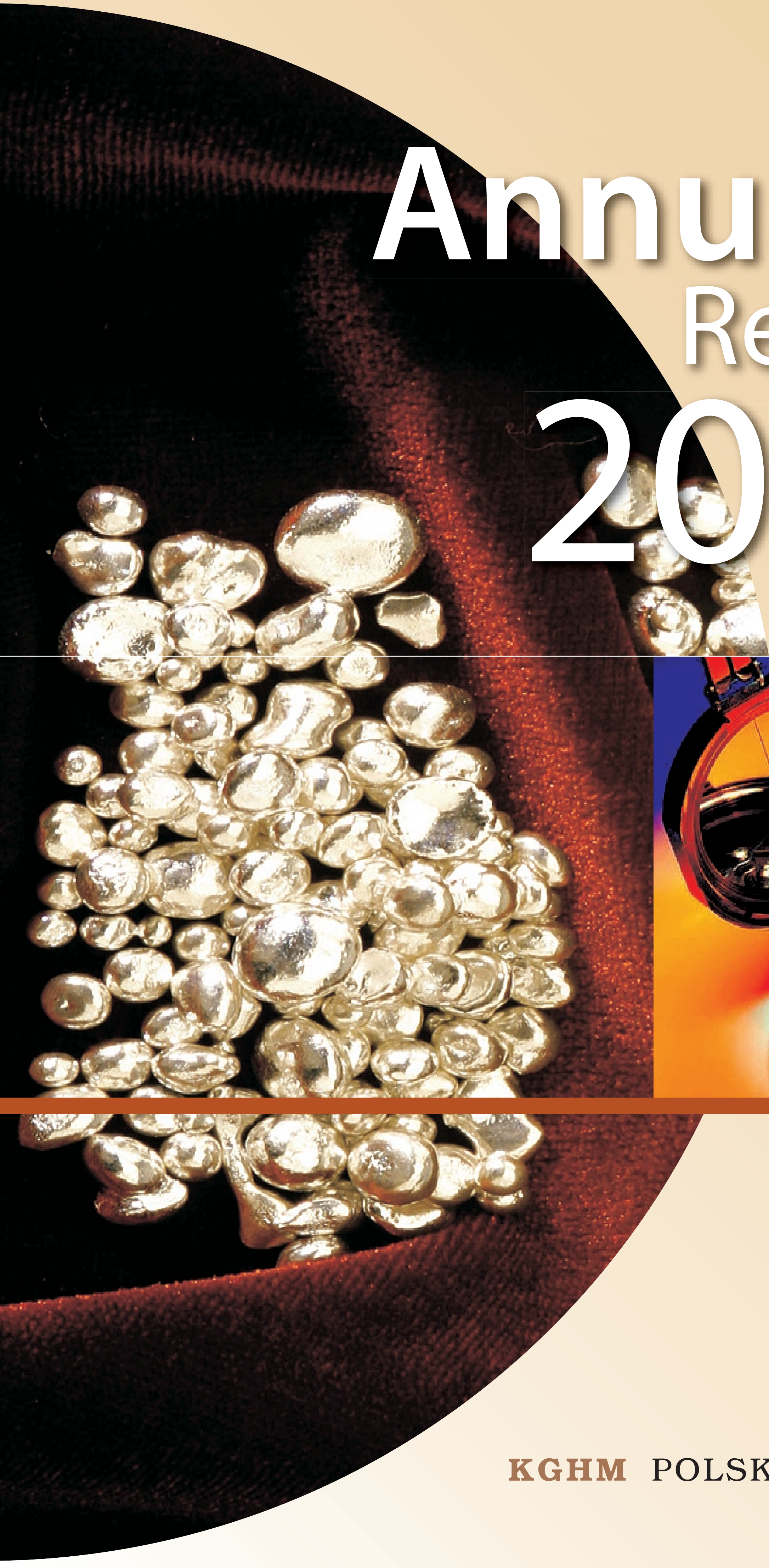
ANNUAL REPORT 2005

KGHM POLSKA MIEDŹ S.A.

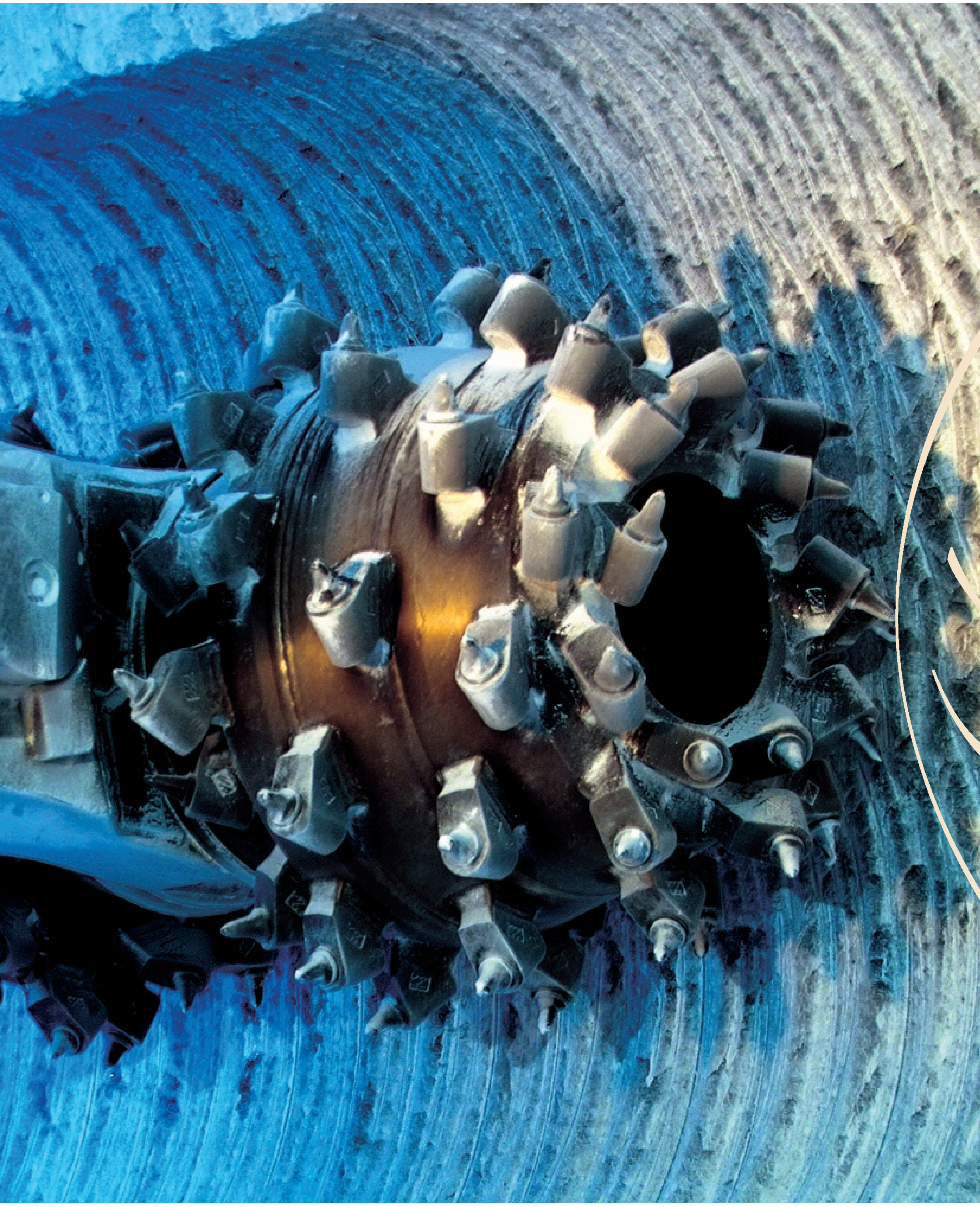


Annual Report 2005

KGHM POLSKA MIEDŹ S.A.

Contents

A wave of records



The world of Polish Copper arose in the very heart of Europe nearly 50 years after the discovery of a unique copper-bearing deposit. This began an extraordinary journey to the interior of the earth, one which transformed the face of the entire region and gave birth to one of the most important industrial zones in Poland. In it there arose a modern enterprise, being one of the leaders of the global copper market – KGHM Polska Miedź S.A.

Letter of the Chairman of the Supervisory Board

Dear Shareholders,

The year 2005 was a successful one for KGHM Polska Miedź S.A. The continued exceptional situation on the global copper and silver markets allowed the Company to earn a record net profit of PLN 2 289 million.

Investors took keen note of the results of the Company. The share price over the course of the year rose by nearly 100 per cent.

The key task for 2006 will be to take maximum advantage of the positive trends on the global markets by the active engagement of the Company's leadership. The chief goal of the Management Board in its new form will be to effectively deal with the steady rise in production costs and to search for ways to cut them back. The leadership of KGHM must take advantage of the current market situation to optimise costs and to carry out needed restructurisation.

The basis for the long-term growth of KGHM Polska Miedź S.A. will be the Strategy of the Company for the years 2007–2013, which will be presented in the fourth quarter of 2006.

Apart from its long-term plans for action, the Company is taking active steps to further incorporate the principles of corporate governance and best practice. Emphasis must likewise be placed on efforts to improve the sphere of innovation. In all of these areas the Management Board has the full support of the Supervisory Board.

I am convinced that 2006 will be even more advantageous for KGHM than its predecessor. There is no indication that the extraordinary condition of the global markets will end any time soon. Thanks to the actions of the leadership of the Company as respects optimising costs, the profit of the Company will be even better than last year's.

Any large investments by the Company must past the test of economic effectiveness. I can therefore assure you that the accepted Strategy of the Company will include only those enterprises which assure KGHM of steady growth and which will enhance its future value.

Antoni Dynowski
Chairman of the Supervisory Board

Lubin, July 2006

Antoni Dynowski
Chairman of the Supervisory Board

Krzysztof Skóra
President of the Management Board

Letter of the President of the Management Board

Dear Shareholders,

KGHM Polska Miedź S.A. in 2005 achieved record financial results. Net profit amounted to PLN 2 289 million. This was decidedly caused by the historically-high copper prices and the very high silver prices. The share price of KGHM in 2005 rose by nearly 100%, from PLN 31.4 at the beginning of January to PLN 62.5 at the end of December 2005.

The Market Daily "Parkiet" awarded us with the "Bull and Bear" prize for being a best market investment from the WIG 20 index in 2005. Likewise "Puls Biznesu" honored the Company with the title "Pillar of the Polish Economy".

There are however some disquieting factors of significance for the functioning of the Company – the increase in production costs and the negative impact of hedging transactions on the level of revenues.

The Management Board is determined to deal with these matters with particular care. Putting a break on these unfavorable tendencies and increasing the value of the Company are the most important tasks in the coming years.

We are facing the necessity of updating the strategy of the Company: we are reviewing the investment program; we want to maintain the current production capacity of KGHM over the long term; we are continuing work aimed at fully accessing the new „Głogów Głęboki Przemysłowy" deposit; and we are considering the possibility of expanding our resource base by the acquisition of deposits outside of Poland which are cheap to exploit.

The value of the Company is significantly impacted by the valuation of its telecoms assets. Together with the Polish shareholders we are pursuing a policy of increasing the value of our assets in the company Polkomtel S.A. We are endeavoring to optimise our commitment in Telefonia Dialog S.A.

Realisation of these intentions should significantly increase the effectiveness of the functioning of the Company.

I would like here to offer my thanks to all of the employees of KGHM Polska Miedź S.A. for their efforts in helping to achieve the results gained in 2005, as well as to our shareholders for the trust they have bestowed us. I likewise wish to assure you of the determination both of myself and of the Management Board I lead to build a firm basis for the growth of the Company.

Krzysztof Skóra
President of the Management Board

Krzysztof Skóra

Lubin, July 2006

Company bodies

Supervisory Board

Antoni Dynowski – Chairman

Maciej Kruk – Deputy Chairman

Czesław Cichoń

Marcin Ślęzak

Ryszard Wojnowski

together with the following employee representatives:

Józef Czyczerski – Secretary

Leszek Hajdacki

Ryszard Kurek

During the period from 1 January 2005 to 15 June 2005 the Supervisory Board was composed of the following persons: Janusz Maciejewicz, Chairman, Jerzy Markowski, Deputy Chairman, Jan Rymarczyk, Secretary; Elżbieta Niebisz, Tadeusz Janusz, Marek Wierzbowski, together with the following employee representatives: Józef Czyczerski, Leszek Hajdacki, Ryszard Kurek.

As a result of conclusion of the Vth term Supervisory Board, the Ordinary GSM of KGHM Polska Miedź S.A. on 15 June 2005 appointed the following persons to the VIth term Supervisory Board: Elżbieta Niebisz, Chairman, Tadeusz Janusz, Deputy Chairman, Jan Rymarczyk, Secretary, Krzysztof Szamałek, Maciej Kruk, Marek Wierzbowski, together with the following employee representatives: Józef Czyczerski, Leszek Hajdacki, Ryszard Kurek.

On 31 January 2006 the Extraordinary GSM made changes to the Supervisory Board. Following these changes the Supervisory Board was composed of the following persons: Antoni Dynowski, Chairman, Maciej Kruk, Deputy Chairman, Czesław Cichoń, Leszek Hajdacki, Ryszard Kurek, Krzysztof Skóra, Marcin Ślęzak, Ryszard Wojnowski, together with the following employee representatives: Józef Czyczerski, Secretary, Leszek Hajdacki, Ryszard Kurek.

On 24 February 2006, as a result of being appointed President of the Management Board of KGHM Polska Miedź S.A., Krzysztof Skóra submitted his resignation from the Supervisory Board. Since 24 February 2006 the Supervisory Board has been composed of the following persons: Antoni Dynowski, Chairman, Maciej Kruk, Deputy Chairman, Czesław Cichoń, Marcin Ślęzak, Ryszard Wojnowski together with the following employee representatives: Józef Czyczerski, Secretary, Leszek Hajdacki, Ryszard Kurek.

Management Board

Krzysztof Skóra
– President of the Management Board

Maksymilian Bylicki
– I Vice President of the Management Board

Marek Fusiński
– Vice President of the Management Board

Stanisław Kot
– Vice President of the Management Board

Ireneusz Reszczyński
– Vice President of the Management Board

During the period from 1 January 2005 to 23 June 2005 the Management Board was composed of the following persons: Wiktor Błądek, President of the Management Board; Jarosław Andrzej Szczepek, I VP of the Management Board for Finance-Economics; Andrzej Krug, VP of the Management Board for Employee Affairs; Robert Nowak, VP of the Management Board for Trade, Marketing and Hedging; Marek Szczerbiak, VP of the Management Board for Production.

From 23 June 2005 to 1 January 2006 the Management Board was composed of the following persons: Marek Szczerbia, President of the Management Board; Jarosław Andrzej Szczepek, I VP of the Management Board for Finance-Economics; Wiktor Błądek, VP of the Management Board for Mining; Andrzej Krug, VP of the Management Board for Employee Affairs; Robert Nowak, VP of the Management Board for Trade, Marketing and Hedging; Sławomir Pakulski, VP of the Management Board for Smelting.

On 19 December 2005 the Supervisory Board resolved to suspend Wiktor Błądek and Andrzej Krug from performance of the duties of VP for a period not longer than three months.

During the period from 1 January 2006 to 10 February 2006 the Management Board was composed of the following persons: Marek Szczerbiak, President of the Management Board; Jarosław Andrzej Szczepek, I VP of the Management Board for Finance-Economics; Wiktor Błądek, VP of the Management Board for Mining*; Andrzej Krug, VP of the Management Board for Employee Affairs*; Robert Nowak, VP of the Management Board for Trade, Marketing and Hedging; Sławomir Pakulski, VP of the Management Board for Smelting

On 10 February 2006 the Supervisory Board recalled Marek Szczerbiak as President of the Management Board and delegated member of the Supervisory Board Krzysztof Skóra to temporarily perform the duties of President of the Management Board.

From 24 February 2006 the Management Board was composed of the following persons: Krzysztof Skóra, President of the Management Board; Maksymilian Bylicki, I VP of the Management Board for Employee Affairs; Mirosław Biliński, VP of the Management Board for Smelting; Wiktor Błądek, VP of the Management Board for Mining (duties assumed from 8 March 2006); Marek Fusiński, VP of the Management Board for Finance-Economics; Ireneusz Reszczyński, VP of the Management Board for Trade, Marketing and Hedging.

As a result of the expiration of the Vth-term Management Board of KGHM Polska Miedź S.A. on 31 May 2006 the Supervisory Board appointed Krzysztof Skóra as President of the VIth-term Management Board. The following persons were appointed to the Management Board: Maksymilian Bylicki, I VP of the Management Board for Employee Affairs; Marek Fusiński, VP of the Management Board for Finance-Economics; Stanisław Kot, VP of the Management Board for Smelting, and also temporarily serving as VP of the Management Board for Mining; Ireneusz Reszczyński, VP of the Management Board for Trade, Marketing and Hedging.

** suspended from the performance of their duties*

Stanisław Kot
Vice President of the Management Board

Krzysztof Skóra
President of the Management Board

Ireneusz Reszczyński
Vice President of the Management Board

Marek Fusiński
Vice President of the Management Board

Maksymilian Bylicki
I Vice President of the Management Board

Management Board KGHM Polska Miedź S.A.

Company profile

KGHM Polska Miedź S.A. is a company with an over 40-year tradition. It was created in 1961. Starting from 12 September 1991 KGHM Polska Miedź has been a stock exchange listed company. Since July 1997 its shares have been traded on the Warsaw Stock Exchange, while its GDRs (global depositary receipts) have been traded on the London Stock Exchange.

KGHM Polska Miedź S.A. is one of the largest copper and silver producers in the world. Annual production by the Company is around 560 thousand tonnes of electrolytic copper and 1200 tonnes of silver.

KGHM Polska Miedź S.A. is a multi-divisional enterprise, comprised of a Head Office with 10 Divisions: 3 mines, 3 copper smelters, ore enrichment plants, a tailings management plant, an emergency rescue unit and a data processing center.

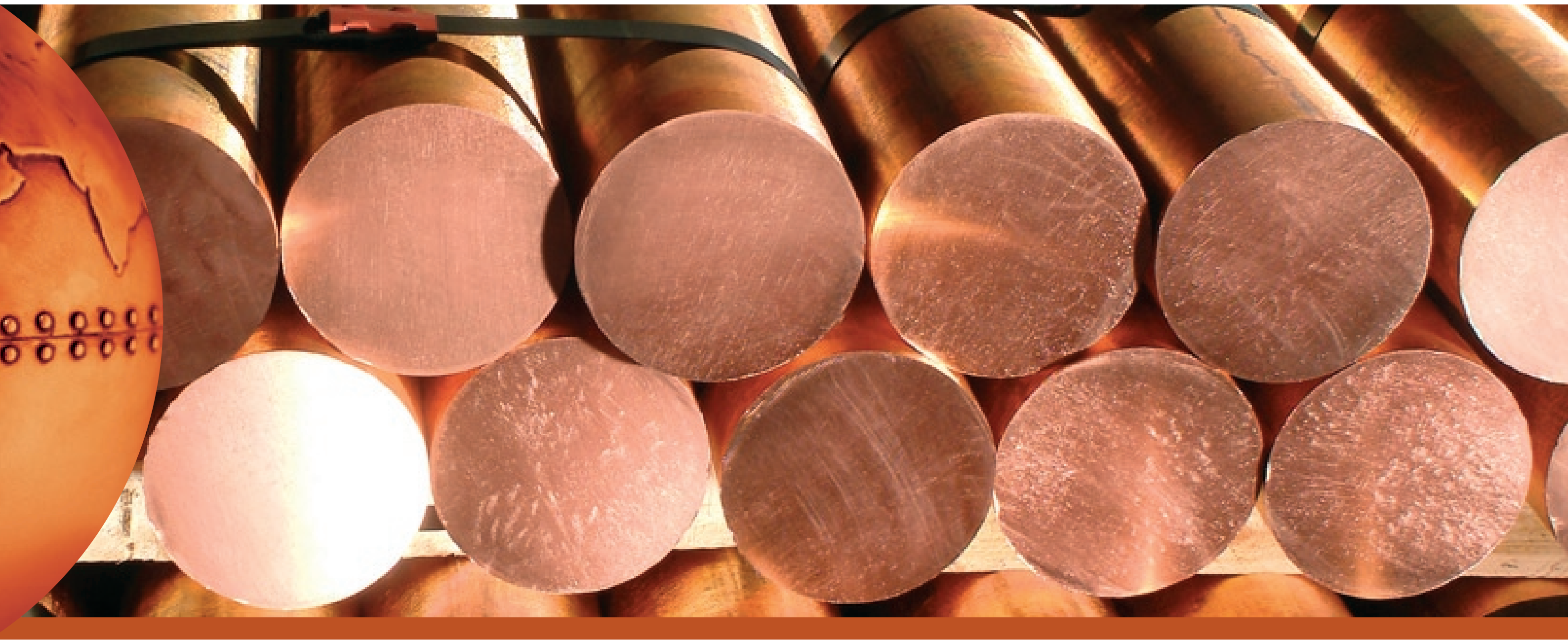
The Company also owns shares (directly or indirectly) in over thirty commercial law companies, which together comprise the KGHM Polska Miedź S.A. Group.

