

**KGHM POLSKA MIEDŹ S.A.**

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

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Lubin, September 2008

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## I. COMPANY PROFILE

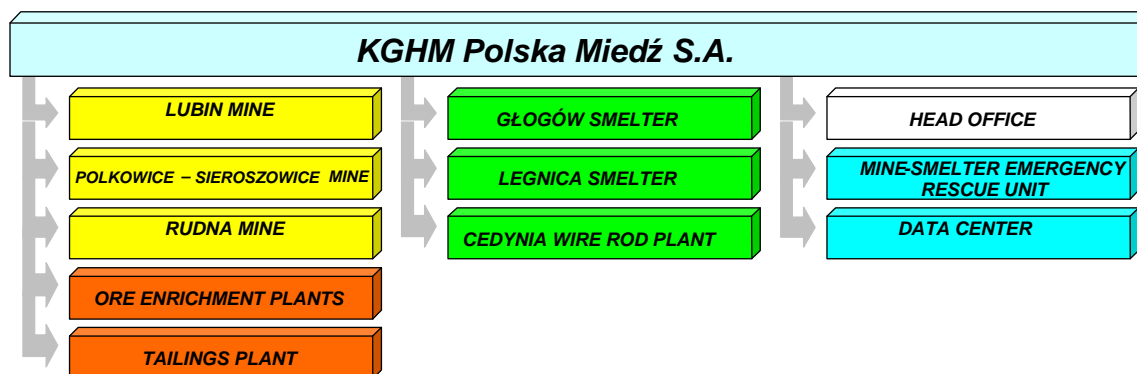
### 1. Organisational structure

#### Organisational structure of the Company

In the first half of 2008, the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions.

The organisational structure of KGHM Polska Miedź S.A. at 30 June 2008 is presented in the diagram below:

**Diagram 1. Organisational structure of the Company at 30 June 2008**



#### Supervisory Board

During the period from 1 January 2008 to 13 February 2008, the 6th-term Supervisory Board of KGHM Polska Miedź S.A. was composed of the following persons:

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

as well as the following employee-elected members

- Józef Czyczerski Secretary
- Leszek Hajdacki
- Ryszard Kurek

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

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

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

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

- Marcin Dyl
- Arkadiusz Kawecki
- Jacek Kuciński
- Marek Panfil
- Marek Trawiński

- Marzenna Weresa

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek

At its meeting on 21 July 2008 the Supervisory Board re-appointed the following persons to their respective functions: Chairman – Marek Trawiński, Deputy Chairman – Jacek Kuciński and Secretary – Marek Panfil.

### **Management Board**

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

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

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

- it dismissed Krzysztof Skóra from the function of President of the Management Board
- it dismissed Dariusz Kaśków from the function of Member of the Management Board
- it appointed I Vice President of the Management Board Ireneusz Reszczyński to fill the function of President of the Management Board until the appointment of the President of the Management Board of KGHM Polska Miedź S.A.

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

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

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

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

On 24 April 2008 the Management Board of KGHM Polska Miedź S.A. passed a resolution regarding a change in the organisational structure of the Head Office. As a result the segregation of duties of the Members of the Management Board is as follows:

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

### **Ownership structure**

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

At 30 June 2008, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Shareholders' Meeting was the Polish State Treasury, which - based on an announcement dated 16 May 2007 - held 83 589 900 shares, representing 41.79% of the share capital of the Company and the same number of votes at the General Shareholders' Meeting.

The remaining shareholders of the Company (including Deutsche Bank Trust Company Americas, depositary bank in the depositary receipts program) held shares representing less than 5% of the

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

## 2. Production results

In the first half of 2008 there was a decrease in ore extraction (dry weight) compared to the comparable prior year period of 1%, and a decrease in the production of copper in concentrate of 8%. The main reason for the decrease in production was the curtailment of work on Saturdays, Sundays and holidays due to the intervention of the National Labour Inspectorate (caused by the failure to adhere to statutory standards for non-work time). The decrease in the production of copper in concentrate was also due to a decrease in the content of copper in ore.

The impact of the decrease in mined copper production on smelter production was partially limited by the use of inventories and by an increase in the production of copper from external copper-bearing materials.

Other significant changes in the level of smelter production in the first half of 2008 versus the first half of 2007 were as follows:

- a decrease in the production of wire rod and round billets due to a decrease in market demand,
- lower production of gold due to the significantly lower content of this metal in processed imported concentrates and in blister,
- a decrease in metallic silver production due to the processing of a lower amount of own concentrates,
- lower production of sulphuric acid due to the processing of a lower amount of concentrates, and
- an increase in refined lead production due to the full use of the installation's production capacity.

Production results are presented in detail in the table below:

**Table 1. Production results in mining**

	Unit	2007	I-VI 2007	I-VI 2008	Change *
Copper ore (dry weight)	'000 t	30 262	15 147	14 979	98.9
Amount of copper in ore	'000 t	505.9	259.0	239.3	92.4
Copper content in ore	%	1.67	1.71	1.60	93.6
Silver content in ore	g/t	46.6	45.9	45.9	100.0
Copper concentrate (dry weight)	'000 t	1 875	941	919	97.7
Amount of copper in concentrate	'000 t	451.9	230.9	213.2	92.3
Copper content in concentrate	%	24.1	24.5	23.2	94.7
Silver content in concentrate	g/t	639.4	627.9	636.8	101.4

\* I-VI 2007 = 100

**Table 2. Production results in smelting**

	Unit	2007	I-VI 2007	I-VI 2008	Change *
Copper products:					
Electrolytic copper	'000 t	533.0	261.1	258.0	98.8
incl. from external copper-bearing materials	'000 t	92.3	37.2	42.3	113.7
Wire rod	'000 t	250.9	120.6	118.1	97.9
OFE copper rod	'000 t	10.9	5.4	5.8	107.4
Round billets	'000 t	19.0	11.9	10.8	90.8
Granular copper	'000 t	2.1	1.2	1.2	100.0
Other production:					
Metallic silver	t	1 215	608	600	98.6
Metallic gold	kg	883	493	361	73.2
Crude lead	t	21 134	10 304	11 577	112.4
Refined lead	t	15 228	7 006	10 034	143.2
Sulphuric acid	'000 t	657.5	312.5	310.7	99.4

\* I-VI 2007 = 100

### 3. Product sales

In the first half of 2008 there was a decrease in the volume of products sold: copper, silver and gold. The specific changes in the volume and value of sales are shown in the table below:

