December 2007 |
| <b>Contingent receivables</b>   | <b>13 238</b>  | <b>122 972</b>   |
| Contested State Budget issues   | 12 661         | 122 395          |
| Guarantees received   | 577            | 577              |
| <b>Off-balance sheet receivables</b>  | <b>25 195</b>  | <b>25 195</b>    |
| Inventions, implementation of projects  | 25 195         | 25 195           |
| <b>Contingent liabilities</b>   | <b>630 521</b> | <b>675 886</b>   |
| Guarantees granted  | 10 636         | 12 811           |
| Agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A. | 594 671        | 641 731          |
| Disputed issues, pending court proceedings  | 12 376         | 7 483            |
| Contingent penalties  | 1 627          | 3 838            |
| Preventive measures in respect of mine-related damages  | 11 208         | 10 000           |
| Employment termination benefits   | -              | 20               |
| Other   | 3              | 3                |
| <b>Off-balance sheet liabilities</b>  | <b>458 745</b> | <b>451 189</b>   |
| Disputed issues due to implementation of projects and inventions                              | 69 176         | 55 588           |
| Operating leases  | 21 820         | 22 502           |
| Payments due to perpetual usufruct of land  | 367 749        | 373 099          |

#### Information on execution of an agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A.

On 10 March 2006, KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węgłokoks S.A. as the purchasers, and TDC Mobile International A/S as the seller, executed an "Agreement on the Acceptance of the Offer and Conditional Transfer of Shares in Polkomtel S.A." (the "Agreement"). The signing of the Agreement was preceded by signing the "Shareholders Agreement on the Purchase of Shares in Polkomtel S.A. from TDC Mobile International A/S and Taking Joint Actions Aimed at Disposing of All Shares Held in Polkomtel S.A." between KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węgłokoks S.A., as shareholders in Polkomtel S.A.

As a result of a so-called Change of Ownership in relation to TDC Mobile International A/S, the other shareholders of Polkomtel S.A. (including Vodafone Americas Inc.) have obtained, in accordance with §12.14 of the Statute of Polkomtel S.A., the right to acquire a total of 4 019 780 shares held by TDC Mobile International A/S in Polkomtel S.A., in a proportion equal to the percentage of the shares held by each shareholder in Polkomtel S.A., other than the shares held by TDC Mobile International A/S. The purchase offer was delivered by TDC Mobile International A/S to the remaining shareholders on 8 February 2006. The Agreement has been executed in result of the execution of the acquisition right of KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węgłokoks S.A. with respect to the shares referred to in the offer by TDC Mobile International A/S. There is a dispute between Vodafone Americas Inc. and TDC Mobile International A/S connected with this offer and in connection with such dispute the injunction of 24 February 2006 as described below has been instituted.

Pursuant to the Agreement, KGHM Polska Miedź S.A. may acquire 980 486 shares in Polkomtel S.A., representing approximately 4.78% of the share capital of Polkomtel S.A., for a purchase price not exceeding EUR 214.04 per share (the equivalent of PLN 832.72 pursuant to fixing rates list No 50/A/NBP/2006 of 10

### 35. Contingent items and other off-balance sheet items (continuation)

March 2006), and an aggregate purchase price not exceeding EUR 209 863 223.44 (the equivalent of PLN 816 472 870.79). Upon KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węgłokoks S.A. acquiring the shares pursuant to the Agreement, together with already-held shares, the said entities will hold in aggregate more than 75% of the total number of shares of Polkomtel S.A.

The parties agreed to vote at any General Meeting of the Polkomtel S.A. in favour of dividends distributed to the shareholders as allowed under the applicable laws from the retained net profits for years preceding 2005, 100% of the net profit of Polkomtel S.A. generated for years 2005 and 2006 and at least 50% of the net profit generated for any subsequent financial year. The amount of dividend paid out to the seller reduced by the interest on the maximum purchase price may result in the reduction of effective purchase price of shares.

The Agreement has been executed subject to the following condition precedent: the expiry or cancellation with respect to the shares covered by the Agreement of the injunction instituted by the District Court in Warsaw on 24 February 2006 or absence of any other injunction instituted by any other judiciary authority (or any other measure of a similar nature) prohibiting a transfer of shares in Polkomtel S.A. covered by the Agreement by TDC Mobile International A/S.

Pursuant to the Agreement, KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węgłokoks S.A. as the purchasers have the right not to purchase the shares of Polkomtel S.A. if by 10 March 2009 (or such other date as the parties may agree) the abovementioned condition precedent is not fulfilled, or until that date other circumstances exist related to the disputes between Vodafone Americas Inc. and TDC Mobile International A/S that may constitute an obstacle for the purchase from TDC Mobile International A/S of the shares covered by the Agreement, as a result of which the Agreement shall terminate as of that date.