Core business

The resource base of KGHM Polska Miedź S.A. is the largest in Europe and one of the largest deposits of copper ore in the world, comprising a surface area of appx. 800 km2 and containing 32.2 mln tonnes of copper. The core business of the Company is the production of copper and silver. KGHM acquires its copper primarily from copper ore from which, following enrichment, concentrate is obtained. This concentrate is then processed at the smelters into copper anodes, from which, after being subjected to electrorefining, refined copper is obtained (containing 99.99% pure copper). A by-product of the copper electrorefining process in KGHM is anode slime, from which silver and small amounts of gold are recovered.

KGHM Polska Miedź S.A. Group

The companies of the Group are separate legal entities, with varying equity participation (directly or indirectly) by KGHM Polska Miedź S.A. and spanding a wide range of activities. These companies offer products and services both related to the core



business of KGHM Polska Miedź S.A. (including mine construction, producing machinery and equipment for the mining and construction industries, and R&D) as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications and medicine, and including companies involved for example in power generation and the manufacture of silver-plated cutlery. Two of the companies belonging to the KGHM Polska Miedź Group are holding entities with their own group structures: KGHM DSI Metale S.A. and PHP „Mercus" spółka z o.o.

KGHM Polska Miedź S.A. Group

As at 31 December 2005

KGHM Polska Miedź S.A.

- Lubin Mine
- Polkowice-Sieroszowice Mine
- Rudna Mine
- Ore Enrichment Plants
- Tailings Management Plant
- Głogów Smelter and Refinery
- Legnica Smelter and Refinery
- Cedynia Rolling Mill
- Head Office
- Emergency Mine-Smelter Rescue Unit
- Central Data Processing Center

Equity investments of KGHM Polska Miedź S.A.

- KGHM Polish Copper Ltd. 100%
- POL-MIEDŹ-TRANS spółka z o.o. 100%
- CBJ sp. z o.o. 100%
- DIALOG S.A. 100%
- PeBeKa S.A. 100%
- KGHM Metraco sp. z o.o. 99%
- TUW - CUPRUM 94%
- MINOVA-KSANTE Spółka z o.o. 30%
- INFOMONITOR Biuro Informacji Gospodarczej S.A. 17%
- INTERFERIE S.A. 3%
- KGHM Kupferhandels.m.b.H. 100%
- PHP „MERCUS" -spółka z o.o. 100%
  - PU „Mercus Serwis" Sp. z o.o. 100%
  - PHU „Lubinpex" Sp. z o.o. 96%
  - PHU „Mercus Bis" sp. z o.o. 48%
  - „Zagłębie" Lubin SSA 39%
- „MCZ" S.A. 100%
- KGHM CUPRUM sp. z o.o. - CBR 100%
- KGHM Congo S.P.R.L. 100%
- „Energetyka" sp. z o.o. 100%
  - Energetyka Spółka Specjalnego Przeznaczenia sp. z o.o. 100%
- „Zagłębie" Lubin SSA 41%
- Polkomtel S.A. 20%
- PTR S.A. 12%
- KGHM Metale DSI S.A. 100%
  - INOVA Spółka z o.o. 100%
  - DFM ZANAM-LEGMET Sp. z o.o. 100%
  - WFP Hefra SA 97%
  - INTERFERIE S.A. 94%
  - AQUAKONRAD SA in liquidation 90%
  - PCPM sp. z o.o. 74%
  - WM „ŁABĘDY" S.A. 62%
  - WMN sp. z o.o. 58%
  - DKE Spółka z o.o. 50%
  - DOL-EKO organizacja odzysku S.A. 20%

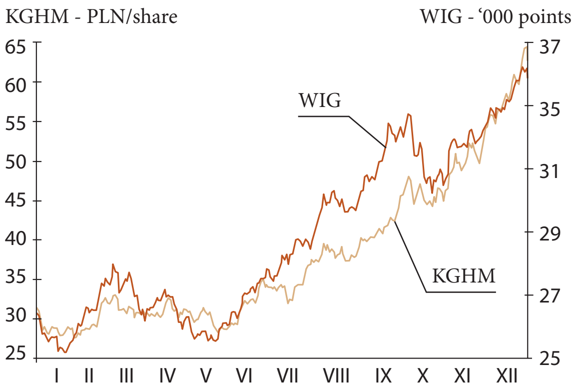
The Company on the markets

Share performance in 2005

Since July 1997 the Company's shares have been traded on the Warsaw Stock Exchange, while its GDRs (global depositary receipts) have been traded on the London Stock Exchange. In 2005 the Company's shares performed similarly on both exchanges.

The share price of the Company on the Warsaw Stock Exchange in 2005 increased from PLN 31.30 (the closing price on the last day of 2004) to PLN 62.50 (the closing price from 30 December 2005), representing an increase during 2005 of 99.7%. During this same period the Warsaw Stock Exchange WIG index increased by 33.7%. During 2005 the share price of the Company repeatedly reached new highs. The Company recorded its highest closing price on 29 December – PLN 64.40, while its lowest occurred on 28 and 31 January – PLN 27.60.

Share performance of the Company in 2005 versus the WIG index:



Key share performance data for KGHM on the Warsaw Stock Exchange

KGHM		2003	2004	2005
Closing price on the WSE at the end of the financial year	in PLN	26.20	31.30	62.50
High during the year (close)	in PLN	26.80	39.00	64.40
Low during the year (close)	in PLN	11.35	25.60	27.60
Market cap, end-of-period	in mln PLN	5 240	6 260	12 500
Shares issued	in mln	200	200	200
Dividend payout per financial year, per share	in PLN	-	2.00	10
Rate of return	% in PLN	94.1	19.5	111.9
Turnover	in mln PLN	4 624.1	10 078.6	14 431.0
Average volume per session		512 365	640 468	778 517
Average # of transactions per session		465	566	674

Equity market ratios

		2003	2004	2005
EPS (PLN)	Net profit (loss) / number of shares	2.65	6.99	11.45
P/CE	Price per share / financial surplus per share	6.3	3.7	4.8
P/E	Price per share / earnings per share	9.9	4.5	5.5
MC/S	Market capitalisation* / revenues from sales	1.1	1.0	1.6
P/BV	Price per share / book value per share**	1.5	1.2	2.0

* Market capitalisation represents total shares outstanding times share price from the last day of the year. (200 mln shares x PLN 26.20 in 2003; PLN 31.30 in 2004; PLN 62.50 in 2005)

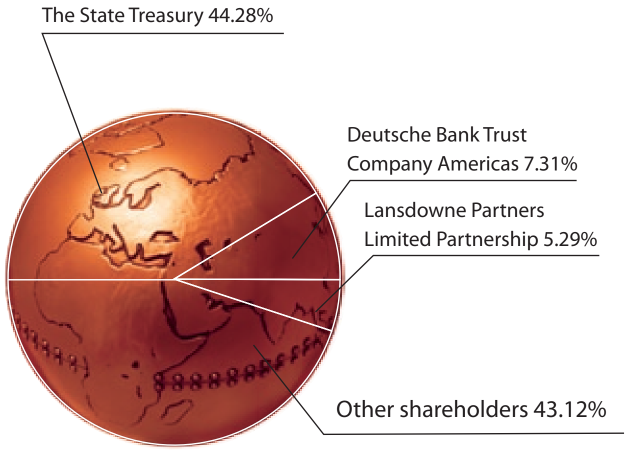
** Book value equals that of the balance sheet date.

The Company on the markets

Ownership structure of the Company

The share capital of the Company amounts to PLN 2 000 000 thousand and is divided into 200 mln ordinary bearer shares having a nominal value of PLN 10 each.

At 31 December 2005 the following shareholders held a number of shares representing 5% or more of the share capital of the Company, as well as 5% or more of the total number of votes at the General Shareholders Meeting of the Company:

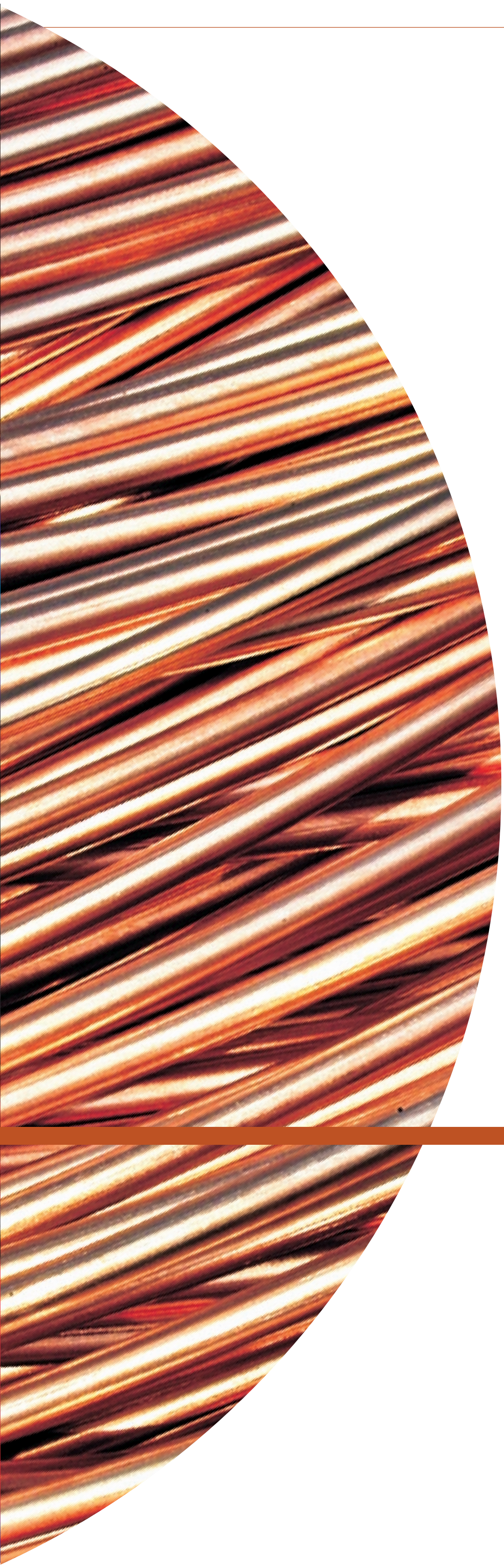


- The State Treasury
- Deutsche Bank Trust Company Americas (depositary bank in the depositary receipt program of the Company)
- Lansdowne Partners Limited Partnership

In 2005 the share price of KGHM increased by 99.7%. Together with the payment of a dividend totalling PLN 400 mln, the rate of return from investing in the Company's shares was 111.9% and was the highest of any company included on the WIG 20 index. This fact was honored by the Market Newspaper „Parkiet", which recognised the shares of KGHM as a „Best investment in the WIG 20" and awarded the Company with the statuette „Bull and Bear".

KGHM also took first place in the category „Resources and Power" in the ranking „Pearls of the Polish Market", likewise conducted by „Parkiet", as a company which in 2005 achieved the highest level of financial, sales and share performance success in this segment.

On the right path



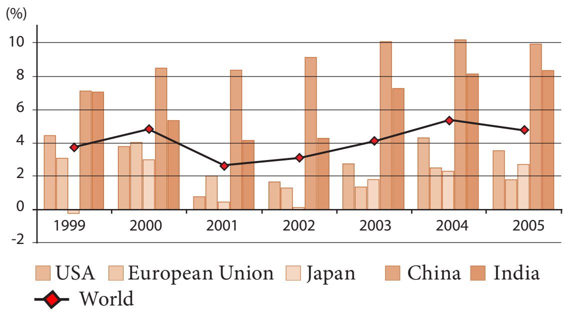
The copper and silver produced by KGHM are characterised by the highest level of quality as demonstrated by certificates issued by the London Metal Exchange (LME) and the London Bullion Market Association (LBMA). The market brands of our products guarantee their high, stable quality, recognised by all international market participants.

Global economy

Dynamic growth of the Chinese economy and growth of the global economy

In 2005 the global rate of economic growth exceeding expectations, despite the increase in oil prices and numerous natural disasters. The global economy grew at a rate of 4.8% (0.5% less than in 2004, though more than expected by analysts). Amongst industrialised countries, the chief driver of growth was the economy of the United States. Developing countries maintained an extremely dynamic increase in economic growth, especially in China, India and Russia, which recorded respective increases of 9.9%, 8.3% and 6.4%. These countries may for the moment be considered as the engines of world economic growth.

Percentage change in GNP of largest global economies versus prior year (%)



Source: IMF

Situation on copper market

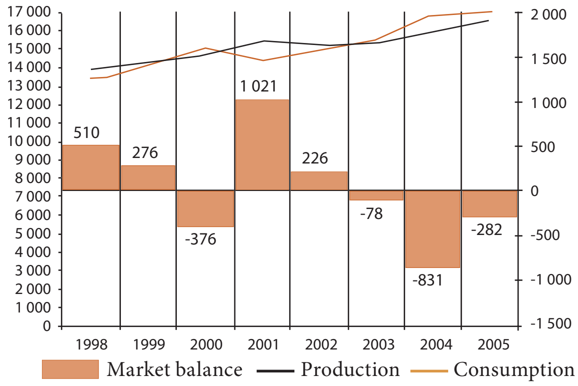
Copper production lower than forecast

Due to natural disasters, strikes and social unrest, global refined copper production in 2005 was lower than forecast. In 2005 mining production increased by 3.2% (forecast 7%) versus 2004 and amounted to 15 mln tonnes. Refined copper production during this period amounted to 17 mln tonnes, meaning an increase of 4.3% (forecast 8%). The main increase in production was in Asia (by 11%). This was mainly due to China, which is intensively developing its production capacity to meet growing domestic demand for copper.

Copper deficit third year running

Although consumption of refined copper in 2005 increased a mere 0.9% (or 144 thousand tonnes), there was a deficit on the market of 282 thousand tonnes. Apart from Asia and Africa, every region of the globe recorded a fall in refined copper consumption.

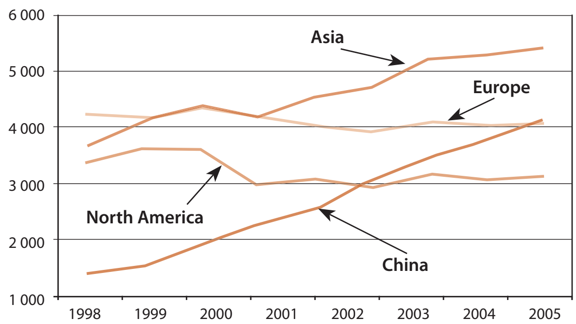
Production and consumption of refined copper globally and market balance in the years 1998–2005 ('000 t)



Source: CRU International Ltd.

The motor of the increase in demand for copper was China as well as other Asian countries. In 2005 consumption in China increased – in relation to 1998 – from 1.4 to 3.7 mln tonnes, which means an increase of 167%. During this same period consumption in North America decreased by 9.5%, and in Europe by 4.8%. It has already been several years since China overtook North America in copper consumption, and all indications are that it will also overtake Europe. In 2005 Europe consumed 4.02 mln tonnes of copper, while consumption in China reached 3.8 mln tonnes.

Refined copper consumption in the largest global economies in the years 1998–2005 ('000 t)



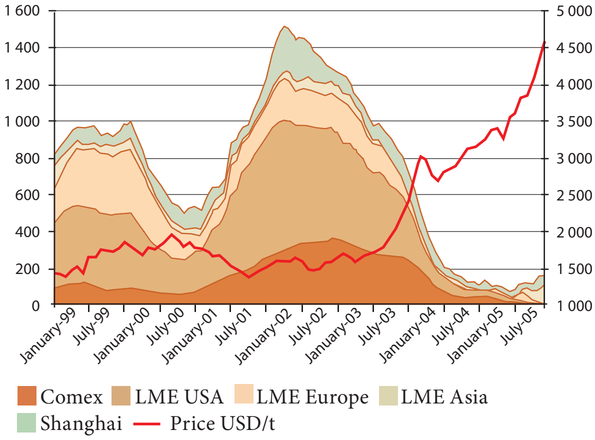
Source: International Copper Study Group – 2005

Historic price records – lowest inventories in market warehouses

The average cash settlement copper price on the LME in 2005 was 3 684 USD/t and was 28.4% higher than the average from 2004, when it reached 2 868 USD/t. On 28 December 2005 the highest copper price in history was recorded. The three-month price reached 4 512 USD/t, while the cash settlement price reached 4 650 USD/t. The previous high, recorded at the end of the 1980s, was 3 496 USD/t.

In 2005 there was a dramatic fall in LME warehouse inventories. The lowest level was recorded on 22 July – 25 525 tonnes. Although inventories since then have continued to recover, by the end of 2005 they remained at a very low level. The lack of availability of this material in the warehouses creates the risk of there being a physical shortage of the metal on the market should there be any decreases in production.

Copper stocks in the years 1999–2005 ('000 t)



Source: CRU International Ltd.

Impact of new funds on the commodities market

An extremely important factor impacting the copper price is the activity of investment funds. Over the last several years their year-on-year impact on the market has grown. In the years 1995–1997, when the copper price was at a very high level, these funds were significantly less active on the copper market. Massive purchases by this group of market participants made their presence felt by the end of 2003 and continue to this day. According to analysts' estimates, the involvement of investment funds on commodities markets in 2005 reached 80 billion USD, and a further increase in their assets is expected.

Situation on the silver market

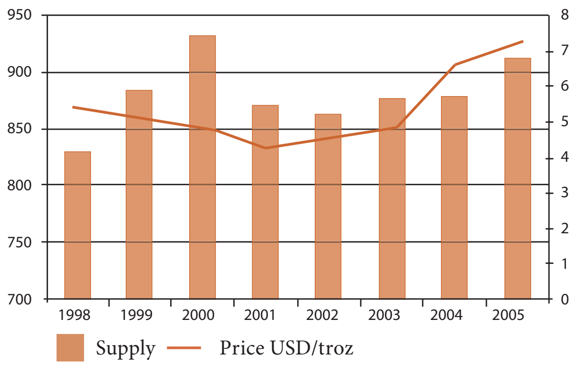
The average silver price in 2005 was 7.31 USD/troz and was nearly 10% higher than the average in 2004, when it amounted to 6.66 USD/troz. The lowest fix price was recorded at the beginning of January (6.39 USD/troz), while the highest silver fix price was recorded in December (9.225 USD/troz).

The high silver prices in 2005 are to a large extent the result of actions by investment funds. For most of the year the silver price consolidated between 6.80–7.60 USD/troz. Only a dynamic inrease in the last few months of the year enabled it to reach the level of 9.225 USD/troz (fix price from 12 December 2005). This was mainly caused by speculations involving the introduction of a new financial product on the silver market, called the ETF (Exchange Traded Fund).

Despite a further fall in demand by the photographic industry (-9%) in 2005 consumer demand increased by 3%. The increase in the global economy led to an increase in the demand for silver, primarily from the electronics sector. There was also a significant increase in so-called implied net investments (over 22%, to 47.5 mln ounces), as confirmed by the strong interest by investors in placing their savings in silver.

Mining production of silver increased in 2005 versus 2004 by 3.4%. Despite high silver prices the supply of scrap only increased by appx. 3% to 187.3 mln ounces.

Silver supply and prices in the years 1998–2005 [mln ounces]



Source: GFMS Limited

Currency market

In 2005 the average annual USD/PLN exchange rate was 3.2347, with a EUR/PLN rate of 4.0231. Both of these figures are 11% lower than in 2004, when the yearly average was, respectively, USD/PLN 3.6484 and EUR/PLN 4.5294. The annual low for the USD/PLN rate was recorded at the beginning of March (2.9066), and the high at the start of July (3.4491). The low for the EUR/PLN rate was recorded in mid-December (3.8223 PLN), and the high at the end of April (4.2756).