**Table 3. Sales volume for basic products**

	Unit	2007	I-VI 2007	I-VI 2008	Change *
Copper and copper products	'000 t	526.8	272.7	265.1	97.2
- of which export **	'000 t	335.2	172.6	174.4	101.0
Silver	t	1 177	582	563	96.7
- of which export **	t	1 088	534	522	97.8
Gold	kg	738	418	451	107.9
- of which export **	kg	-	-	108	x

\* I-VI 2007 = 100

\*\* including sales to European Union countries

**Table 4. Revenues from the sale of products (in '000 PLN)**

	2007	I-VI 2007	I-VI 2008	Change *
<b>Total</b>	<b>12 103 511</b>	<b>5 824 474</b>	<b>5 987 422</b>	<b>102.8</b>
<b>- of which export **</b>	<b>7 582 119</b>	<b>3 533 759</b>	<b>3 986 484</b>	<b>112.8</b>
Copper and copper products	10 328 748	4 945 571	5 047 797	102.1
- of which export **	6 281 316	2 882 476	3 311 988	114.9
Silver	1 402 819	708 692	717 466	101.2
- of which export **	1 296 542	648 650	665 747	102.6
Gold	45 527	25 760	29 792	115.7
- of which export **	-	-	6 696	x
Other products and services	326 417	144 451	192 367	133.2
- of which export **	4 261	2 633	2 053	78.0

\* I-VI 2007 = 100

\*\* including sales to European Union countries

Revenues from sales by KGHM Polska Miedź S.A. amounted to PLN 5 987 422 thousand and were 3% higher than those for the first half of 2007, mainly as a result of the continuance of high copper and silver prices and to an improvement in the result from settlement of hedging instruments.

There was a 2% increase in revenues from sales of copper and copper products. Revenues from silver sales versus the comparable period of 2007 were higher by 1% despite a lower sales volume. Gold sales also increased by 16%. This was due to a significant increase in the volume of sales and price of gold.

The value of revenues from sales in the first half of 2008 reflect the positive result from the settlement of hedging instruments (commodity and currency transactions and exchange rate differences related to the hedging of foreign-denominated credit) in the amount of PLN 4 214 thousand (in the first half of 2007: PLN (620 293) thousand).

#### Geographical structure of product sales

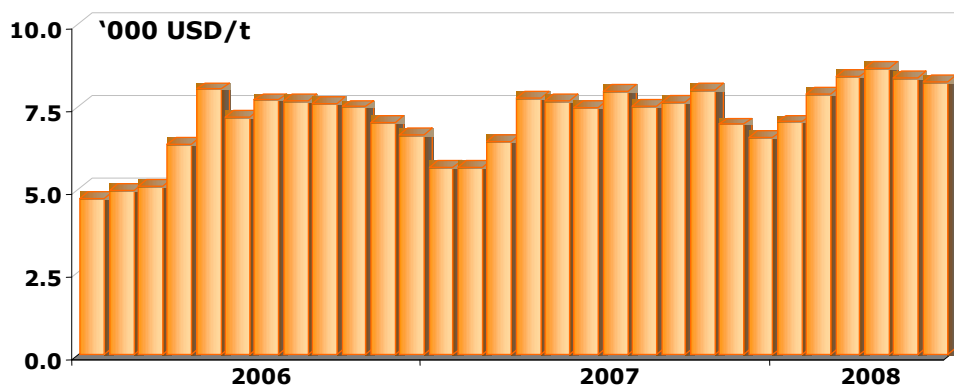
In the first half of 2008, the volume of domestic sales of copper and copper products represented 34% of total copper sales, with export and European Union sales accounting for 66%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were China, France, Germany and the Czech Republic.

In the first half of 2008, silver sales for export and to European Union countries represented 93% of sales volume, while 7% was sold on the domestic market. The largest foreign customers for silver were Great Britain, Belgium and Germany.

## Macroeconomic sales conditions

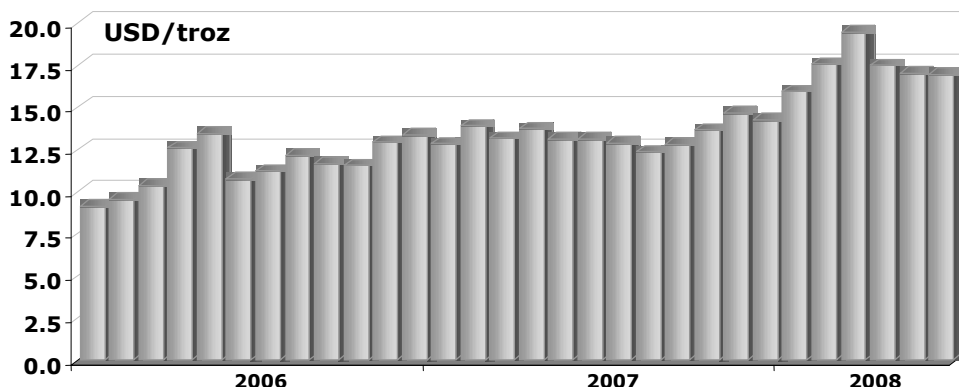
Since the beginning of 2008 copper prices have risen, supported by increased interest from investors in the commodities markets as well as from supply problems. On 10 April 2008 a new copper price record was set of 8 885 USD/t. Copper prices in the first half of 2008 reached the level of 8 108 USD/t and were 20% higher than in the comparable prior period (6 769 USD/t).

**Chart 1. Average monthly copper prices on the LME**



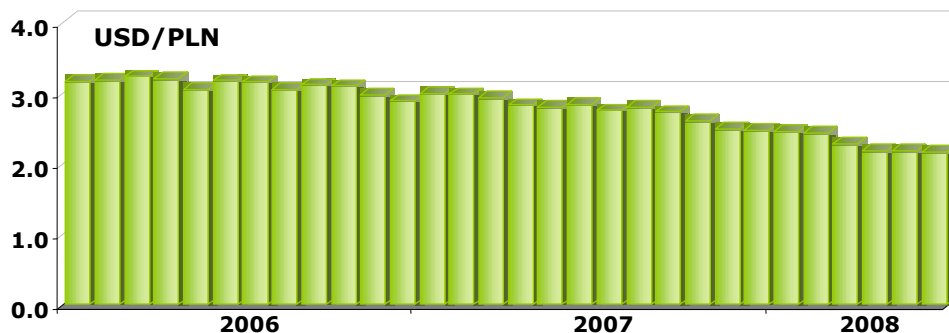
The average silver price in the first half of 2008 amounted to 17.38 USD/troz and was 31% higher than in the first half of 2007 (13.31 USD/troz).