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

On 28 March 2008 attorneys ad litem of KGHM Polska Miedź S.A. received a copy of the partial verdict of the Court of Arbitration in Vienna on the claim of Vodafone Americas Inc. against Polkomtel S.A. and the other shareholders of Polkomtel S.A.

The Court ruled that the agreement dated 10 March 2006 on purchasing the remaining shares of Polkomtel S.A. belonging to TDC Mobile International A/S by the Polish shareholders of Polkomtel S.A. is valid, and does not infringe either on the statutes of Polkomtel S.A. or on the shareholder agreements. The legal consequences of this verdict are currently being examined, and once they are determined they will enable further steps to be taken in this matter.

#### Contested State Budget issues

Legal regulations related to VAT and corporate income tax for the first half of 2008 have not been significantly changed as compared to prior year.

Despite some stabilisation of tax court and administrations judgments, tax interpretations issued by tax office – through implemented duty of issuing individual interpretations regarding tax law problems by the Ministry of Finance, there are still areas of uncertainty and disputes. Issues regarding qualification of tax costs and determination of a tax base are and still may have caused the tax risk for entities pursuing economic activity.

Tax bodies, operating within their assigned spheres of competence, are authorised to conduct audits and to examine records relating to business transactions accounted for in financial accounts within a period of 5 years from the end of the fiscal year for which a tax return was made and a financial result was calculated. This means in turn that, given the lack of consistent interpretation, tax bodies may charge KGHM Polska Miedź S.A. with additional taxation as well as interest and penalties.

In the opinion of the Management Board of the Company, there are no existing circumstances which would indicate the possibility of the arising of significant tax liabilities.

Contingent receivables due to contested State Budget issues regarding income taxes and VAT amounted at the balance sheet date to PLN 6 383 thousand. They are composed of:

|   | PLN '000 |
|---|----------|
| Corporate income tax for year 2000            | 360      |
| Corporate income tax for year 2001            | 2 117    |
| Personal income tax for year 2001             | 290      |
| Personal income tax for year 2000             | 1 702    |
| Corporate income tax (lump-sum) for year 2003 | 1 914    |

Contingent receivables regarding contested issues on property tax on underground mining facilities amounts to PLN 2 454 thousand (as at 31 December 2007: PLN 119 628 thousand). Due to the review of a constitutional

### **35. Contingent items and other off-balance sheet items (continuation)**

complaint by the Constitutional Tribunal, filed on 14 July 2006 by KGHM Polska Miedź S.A., with respect to the property tax on underground mining facilities and the buildings and equipment located within these facilities, the Constitutional Tribunal on 8 April 2008 issued a Decision in which it cancelled proceedings due to the inadmissibility of issuing a decree. The Company, disagreeing with this decision, on 26 May 2008 filed a complaint with the Constitutional Tribunal against this decision. The basis for filing this complaint was mainly the official position of the Minister of the State Treasury contained in a letter dated 25 March 2008, in which the State Treasury stated that it does not have a decisive impact on KGHM as understood by the act on the transparency of financial relations between public bodies and public companies, which means that the Company is not in the category of public entities. Therefore the Company is entitled, as is every other economic entity, to such rights as constitutional protection and the right of access to proceedings before the Constitutional Tribunal.

The Company withdrew complaints from administrative courts respecting the property tax on underground mining facilities for the years 2003-2007.

The decision of the Constitutional Tribunal does not have financial consequences for KGHM Polska Miedź S.A. due to the fact that the Company continually regulates its liabilities respecting property tax due to decisions issued by tax bodies.

#### **Tax controls**

In the first half of 2008 the Company did not undergo any tax controls. Tax proceedings were however continued (including in the form of appeals), which were initiated in prior years.

As a result of proceedings, in June 2008 the Head of the Lower Silesia Tax Office issued a decision to the Company on setting the amount of the excess of output tax over input tax for the month of December 2005, which the Company appealed to a body of the second instance (contested amount: PLN 53 thousand).

As a result of controls carried out in the period 2006 - 2007 by the Head of the Wrocław Tax Control Office, Legnica branch, with respect to „Accuracy of the declared tax bases and the correctness of the calculation and payment of taxation representing State budget income, as well as other receivables due to the State Budget or State special funds for 2003.”, as at 30 June 2008 the Company was charged with VAT in arrears in the amount of PLN 81 thousand (with additional liabilities). These liabilities were regulated by the Company, but an appeal was filed with the Tax Chamber of the issued decision regarding VAT.

Meanwhile, with respect to corporate income tax for 2003, the Director of the Tax Control Office issued a decision charging the Company with arrears in the amount of PLN 7 084 thousand. This decision – as a result of an appeal – was overturned by a body of the second instance and was ordered to be re-heard by a body of the first instance. Until now the Director of the Tax Control Office has not issued another decision in this respect. Nonetheless it is estimated that the amount in arrears will not change, and will amount to PLN 7 084 thousand.