Review of financial results

Due to a more favorable situation on the metals market, profit of the Company before ordinary items and taxation in 2005 was PLN 2 635 mln and was 82.2% higher than in the prior year. This result was impacted by:

- a profit from sales of PLN 2 707 mln,
- a loss on other operating activities of PLN (198) thousand, and
- a profit on financial activities of PLN 126 mln.

The result on sales was decisively impacted by the following external factors:

- the high level of copper and silver prices, and
- the relatively low USD/PLN exchange rate.

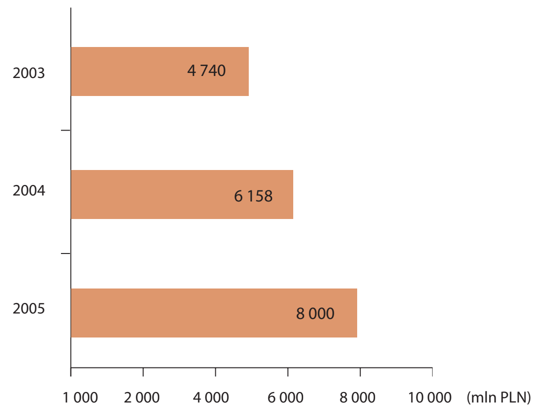
The financial result was also impacted by:

- a decrease in the loss from settlement of hedging transactions, from PLN (914) thousand to PLN (229) thousand, and
- an increase in the unit cost of electrolytic copper production by 16.0%.

In 2005 99.1% of revenues from sales represented revenues from the sale of the basic products, copper and silver.

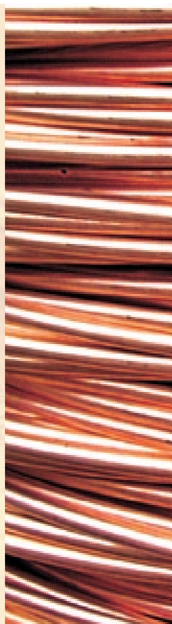
Revenues from the sale of products were higher by PLN 1 683 mln, i.e. by 27.0% in relation to the prior year.

Revenues from sales

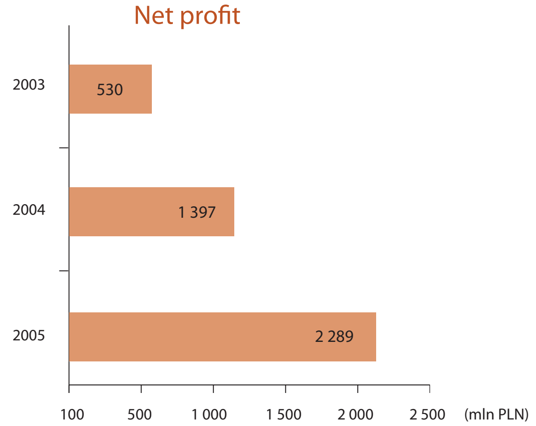


Basic elements of the income statement (mln PLN)

	2003	2004	2005	Change (2004=100%)
Revenues from the sale of products, goods for resale and materials	4 740	6 342	8 000	126.1
Operating costs	4 309	4 713	5 293	112.3
Profit (loss) from sales	431	1 629	2 707	166.2
Operating profit (loss)	357	1 370	2 509	161.4
Profit (loss) before extraordinary items and taxation	522	1 4463	2 635	182.2
Profit (loss) before taxation	522	1 446	2 635	182.2
Net profit (loss)	530	1 397	2 289	163.9



Net profit



Risk management

In 2005 strategies hedging the copper price represented appx. 20% of sales of this metal realised by the Company (in 2004 this figure was appx. 54%). In the case of silver this figure was at the level of appx. 37% (in 2004 – appx. 51%). In the case of the currency market hedged revenues from sales represented appx. 17% of total revenues from sales realised by the Company (in 2004 – appx. 35%).

Transactions hedging metals prices were settled with a negative result, while currency transactions were settled with a positive result. In 2005 the result on derivative instruments was at the level of PLN (219) mln, of which PLN (229) mln adjusted revenues from sales (the amount transferred from equity to the income statement during the financial period), while PLN 10 mln represented financial income (gain on the sale of investments).

In 2005 the Company implemented copper price hedging strategies in the total volume of 247.5 thousand tonnes and a timeframe comprising the second half of 2005, 2006 and 2007. The Company made use of options and swaps.

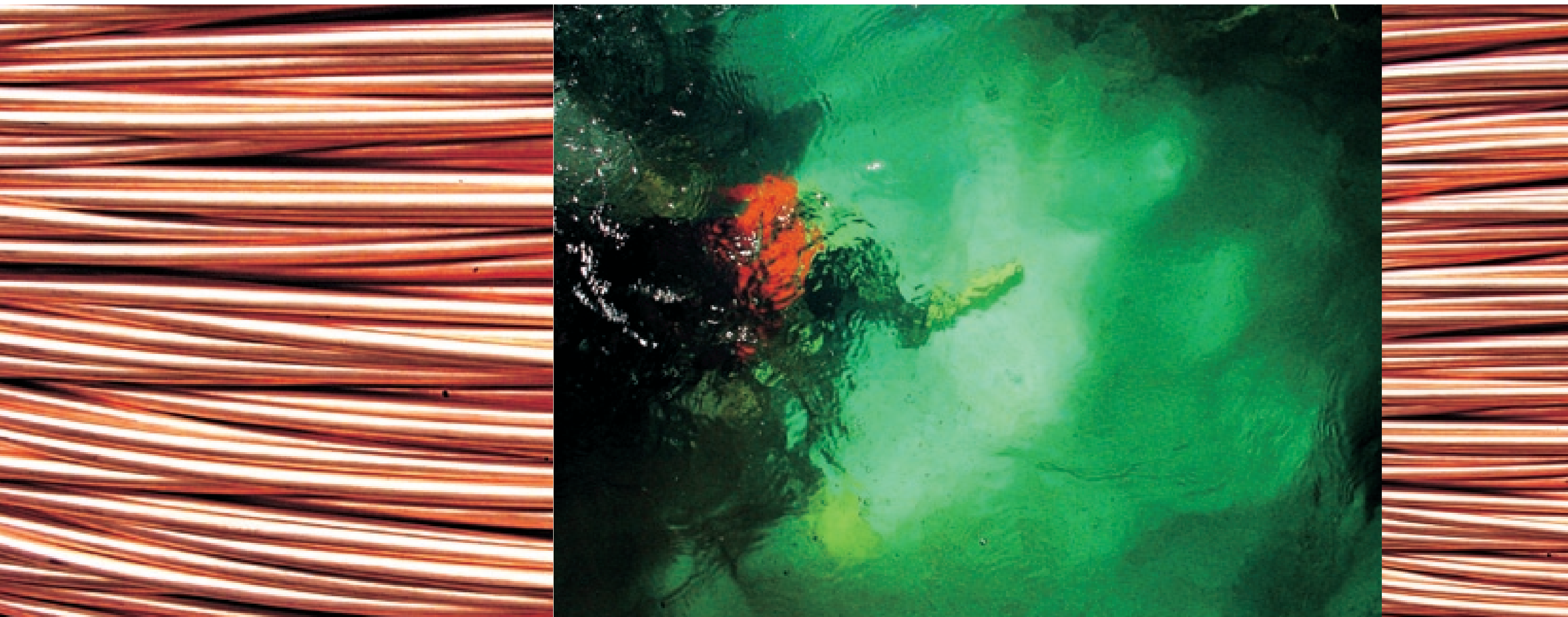
In the case of the silver market, strategies were implemented during the analysed period hedging the price of this metal, in the total volume of 6 mln troz (appx. 187 tonnes) and a timeframe comprising the second half of 2006 and the first half of 2007, using options and swaps.

With respect to actions on the currency market, in 2005 the Company implemented a strategy hedging the USD/PLN exchange rate for the total nominal value of USD 675 mln and a timeframe comprising the second quarter of 2005, the second half of 2005, 2006 and 2007. Options and forward contracts were used.

The Company remains hedged for a portion of its copper sales planned in 2006 (appx. 33%), and in 2007 (appx. 16%), for a portion of planned silver sales in 2006 (appx. 34%) and in the first half of 2007 (appx. 8%), and also for a portion of revenues from sales (currency market), planned to be achieved in 2006 (appx. 18%) and in 2007 (appx. 9%).

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

Due to the dynamic increase in copper and silver prices in the fourth quarter of 2005 and to the forecasted continuation of high prices in 2006, the Management Board of the Company will implement to a limited degree new hedging strategies on the metals market. Should there be any further implementation of hedging strategies, they will be constructed in such a way as to enable the Company to participate in price increases.



Assets

Total assets increased in relation to their amount at end-2004 by PLN 2 029 mln, i.e. by 22.7%, and amounted to PLN 10 977 mln.

The largest item in assets is tangible fixed assets, whose value at the end of 2005 was higher than in the prior year by PLN 230 mln and amounted to PLN 3 603 mln. This increase in assets is due among others to realisation of the investment program. Expenditures on the purchase and construction of fixed assets amounted in 2005 to PLN 651 mln, i.e. more than twice as much as depreciation. In comparison to 2004 there was a significant increase in the value of property related to machinery and technical equipment (an increase by PLN 188 mln) and of fixed assets under construction (together with prepayments an increase by PLN 91 mln).

Long-term investments are primarily composed of shares in the amount of PLN 2 673 mln.

The largest item in current assets is short-term investments. These are dominated by monetary assets, mainly in the form of current bank accounts, which in comparison to the end of 2004 increased five-fold, from PLN 318 mln to PLN 1 641 mln.

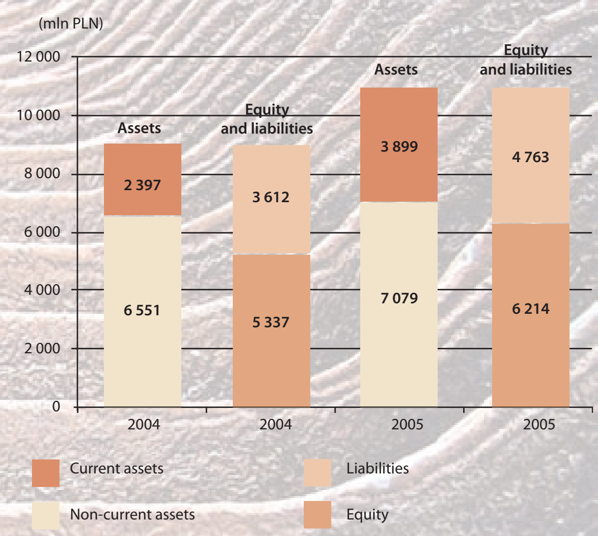
The value of inventories increased to PLN 1 134 mln (by PLN 227 mln, i.e. 25.0%) among others due to the import of copper-bearing materials. The value of inventories was also impacted by the cost of copper production, which increased from 6 660 PLN/t in 2004 to 7 723 PLN/t in 2005

Sources of financing assets

In 2005 the basic source of financing of assets was equity, whose share in total assets amounted to 56.6% (i.e. PLN 6 214 mln).

Equity was significantly impacted by net profit and by a change in the revaluation reserve. In 2005 the Company realised a higher profit than that recorded in 2004 by PLN 892 mln (an increase of 63.9%). The revaluation reserve meanwhile decreased by PLN 1 034 mln, mainly due to the valuation of the effective part of hedging transactions, PLN (1 472 mln).

Structure of assets in the years 2004–2005



The main items in provisions for liabilities are: the actualised provision for future employee benefits in the amount of PLN 817 mln, the provision for mine closure costs in the amount of PLN 379 mln and the deferred tax provision in the amount of PLN 323 mln.

As respects short-term liabilities, nearly half represent liabilities relating to financial instruments. Their value in comparison to the end of 2004 increased by PLN 767 mln.

Financial ratios

Liquidity ratios show the relationship of current assets, or their more liquid part, to short-term liabilities and remain at a level which does not endanger current liquidity.

The positive financial result was responsible for the improvement in the following factors: return on assets (ROA), and return on equity (ROE). The repayment of loans in 2004 significantly reduced the debt ratio while the durability of financing ratio remained unchanged. The increase in liabilities related to forward transactions led to a deterioration in this relationship in 2005.

Basic ratios describing the economic activities of the Company

	2003	2004	2005
Current liquidity	1.18	1.23	1.39
Quick liquidity	0.75	0.77	0.99
ROA – return on assets (%)	6.5	15.6	20.9
ROE – return on equity (%)	15.2	26.2	36.8
Debt ratio (%)	41.0	24.0	28.2
Durability of financing structure (%)	75.2	75.0	70.6

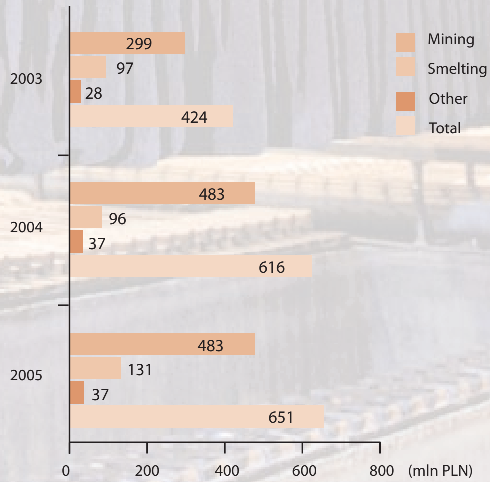
Tangible investments

In 2005 investments were financed by:

- the Company's own funds – PLN 634 mln,
- the environmental protection fund – PLN 16 mln (a preferential loan from the regional fund Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej in Wrocław).

Investment activities in 2005 were primarily aimed at the replacement of equipment and development.

Investment expenditures



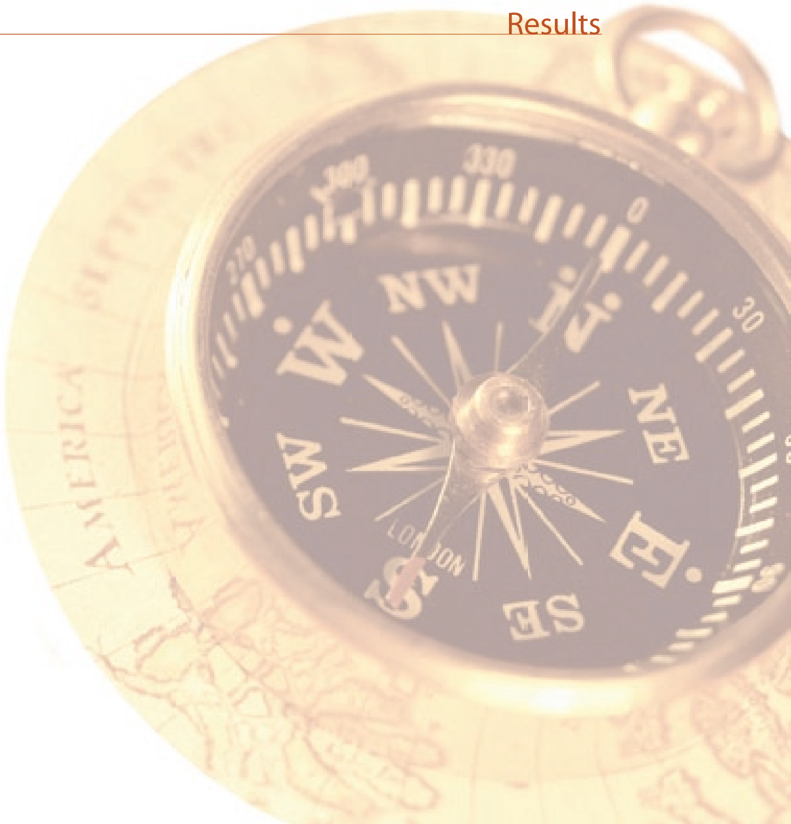
The main directions for investment in the years 2006-2010 are:

- mining of the deposit in currently licensed areas and beyond these currently licensed areas by using the most modern techniques and technology to minimise operating costs,
- diversifying production – construction of a lead refinery, construction of a de-oxygenated copper wire rod production line, whilst also under consideration is the production of chemigypsum from waste sulphuric acid,
- ensuring the management and sale of sulphuric acid,
- minimising environmental impact, and
- other investments related to reducing costs.

In addition in 2006 final decisions are expected to be taken in the following areas:

- replacing railway transport with hydraulic transport to the smelters, and
- modernisation of pyrometallurgy processing at the Głogów and Legnica smelters.

Realisation of projected financial results for 2005



In the current report dated 21 October 2005 the Company published its assumptions to the Forecast of financial results for 2005 – Annex to the Budget, as approved at the meeting of the Supervisory Board on this same day.

The projection anticipated the achievement in 2005 of revenues from the sale of products, goods for resale and materials of PLN 7 540 mln and net profit of PLN 2 078 mln.

The financial results are superior to those planned primarily due to higher-than-assumed metals prices, a higher volume of copper and silver sales and to a more advantageous exchange rate, alongside negative results from the settlement of hedging transactions.

Basic assumptions of forecast results and their realisation

		Forecast from 21.12.2004 *	Forecast from 30.08.2005 **	Forecast from 21.10.2005 ***	Execution 2005	Realisation of forecast %
Revenues from sales	mln PLN	5 936	7 217	7 540	8 000	106.1
Net profit	mln PLN	943	1 920	2 078	2 289	110.2
Average annual copper price	USD/t	2 550	3 200	3 553	3 684	103.7
Average annual silver price	USD/kg	187	222	226	235	104.0
USD/PLN exchange rate	PLN/USD	3.30	3.30	3.22	3.23	100.3
Electrolytic copper production	‘000 t	552	552	552	560	101.4
Silver production	t	1 219	1 230	1 230	1 244	101.1
Unit electrolytic copper production cost	PLN/t	7 180	7 450	7 720	7 723	100.0
	USD/t	2 175	2 258	2 394	2 388	99.7

** Based on the Budget for 2005 approved by the Supervisory Board on 20 December 2004*
*** Based on the Adjusted Budget for 2005 approved by the Supervisory Board on 12 September 2005*
**** Based on the Annex to the Budget for 2005 approved by the Supervisory Board on 21 October 2005*

The effect of more beneficial-than-assumed macro-economic conditions was limited by the negative accounting using the equity method of the shares of DIALOG S.A. due to the test carried out for impairment loss of the non-current assets of this company, and the impairment loss recorded in the fourth quarter of 2005 of PLN 184 mln.

Projected Company financial situation in 2006

The adjusted Budget for 2006, approved at the meeting of the Supervisory Board on 14 July 2006, assumes achievement of the following:

- revenues from the sale of products, goods for resale and materials of PLN 10 196 mln,
- net profit of PLN 3 383 mln.

Significant assumptions of the forecast:

- Macroeconomic factors:
  - average annual electrolytic copper price 5 800 USD/t,

  - average annual metallic silver price 11.00 USD/troz (354 USD/kg),
  - average annual exchange rate 3.15 PLN/USD.
- Internal factors:
  - electrolytic copper production 550 ,000 t,
  - metallic silver production 1 156 t,
  - total unit cost of electrolytic copper production 8 880 PLN/t,
  - investments in tangible assets PLN 858 mln.

The increase in planned revenues from sales and in net profit in relation to 2005 is mainly due to the assumption of more favorable macroeconomic conditions as regards metals prices. Forecast revenues from the sale of products, goods for resale and materials reflect the negative result on hedging transactions.

The higher-than-planned unit cost of electrolytic copper production versus the prior year is due in large measure to the increase in the amount and value of external copper-bearing materials processed.

The income statement reflects the recognition of equity assets accounted for using the equity method. In addition, the projection assumes realisation of a contingent agreement for the purchase of the shares of Polkomtel S.A. by the end of 2006.

Evaluation of the possibility of realising investment plans

The financial results of KGHM Polska Miedź S.A. for 2005 permit realisation of the approved equity investment plan, being an integral part of the Budget of the Company for 2006. The Company assumes investment expenditures of PLN 361 mln, of which PLN 272 mln represents the amount of the planned increase in share capital of the subsidiary Energetyka sp. z o.o. The increase in capital by this company is related to the realisation of the project to develop energy generation capacity.