**Chart 2. Average monthly silver prices per the LBMA**



During the period January-June 2008, continuing the trend from prior years, the Polish zloty strengthened versus the USD. The average USD exchange rate in this period was 2.29 PLN/USD and was 21% lower than in the comparable period of 2007 (2.90 PLN/USD).

**Chart 3. Average monthly USD/PLN exchange rate per the NBP**



## 4. Employment

Employment at 30 June 2008 was higher by 524 persons than at the end of the first half of 2007, and 267 higher than at 31 December 2007.

Employment at the end of the first half of 2008 versus the comparable prior year period is presented in the following table.

**Table 5. End-of-period employment**

	31.12.2007	30.06.2007	30.06.2008	Change*
Mines	11 998	11 809	12 301	102.5
Smelters	4 044	4 035	4 033	99.7
Other Divisions	2 217	2 158	2 192	98.9
<b>Total</b>	<b>18 259</b>	<b>18 002</b>	<b>18 526</b>	<b>101.5</b>

\* 31.12.2007 = 100

The increase in employment occurred mainly in underground mine positions and was due to the necessity to ensure achievement of planned production.

### Relations with the trade unions

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

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

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



## II. INVESTMENTS AND RESEARCH AND DEVELOPMENT

### 1. Investments in property, plant and equipment

Investments in tangible assets in the first half of 2008 versus the first half of 2007 are presented in the table below:

**Table 6. Investment expenditures ('000 PLN)**

	2007	I-VI 2007	I-VI 2008	Change*
Mining	666 136	254 331	327 299	128.7
Smelting	128 841	39 886	55 142	138.2
Other projects	33 112	9 751	5 215	53.5
<b>Total</b>	<b>828 089</b>	<b>303 968</b>	<b>387 656</b>	<b>127.5</b>

\* I-VI 2007 = 100

**Table 7. Structure of realised investments ('000 PLN)**

	2007	I-VI 2007	I-VI 2008	Change*	Structure (%)
Development, of which:	334 815	131 356	144 291	109.8	37.2
- in mining	286 309	117 677	133 431	113.4	34.4
- in smelting	37 369	10 812	8 096	74.9	2.1
Replacement, of which:	412 109	149 888	211 544	141.1	54.6
- mining machinery	190 103	101 560	111 139	109.4	28.7
Modernisation	36 403	7 949	10 506	132.2	2.7
Conformatory work	24 844	8 371	17 491	208.9	4.5
Other	19 918	6 404	3 824	59.7	1.0
<b>Total</b>	<b>828 089</b>	<b>303 968</b>	<b>387 656</b>	<b>127.5</b>	<b>100.0</b>
of which:					
- IT	23 150	6 384	4 785	75.0	1.2
- Ecology	40 014	5 170	11 961	231.3	3.1

\* I-VI 2007 = 100

Major projects and facilities realised in the first half of 2008:

- modernisation and replacement of machinery in the mines – expenditures incurred in the amount of PLN 111 million for the purchase of 132 machines,
- investments related to continuous outfitting of the mining divisions,
- Głogów Głęboki-Przemysłowy: based on the Management Board-approved plan „Program for managing the Głogów Głęboki-Przemysłowy deposit”, work continued on the development of tunnels to access the Głogów Głęboki-Przemysłowy deposit. Work carried out on these tunnels as they progress includes the installation of power equipment, de-watering, ventilation and air conditioning and the haulage of ore,
- construction of the SW-4 shaft: actions in this regard included work to prepare for excavation of the shaft, and on 30 June 2008 excavation of the shaft commenced. To date, work on the shaft head and shaft drilling equipment has been carried out, as well as part of the surface infrastructure,
- power and communications facilities,
- investments related to replacing equipment in the smelters – replacement and modernisation of machinery and aggregates,
- facilities related to improving and maintaining the safe operation of the Żelazny Most tailings pond, and eliminating its impact on the environment.

In addition, necessary actions were taken with respect to the project „Modernisation of pyrometallurgy at the Głogów II smelter”. The program for modernisation of pyrometallurgy at the Głogów I smelter is currently under review with respect to consideration of various scenarios of smelter production capacity and the possibility of implementing this program, which is related to forecast copper extraction from the mines of KGHM Polska Miedź S.A.

The Company also decided that it was necessary to review the assumptions and investment effectiveness of the project „Hydrotransport of concentrate from the Ore Enrichment Plants of Polkowice and Rudna to the Głogów smelter”. A schedule was approved for reviewing the following investment projects:

- „Development of the Industrial Railway Line of Pol-Miedź Trans Sp. z o.o. to the Głogów smelter” (as an alternative to hydrotransport),
- „Hydrotransport of concentrate from the Ore Enrichment Plants of Polkowice and Rudna to the Głogów smelter”

in order to prepare an effectiveness analysis by an external adviser for both projects as well as a comparative analysis of these projects.

### Main areas of investment activities

The main areas of the Company’s investment activities comprise the following key activities:

Development and increased effectiveness of the core business:

- increasing the resource base, including maintaining the level of copper production from domestic resources by:
  - replacing production-related assets in the divisions,
  - developing the technical infrastructure of new mining regions,
  - construction of the SW-4 shaft,
  - realisation of the Głogów Głęboki-Przemysłowy project, which will enable continuation of the level of copper production over the long term, and
  - exploring the possibility of mining the Radwanice-Gaworzyce deposit (commencement of mining would occur around the year 2012),
- improving effectiveness, including limitation of core business operating costs and modernising production assets, by:
  - renovation of the tailings hydrotransport installation,
  - replacing floatation machinery,
  - modernising pyrometallurgy,
  - accelerated replacement of mining machinery, and
  - other investments at the analysis stage related to reducing costs,

Diversification of activities and supporting the development of KGHM:

- increasing utilisation of floatation tailings,
- increasing the production of salt associated with the copper ore,
- increasing the production of crude and refined lead.

### Research and development

Research and development in the first half of 2008 was financed by the internal funds of the Company. Expenditures by KGHM Polska Miedź S.A. on R&D in the first half of 2008 amounted to PLN 594 thousand.