#### **Realisation of a contract with PGNiG**

Two contracts signed on 1 December 2003 between PGNiG S.A. and „Energetyka” sp. z o.o. for the supply of natural gas for the production of electricity and heat (with subsequent annexes) continue in force for both parties.

The subsidiary „Energetyka” sp. z o.o. has updated the program to modernise its power generation capacity, having arisen from an evaluation of the needs for electricity and heat by the divisions of KGHM Polska Miedź S.A. taking into account current production costs.

„Energetyka” sp. z o.o. is continuing negotiations with PGNiG S.A., with the participation of KGHM Polska Miedź S.A., aimed at adapting these contracts to the needs of KGHM Polska Miedź S.A. and ensuring the profitability of this project.

Taking into account the course of negotiations, the risk that PGNiG S.A. will make claims against „Energetyka” sp. z o.o. respecting any contractual penalties is at the present time minimal.

### 36. Government grants

The balance of government grants recognised in deferred income at 30 June 2008 amounted to PLN 328 thousand (at 31 December 2007: PLN 384 thousand).

These are monetary grants for carrying out the target project "New materials-related solutions for discharge systems used in metallurgic equipment" and realisation of the project "Modernisation of the local furnace ventilation system in the Metallurgy Department".

The Company makes use of preferential interest loans granted by the Environmental Protection and Water Management Fund (*Fundusz Ochrony Środowiska i Gospodarki Wodnej*). Government assistance is also received in the form of the subsidising of employee training, from both Polish governmental agencies as well as from the European Union.

### 37. Social assets and Social Fund liabilities

KGHM Polska Miedź S.A. creates a Social Fund. The Fund's purpose is to subsidise the Company's social activity, loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control and do not meet the definition of an asset. Accordingly, the net balance (receivables from the Social Fund) at 30 June 2008 amounts to PLN 3 343 thousand, and the net balance (Social Funds liability) at 31 December 2007 amounted to PLN 3 772 thousand.

The composition and nature of assets, liabilities and costs related to the Social Fund are presented in the table below.

|  | At            |                  |
|--|---------------|------------------|
|  | 30 June 2008  | 31 December 2007 |
| <b>Social assets and Social Fund liabilities</b>                     |               |                  |
| Loans granted to employees   | 94 836        | 80 033           |
| Other receivables  | 713           | 2                |
| Cash and cash equivalents  | 63 120        | 41 297           |
| Social Fund liabilities  | 155 326       | 125 104          |
| <b>Net balance</b>   | <b>3 343</b>  | <b>(3 772)</b>   |
| <b>Transfers made to the Social Fund during the financial period</b> | <b>80 751</b> | <b>94 746</b>    |

### 38. Employment structure

|                      | For the period                         |  |
|----------------------|--|--|
|                      | from 1 January 2008<br>to 30 June 2008 | from 1 January 2007<br>to 31 December 2007 |
| White-collar workers | 4 518                                  | 4 421                                      |
| Blue-collar workers  | 13 857                                 | 13 568                                     |
| <b>Total:</b>        | <b>18 375</b>                          | <b>17 989</b>                              |



### **39. Subsequent events**

#### **Signing of a contract**

On 7 August 2008 a contract was entered into 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 is from USD 369 727 thousand to USD 448 955 thousand, i.e. from PLN 775 503 thousand to PLN 941 683 thousand, depending on the amount of tonnage under option. 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.

The total estimated value of contracts entered into between KGHM Polska Miedź S.A. and Wieland Werke AG over the last 12 months is from PLN 1 087 061 thousand to PLN 1 278 007 thousand, depending on the amount of tonnage under option.

The highest-value contract signed during this period is the above-mentioned contract.

#### **Increase of capital in a subsidiary**

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

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

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

These shares were sold based on an agreement entered into between KGHM Polska Miedź S.A. and MINOVA KSANTE Spółka z o.o. titled "Agreement for the buy-back of shares for the purpose of their retirement" dated 26 August 2008. The sale price for these 13 500 shares, 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. The shares sold were of a long-term, equity investment nature, and their carrying amount was PLN 1 309 thousand.

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 KGHM Polska Miedź S.A.**

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 the Company, page 21)

## SIGNATURES

| Signatures of all Members of the Management Board |                  |   |           |
|---|------------------|---|-----------|
| DATE  | FIRST, LAST NAME | POSITION                                    | SIGNATURE |
| 16 September 2008                                 | Mirosław Krutin  | President<br>of the Management Board        |           |
| 16 September 2008                                 | Herbert Wirth    | I Vice President<br>of the Management Board |           |
| 16 September 2008                                 | Maciej Tybura    | Vice President<br>of the Management Board   |           |

| Signature of person responsible for company accounting |                  |   |           |
|--|------------------|---|-----------|
| DATE   | FIRST, LAST NAME | POSITION  | SIGNATURE |
| 16 September 2008                                      | Ludmiła Mordylak | Chief Accountant of KGHM<br>Executive Director of<br>Accounting Services Center |           |