In order to realise these investment projects, it is assumed that both internal funds and external funds in the form of bank and other loans, etc. will be used.

KGHM Polska Miedź S.A. also performed preparatory work on the investment in the Democratic Republic of Congo. This investment is related to the building of a hydrometallurgical facility which will enable the processing of copper and cobalt ore which has been mined and is expected to be mined in the Democratic Republic of Congo. The planned cost of the investment assumed for the years 2006 – 2007 may be around PLN 87 mln. It is assumed that the funds for financing this investment may come from a loan granted by KGHM Polska Miedź S.A. to its subsidiary KGHM Congo S.P.R.L. It is assumed that this loan will be repaid over a five-year period, starting from the commissioning of this facility. Work is currently being completed on the technical project for this facility. Due to the significant increase in expenditures required in relation to initial plans, the Management Board has not taken a final decision,

and is performing additional analyses as regards realising or exiting this project. The final decision on continuing or closing this project is planned to be taken in 2006.

In 2005, as part of the restructurisation of the Group, aimed at concentrating those companies of significance for the core business under the direct supervision of KGHM Polska Miedź S.A., shares of PeBeKa S.A. were purchased from DSI S.A., and shares of PHP Mercus Sp. z o.o. from KGHM Metale S.A. Thanks to these transactions, the combined entity KGHM Metale DSI S.A. received funds of PLN 51 mln. Therefore, it is assumed that KGHM Metale DSI S.A. will realise these investment projects from its own funds.

Due to the signing on 10 March 2006 of an agreement regarding the purchase from TDC A/S of the shares of Polkomtel S.A., should this agreement be realised, it is expected that the transaction will be realised using internal Company funds. In addition, it is assumed that the Company will receive a dividend from Polkomtel S.A. in 2006.

Full speed ahead

The modern production technology used in the mines and smelters of KGHM allow us to take full advantage of our natural resources and production potential. KGHM Polska Miedź S.A. has achieved the position of preferred European supplier of copper.

Resource base

The resource base for the core business of KGHM Polska Miedź S.A. is the largest copper ore deposit in Europe and one of the largest in the world, and lies between Lubin, Sieroszowice and Głogów.

The copper ore deposit currently being worked lies at a depth of from 600 to 1 380 meters.

Of particular economic importance for the Company is the relatively high silver content in the extracted copper ore (48 grams per tonne of ore).

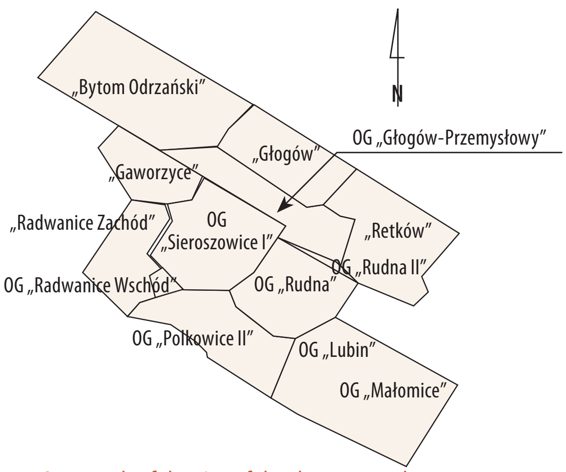
Areas currently being worked

The licensed areas controlled by the Company allow for the extraction of copper ore until the year 2013 in the mine sections „Lubin", „Małomice", „Polkowice", „Sieroszowice" and „Rudna", and until 2015 in the mine section „Radwanice Wschód" and until 2046 in the mine section „Rudna II".

Głogów Głęboki-Przemysłowy

On 25 November 2004 the Minister of the Environment granted KGHM Polska Miedź S.A. a license for the extraction of copper ore from the Głogów Głęboki-Przemysłowy deposit until 2054, and also established the mining region of this same name. The ore lies at a depth of from 1100–1400 m. This ore represents appx. 26% of the resources currently being worked by KGHM Polska Miedź S.A. In 2004 work on accessing this ore began from the Rudna mine.

The licenses of those mine sections which expire in 2013, in accordance with current Polish law, may be extended by the Company until the completion of mining activities (i.e. until the ore has been exhausted).



As a result of the size of the documented copper ore resources in the licensed regions of KGHM Polska Miedź S.A., Poland holds 4th or 5th place globally in terms of copper resources, and 1st place in terms of silver (based on the U.S. Geological Survey-2006)

Reserve areas

The documented ore deposits of „Gaworzyce" and „Radwanice Zachód", which adjoin the areas currently being worked by KGHM Polska Miedź S.A., are treated as reserve deposits which may in future be mined by the Company.

Areas with heightened copper mineralisation

Extending in a north-easterly direction from the currently-worked deposits and from the Głogów Głęboki-Przemysłowy deposit, which is being prepared for the commencement of mining, lie deposits at a depth of up to 1500 meters in which a heightened level of copper mineralisation has been proved, named „Głogów", Bytom Odrzański" and „Retków", but which, as they do not meet the criteria for being considered as balance geological reserves for copper deposits below 1250 m, are not considered as balance geological copper deposit reserves.

Mining Division/Mine Section	Ore resources (mln t)	Amount of Cu (mln t)	Amount of Ag (t)
„Lubin"	357	4.6	21 048
„Polkowice-Sieroszowice"	410	10.8	22 162
„Rudna"	544	9.8	22 902
„Głogów Głęboki-Przemysłowy"	292	7	23 003
KGHM Polska Miedź S.A.	**1 603**	**32.2**	**89 115**

Balance geological reserves of copper ore and metals (Cu, Ag) in the licensed areas of KGHM Polska Miedź S.A. (at 31.12.2005).

Mining Division	Ore resources (mln t)	Amount of Cu (mln t)	Amount of Ag (t)
„Lubin"	171	2.5	12 844
„Polkowice-Sieroszowice"	278	7.9	16 194
„Rudna"	261	5.6	12 195
„Głogów Głęboki-Przemysłowy"	212	5.1	17 263
KGHM Polska Miedź S.A.	**922**	**21.2**	**58 496**

Industrial ore resources of copper ore and metals (Cu, Ag) in the licensed mining regions of KGHM Polska Miedź S.A. (at 31.12.2005).

Core business

The core business of the Company is an integrated production process, in which the end product of one stage of the process is a semi-product used in the next stage.

Extraction

The Company extracts copper ore from its own mines. The ore, containing from 1.2% to 2.4% of copper, after being crushed, is transported to the surface and sent to the ore enrichment plants.

Ore enrichment

At the ore enrichment plants the copper ore is crushed and wet milled, and then in the form of a water slurry is transported to flotation machines to obtain copper concentrate. This concentrate, containing from 18 to 28 % copper, is sent to the smelters.

Smelting

In the smelters the concentrate is processed into converter copper (blister). The converter copper is then refined in anode furnaces, after which it is cast into anodes, containing appx. 99% copper. These anodes are next subjected to further refinement by the electrolytic refining process.

Electrolytic refining

This process takes place in electrolytic tanks. The anodes are dissolved in electrolyte, from which pure copper collects on the starter sheets, creating 99.99% pure cathode copper. Any impurities contained in the anodes settle to the bottom of the tanks, forming anode slime which contains precious metals.

Silver production

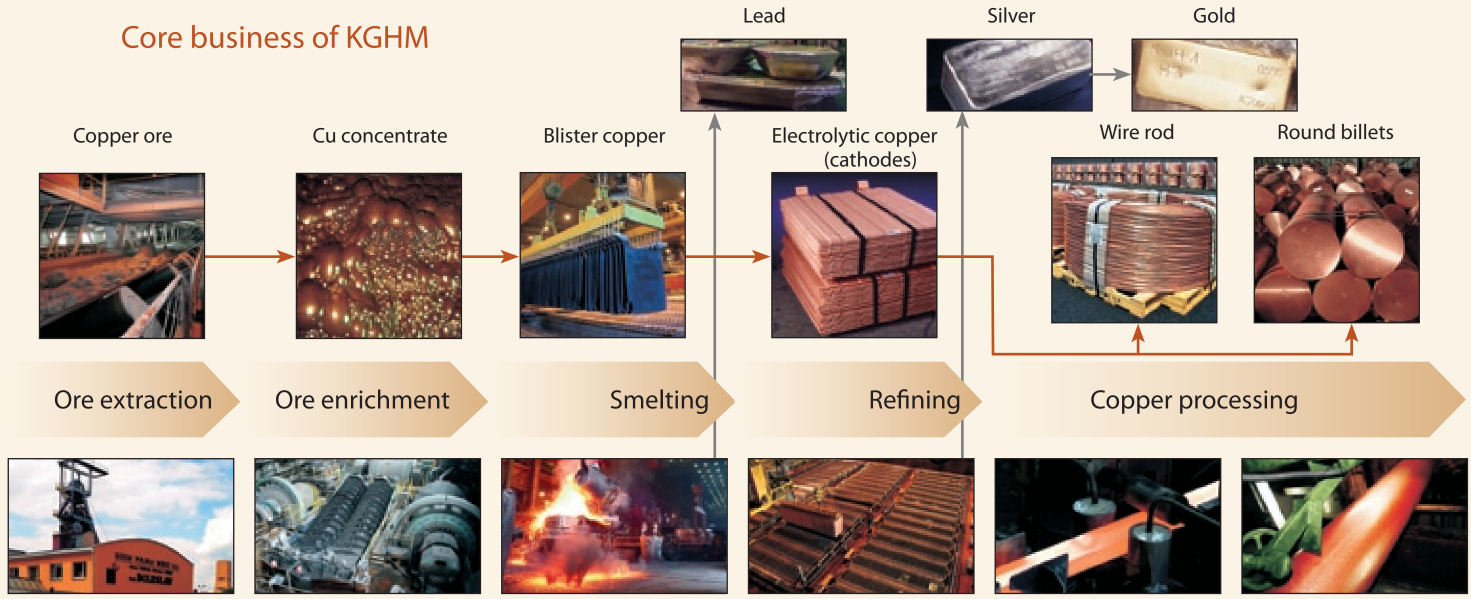
The anode slime is sent to the Precious Metals Plant, dried, and then smelted in a furnace. The end result of this metallurgical process is Dore metal, from which anodes are cast, which are then subjected to electrorefining. The 99.99% pure silver which is obtained in this way is cast into bars or granulate. The silver slime created during the electrorefining process is then further processed to obtain gold.

Copper processing

Wire rod and round billets

Some of the copper cathodes are further processed in the divisions of KGHM: at the Cedynia wire rod mill, they are processed into 8 mm diameter wire rod, which is wound into coils weighing around 3–5 tonnes; at the Legnica smelter, they are cast in a continuous casting process into billets in the form of round bars, which are then cut into billets of the required length.

Core business of KGHM



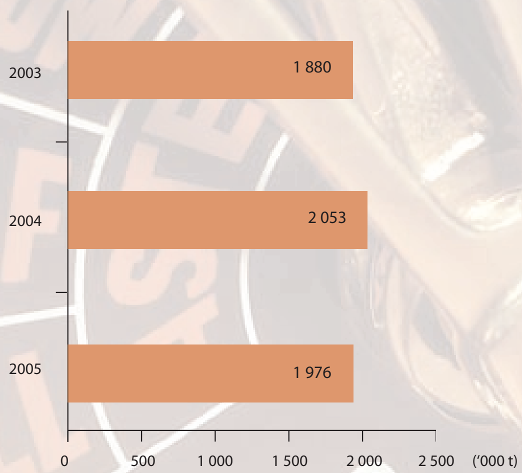
Production

In 2004 the volume of production reached record levels in two basic areas, i.e. ore extraction and electrolytic copper production.

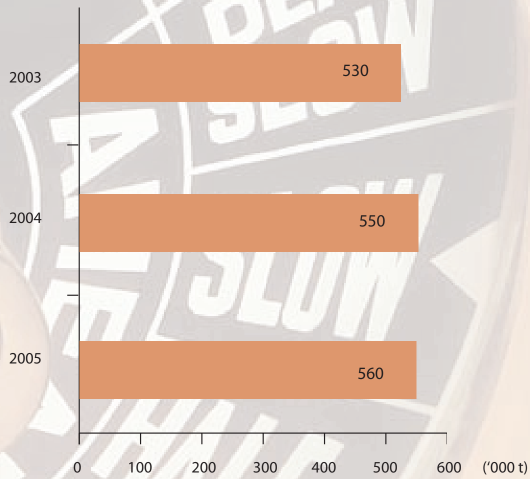
Mine production

Copper ore extraction increased by 127 thousand t (0.4%) to the level of 30.4 mln t. The average mineral content of this ore was 1.89%, lower than in 2004, when it amounted to 1.97%. As a result of this decrease in copper content in ore, there was a decrease in the production of copper in concentrate. This occurred despite an increase in recovery during the enrichment process and a decrease in losses in end waste. Simultaneously, despite this decrease in copper content in the charge, the content of copper in concentrate increased.

Copper concentrate - dry weight (in '000 t)



Electrolytic copper production (in '000 t)



Smelter production

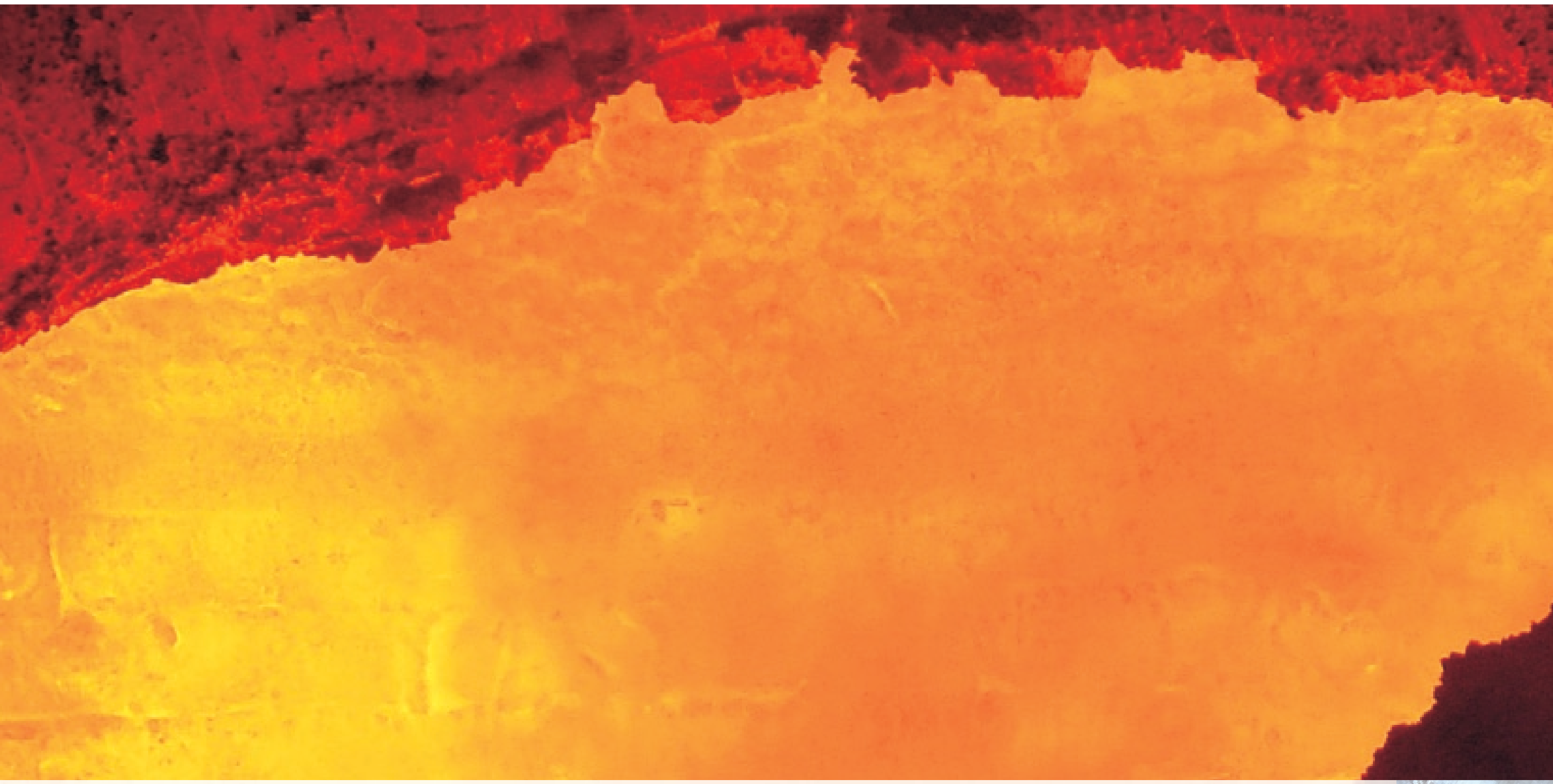
Electrolytic copper production increased by 10 thousand t (1.1%) and reached the record level of 560 thousand t. This significant increase in production was brought about by a greater use of external charges, in the form of imported concentrate, blister copper and scrap, than in prior years. Using external charges to augment internal charges allowed optimum use of the production capacity of the smelters.

Production of the remaining smelter products derives from the scale of electrolytic copper production and from the type of raw materials used, and also from the demands of the market. An exception to this is the production of lead, which is not directly related to copper production technology, while the level of its production is due to the ability of the Company to produce it. The decrease in silver production is due to the processing of imported materials having a relatively low content of this metal.

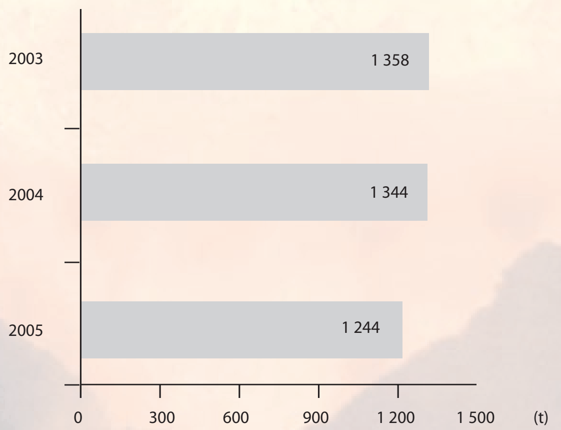
Position of the Company on the copper and silver markets

The production results achieved by KGHM Polska Miedź S.A. place it amongst the leading global producers of copper and silver. In rankings of producers in 2005 the Company held:

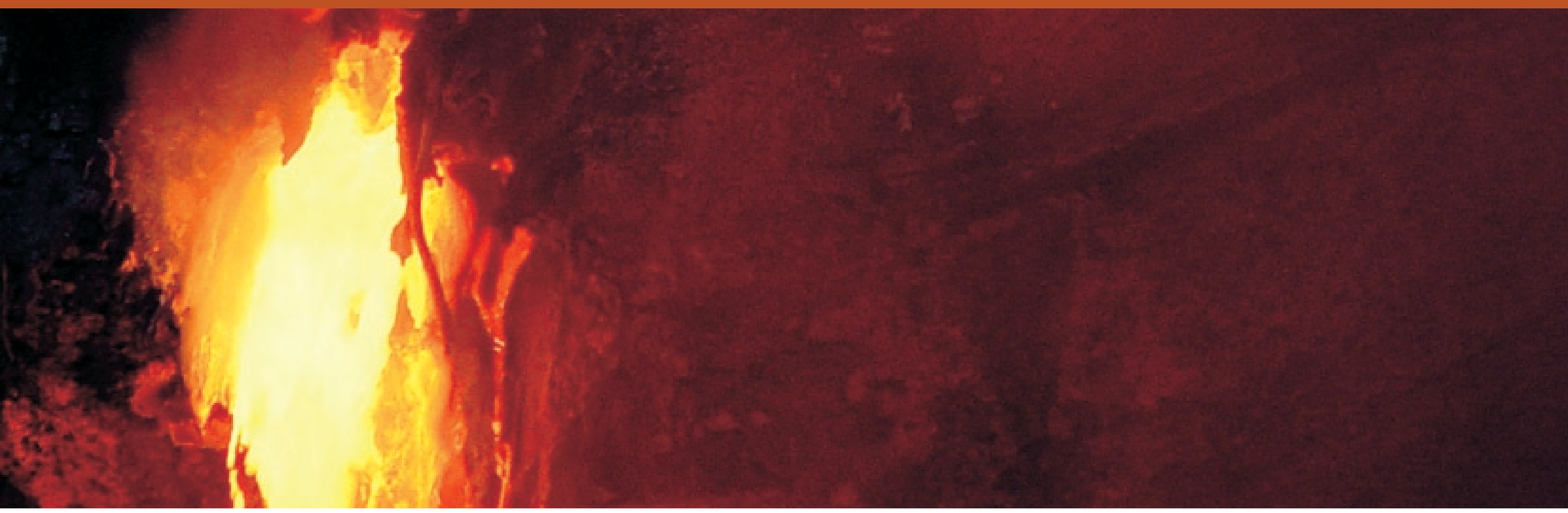
- 6th place amongst refined copper producers
- 3rd place amongst silver producers.