**Table 8. R&D expenditures ('000 PLN)**

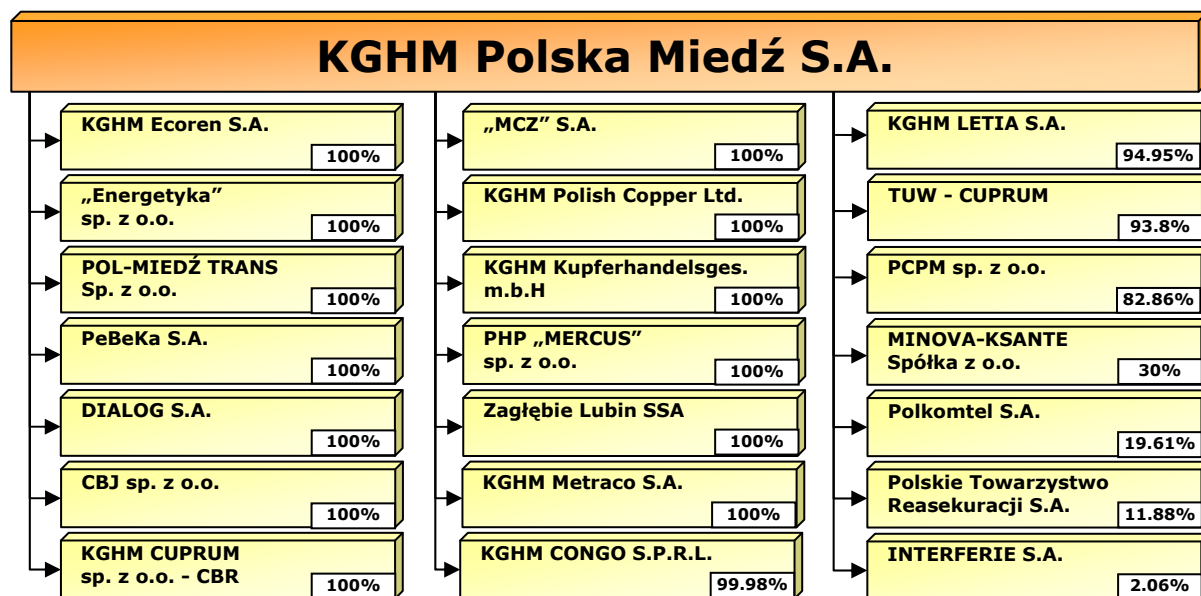
	2007	I-VI 2007	I-VI 2008	Change*
Mining	4 414	786	285	36.3
Smelting	1 662	129	309	×2.4
<b>Total</b>	<b>6 076</b>	<b>915</b>	<b>594</b>	<b>65.0</b>

\* I-VI 2007 = 100

## 2. Equity investments

In the first half of 2008 KGHM Polska Miedź S.A. directly owned shares in 21 entities. Three companies belonging to the KGHM Polska Miedź S.A. Group have their own capital groups. These are: KGHM Ecoren S.A., PHP „MERCUS” sp. z o.o. and DIALOG S.A. The equity investments of KGHM Polska Miedź S.A. in specific entities are shown in the diagram below.

**Diagram 2. Entities in which KGHM Polska Miedź S.A. had a direct ownership of shares at 30 June 2008**



The companies of the Group are diversified in terms of their activities. They offer products and services both related to the core business of KGHM Polska Miedź S.A. (including mine construction, the production of electrical power and heat, mining machinery and equipment and research and development) as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications and medicine.

In the first half of 2008 there was no change in the share of KGHM Polska Miedź S.A. in the ownership structure of the above entities.

### Equity increase

In June 2008 court registration was made of an increase in the share capital of „Energetyka” sp. z o.o. by PLN 27 317 thousand. KGHM Polska Miedź S.A. acquired and paid cash for all of the shares in the increased share capital. The funds acquired will be used for modernisation related to the expansion of power generation capacity. The share capital of the company after this increase amounts to PLN 248 793 thousand.

### Dividends received

In the first half of 2008, as a result of profit appropriation for 2007, KGHM Polska Miedź S.A. received dividends from the following entities:

- Polkomtel S.A. PLN 182 859 thousand,  
(the total dividend for 2007 amounts to PLN 244 764 thousand, of which: an interim dividend in the amount of PLN 61 905 thousand was paid in December 2007, the amount of PLN 91 409 thousand was paid in the first half of 2008, and PLN 91 450 thousand will be paid on 27 November 2008)
- KGHM Ecoren S.A. PLN 30 000 thousand,
- KGHM Metraco S.A. PLN 13 209 thousand,
- CBJ sp. z o.o. PLN 2 000 thousand.

## Financial support of Group companies

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

- Zagłębie Lubin SSA : a loan of PLN 7 000 thousand to cover obligations in arrears towards Social Insurance Institution (ZUS). This loan will be repaid by 31 December 2010
- KGHM CONGO S.P.R.L. : a loan of USD 25 thousand to cover investment expenditures. This loan was repaid by 30 June.

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

## Other equity investments

In the first half of 2008, KGHM Polska Miedź S.A. continued to participate in the AIG Emerging Europe Infrastructure Fund. The fair value of the investment in this Fund in the accounts of KGHM Polska Miedź S.A. at 30 June 2008 was PLN 7 964 thousand.

In the first half of 2008, the Company received the total amount of PLN 151 thousand from the AIG Fund, which represented profit from the redemption of shares. In addition the Company paid a management fee in the amount of PLN 46 thousand.

## Other significant events in the Group

In April 2008 court registration was made of a decrease in the share capital of DIALOG S.A. by PLN 1 469 850 thousand, i.e. from the amount of PLN 1 959 800 thousand to PLN 489 950 thousand, by a decrease in the face value of all existing company shares, from PLN 100.00 to PLN 25.00 per share.

The funds arising from this decrease in share capital were allocated to cover losses incurred by the company in prior years and presented in the company's balance sheet at 31 December 2006 in the amount of PLN 913 150 thousand, while the remaining amount from the decrease in the amount of PLN 556 700 thousand was allocated to reserve capital created from profit in accordance with the statutes (Retained earnings).

## 3. Telecom assets

### Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. at 30 June 2008 in the financial statements of KGHM Polska Miedź S.A. amounted to PLN 437 250 thousand.

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

**Table 9. Financial results of Polkomtel S.A. ('000 PLN)**

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

\* I-VI 2007 = 100

On 28 March 2008 the Ordinary General Shareholders' Meeting of Polkomtel S.A. passed a resolution on the appropriation of 2007 profit. Based on this decision, the company allocated the amount of PLN 1 248 245 thousand as a dividend from 2007 profit. As the company paid an interim dividend of PLN 315 700 thousand in December 2007, it was decided to pay PLN 466 170 thousand in May 2008 and PLN 466 375 thousand by 27 November 2008.

On 25 March 2008 the Arbitration Tribunal in Vienna issued a so-called partial verdict on the claim filed on 10 March 2006 by Vodafone Americas Inc. at 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. challenged, among others, the method of setting the price by TDC International A/S in the offer addressed to the other shareholders. This verdict, which is favourable to KGHM Polska Miedź S.A. and the remaining shareholders, confirms the validity of the contract dated 10 March 2006 between KGHM Polska Miedź S.A., PKN ORLEN S.A., PSE S.A. and Węgłokoks S.A. with TDC Mobile International A/S on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A. This agreement was described in detail in a current report dated 10 March 2006 and in the consolidated annual report for 2007.

## DIALOG S.A.

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

Due to its low level of significance in the consolidated financial statements, this amount decreased the financial result of the current period.

**Table 10. Financial data of DIALOG S.A. included in the consolidated financial statements of KGHM Polska Miedź S.A. ('000 PLN)**

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

\* I-VI 2007 = 100

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

Strong competition from mobile phone operators means that the company is experiencing a further decrease in the number of subscribers using voice services based on the DIALOG S.A. network. At the end of the first half of 2008, the company had 395.9 thousand ringing lines in its network. Meanwhile there is dynamic growth in the customer base to whom DIALOG S.A. offers services based on the network of TP S.A. (so-called WLR). At the end of June 2008 the company had 131.3 thousand active WLR customers. In addition, the company is increasing its internet customer base, in particular its broadband Internet access services. At the end of June 2008 it had 124.5 thousand internet subscribers, including 6.1 thousand BSA users.

In the first quarter of 2008 sales also commenced of a new service – internet television, which will be an additional service for internet customers.

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

### III. REVIEW OF FINANCIAL POSITION

#### 1. Balance sheet: Assets

At 30 June 2008 the total assets of KGHM Polska Miedź S.A. amounted to PLN 13 754 400 thousand, which in comparison to the end of 2007 means an increase of PLN 1 330 770 thousand, i.e. by 11%.

**Table 11. Assets and their structure as at end of period ('000 PLN)**

	31.12.2007	30.06.2008	Change*	Structure (%)
<b>Non-current assets</b>	<b>7 431 425</b>	<b>7 566 138</b>	<b>101.8</b>	<b>55.0</b>
Property, plant and equipment	4 832 630	4 954 188	102.5	36.0
Intangible assets	74 830	71 873	96.0	0.5
Shares in consolidated subsidiaries	1 803 390	1 830 706	101.5	13.3
Investments in associates	438 559	438 559	100.0	3.2
Deferred income tax asset	160 781	156 840	97.5	1.1
Available-for-sale financial assets	32 935	30 234	91.8	0.2
Held-to-maturity investments	43 893	57 254	130.4	0.4
Derivative financial instruments	33 395	8 154	24.4	0.1
Trade and other receivables	11 012	18 330	166.5	0.1
<b>Current assets</b>	<b>4 992 205</b>	<b>6 187 712</b>	<b>123.9</b>	<b>45.0</b>
Inventories	1 603 487	1 698 400	105.9	12.3
Trade and other receivables	772 279	1 200 242	155.4	8.7
Available-for-sale financial assets	-	100 623	x	0.7
Derivative financial instruments	81 444	16 049	19.7	0.1
Cash and cash equivalents	2 534 995	3 172 398	125.1	23.1
<b>Non-current assets held for sale</b>	<b>-</b>	<b>550</b>	<b>x</b>	<b>0.0</b>
<b>Total Assets</b>	<b>12 423 630</b>	<b>13 754 400</b>	<b>110.7</b>	<b>100</b>

\* 31.12.2007 = 100

The largest item of assets is property, plant and equipment. Since the beginning of 2008 property, plant and equipment has increased by 3%. Expenditures on the purchase and construction of tangible fixed assets amounted to PLN 387 656 thousand, of which PLN 157 964 thousand (41%) represented development investments, including construction of the SW-4 shaft and drift tunnels to access the „Głogów Głęboki Przemysłowy” deposit.

The total value of shares held amounted to PLN 2 269 265 thousand, of which PLN 438 559 thousand represented investments in associates accounted for using the equity method in the consolidated financial statements. The increase in the value of shares held by PLN 27 317 thousand versus the end of December 2007 was due to the acquisition of additional shares in the increased capital of Energetyka S.A.

The largest item of current assets was cash and cash equivalents, whose amount increased by 25% compared to the end of 2007. The high prices on the copper market favoured the generation of cash in the first half of 2008. The Company invested the funds obtained in short-term bank deposits, in order to, among others, ensure funds for payment of shareholder dividends.

Another significant item of current assets was inventories. The carrying amount of inventories increased by PLN 94 913 thousand compared to the end of 2007, mainly due to an increase in material inventories by PLN 140 692 thousand alongside a decrease in semi-products and work in progress by PLN 29 894 thousand and inventories of products by PLN 16 717 thousand.

With respect to semi-products, there was a decrease in the volume of copper anodes by 8 thousand t and in concentrate inventories by 3 thousand t. Inventories of finished goods decreased by 7 thousand t Cu while the increase in the value of materials mainly related to external copper-bearing materials used in the production of electrolytic copper, including materials which were in transit at the balance sheet date.

During the first half of 2008 trade receivables increased from PLN 557 875 thousand to PLN 854 702 thousand. Other receivables in the amount of PLN 363 870 thousand at the end of June 2008 were mainly related to taxation, social and health insurance and other benefits, as well as the dividend due from Polkomtel S.A. (payment of the second instalment is expected in the fourth quarter).

Available-for-sale financial assets (current and non-current) in the amount of PLN 130 857 thousand mainly represented participation units in the investment fund KBC Gamma SFIO.

Held-to-maturity investments (PLN 57 254 thousand) represented investments financed by the mine closure fund.

## 2. Balance sheet: Equity and Liabilities

Equity dominated the equity and liabilities, despite a decrease in its share in the assets financing structure from 72% at the end of 2007 to 65% at the end of June 2008. This change in the assets financing structure (a decrease in the share of equity alongside an increase in the share of current liabilities) is due to the approved but unpaid dividend for 2007.