Silver production in (t)



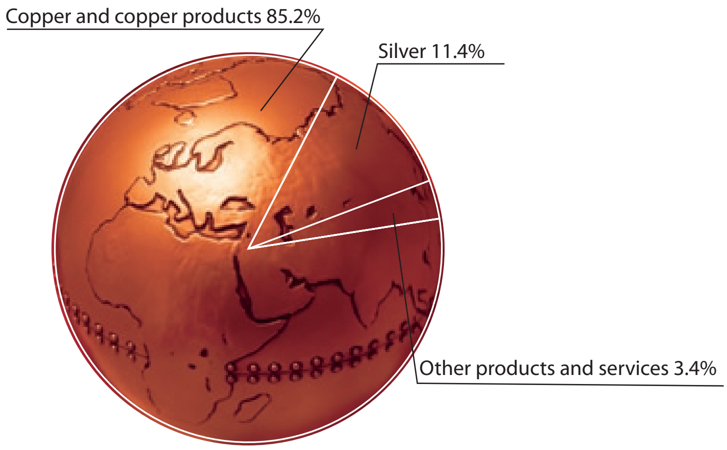
Copper processing – production of wire rod and round billets (in '000 t)



Sales

The record production results recorded in 2005 accompanied exceptional sales results. Revenues from sales were the highest in the history of the Company and reached the level of PLN 7 924 mln. These results were 27% higher than the previous record set in 2004. The most influential factor responsible for this extraordinary improvement in sales results was the high copper and silver prices on global markets, which were higher than in 2004.

Percentage share in revenues from sales of basic products



Copper

In 2005, as in the prior year, there was an increase in the volume of copper sales. 552 275 t of copper and copper products were sold, i.e. 1.8% (9 594 t) more than in 2004. Revenues from the sale of this group of products increased by 32.6%, i.e. PLN 1 658 mln, and represented 85.2% of total revenues from sales.

Silver

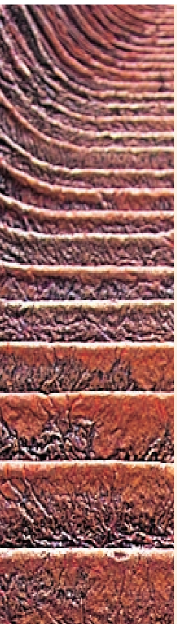
Silver sales fell in comparison to 2004 to 1 250 t and were lower by 8.5% (116 t). Despite this, revenues from silver sales were virtually at the same level as in 2004 and reached PLN 902 mln. Despite the lower volume of silver sales, high average annual prices ensured that revenues from silver sales were maintained at the prior year's level. Silver sales represented 11.4% of total revenues in 2005.

Research and development

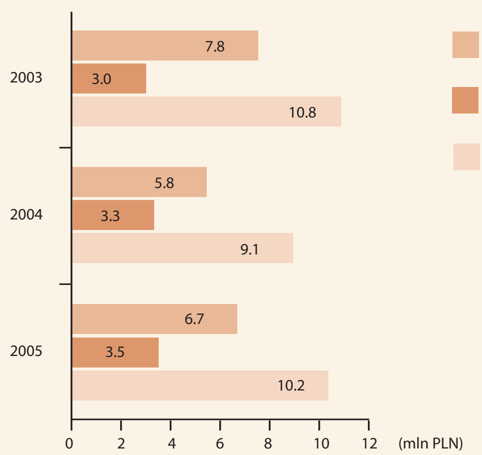
KGHM Polska Miedź S.A. places great emphasis on the issues of development and the implementation of new techniques and technology. Research and development work, which is closely linked with the strategy of the Company, is aimed at intensifying production, reducing costs, diversifying the product line and on minimising environmental impact by applying the best available technology. The pursuit of R&D work is possible thanks to the strong support of research institutions. On a daily basis the Company cooperates with many such institutions, including: KGHM „Cuprum" sp. z o.o. CBR in Wrocław, the Non-Ferrous Metals Institute in Gliwice, the University of Mining and Metallurgy in Kraków, the Chief Institute of Mining in Katowice, Wrocław Politechnical University, the Politechnical University of Silesia, the National Institute of Geology in Warsaw, the University of Medicine in Wrocław, the University of Agriculture in Wrocław, the Polish Academy of Science in Kraków, the University of Economics in Wrocław, and many others. For a number of years KGHM has been in contact with foreign institutions from Finland (Outokumpu) and Canada (Dynatec). Among the most important R&D projects are:

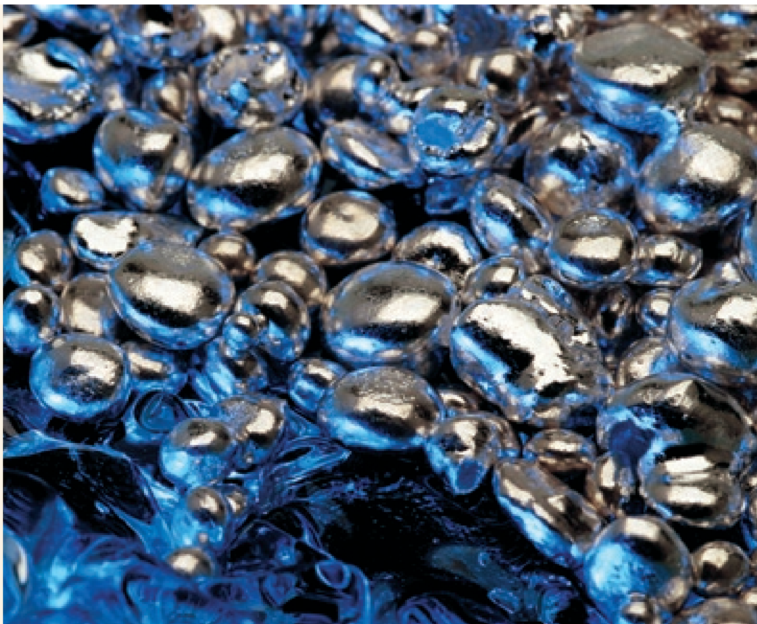
in mining:

- Investigating alternative means of managing the ore in the Głogów Głęboki Przemysłowy deposit in relation to those developed in the base model,
- work related to optimising mining drifts with respect to exploitation of metals appearing together with copper in the copper ore deposit,
- Feasability studies on the possibility of using alternative methods of transporting concentrate from the Ore Enrichment Plants to the Głogów smelter,
- Searching for new methods and processing technology enabling an increase in the recovery of copper and precious metals during the enrichment process,
- work related to the possibilities of utilising copper industry waste,



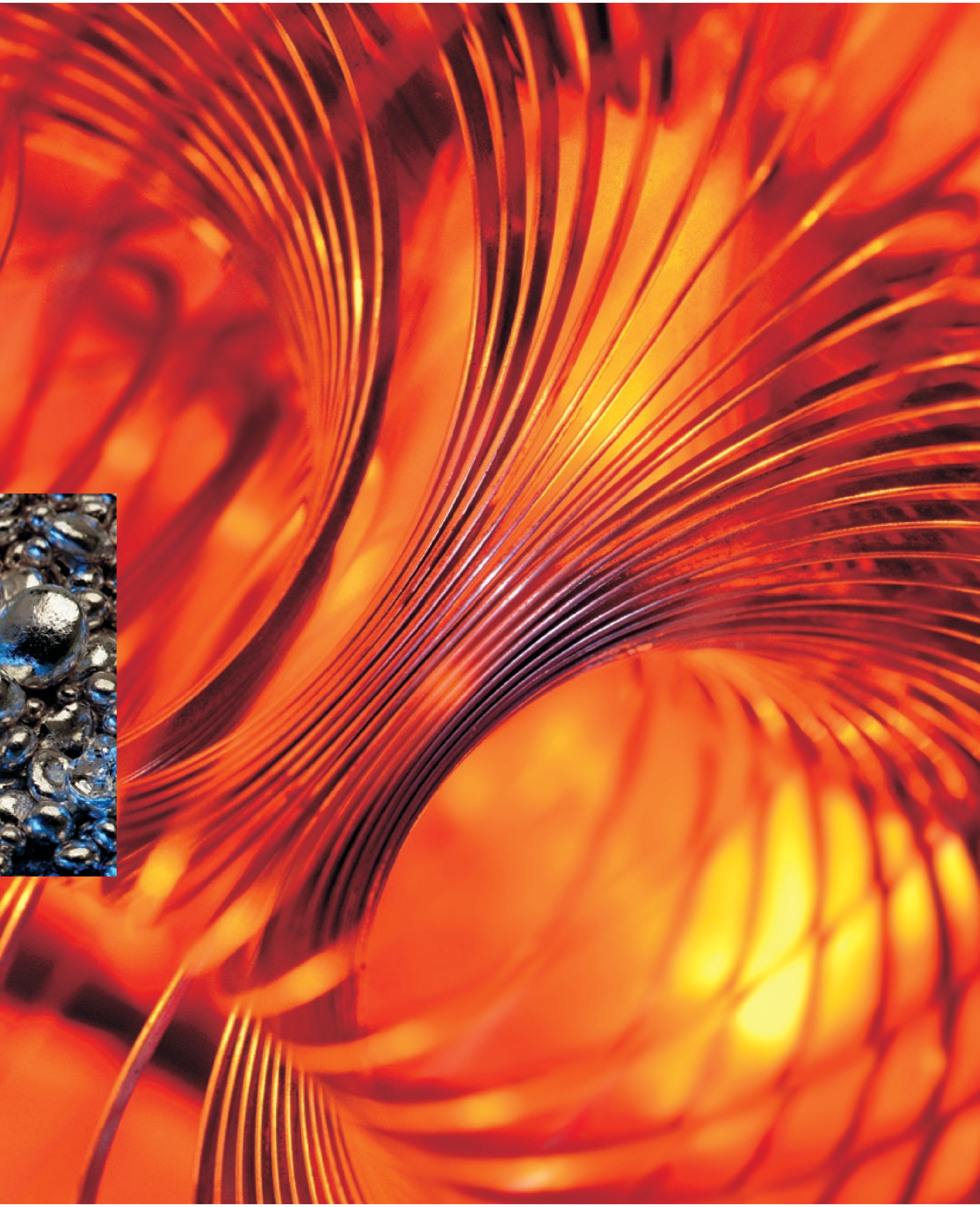
Expenditures on R&D (mln PLN)





in smelting:

- Intensifying the production of copper cathodes,
- Investigating new technology for the management of lead-bearing waste,
- Determing the possibility of using artificial intelligence techniques to control metallurgical agregates during one of the selected phases of the flash smelting process,
- Investigating technology for two-stage decopperisation of flash furnace slag.



Our fleet

KGHM Group

Around KGHM has arisen the KGHM Group, expanding our possibilities for growth. The purpose of the Group companies is primarily to assist the core business of KGHM and to generate additional revenues from activities unrelated to the core copper business. The companies of the Group are involved in activities beyond the world of copper.

Products and services of entities of the KGHM Polska Miedź S.A. Group

Name of entity	Segments of activity
Extraction and processing of metals	
KGHM Polska Miedź S.A.	extraction and processing of copper and precious metals
Walcownia Metali Nieżelaznych spółka z o.o.	non-ferrous metals processing
Investment activities	
KGHM Metale DSI S.A.	investment activities, production of road building materials, production of precious metals, non-ferrous metals mining, property management and sales
Mine construction	
PeBeKa S.A.	construction; building of roadway and railway tunnels; mining services
Trade	
KGHM Polish Copper Ltd.	copper trading
KGHM Kupferhandelsges. m.b.H.	copper trading
KGHM Metraco sp. z o.o.	trading of metals, chemicals, copper scrap
PHP „MERCUS" sp. z o.o.	production of bundled electrical cables
PU „Mercus Bis" Sp. z o.o.	trade in construction and metals industry articles
Machinery production	
DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery, equipment and tools, metals casting
Production and supply of electrical energy, gas and water	
„Energetyka" sp. z o.o.	generation, distribution and sale of electrical and heating energy
Services	
INTERFERIE S.A.	tourism, hotel and spa services
„MCZ" S.A.	medical services
POL-MIEDŹ TRANS Sp. z o.o.	railroad and roadway transport, trade in fuels
DIALOG S.A.	telecommunications services
Polkomtel S.A.	telecommunications services
PHU „Lubinpex" Sp. z o.o.	food and catering services
PU „Mercus Serwis" Sp. z o.o.	IT services
R&D activities	
KGHM CUPRUM sp. z o.o. - CBR	R&D activities
CBJ sp. z o.o.	technical research and analysis
INOVA Spółka z o.o.	production of machinery, R&D work
Other activities	
WFP Hefra SA	production and sale of rust-proof, silver-plated and semi-silver-plated table settings
DKE Spółka z o.o.	processing of municipal and industrial waste
MINOVA-KSANTE Spółka z o.o.	production of organic and non-organic chemicals, glues
WM „ŁABĘDY" S.A.	leasing, management and sale of property
PCPM sp. z o.o.	promotion of copper products
„Zagłębie" Lubin SSA	participation in and organisation of professional sporting events, management of a football club

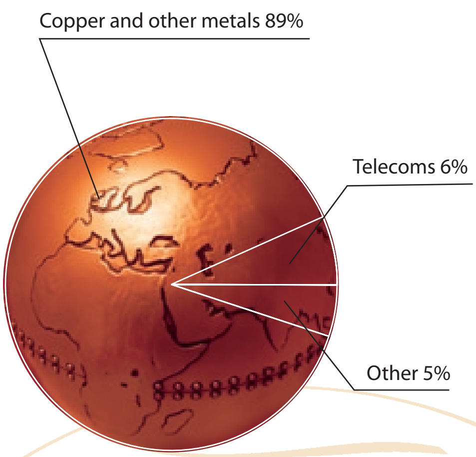
KGHM Group

Formation of the KGHM Polska Miedź S.A. Group began on 12 September 1991. The State enterprise Kombinat Górniczo-Hutniczy Miedzi (KGHM) was commercialised and transformed into the joint stock company KGHM Polska Miedź S.A. Based on the law on the privatisation of State-owned enterprises, the Company came into the possession of shares in two commercial law companies, which were among the fixed assets of the State enterprise: KGHM Metraco Sp. z o.o. and Cuprum Bank S.A.

Following commercialisation, the aim of the actions undertaken by KGHM Polska Miedź S.A. was to concentrate on its core business, which is the extraction and production of metals. Other activities were steadily organised into separate companies, operating independently, and forming the KGHM Polska Miedź S.A. Group.

Over the following years, as a result of the restructurisation of KGHM Polska Miedź S.A. and through direct equity investments (e.g. in telecoms) the Group increased in size through the addition of further entities.

Share of specific segments of the Group in revenues from sales in 2005



Reorganisation of the Group in 2005

In 2005 the process of reorganising the KGHM Polska Miedź S.A. Group continued, aimed at improving the ownership structure of the Group and at changing the strategy towards the holding companies – KGHM Metale S.A. and DSI S.A.

The main objective of reorganisation of the Group was to adjust its structure to the current needs of KGHM Polska Miedź S.A.

- assuming direct control by KGHM Polska Miedź S.A. over the most important companies,
- simplifying the decision-making structure,
- reducing the costs of managing the portfolio of companies, and
- introducing selected companies to the Warsaw Stock Exchange or selling them to sector investors.

As part of this reorganisation KGHM Polska Miedź S.A. purchased shares of the companies PeBeKa S.A. and PHP „MERCUS" sp. z o.o. from its holding companies. It was recognised that their relationship to the core business required direct ownership control. In addition in July 2005 consolidation of the machine sections of the companies DFM ZANAM-LEGMET Sp. z o.o. and INOVA Spółka z o.o. was completed, which was aimed at concentrating the machine sector into a single entity, reducing unnecessary diversification and cutting costs.

On 30 September 2005 the holding companies KGHM Metale S.A. and DSI S.A. were combined, by transfering the assets of DSI S.A. to KGHM Metale S.A. Following this merger the new entity operates under the name KGHM Metale DSI S.A. The main task of this new entity is to alter the nature of its operations from that of a typical investment holding into an enterprise directly involved in production and service activities auxiliary to KGHM Polska Miedź S.A., mainly in the areas of ecology, road-building materials and in developing methods for the hydrometallurgical recovery of associated metals.

Telecoms assets

Amongst the assets comprising the group of related entities, the largest impact on the Group comes from:

- the Parent Entity – KGHM Polska Miedź S.A.,
- Polkomtel S.A., in which KGHM Polska Miedź S.A. owns 19.61% of the shares – consolidated using the equity method, and
- DIALOG S.A. – a subsidiary in which KGHM Polska Miedź S.A. owns 100% of the share capital. The results of this company directly affect the consolidated results of the KGHM Polska Miedź S.A. Group.

DIALOG S.A.

DIALOG S.A. is a fixed-line telephone operator, which in the years 2003–2005 recorded a systematic increase in revenues from sales. In 2005 DIALOG S.A. earned PLN 501 mln in revenues from sales (versus PLN 453 mln earned in 2004 – an increase of 11%), and achieving a profit on sales of PLN 62 mln. EBITDA amounted to PLN 160 mln). In 2005 the assets of the company were revalued (as a result of a test for impairment carried out as provided for in IAS 36) by PLN 184 mln, which caused DIALOG S.A. to record a net loss in 2005.

DIALOG S.A. is a regional operator providing service mainly in south-western Poland, although it also provides services to several other large Polish cities. The area serviced by the DIALOG network has a population of 3 mln persons. Apart from providing direct voice services, DIALOG S.A. offers special prefix-related services as well as wide-band internet access (xDSL). The company uses its own skeleton network in licensed areas, and operates using leased lines in other parts of the country.

The strategy of DIALOG S.A. for the years 2006–2012 assumes the construction of a fiber-optic network, the upgrading of its fixed-line network to the NGN standard, providing full-service internet access (xDSL) and initiating „virtual" mobile phone services (MVNO) based on the Polkomtel S.A. network.

In the first half of 2006 changes were made to the Management Board of DIALOG S.A., for example Sławomir Szych was appointed as President of the Management Board. During this same period DIALOG S.A. redeemed its bonds from KGHM Polska Miedź S.A. in the total nominal amount of PLN 200 mln.

Polkomtel S.A.

The value of the shares of Polkomtel S.A. at 31 December 2005 in the financial statements of KGHM Polska Miedź S.A. amounted to PLN 929 mln.

In 2005 the company achieved EBITDA of PLN 2 301 mln. The result on operations amounted to PLN 1 358 mln, which in relation to the comparable prior period means an increase by 18%. The company earned a net profit of PLN 1 067 mln, representing an increase versus 2004 of 16%.

Polkomtel S.A. is a leading mobile phone operator (with GSM and UMTS networks) in Poland. In the years 2006–2007 Polkomtel S.A. foresees an acceleration of investment in UMTS technology and becoming the leader in the mobile phone sector.

On 10 May 2006 the Ordinary General Meeting of Polkomtel S.A. was held, during which the shareholders resolved to have Polkomtel S.A. pay out a shareholder dividend, based on current law, of undistributed net profit for the years prior to 2005 and of net profit for 2005. The dividend amounted in total to PLN 2 352 mln (representing PLN 114.75 per share) and was paid to the shareholders in an amount proportional to their ownership of the share capital of Polkomtel S.A. on 17 July 2006. Given the fact that KGHM Polska Miedź S.A. owns 19.61% of the share capital of Polkomtel S.A., the amount of the dividend attributable to KGHM Polska Miedź S.A. was PLN 461 mln.

On 10 March 2006, KGHM Polska Miedź S.A., PKN Orlen S.A., PSE and Węglokoks 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 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 the Polish shareholders of 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. have obtained the right to acquire a total of 4 019 780 shares held by TDC Mobile International A/S in Polkomtel S.A.