**Table 12. Sources of financing of assets and their structure as at end of period ('000 PLN)**

	31.12.2007	30.06.2008	Change*	Structure (%)
<b>Equity</b>	<b>8 965 949</b>	<b>8 976 306</b>	<b>100.1</b>	<b>65.3</b>
Share capital	2 000 000	2 000 000	100.0	14.5
Other reserves	13 783	9 450	68.6	0.1
Retained earnings	6 952 166	6 966 856	100.2	50.7
<b>Non-current liabilities</b>	<b>1 439 396</b>	<b>1 428 958</b>	<b>99.3</b>	<b>10.4</b>
Trade and other payables	6 305	14 320	74.1	0.0
Borrowings and finance lease liabilities	20 319	15 146	74.5	0.1
Derivative financial instruments	3 087	-	x	0.0
Liabilities due to employee benefits	853 096	877 436	102.9	6.4
Provisions for other liabilities and charges	556 589	522 056	95.5	3.9
<b>Current liabilities</b>	<b>2 018 285</b>	<b>3 349 136</b>	<b>165.9</b>	<b>24.3</b>
Trade and other payables	1 510 841	3 189 530	x2.1	23.2
Borrowings and finance lease liabilities	8 612	9 838	114.2	0.1
Current corporate tax liabilities	343 022	28 523	8.3	0.2
Derivative financial instruments	14 335	61	0.4	0.0
Liabilities due to employee benefits	66 199	68 507	103.5	0.5
Provisions for other liabilities and charges	75 276	52 677	71.6	0.4
<b>Total equity and liabilities</b>	<b>12 423 630</b>	<b>13 754 400</b>	<b>110.7</b>	<b>100</b>

\* 31.12.2007 = 100

In comparison to the end of 2007 there was an increase in equity by PLN 10 357 thousand. Based on a decision of the General Shareholders' Meeting of KGHM Polska Miedź S.A. part of the profit for 2007 was allocated as a shareholder dividend. As a result, retained earnings were decreased by PLN 1 800 000 thousand, alongside an increase by PLN 1 814 690 thousand due to profit for the first half of 2008.

Total liabilities (non-current and current) increased by PLN 1 320 413 thousand, mainly due to the liability towards shareholders in respect of the dividend for 2007.

The largest item was trade and other payables, totalling PLN 3 203 850 thousand, of which the main components were as follows (in '000 PLN):

- liabilities due to shareholder dividends 1 800 000
- trade payables 538 148



- accruals 326 129  
(of which PLN 165 805 thousand represents an accrual for future wages due to the additional annual bonus payable in accordance with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.)
- taxation and social security 234 893

A significant item is the liability due to employee benefits. This liability amounted to PLN 945 943 thousand at the end of June 2008 and comprised the following (in '000 PLN):

- the coal equivalent payment 524 115
- jubilee bonuses 247 141
- retirement and disability benefits 174 687

The prevailing part of the balance of provisions for liabilities in the total amount of PLN 574 733 thousand (non-current and current) is made up of a revalued provision for decommissioning cost of mines and other facilities.

The ratios illustrating the financing of assets did not change significantly in respect of 2007.

**Table 13. Assets financing ratios**

	31.12.2007	30.06.2008
Coverage of assets by equity	0.7	0.7
Coverage of non-current assets by equity	1.2	1.2
Coverage of non-current assets by long-term capital	1.4	1.4
Coverage of current assets by current liabilities	0.4	0.5

Ratios calculated based on end-of-period balances

#### Off-balance sheet liabilities and receivables

At 30 June 2008 contingent and off-balance sheet receivables of the Company amounted to PLN 38 433 thousand and mainly related to receivables due to inventions (PLN 25 195 thousand) and contested State budget issues (PLN 12 661 thousand).

Contingent and off-balance sheet liabilities at the end of the first half of 2008 amounted to PLN 1 089 266 thousand and mainly comprised:

- liabilities under the agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A. in the amount of PLN 594 671 thousand,
- the total amount of future minimum payments in respect of the right of perpetual usufruct of land in the amount of PLN 367 749 thousand, including primarily land received free of charge from the State Treasury,
- implementation of projects and inventions in the amount of PLN 69 176 thousand,
- an operating lease in the amount of PLN 21 820 thousand.

### 3. Liquidity

#### Financial resources

The structure of the Company's cash and cash equivalents is presented in the table below:

**Table 14. Structure of cash and cash equivalents ('000 PLN)**

	31.12.2007	30.06.2008	Change*
Cash on hand and in bank accounts	1 628	4 794	×2.9
Other monetary assets, of which:	2 533 367	3 167 604	125.0
- monetary assets payable within up to 3 months,	2 530 859	3 160 629	124.9
- interest on financial assets payable within up to 3 months	2 508	6 975	×2.8
<b>Total</b>	<b>2 534 995</b>	<b>3 172 398</b>	125.1

\* 31.12.2007 = 100



## Credit servicing in the first half of 2008

In the first half of 2008 the Company did not make use of bank financing, and at 30 June 2008 had no liabilities of this type.

Until 28 March 2008 the Company had an available credit facility with Bank Handlowy w Warszawie S.A. of up to USD 10 000 thousand. Due to its favourable financial situation the Company did not prolong this credit facility.

## 4. Income statement

In the first half of 2008, the Company generated a profit for the period of PLN 1 814 690 thousand, i.e. 98% of the result achieved in the comparable prior period.

**Table 15. Income statement ('000 PLN)**

	2007	I-VI 2007	I-VI 2008	Change*
Sales	12 183 113	5 860 077	6 030 935	102.9
Operating costs	7 303 365	3 521 096	3 810 538	108.2
Profit on sales	4 879 748	2 338 981	2 220 397	94.9
Profit/(loss) on other operating activities	(197 714)	(71 705)	(25 897)	36.1
Operating profit (EBIT)	4 682 034	2 267 276	2 194 500	96.8
Profit/(loss) on financing activities	(26 504)	(12 184)	(17 813)	146.2
Profit before income tax	4 655 530	2 255 092	2 176 687	96.5
<b>Profit for the period</b>	<b>3 798 826</b>	<b>1 857 671</b>	<b>1 814 690</b>	<b>97.7</b>
<i>EBITDA (EBIT + depreciation)</i>	5 100 585	2 471 223	2 426 441	98.2

\* I-VI 2007 = 100

The decrease in profit for the period by PLN 42 981 thousand is mainly due to the following factors (in '000 PLN):

- Strengthening of the PLN (1 290 234)
- The increase in copper, silver and gold prices +956 904
- Decrease of the loss on hedging transactions +710 179  
(of which: adjustment of sales +PLN 624 507 thousand, and the measurement and settlement of hedging transactions recognised in other operating activities in the amount of +PLN 85 672 thousand)
- The increase in the total cost of sales (282 512)
- The decrease in the volume of copper, silver and gold sales (176 145)
- The decrease in income tax expense +35 424

**Table 16. Basic factors affecting the financial result of the Company**

	Unit	2007	I-VI 2007	I-VI 2008	Change*
Sale of copper and copper products	'000 t	526.8	272.7	265.1	97.2
Silver sales	t	1 177	582	563	96.7
Average copper price on the LME	USD/t	7 126	6 769	8 108	119.8
Average silver price on the LBM	USD/troz	13.38	13.31	17.38	130.6
Average exchange rate per NBP	PLN/USD	2.77	2.90	2.29	78.9

\* I-VI 2007 = 100

In the first half of 2008, revenues from the sale of copper and silver represented 96% of sales and were higher by PLN 111 000 thousand, i.e. by 2% versus the comparable prior period.

The Company incurred a loss on other operating activities of PLN 25 897 thousand, which comprised the following (in '000 PLN):

– dividends received	228 069
– loss on measurement and realisation of derivative instruments	(167 842)
– foreign exchange losses	(145 975)
– interest income from cash and cash equivalents and monetary assets	62 108
– other	(2 257)

The loss on financing activities amounted to PLN 17 813 thousand and was mainly due to the revaluation of provisions by PLN (18 478) thousand.

## 5. Financial ratios

The table below presents the basic ratios describing the economic activities of the Company:

**Table 17. Liquidity and profitability ratios**

	Unit	2007	I-VI 2007	I-VI 2008
Current liquidity	x	2.5	1.3	1.8
Quick liquidity	x	1.7	1.0	1.3
ROA - return on assets	%	30.6	13.4	13.2
ROE - return on equity	%	42.4	26.0	20.2
Debt ratio	%	27.8	48.6	34.7
Durability of financing structure	%	83.8	61.7	75.7

The improvement in the liquidity ratios is due to the lower approved Company shareholder dividend (PLN 1.8 billion for 2007 versus PLN 3.4 billion for 2006) given a comparable profit for the period, which was the decisive factor in reducing the denominators in the liquidity ratios.

The deterioration of the return on equity ratio (ROE) is due to the increase in reserve capital by PLN 1 998 825 thousand from the profit for 2007 (during the prior period the entire profit for 2006 was distributed as a dividend) given a comparable profit for the period.

The decrease of the debt ratio and the increase of durability of financing structure ratio is due to the lower approved Company shareholder dividend than in the prior period, which caused a change in the structure of equity and liabilities (an increase in equity and a decrease in liabilities).

## 6. Operating costs

Operating costs in the first six months of 2008 versus the comparable prior period increased by PLN 289 442 thousand, i.e. by 8%, mainly due to a 13% increase in the unit cost of electrolytic copper production, alongside a 3% decrease in the volume of sales of copper and silver products.

**Table 18. The unit cost of electrolytic copper production**

	Unit	2007	I-VI 2007	I-VI 2008	Change*
Total unit cost of copper production, of which:	PLN/t	11 160	10 340	11 684	113.0
	USD/t	4 031	3 571	5 112	143.0
- from own concentrates	PLN/t	9 313	8 801	10 278	116.8
- from external copper-bearing materials	PLN/t	19 979	19 598	18 839	96.1

\* I-VI 2007 = 100

The total unit cost of electrolytic copper production after the first half-year is higher by 13%, i.e. by 1 344 PLN/t versus the comparable period of 2007, mainly due to the following:

- a decrease in the production of copper in internal concentrate by 8%, which caused an increase in the unit cost by 587 PLN/t;
- an increase in costs by type, including mainly: material and energy costs (+462 PLN/t), labour costs (+290 PLN/t) and mine preparatory costs (+201 PLN/t).

The structure of costs by type is shown in the table below:

**Table 19. Structure of costs by type (%)**

	2007	I-VI 2007	I-VI 2008
Depreciation/amortisation	5.8	6.3	6.2
Materials and energy consumption	45.4	42.4	45.0
including external copper-bearing materials	23.2	18.5	21.6
External services	12.2	12.5	12.7
Labour costs	32.3	33.6	31.4
Taxes and charges	3.7	4.1	4.1
Other	0.6	1.1	0.6

## 7. Risk management

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

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

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

The adjustment of other operating income and costs due to the measurement of derivative instruments is mainly due to the change in the time value of options which are to be settled in future periods. Due to the Company hedge accounting, changes in the time value of options may not be recognised in the revaluation reserve.

In the first half of 2008, the Company implemented copper price hedging strategies (the purchase of put options) of a total volume of 60 thousand tonnes and a time horizon falling in the first half of 2009. Additionally, during this period the Company implemented adjustment hedge transactions of 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, no strategies were implemented during the analysed period to hedge the price of this metal. In the first half of 2008 adjustment hedge transactions were implemented on the silver market in a total volume of 643 thousand troz and a time horizon falling in January 2008.

In the case of the forward currency market, in the first half of 2008 the Company did not implement any strategies hedging the USD/PLN rate. During the analysed period there were no adjustment hedge transactions implemented 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). In the case of revenues from sales (currency market) the Company does not hold hedged positions.

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

A detailed description of the risk management policy of the Company together with an identification of the main types of risk can be found in Notes No. 9 and 32 of the Financial statements.

## 8. Contested issues

At 30 June 2008, the value of proceedings being pursued by the Company with regard to debtors amounted to PLN 84 561 thousand (a decrease in the first half by PLN 53 119 thousand).

The main reason for the decrease in the amount of contested debtors was a Decision of the Constitutional Tribunal respecting property tax.

- Due to the review of a constitutional 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 decrees based on art. 39 sec. 1 point 1 of the act dated 1 August 1997 on the Constitutional Tribunal.

The Tribunal recognised KGHM Polska Miedź S.A. as a public entity which is not protected by Constitutional rights.

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.

In view of the above, 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.

The largest proceedings being pursued by the Company with regard to debtors at the end of the first half of 2008 relate to the following:

- **debtors due to unnecessary payment of copyright fees due to the use of a rationalisation project**

The subject of this project was to increase the production capacity of the electrorefining section at the Głogów smelter. The amount contested is PLN 25 194 thousand. The Company filed a suit on 21 January 2008 against persons acting as the developers of this rationalisation project. In the opinion of the Company, the payment of copyright fees to these persons was unjustified. In the opinion of the Company this project did not possess the characteristics of a rationalisation project whose application would have entitled the developers to a copyright payment.

- **property tax on underground mining facilities for 2007**

The amount contested is PLN 7 765 thousand. The mayor of Polkowice set the amount of the property tax on underground mining facilities for 2007. The local board of appeal (Samorządowe Kolegium Odwoławcze) in Legnica upheld the decision of the mayor of Polkowice. The Company filed an appeal with the Voivodeship Administrative Court in Wrocław against the decisions of the local board of appeal in Legnica. By a decision dated 14 December 2007 the Voivodeship Administrative Court dismissed the appeal of the Company. On 18 February 2008 the Company

filed a cassation appeal with the Supreme Administrative Court in Warsaw. As a result of actions taken aimed at gaining the position of the Constitutional Tribunal on determining the unconstitutionality of laws on taxation and local fees, the Company on 20 June 2008 submitted a request to withdraw its cassation appeal.