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 and Węglokoks 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 February 24, 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, and an aggregate purchase price not exceeding EUR 209 863 223.44. Upon KGHM Polska Miedź S.A., PKN Orlen S.A., PSE and Węglokoks 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 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, 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, the Polish shareholders of Polkomtel S.A. as the purchasers have the right not to purchase the shares of Polkomtel S.A. if by March 10, 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.

Other important companies of the KGHM Group

The entities of the KGHM Polska Miedź S.A. Group are closely related to one another. The mutual relationships of the Group companies may be illustrated by the fact that total revenues from the sale of products, goods for resale and materials of all the subsidiaries, with regard to mutual turnover, in 2005 amounted to PLN 12 890 mln, of which PLN 3 861 mln represented internal sales.

The most important internal turnover in terms of value is generated by companies specialising in trade:

- Kupferhandelsges. m.b.H. and Polish Copper Ltd., which are intermediaries in the sale of the main products of the Parent Entity, i.e. copper and silver,
- KGHM Metraco Sp. z o.o., whose turnover with the Parent Entity represents 95.2% of its total turnover, and
- PHP "MERCUS" sp. z o.o. This company is the main supplier of the divisions of KGHM Polska Miedz S.A. in production-related materials.

A second important group of companies are entities providing services to the core business. Among such companies are the following:

- POL-MIEDŹ TRANS Sp. z o.o., which provides rail transport services and is a supplier of fuels to the Parent Entity and to other entities of the Group,
- „Energetyka" Sp. z o.o. which provides heating and electrical energy, and also provides coolants and is the water-sewage operator for the mines,
- PeBeKa S.A. which provides mining-related services to the mines, and
- DFM ZANAM-LEGMET sp. z o.o. which sells to KGHM Polska Miedź S.A. and to other Group companies machinery and equipment which it produces, as well as provides maintenance services to these entities.

Another group of companies comprises entities which provide services to employees, which are partially financed by their employers. Among such companies are: Miedziowe Centrum Zdrowia S.A. which provides medical services, and PHU Lubinpex Sp. z o.o. which provides food industry services.

KGHM Metraco

spółka z ograniczoną odpowiedzialnością

(limited liability company)

This company is involved in trading non-ferrous metals, products manufactured from these metals and in the trade of chemicals (sulphuric acid, and nickel and copper sulphate). The company also trades in precious metals, in tailings and scrap, and also provides spedition services.

KGHM Metraco also provides a wide range of services to KGHM Polska Miedź S.A. involving the supply of raw and other types of materials and of products which are strategic for the core business (black liquor, copper scrap, coal, coke, etc.).

In 2005 KGHM Metraco began an investment titled „Lead refinery for HM Legnica". As a result of a bidding process a contractor was selected to build the facility, whose production capacity will amount to 30 000 t/year of refined lead and lead alloys. Completion of this investment is planned for 2006.

In 2005 the Company expanded its product line with new products, such as steel, lead and cable scrap, and also with chemicals (salt dust, zinc oxide, titanium white, sodium selenite, zinc chloride, magnesium sulphate, zinc sulphide and copper sulphide).

Share of the KGHM Group in the share capital of the Company 98.96%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	774	753
Net profit	10	8.5
Share capital	2.5	2.5
Total assets	79	93

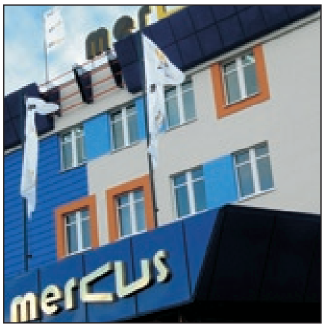
Przedsiębiorstwo Handlowo-Produkcyjne „MERCUS"

spółka z ograniczoną odpowiedzialnością

(limited liability company)

This company is involved in wholesale and retail sales, and in the import and export of production-related goods and services. Mercus is also a producer of bundled electrical cables for producers of household appliances and of hydraulic cables for mining machinery and equipment. Proof of the high quality of its products is its acquisition of a Quality Certificate for adherance to the PN-ISO 9001:2001 standard.

The main activity of the company is as the main supplier of the divisions of KGHM Polska Miedz S.A. in production-related materials. However, the company's activities apart from KGHM are also wide-ranging. Through its recently-created Material Logistics Center the company provides raw and other types of production-related materials to other companies. The company has a well-developed network of warehouses and retail stores in all of the major towns of the Legnica region. Having its own International Trade Office makes the company independent of other importers.



In 2005 KGHM Polska Miedź S.A. increased the share capital of the company by PLN 4.2 mln, which is being used to realise an investment related to the production of electrical bundles.

The company plans to further expand and improve its logistical base for providing supply and warehouse services and to increase its sales of products manufactured by its Electro-Mechanical Production Plant.

Share of the KGHM Group in the share capital of the Company 100%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	428	555
Net profit	5.2	6.8
Share capital	6.4	6.4
Total assets	113	139

POL-MIEDŹ TRANS

spółka z ograniczoną odpowiedzialnością

(limited liability company)

GRUPA KAPITAŁOWA KGHM POLSKA MIEDŹ S.A.

POL-MIEDŹ TRANS

This company is involved in providing transport services (railway transport of goods, and transport by road of goods and passengers) and in the trade of fuels. It is also involved in the maintenance of railway and roadway stock. It offers spedition services and laboratory services (the analysis of oil-based products).

Pol-Miedź Trans is the main provider of goods and passenger transportation services for KGHM Polska Miedź S.A. It is one of the largest railway firms using its own wagons and locomotives. The company also owns its own railway lines.

In 2005 Pol-Miedź Trans signed a contract with Lotos Paliwa S.A. for the supply of fuels. The transport fleet of the company was increased by one of the newest passenger buses in Poland.

In the near future the company is to carry out a restructuring of its assets, build new industrial lines and organise the concentrate hydrotransport for KGHM Polska Miedź S.A.

Share of the KGHM Group in the share capital of the Company 100%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	423	441
Net profit	6.8	5.1
Share capital	140	140
Total assets	214	226

„Energetyka"

spółka z ograniczoną odpowiedzialnością

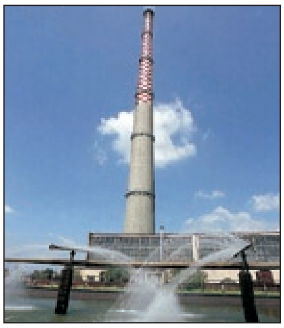
(limited liability company)

ENERGETYKA

This company is involved in the production of heating energy and electrical power, as well as with their transfer and distribution. „Energetyka" produces and distributes potable water, collects and processes sewage, and also economically manages industrial-rain water. The company has been granted a license from the Office of Power Regulation for providing power-related services.

Energetyka supplies KGHM Polska Miedź S.A. with complex power-related services as well as providing water-sewage services to the company. It also ensures the heating needs of local towns – Polkowice, Głogów and Lubin – supplied from its own power plants.

In 2005 the company concentrated the management of the water-sewage activities and the power supply of KGHM Polska Miedź S.A. Auxiliary activities were separated from the company.



Share of the KGHM Group in the share capital of the Company 100%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	144	217
Net profit	0.3	-1.6
Share capital	125	191
Total assets	236	305

Przedsiębiorstwo Budowy Kopalń PeBeKa

Spółka Akcyjna

(joint stock company)

PeBeKa is involved in the construction of mines together with their infrastructure; the drilling of road, railway and metro tunnels; underground construction (e.g. metro stations, underground garages); the reconstruction of historic mines; laying the foundations of and securing excavation sites; the construction and repair of all types of pipes using non-excavation methods.

The company is the main builder of shafts and mine infrastructure belonging to KGHM Polska Miedź S.A. PeBeKa participates in the construction of the Warsaw metro. For over 20 years it has also carried out renovation of the historic Salt Mine in Wieliczka. The company has also been involved in mining and tunnel-building contracts beyond Poland (such as in Hong Kong, Germany, Algeria, Israel and Turkey).

In 2005 the company built another shaft for KGHM Polska Miedź S.A. It was also selected as a co-contractor for the construction of a further extension of the Warsaw metro, comprising: the B-20 tunnel and the A-20 station, „Park Kaskada", route B-23 and station A-23 „Młociny" together with communication links.

Since 2005 PeBeKa S.A. has been a member of the International Tunneling Association.

Share of the KGHM Group in the share capital of the Company 100%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	280	268
Net profit	3.4	3.9
Share capital	17	27
Total assets	131	129

Dolnośląska Fabryka Maszyn ZANAM-LEGMET

spółka z ograniczoną odpowiedzialnością

(limited liability company)

The company is involved in the manufacture of machinery for the mining and construction industries. The company is also involved in the development of infrastructure, offering jaw and impact crushers, both mobile and fixed. It also offers recycling services, i.e. the crushing and sorting of construction and mineral waste. Another area in which the company is actively involved is the manufacture of atypical, over-sized steel constructions.

DFM ZANAM-LEGMET is a key supplier of mining machinery for the mines of KGHM Polska Miedź S.A. It is the largest manufacturer of mining machinery and equipment in Lower Silesia. The company can also boast of its skill in constructing unique engineering projects such as desulphurisation installations and very tall smokestacks (at the Legnica smelter).

In 2005 the company took over the mechanical section of the company INOVA Sp. z o.o. The goal of ZANAM-LEGMET Sp. z o.o. is to focus on the production of machinery and equipment for KGHM Polska Miedź S.A.

Share of the KGHM Group in the share capital of the Company 100%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	180	194
Net profit	2.3	0.9
Share capital	12	30
Total assets	73	88

Centrum Badań Jakości

spółka z ograniczoną odpowiedzialnością

(limited liability company)

CENTRUM BADAŃ JAKOŚCI
SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ

This company offers various types of area analytical services: industrial, workplace, the natural environment and food related, as well as technical analyses. CBJ is accredited by the Polish Accreditation Center in respect of physical-chemical analyses. The high quality of its services is guaranteed by its application of an Integrated Management System in accordance with the standards PN-EN ISO 9001, PN-N 18001 and OHSAS 1800.

The company carries out all of the industrial research and analysis for the core business of KGHM Polska Miedź S.A.

In 2005 CBJ sp. z o.o. accomplished the following:

- implementation of twelve new research methods,
- the accreditation of 66 research methods, recognised by the Polish Accreditation Center,
- received the right to use the international accreditation symbol ILAC MRA (ILAC Mutual Recognition Arrangement), which means that the reports of the company containing the results of accredited research are recognised around the world.

Share of the KGHM Group in the share capital of the Company 100%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	32	34
Net profit	1.3	2.7
Share capital	2.9	2.9
Total assets	22	25

INTERFERIE

Spółka Akcyjna

(joint stock company)

interferie.pl

This company is involved in the organisation and sale of tourism, spa and hotel services both in Poland and abroad. It organises training courses, conferences and symposiums. It also offers food industry services. Interferie S.A. is a member of the Polish Tourism Council, the Lower Silesia Chamber of Commerce and the Lower Silesia Tourism Organisation.

INTERFERIE S.A. is the largest company in the tourism sector in Lower Silesia and one of the largest in Poland. The company owns a large number of tourist facilities, from high-class hotels to simple holiday units. They are located along the Baltic coast (Świnoujście, Kołobrzeg, Ustronie Morskie, Dąbki), in the mountains (Szklarska Poręba and Świeradów Zdrój) and along the lakes of central-westerrn Poland at Lubiatów.

In 2005 the most important events in Interferie S.A. were:

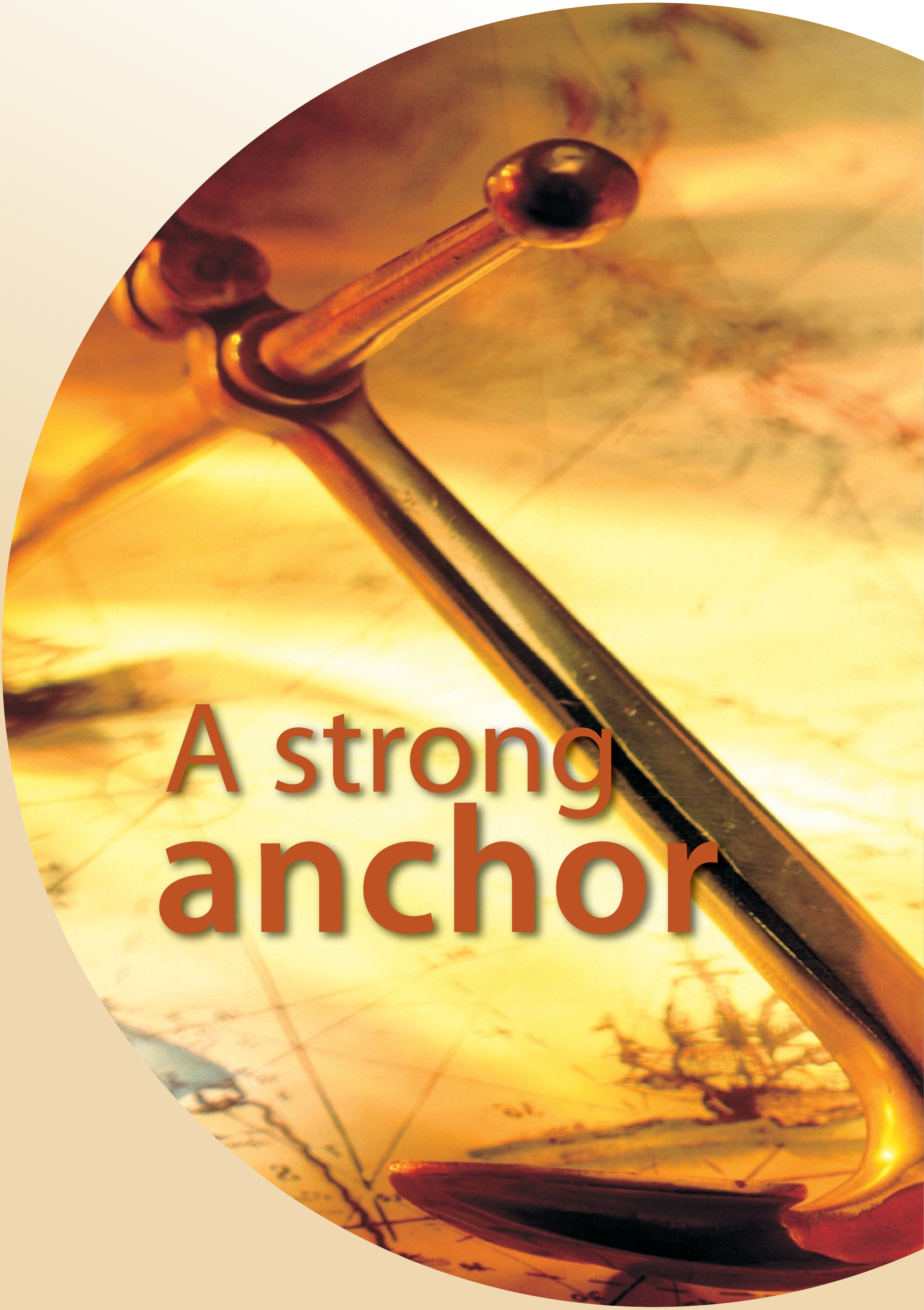
- preparations for the public listing of the company,
- restructurisation of its assets, and
- the expansion and modernisation of its existing facilities.

Share of the KGHM Group in the share capital of the Company 100%

Financial data for the years 2004–2005

Amount (mln PLN)	2004	2005
Revenues from sales	39	41
Net profit	2.3	4.2
Share capital	48	48
Total assets	59	68

A strong anchor



People and environment

At the center of the world of Polish Copper stands man. Amongst the elements of the Earth with which we grapple and work, copper and silver are created – traditional elements of the modern age. We also take great care to protect our natural environment, desiring to preserve for future generations the primeval power of the elements which surround us. Together we are creating a safe and friendly microcosmos for life.

Employment in KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. at the end of 2005 was 17 677 persons, and was lower by 0.8% than at the end of the previous year. Average annual employment in KGHM Polska Miedź S.A. was 17 599 persons, and was lower than the level of employment in 2004 by 131 persons. This fall in employment was mainly the result of the transfer of employees from the former Water Management Division, based on art. 231 of the Labor Code, to „Energetyka" sp. z o.o.

In comparable conditions (reflecting 171 persons released from employment due to separation of the Water Management Facility from the structure of the Company) employment in the Company increased in relation to the level at the end of 2004 by 81 persons.

In 2006 employment is planned to be at a similar level to 2005.

Average remuneration

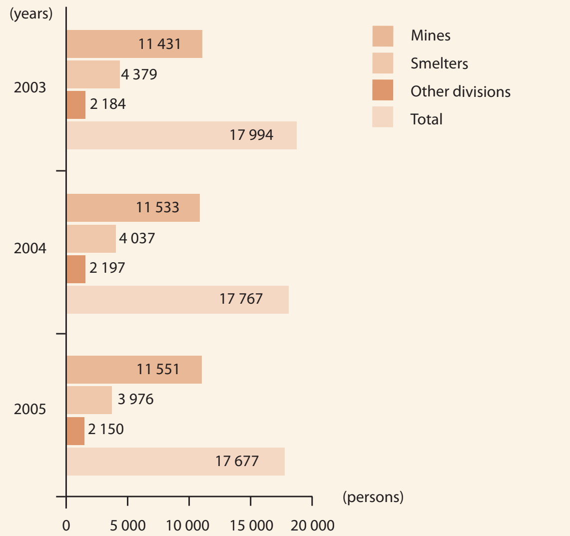
In 2005 there was a significant real increase in the average monthly wage in the Company. This was due to a 9% increase in basic wage rates from 1 January 2005 based on Additional Protocol Nr 5 of the Collective Labor Agreement for the Employees of KGHM Polska Miedź S.A., to the payment of an additional bonus in the total amount of 150% of the monthly wage and to the payment together with an equivalent for 2004 of additional payment for work on Sundays and holidays arising from art. 15111 of the Labor Code. Due to the functioning of the labor organisation system the last of these wage elements had a decisive impact on the level of wages in the mining divisions.

Multi-Shift Labor Organisation System

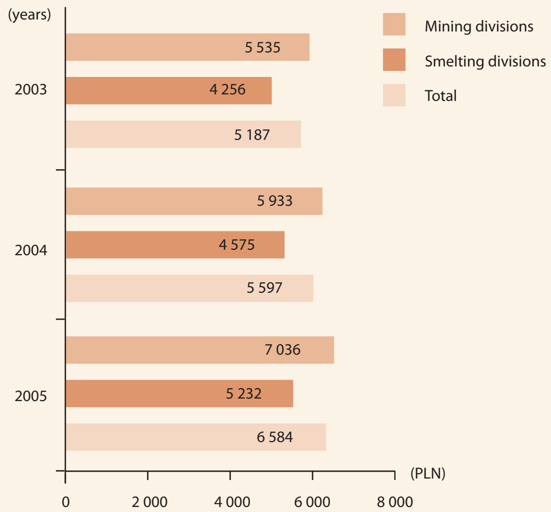
The introduction since 2003 of the Multi-Shift Labor Organisation System (MOS) has enabled KGHM to increase the amount of ore extracted. In addition, the positive effects of the MOS include improved labor productivity through more effective use of time, overall improved productivity, reducing the number of machines, and improvement in the area of workplace safety, especially as regards the threat from rock mass tremors, as a result of limiting the number of employees working simultaneously during a single shift.

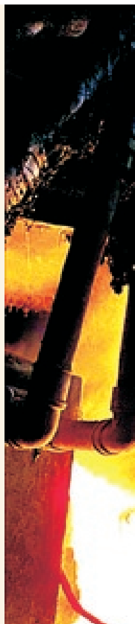
KGHM Polska Miedź S.A. continuously monitors the results achieved from implementation of the new labor system, and is constantly making improvements to this system in order to get the maximum advantage offered by the system.

End-of-period employment (nr of persons)



Average monthly wage (in PLN)





System for Managing the Human Resources of KGHM Polska Miedź S.A.

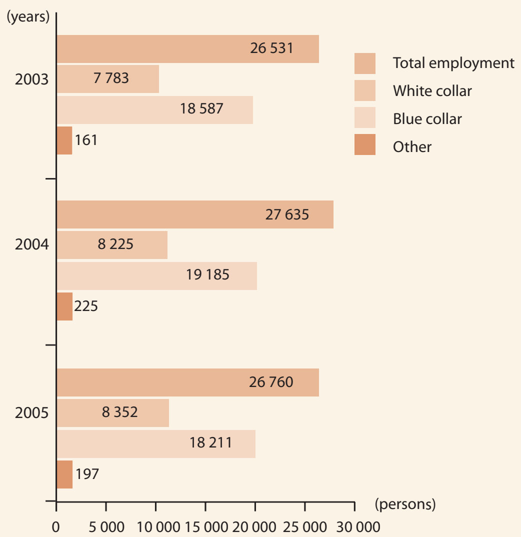
In 2005 work was completed on developing comprehensive solutions as regards the management of human resources in KGHM Polska Miedź S.A. This personnel strategy has been given the mission name: „By supporting our employees in their personal development, in realising their aspirations and in achieving satisfaction, we strengthen the competitive position of KGHM". Full implementaton of this system, planned for the years 2006–2007, opens the way to realising the principle: „KGHM is not only the best place for employees, but also a place where employees may feel the best".

Employment in the Group

The largest number of employees in the KGHM Group was recorded in the following companies:

- KGHM Polska Miedź S.A. – 17 677,
- PeBeKa S.A. – 1 567,
- Pol-Miedź Trans spółka z o.o. – 1 502,
- DIALOG S.A. – 1 008,
- DFM Zanam-Legmet Sp. z o.o. – 970.

Average employment in the Group in the years 2003–2005.



In August 2005 a Training Management Section was established in the Head Office, whose task is the centralised management of the training budget of the Company, based on the unified functioning of the training policy (the standardisation of procedures).

Each of the Company's divisons has implemented a „Skills management system". Of key importance here is the motivation of employees to raise their skills and the organisation of various forms of acquiring knowledge and skills in a scope appropriate for KGHM.

Personnel actions taken in the Group in 2005 were aimed at introducing management methods and techniques for increasing the effectiveness of company operations, and training employees to carry out the strategy of their given company using IT-based tools.

Environmental protection

In 2005, KGHM Polska Miedź S.A., as in prior years, carried out its production tasks while taking care to protect the natural environment. This adherence to strict environmental standards, both national and arising from the EU, is possible thanks to the systematic modernisation of existing environmental protection equipment, as well as to new investments in this area. In 2005 the Company spent PLN 49 mln on the realisation of projects related to environmental protection, while PLN 23 mln qualified as of a development-type or for maintaining production, though of a significant ecological nature.

The main projects of an ecological nature realised in 2005 were:

- modernisation of the sulphuric acid plant at the Legnica smelter,
- modernisation of the bag filter and the lean ventillation gases installation from the inter-bell loading regions of the shaft furnaces of the Legnica smelter,
- modernisation of the electrofilters of the converter gas dedusters at the Legnica smelter,
- renovation of the Larox presses for filtering slimes from the wet gas cleaning system at the Legnica smelter,
- rebuilding of the Polowice waste storage facility at the Legnica smelter,
- building of an installation for the utilisation of gases from the local suction system of the flash furnace tapping holes at the Głogów smelter,
- modernisation of the ventilation station for the P-VII shaft related to limitation of noise emmissions,
- modernisation of the dedusting equipment of the crusher at the Rudna Ore Enrichment Plant,
- reclamation of land at the base of the Żelazny Most tailings pond by the Tailings Management Plant, and
- an alarm system for significant dangers in the vicinity of the Żelazny Most tailings pond.

In addition the following projects were carried out, determined as being of a development-type or for maintaining production, though of a significant nature:

- the exchange of gas blowers in the sulphuric acid plant of the Legnica smelter,
- modernisation of the reverberatory furnaces unit in the lead section of the Głogów smelter,
- the exchange of the washer-cooler unit and the building of a gas cooling system and development of the turboblowers in the sulphuric acid plant of the Głogów smelter,
- modernisation of the waste heat boiler behind the flash furnace of the Głogów smelter, and
- a barrier of deep wells, piezometers and a system for deflecting water from the slopes of the Żelazny Most tailings pond.

Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2005 amounted to PLN 81 mln. In comparison to the prior year these fees increased by nearly 10%, with the largest increase related to fees for the drainoff of excess water from the Żelazny Most tailings pond. The largest amounts were fees related to the following:

- waste storage – PLN 63 mln, including PLN 60 mln for flotation tailings storage,
- discharge of waste water – PLN 13 mln, including PLN 12.6 mln for the drainoff of excess water from the Żelazny Most tailings pond, and
- atmospheric emission – PLN 4.3 mln, including PLN 2.7 mln for dust/gas emissions from the Głogów smelter.

Environmental protection – legal aspect

All of the Divisions of KGHM Polska Miedź S.A. have current, valid administrative decisions permitting utilisation of the environment. Environmental fees are calculated pursuant to law and are paid under statutory terms.

Currently the most important task for the environmental protection services of the Company is to possess integrated permits for those installations which require such a permit. The first such integrated permit received in the Company was in 2004 by the Tailings Management Plant for the operation of a copper ore floatation tailings installation. In accordance with the timetable included in the decree of the Minister of the Environment regarding later deadlines for the acquisition of integrated permits, the following deadlines are in effect:

- 30 September 2006 for an acid wastes utilisation facility at the Ore Enrichment Plants in the region of Polkowice, and
- 30 April 2007 for the Głogów smelter and the Cedynia wire rolling mill.

There is currently no threat to adhering to the deadlines to receive such permits.

In October 2005 the Legnica smelter submitted an application prepared by KGHM Cuprum, and on 30 December 2005 received an integrated permit for operation of the installation.

KGHM Cuprum is also preparing applications for integrated permits for the Ore Enrichment Plants, the Głogów smelter and the Cedynia wire rolling mill.

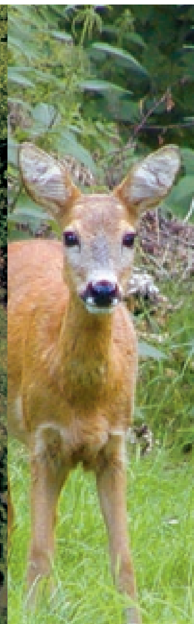
Intentions

The Divisions of the Company have now achieved their target level of environmental protection, as respects required technology and emissions to the environment. In this respect there will no longer be any spectacular changes, as confirmed by the stable levels of emissions and environmental fees, and of stability with respect to legal/regulatory matters.

In future it will however be necessary to perform on-going maintenance of existing equipment, as well as modernisation due to increasingly-strict laws, including due to implementation of EU directives. Remaining at the center of attention is the Żelazny Most tailings pond, and ensuring that its enviromental impact does not increase given the expansion of the tailings pond, as well as searching for and implementing new techniques for the utilisation of waste.

The most important investment goals as respects environmental protection, planned in future years, are as follows:

- modernisation of the contact system of the sulphuric acid plant at the Legnica smelter,
- completion of modernisation of the bag filter and of the installation for hermetisation of the upper part of the shaft furnaces of the Legnica smelter,
- continued modernisation of the electrofilters of the converter gas dedusters at the Legnica smelter,
- continued rebuilding of the "Polowice" waste storage facility at the Legnica smelter,
- continued building of an installation for the utilisation of gases at the Głogów smelter,
- building of a storage facility for lead-bearing slag from the Dorschel furnaces at the Głogów smelter,



- continued building of an installation for the production of chemigypsum at the Głogów smelter,
- development of the Żelazny Most tailings pond and continuation of activities aimed at limiting its impact on the environment, including the reclamation of land and building of an alarm system for significant dangers, and
- change in the copper smelting technology at HM Głogów and infrastructure related to environmental protection, after demonstrating the economic reasons for realising this project.

With the wind in our sails

Responsibility to society

Around KGHM we have built a people-friendly environment, in which new traditions have permeated both the present and future of our Company. Aware of our social resposibility, we support actions which spur economic, educational and cultural activity in our region. While we exhaust the resources of this land, we also share our wealth with people who need support and active assistance to restore them to health, and even to save their lives.

Responsibility to society by KGHM Polska Miedź S.A.

KGHM Polska Miedź S.A. is a leader in economic development. The Company, along with other companies closely connected to it, serve as a stabilising factor and a source of social safety for a large part of the region (Legnica, Lubin, Głogów, Polkowice, etc.).

KGHM Polska Miedź S.A. employs around 17.5 thousand people, with another 10 thousand in the KGHM Group. Adding in employment in companies which work with KGHM, it may be said that KGHM ensures the livelihoods of 100 thousand people.

The commitment of KGHM Polska Miedź S.A. to regional affairs above all means ensuring that existing workplaces are maintained and new ones are created, as well as creating local and regional initiatives to encourage economic growth, promoting the establishment of new companies and diversifying the economic structure of the region. In addition, cooperating as a partner with local government promotes common actions to be undertaken and ensures mutual support.

KGHM Polska Miedź S.A. works closely with research institutions and provides a broad range of philanthropic assistance. The Company provides financial support to the arts in Lower Silesia, to education, sport and to health services.

Sponsoring

The strategy of KGHM as regards sponsoring activities assumes that the majority of funds will go towards realising planned activities, aimed on the one hand at promoting the Company and the region, and on the other at supporting valuable cultural, sport-related and community initiatives and enterprises, thanks to which Lower Silesia can assure its place on the map of Poland and Europe.

Culture

The Company is perceived as a financial supporter and patron of the arts. KGHM participates in organisations which serve as patrons of important enterprises which serve both the local region and the country as a whole. KGHM supports among others.:

- the French song festival Ogólnopolski Festiwal Piosenki Francuskiej in Lubin,

- the Polish choir competition „Legnica Cantat",
- the Gallery of Art and the SATYRYKON festival of drawing in Legnica, and
- the Helena Modrzejewska Theater in Legnica.

Education

KGHM supports higher institutions of learning and reasearch, in this way enhancing cooperation and building its own bridges between industry and the academic world. The Company financially and physically supports enterprises related to problems involving the development of KGHM and of the region. In 2005 KGHM was involved financially and in the organisation of numerous academic conferences and symposiums:

- „Effectiveness of Polish mining in meeting the needs of the global market“,
- „The legacy and history of mining and the possibilities of using the remains of former mining works“,
- „The current state and future potential of minerals management“, and
- „Polish minerals mining and energy – strategies for growth“.

Sport

For many years KGHM Polska Miedź S.A. has actively supported and been involved in sporting organisations and in the initiatives and enterprises they have undertaken. The Company sponsors youth clubs, professional teams and international sporting events.

Since April 2003 KGHM Polska Miedź S.A. has been the majority shareholder in the football club „Zagłębie" Lubin SSA. The Company is also responsible for the operations and functioning of the club, which plays a large role in the promotion and integration of the region.

Also in 2005 KGHM was one of the main sponsors of annual sporting events, such as:

- the KGHM Polish Indoors 2005 Tennis Tournament,
- the 19th annual Bieg Piastów foot race,
- the 40th annual bicycle race Wyścig Kolarskiego Szlakiem Grodów Piastowskich,
- the European 250cc Motocross championship, and
- the international equestrian competition Międzynarodowych Zawodów Jeździeckich CSI-Wrocław 2005.

Subsidies

Subsidies granted by the Management Board serve primarily to save the life and health of employees of KGHM, as well as retirees and those on disability pay, to support the activities of chritable institutions and organisations, and help to finance foundations and other entities providing rehabilitation to children who are ill and disabled, and which provide assistance to schools and care-gving facilities in the former Legnica voivodeship.

KGHM has been involved in offering a wide range of assistance to non-profit, social assistance agencies (e.g. orphanages, the Polish Red Cross, the holiday charity concert Wielka Orkiestra, the health services, police, schools etc.), all of which is carried out as part of the accepted strategy of the Company.

The Polish Copper Foundation

fundacja POLSKA MIEDŹ

The initiative of establishing the Foundation derived from the policy of KGHM Polska Miedź S.A. to meet the needs of the local community, region and country as a whole. Its creation was not an entirely new target of the proactive social policy of KGHM Polska Miedź S.A. Since the establishment of the copper industry in Lower Silesia, the Company has used its funds to support a wide range of initiatives, both regional and national. The Polish Copper Foundation is only the latest proponent of these goodwill, charitable activities. It represents a further, more professional step, based on a new organisational and legal form. This type of solution enables a more effective means of distributing Company funds for these types of purposes. The name of the Foundation directly reflects its founder and financial sponsor. Its public activities began on 21 March 2003.

The goal of the Polish Copper Foundation is to support and augment those areas of life which, due to the condition of the state budget, remain underfinanced. The statutory scope of its actions includes supporting the arts, rescuing objects of a historical significance, supporting academic, research and medical institutions, supporting endeavors aimed at integrating the Republic of Poland with the European Union, working with Polish emigré communities; supporting activities involving sport and athletics, as well as participating in the building and renovation of sports facilities and supporting initiatives aimed at promoting sport among children and youth.

Traditions

KGHM cultivates and promotes traditions related to the activities of the Company. The celebration of mining and smelting holidays are a trademark of the region. The celebration of jubilees and anniversaries, which preserve the memory of the history of the Company, are accompanied by cultural events open to the entire region. These include New Year‘s concerts, open-air concerts starring top-name entertainers; and the Polish Copper Festival enjoyed by tens of thousands of people.


KGHM
POLSKA MIEDŹ S.A.
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2006

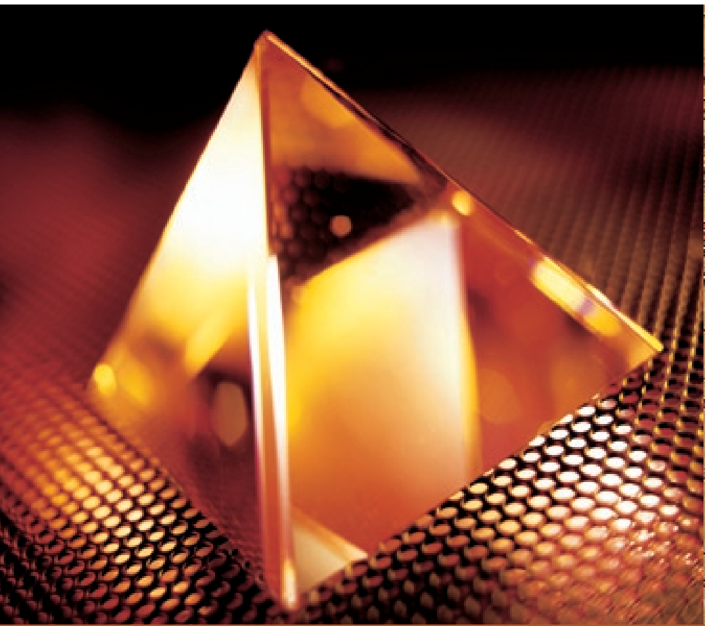
Towards the future

The overriding goal of the strategy of the Company is to increase its value. Concentration on its mining and metallurgical activities is the foundation upon which the vision of KGHM's development is based. The Company is in the process of implementing a system of value management as well as a Balanced Scorecard, which will enable the Company to monitor the effectiveness with which its accepted directions of growth and strategic targets are executed.

Realisation of Company strategy

In 2005 the Company pursued the Strategy for the development of KGHM Polska Miedź S.A. and the Group for the years 2002-2006 and long-term assumptions to the year 2016 as approved by the Supervisory Board in November 2002. One of the primary goals in the strategy of the Company is to increase its value, which is to be achieved by realising three basic strategic directions:

- increasing the value of existing mining, metallurgical and processing assets,
- developing (acquiring) additional mining, metallurgical and processing assets related to the production of copper, and



- developing the mining, metallurgical and processing assets of other metals.

Preliminary work was begun related to the program to modernise the process of pyrometallurgy in the smelters of KGHM Polska Miedź S.A. (construction of a flash furnace) and construction of an installation for hydraulic transport of copper concentrate to the smelters. Continuation of these projects is contingent upon there being positive results from the economic analysis of these projects. Based on economic assumptions, realisation of these investments is to have a great impact on reducing future copper production costs.

Organisational and technical actions were taken aimed at adapting existing production technology (mining, ore enrichment, smelting) to forecast copper ore deposit parameters (ore thickness, copper content, geotechnical parameters in the mines, etc.), the quality of excavated ore and recovered copper concentrate. In addition, work is being carried out related to seeking new mining technology, increasing the effectiveness of the copper ore floatation process and optimising production in the smelters. New solutions have been implemented related to managing the organisational structure of the Company, aimed at increasing labor productivity and reducing unit production costs. As part of those actions aimed at increasing the copper ore resources owned by the Company (so-called ore assets), work is continuing aimed at accessing the Głogów Głęboki Przemysłowy deposit. Realisation of this project will increase the copper ore resource base owned by the Company, enabling the current level of production to be maintained well into the future.

Analysis has been made of the mining potential and economics of deposits from the area of the „Old copper belt” as well as of deposits neighboring those currently being exploited (the Niecka Grodziecka, Wartowice, Wielowieś, Gaworzyce and Radwanice deposits). Analysis has also been made of the possibility of utilising anthropogenetic accumulations of copper and associated elements in waste from the copper ore enrichment process.

With respect to foreign investments the Company is carrying out work aimed at determining the propriety of continuing the Kimpe project in the Democratic Republic of Congo and is also performing preliminary work aimed at acquiring low-production-cost copper ore deposits globally (Latin America, Africa and Asia and the Pacific). The acquisition of mining assets (copper ore deposits), is aimed at acquiring additional sources of copper concentrate for the Company's smelters.

The most important activity in 2005, aimed at developing extractive and metallurgical activities as regards other metals, was initiation of a project related

production of road building materials using tailings waste. In 2005 a division was separated involved in water-sewage management and was attached to „Energetyka" Sp. z o.o.

Conceptual work was completed on implementing a Balanced Scorecard as a tool in realising approved strategy and monitoring its implementation. Strategic goals were grouped in correlated strategic maps for the Company and for all of its Divisions in four aspects: finance, market (client), internal processes and development. Measurement factors were developed describing the realisation of goals accepted in the strategy of the Company, reflecting factors measuring the effectiveness of capital utilisation and the creation of economic value in KGHM. Strategic initiatives (enterprises) for aiding in their achievement were identified and assigned to specific goals.

to the refining of lead. The result of its realisation will lead to the building of a lead refining section at the HM Legnica smelter, which will produce refined lead and its alloys. Realisation of this project will also lead to an increase in the production of silver.

With respect to the Group work was carried out aimed at preparing a Management Board decision on the eventual development of energy generation capacity (this project assumes the building of two gas-steam power plants located in Polkowice and Żukowice) and the building of an installation for the

Implementing a system of value management and a Balanced Scorecard will improve the process of taking strategic and operational decisions by concentrating on key factors which shape the value of the Company.

The projects and organisational activities mentioned above, related to realisation of assumptions approved in the strategy of the Company, will be continued in 2006, following detailed technical and economic analysis and the granting of a positive opinion by the Supervisory Board of the Company.

Annual Report KGHM 2005

Financial Statements

Financial
Statements
2005

Opinion of Independent Registered Auditor on the condensed financial report for the General Shareholders Meeting and Supervisory Board of **KGHM Polska Miedź S.A.**

The following condensed financial report of KGHM Polska Miedź S.A. with its registered head office in Lubin (hereinafter called "the Company") was prepared by the Management Board of the Company on the basis of the audited financial statements of the Company for the financial period from 1 January to 31 December 2005 r. ("the financial statements of the Company").

We have audited the financial statements of the Company for the financial year ended 31 December 2005, on the basis of which the following condensed financial report were prepared, and on 16 March 2006 we issued our opinion on these statements, in the following wording:

"Opinion of Independent Registered Auditor for the General Shareholders Meeting and Supervisory Board of KGHM Polska Miedź S.A.

We have audited the accompanying financial statements of KGHM Polska Miedź S.A. (hereinafter called the Company), ul. Marii Skłodowskiej-Curie 48, Lubin, which comprise:

a) introduction;

b) the balance sheet as at 31 December 2005, showing total assets and total equity and liabilities of PLN 10,977,254 thousand;

c) the income statement for the year ended 31 December 2005, showing a net profit of PLN 2,289,356 thousand;

d) the statement of changes in equity for the year ended 31 December 2005, showing an increase in equity of PLN 877,274 thousand;

e) the cash flow statement for the year ended 31 December 2005, showing a net increase in cash and cash equivalents of PLN 1,321,466 thousand;

f) additional notes and explanations.