At the end of the first half of 2008, the value of contested proceedings with respect to liabilities amounted to PLN 87 459 thousand (an increase of PLN 44 806 thousand). The largest proceedings related to the following:

– **payment of copyright fees due to the use of a rationalisation project**

This project involved an increase in the production capacity of the electrorefining sections at the Głogów smelter. The amount contested is PLN 42 413 thousand. This claim, by persons acting as the developers of this project for the payment of copyright fees for use of a rationalisation project, arrived at the Company on 14 January 2008. Proceedings are underway at the Regional Court. In the opinion of the Company this project did not possess the characteristics of a rationalisation project.

– **payment of damages due to deterioration of water from the AQ1 and AQ2 water supplies caused by the activities of the Lubin mine of KGHM Polska Miedź S.A. on the terrain of the municipality (Gmina) of Warta Bolesławiecka**

The amount contested is PLN 11 839 thousand. A statement of claim dated 24 March 2003 was filed with the Regional Court in Legnica, Civil Section I, by BOBMARK INTERNATIONAL Sp. z o.o. with its registered head office in Warsaw. On 30 June 2006, the Company received an opinion, issued by order of the Court, of a company specialising in marketing and market research, regarding the evaluation of benefits lost by BOBMARK INTERNATIONAL.

By a ruling dated 31 March 2008 the Court ordered the experts of Contract Consulting Kumela i Wspólnicy Spółka Jawna in Kraków to prepare within one month an additional opinion comprising an answer to the questions contained in the litigant's letter of the plaintiff.

On 23 July 2008 the additional expert opinion arrived at the Company. Both the first and second expert opinions are favourable for KGHM Polska Miedź S.A.

At a trial dated 29 August 2008 the Regional Court in Legnica, Civil Section dismissed the claim in its entirety, judging it as obviously unfounded. The decision is not legally binding.

– **fee for use of a patent for the period from 1 January 1997 to 31 December 2002**

Value of amount under dispute: PLN 10 602 thousand. The statement of claim of TKW Combustion Sp. z o.o. in Głowno was filed with the Regional Court in Świdnica, Economic Section VI, on 30 July 2003. In the opinion of KGHM Polska Miedź S.A., this claim is groundless due to the fact that the design is utilised based on a licensing agreement 1/91 dated 25 July 1991, which authorises the Company to make use of the project over an indefinite period of time, with a licensing fee payable only for the first five years of use of the design. The court, by a ruling dated 13 January 2004, adjourned the proceedings until the issue of the patent is heard.

Proceedings to annul the patent are underway. The Polish Patent Office, by a decision dated 23 April 2007, annulled the patent. The Voivodeship Administrative Court in Warsaw, by a decision dated 27 December 2007, overturned the decision of the Patent Office. On 12 March 2008 the Company filed a cassation appeal with the Supreme Administrative Court in Warsaw with respect to the decision of the Voivodeship Administrative Court.

## 9. Realisation of financial forecasts

In a current report dated 27 March 2008 the Company published the Budget assumptions for 2008, which were approved by the Supervisory Board of the Company on the same day. The Budget assumes the achievement in 2008 of revenues from sales in the amount of PLN 11 193 million and profit for the period of PLN 2 904 million.

Details of the basic assumptions of the Budget for 2008 are presented below:

**Table 20. Realisation of the Company Budget for 2008 after the first half of 2008**

	Unit	Budget 2008 *	I-VI 2008	Advance on realisation (%)
Copper prices	USD/t	7 100	8 108	114
	PLN/t	17 750	18 473	104
Silver prices	USD/troz	15.00	17.38	116
Exchange rate	PLN/USD	2.50	2.29	91
Total unit cost of	PLN/t	12 455	11 684	94
electrolytic copper production	USD/t	4 982	5 112	103
- of which from own concentrates	PLN/t	11 272	10 278	91
Electrolytic copper production	'000 t	512	258	50
- of which from external copper-bearing materials	'000 t	94	42	45
Silver production	t	1 110	600	54
Expenditure for purchase and construction of tangible fixed assets	million PLN	1 637	388	24
Revenues from sales	million PLN	11 193	6 031	54
Profit for the period	million PLN	2 904	1 815	62

\* Budget for 2008 approved by the Supervisory Board on 27 March 2008

In the first half of 2008, the Company earned revenues from sales in the amount of PLN 6 031 million and a profit for the period of PLN 1 815 million, which means an achievement of the Budget at the respective levels of 54% and 62% of the planned amounts. The financial results after the first half of 2008 are in line with the approved Budget for 2008.

At present the Company is preparing an adjusted Budget, reflecting the results achieved in the first half and the review of Budget assumptions for the second half of 2008. The adjusted Budget recommended by the Management Board has been presented to the Supervisory Board for its approval. The publication of the forecast will be published immediately thereafter.

## METHODOLOGY OF CALCULATING RATIOS USED IN THE REPORT

### Assets financing ratios:

- **Coverage of assets by equity** – equity divided by total assets,
- **Coverage of non-current assets by equity** – equity divided by non-current assets,
- **Coverage of non-current assets by long-term capital** – equity plus non-current liabilities divided by non-current assets,
- **Coverage of current assets by current liabilities** – current liabilities divided by current assets.

### Liquidity and profitability ratios:

- **Current liquidity** – current assets divided by current liabilities,
- **Quick liquidity** – current assets minus inventories divided by current liabilities,
- **ROA – return on assets (%)** – profit for the period divided by total assets, multiplied by 100,
- **ROE – return on equity (%)** – profit for the period divided by equity, multiplied by 100,
- **Debt ratio (%)** – total liabilities plus accruals and deferred income divided by equity and liabilities,
- **Durability of financing structure (%)** – equity plus non-current provisions for liabilities plus non-current liabilities divided by equity and liabilities.

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<b>Signatures of all members of the Management Board</b>			
<b>Date</b>	<b>First name, surname</b>	<b>Position/Function</b>	<b>Signature</b>
16 September 2008	Mirosław Krutin	President of the Management Board	
16 September 2008	Herbert Wirth	I Vice President of the Management Board	
16 September 2008	Maciej Tybura	Vice President of the Management Board	