The Company's Management Board is responsible for preparing the financial statements and Directors' Report in accordance with applicable regulations. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the following regulations applicable in the Republic of Poland:

a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2002, No. 76, item 694 with further amendments, hereinafter called the Act);

b) auditing standards issued by the National Council of Registered Auditors in Poland.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the financial statements. The audit also included an assessment of the accounting policies applied by the Company and significant estimates made in the preparation of the financial statements as well as an evaluation of the overall presentation thereof . We believe that our audit provides a reasonable basis for our opinion.

The information in the Directors' Report for the year ended 31 December 2005 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 October 2005 concerning the publication of current and periodic information by issuers of securities ("Decree" – Journal of Laws of 2005, No. 209, item 1744) and is consistent with the information presented in the audited financial statements.

In our opinion, and in all material respects, the accompanying financial statements:

a) have been prepared on the basis of properly maintained accounting records;

b) comply in form and content with the applicable laws and the Company's Memorandum of Association;

c) give a fair and clear view of the Company's financial position as at 31 December 2005 and of the results of its operations for the year then ended, in accordance with the accounting policies applicable in the Republic of Poland, specified in the Accounting Act".

In our opinion, the following condensed financial report complies in all material aspects with the financial statements of the Company as audited by us, which served as the basis for its preperation.

In order to fully understand the fair and clear view of the Company's financial position and of its results of operations for the financial year form 1 January to 31 December 2005, the financial statements of the Company must be read, together with the auditor's opinion and report related to these financial statements.

On behalf of PricewaterhouseCoopers Sp. z o.o. and conducting the audit:

Adam Celiński
Member of the Management Board

Registered Auditor
No. 90033/7039

PricewaterhouseCoopers Sp. z o.o.
Entity entitled to audit financial statements entered under the number 144 on the list kept by the National Chamber of Certified Auditors

Warsaw, 16 March 2006

Financial Statements
Parent Company

The accompanying condensed financial report of KGHM Polska Miedź S.A. with its registered head office in Lubin was prepared by the Management Board of the Company based on the audited full-year financial statements of the Company for the financial period from 1 January to 31 December 2005.

For a complete understanding of the material and financial condition of the Company and its financial results for the financial period from 1 January to 31 December 2005, the complete financial statements of the Company must be read in conjunction with the registered auditor's opinion and report concerning these financial statements.

in '000 PLN

BALANCE SHEET	2005	2004
ASSETS		
I. Non-current assets	**7 078 691**	**6 551 525**
1. Intangible assets, of which:	61 725	61 004
- goodwill		
2. Tangible fixed assets	3 602 627	3 372 645
3. Long term debtors	1 759	1 815
3.1. From related entities		
3.2. From other entities	1 759	1 815
4. Long term investments	2 691 428	2 809 706
4.1. Investment property		
4.2. Intangible assets		
4.3. Long term financial assets	2 691 428	2 809 706
a) in related entities, of which:	2 654 301	2 749 094
- shares in subordinated entities accounted for using the equity method	2 650 043	2 068 696
b) in other entities	37 127	60 612
4.4. Other long term investments		
5. Long term prepayments	721 152	306 355
5.1. Deferred income tax asset	719 762	304 811
5.2. Other prepayments	1 390	1 544
II. Current assets	**3 898 563**	**2 396 911**
1. Inventories	1 133 655	906 896
2. Short term debtors	711 716	641 643
2.1. From related entities	67 948	44 461
2.2. From other entities	643 768	597 182
3. Short term investments	2 047 964	842 100
3.1 Short term financial assets	2 047 964	842 100
a) in related entities	212 197	9 000
b) in other entities	192 158	512 514
c) cash and cash equivalents	1 643 609	320 586
3.2. Other short term investments		
4. Short term prepayments	5 228	6 272
Total assets	**10 977 254**	**8 948 436**

in ‘000 PLN

BALANCE SHEET	2005	2004
EQUITY AND LIABILITIES		
I. Equity	**6 214 078**	**5 336 804**
1. Share capital	2 000 000	2 000 000
2. Called up share capital not paid (negative value)		
3. Treasury shares (negative value)		
4. Reserve capital	2 083 888	1 629 743
5. Revaluation reserve	-159 166	874 710
6. Other reserve capital		
7. Retained profit (uncovered loss) from prior years		-564 818
8. Net profit (loss)	2 289 356	1 397 169
9. Write-off of net profit in the financial year (negative value)		
II. Liabilities and provisions for liabilities	**4 763 176**	**3 611 632**
1. Provisions for liabilities	1 666 358	1 460 034
1.1. Deferred income tax provision	322 626	242 236
1.2. Provision for retirement and related benefits	817 019	710 992
a) long term	756 328	654 404
b) short term	60 691	56 588
1.3. Other provisions	526 713	506 806
a) long term	414 701	442 077
b) short term	112 012	64 729
2. Long term liabilities	40 489	39 050
2.1. Toward related entities	165	2 143
2.2. Toward other entities	40 324	36 907
3. Short term liabilities	2 805 065	1 945 207
3.1. Toward related entities	259 316	187 272
3.2. Toward other entities	2 470 099	1 692 796
3.3. Special funds	75 650	65 139
4. Accruals and deferred income	251 264	167 341
4.1. Negative goodwill		
4.2. Other accruals and deferred income	251 264	167 341
a) long term	1 382	2 488
b) short term	249 882	164 853
Total equity and liabilities	**10 977 254**	**8 948 436**
Net assets	**6 214 078**	**5 336 804**
Number of shares	**200 000 000**	**200 000 000**
Net assets per share (in PLN)	**31.07**	**26.68**
Diluted number of shares	**200 000 000**	**200 000 000**
Diluted net assets per share (in PLN)	**31.07**	**26.68**

in '000 PLN

OFF-BALANCE SHEET ITEMS	2005	2004
1. Contingent debtors	**65 722**	**105 267**
1.1. From related entities (due to)		
- received guarantees		
1.2. From other entities (due to)	65 722	105 267
- received guarantees		
- disputed State budget issues	64 845	103 934
- other	877	1 333
2. Contingent liabilities	**38 040**	**8 410**
2.1. Toward related entities (due to)	36 968	7 678
- granted guarantees	36 968	7 678
2.2. Toward other entities (due to)	1 072	732
- granted guarantees		
- contingent penalties	1 072	732
3. Other (due to)	**458 734**	**473 839**
3.1. Toward related entities (due to)	11 337	
- liabilities due to rationalisation and R&D work, and other unrealised agreements	11 337	
3.2. Toward other entities (due to)	447 397	473 839
- liabilities due to perpetual usufruct of State Treasury land	376 425	350 643
- liabilities due to leased fixed assets		3 567
- liabilities due to rationalisation and R&D work, and other unrealised agreements	68 384	118 110
- other liabilities (unresolved and disputed issues etc.)	2 588	1 519

in '000 PLN

INCOME STATEMENT	2005	2004
I. Net revenue from the sale of products, goods for resale and materials, of which:	**8 000 085**	**6 341 994**
- from related entities	1 595 571	1 250 080
1. Net revenue from the sale of products	7 924 195	6 241 302
2. Net revenue from the sale of goods for resale and materials	75 890	100 692
II. Cost of products, goods for resale and materials sold, of which:	**-4 723 734**	**-4 195 617**
- for related entities	-968 359	-740 697
1. Cost of manufactured products sold	-4 650 097	-4 101 484
2. Cost of goods for resale and materials sold	-73 637	-94 133
III. Gross profit (loss)	**3 276 351**	**2 146 377**
IV. Selling costs	-74 461	-73 292
V. General and administrative costs	-495 124	-443 978
VI. Profit (loss) from sales	**2 706 766**	**1 629 107**
VII. Other operating income	85 425	77 044
1. Gain on disposal of non-financial assets		
2. Subsidies	673	663
3. Other operating income	84 752	76 381
VIII. Other operating costs	-283 493	-152 122
1. Loss from disposal of non-financial assets	-86	-843
2. Revaluation of non-financial assets	-22 913	-9 436
3. Other operating costs	-260 494	-141 843
IX. Operating profit (loss)	**2 508 698**	**1 554 029**
X. Financial income	395 152	526 889
1. Dividends and share in profit, of which:	313	250
- from related entities		
2. Interest, of which:	93 966	128 719
- from related entities	41 264	98 297
3. Gain on the sale of investments	9 942	41 666
4. Revaluation of investments	223 758	328 111
5. Other	67 173	28 143
XI. Financial costs	-269 287	-635 015
1. Interest, of which:	-10 744	-41 781
- to related entities	-1 221	-388
2. Loss from the sale of investments		
3. Revaluation of investments	-204 328	-415 491
4. Other	-54 215	-177 743
XII. Profit (loss) before extraordinary items and taxation	**2 634 563**	**1 445 903**
XIII. Result on extraordinary items		
1. Extraordinary gains		304
2. Extraordinary losses		-304
XIV. Profit (loss) before taxation	**2 634 563**	**1 445 903**
XV. Taxation	-417 331	-295 552
a) current taxation	-520 834	-340 667
b) deferred taxation	103 503	45 115
XVI. Other obligatory deductions from profit (loss increase)		
XVII. Share in net profits (losses) of subordinated entities accounted for using the equity method	72 124	246 818
XVIII. Net profit (loss)	**2 289 356**	**1 397 169**
Net profit (loss) (annualised)	**2 289 356**	**1 397 169**
Weighted average number of ordinary shares	**200 000 000**	**200 000 000**
Earnings (loss) per ordinary share (in PLN)	**11.45**	**6.99**
Weighted average diluted number of ordinary shares	**200 000 000**	**200 000 000**
Diluted earnings (loss) per ordinary share (in PLN)	**11.45**	**6.99**

in '000 PLN

STATEMENT OF CHANGES IN EQUITY	2005	2004
I. Equity - beginning of the period	**5 336 804**	**4 006 502**
a) changes in accounting policies		-529 363
b) corrections due to errors		
I.a. Equity - beginning of the period, after adjustment with comparative data	**5 336 804**	**3 477 139**
1. Share capital - beginning of the period	**2 000 000**	**2 000 000**
1.1. Changes in share capital		
a) increase, due to:		
- issue of shares		
b) decrease, due to:		
- redemption of shares		
1.2. Share capital - end of the period	**2 000 000**	**2 000 000**
2. Called up capital not paid - beginning of the period		
2.1. Changes in called up capital not paid		
a) increase (due to)		
b) decrease (due to)		
2.2. Called up capital not paid - end of the period		
3. Treasury shares - beginning of the period		
3.1. Changes in treasury shares		
a) increase, due to:		
b) decrease, due to:		
3.2. Treasury shares - end of the period		
4. Reserve capital - beginning of the period	**1 629 743**	**1 194 236**
4.1. Changes in reserve capital	454 145	435 507
a) increase, due to:	1 018 963	435 507
- issue of shares over nominal value		
- from profit distribution (statutory)		
- from profit distribution (over statutorily-required minimum value)	997 169	411 557
- transfer from revaluation reserve	21 794	23 950
b) decrease, due to:	-564 818	
- coverage of losses	-564 818	
4.2. Reserve capital - end of the period	**2 083 888**	**1 629 743**
5. Revaluation reserve - beginning of the period	**874 710**	**400 709**
5.1. Changes in revaluation reserve	-1 033 876	474 001
a) increase, due to:	694 387	1 418 732
- effect of changes in accounting policies		29 780
- effect in deferred income tax due to changes in accounting policies		5 675
- settlement of hedging instruments	462 995	1 113 046
- valuation of hedging transactions, in the effective part		270 231
- reversal of diminution in value of fixed assets	334	
- excess of a deferred income tax asset over deferred income tax provision	231 058	
b) decrease, due to:	-1 728 263	-944 731
- disposal of fixed assets	-21 793	-23 919

cont. p. 73

cont. from p. 72

in '000 PLN

STATEMENT OF CHANGES IN EQUITY	2005	2004
- permanent diminution in value of fixed assets subject to revaluation	-511	-1 176
- valuation of hedging transactions, in the effective part	-1 471 625	-628 701
- settlement of hedging instruments	-234 334	-201 752
- excess of a deferred income tax provision over deferred income tax asset		-89 183
5.2. Revaluation reserve - end of the period	**-159 166**	**874 710**
6. Other reserve capital - beginning of the period		
6.1. Changes in other reserve capital		
a) increase, due to:		
b) decrease, due to:		
6.2. Other reserve capital - end of the period		
7. Retained profit (uncovered losses) from prior years - beginning of the period	**832 351**	**411 557**
7.1. Retained profit from prior years - beginning of the period	**1 397 169**	**411 557**
a) changes in accounting policies		118 030
b) corrections due to errors		
7.2. Retained profit from prior years - beginning of the period, after adjustment with comparative data	**1 397 169**	**529 587**
a) increase, due to:		
- distribution of retained profit		
b) decrease, due to:	-1 397 169	-411 557
- transfer to reserve capital	-997 169	-411 557
- dividend payment	-400 000	
7.3. Retained profit - end of the period		**118 030**
7.4. Uncovered losses from prior years - beginning of the period	**-564 818**	
a) changes in accounting policies		-682 848
b) corrections due to errors		
7.5. Uncovered losses from prior years - beginning of the period, after adjustment with comparative data	**-564 818**	**-682 848**
a) increase, due to:		
- transfer of losses from prior years to be covered		
b) decrease, due to:	564 818	
- coverage of loss from reserve capital	564 818	
7.6. Uncovered losses from prior years - end of the period		**-682 848**
7.7. Retained profit (uncovered losses) - end of the period		**-564 818**
8. Net result	**2 289 356**	**1 397 169**
a) net profit	**2 289 356**	**1 397 169**
b) net loss		
c) write-off from profit		
II. Equity - end of the period	**6 214 078**	**5 336 804**
III. Equity, after proposed profit distribution (coverage of losses)	**5 514 078**	

in '000 PLN

CASH FLOW STATEMENT	2005	2004
A. Cash flow from operations - indirect method		
I. Net profit (loss)	**2 289 356**	**1 397 169**
II. Total adjustments	**214 636**	**320 574**
1. Share in net (profit) loss of entities accounted for using the equity method	-72 124	-246 818
2. Depreciation	291 304	272 977
3. Foreign exchange (gains)/losses	42 762	-89 606
4. Interest and share in profits (dividends)	-34 243	-62 591
5. (Profit) loss on investing activities	-54 295	-39 638
6. Change in provisions	290 761	62 518
7. Change in inventories	-226 759	-129 964
8. Change in debtors	-70 025	-60 880
9. Change in short term liabilities, excluding bank and other loans	287 815	239 399
10. Change in prepayments and accruals	-116 415	-66 600
11. Other adjustments	-124 145	441 777
III. Net cash flow from operations (I+/-II)	**2 503 992**	**1 717 743**
B. Cash flow from investing activities		
I. Inflow	**736 332**	**964 983**
1. The sale of intangible assets and tangible fixed assets	849	870
2. The sale of investment properties and intangible assets		
3. From financial assets, of which:	733 509	959 703
a) in related entities	606 827	797 123
- the sale of financial assets	479 800	630 000
- dividends and share in profit	84 082	69 083
- repayment of long term loans granted	1 800	
- interest	41 145	98 040
- other inflow from financial assets		
b) in other entities	126 682	162 580
- the sale of financial assets	75 329	153 114
- dividends and share in profit	313	475
- repayment of long term loans granted		
- interest	290	22
- other inflow from financial assets	50 750	8 969
4. Other investment inflow	1 974	4 410
II. Outflow	**-1 288 041**	**-1 355 904**
1. The purchase of intangible assets and tangible fixed assets	-644 509	-537 711
2. The purchase of property and intangible assets		
3. For financial assets, of which:	-628 960	-804 437
a) in related entities	-539 926	-659 377
- the purchase of financial assets	-538 731	-654 528
- long term loans granted	-1 195	-4 849
b) in other entities	-89 034	-145 060
- the purchase of financial assets	-89 034	-145 060

cont. p. 75

cont. from p. 74

in '000 PLN

CASH FLOW STATEMENT	2005	2004
- long term loans granted		
4. Other investment outflow	-14 572	-13 756
III. Net cash flow from investing activities (I-II)	**-551 709**	**-390 921**
C. Cash flow from financing activities		
I. Inflow	**43 199**	**239 553**
1. Net inflow from the issuance of shares and other equity instruments and of additional payments to capital		
2. Bank and other loans	43 199	239 553
3. The issuance of debt securities		
4. Other financial inflow		
II. Outflow	**-674 016**	**-1 519 773**
1. The purchase of own shares		
2. Dividends and other payments to shareholders	-400 000	
3. Other outflow from profit distribution, excepting payments to shareholders		
4. Repayment of bank and other loans	-258 347	-1 473 430
5. The buy-back of debt securities		
6. Due to other financial liabilities		
7. The payment of liabilities from financial leasing agreements	-7 738	-8 300
8. Interest	-7 931	-38 043
9. Other financial outflow		
III. Net cash flow from financing activities (I-II)	**-630 817**	**-1 280 220**
D. Total net cash flow (A.III+/-B.III+/-C.III)	**1 321 466**	**46 602**
E. Change in balance sheet of cash and cash equivalents, of which:	**1 323 023**	**46 186**
- change in cash and cash equivalents due to exchange rate differences	1 557	-416
F. Cash and cash equivalents - beginning of the period	**322 044**	**275 442**
G. Cash and cash equivalents - end of the period (F+/-D), of which:	**1 643 510**	**322 044**
- restricted cash and cash equivalents	35 742	26 448

Explanatory notes to the balance sheet

in '000 PLN

TANGIBLE FIXED ASSETS	2005	2004
a. Fixed assets, of which:	2 963 047	2 823 982
- land (including perpetual usufruct of land)	10 593	10 233
- buildings, premises and land and water engineering infrastructure	1 457 872	1 512 371
- plant and machinery	1 446 599	1 258 452
- vehicles	32 219	33 108
- other fixed assets	15 764	9 818
b. Fixed assets under construction	639 221	548 384
c. Prepayments for fixed assets under construction	359	279
Total tangible fixed assets	**3 602 627**	**3 372 645**

in '000 PLN

LONG TERM FINANCIAL ASSETS	2005	2004
a) in subsidiaries	1 723 128	1 943 999
- shares	1 718 870	1 263 601
- debt securities		679 800
- other securities (by type)		
- loans granted		598
- other long term financial assets (by type)	4 258	
- paid but not registered share capital in a subsidiary	4 258	
b) in associates	931 173	805 095
- shares	931 173	805 095
- debt securities		
- other securities (by type)		
- loans granted		
- other long term financial assets (by type)		
c) in other entities	37 127	60 612
- shares	23 338	23 338
- debt securities		
- other securities (by type)	13 789	37 274
- participation units	13 789	37 274
- loans granted		
- other long term financial assets (by type)		
Total long term financial assets	**2 691 428**	**2 809 706**

in '000 PLN

INVENTORIES	2005	2004
a) Materials	276 753	37 257
b) Semi-finished products and work in progress	672 468	728 603
c) Finished products	184 106	140 838
d) Goods for resale		
e) Prepayments on deliveries	328	198
Total inventories	**1 133 655**	**906 896**

in '000 PLN

SHORT TERM DEBTORS	2005	2004
a) from related entities, of which:	67 948	44 461
- trade debtors:	67 670	44 015
- less than 12 months	67 670	44 015
- over 12 months		
- other	278	446
- disputed claims		
b) from other entities	643 768	597 182
- trade debtors:	499 715	369 589
- less than 12 months	499 715	369 589
- over 12 months		
- tax, subsidies, custom duties, social insurance and other	103 725	190 307
- other	40 328	35 830
- disputed claims		1 456
Total net debtors	711 716	641 643
c) allowance for debtors	79 113	114 877
Total gross debtors	**790 829**	**756 520**

in '000 PLN

SHORT TERM FINANCIAL ASSETS	2005	2004
a) in subsidiaries	212 197	9 000
- shares		
- debtors from dividends and other share in profit		
- debt securities	200 000	
- other securities (by type)		
- loans granted	12 197	9 000
- other short term financial assets (by type)		
b) in other entities	192 158	512 514
- shares		
- debtors from dividends and other share in profit		
- debt securities		
- other securities (by type)		
- loans granted		190
- other short term financial assets (by type)	192 158	512 324
- derivative instruments	192 158	512 324
c) cash and cash equivalents	1 643 609	320 586
- cash in hand and at bank	2 465	2 797
- other cash and cash equivalents		
- other monetary assets	1 641 144	317 789
Total short term financial assets	**2 047 964**	**842 100**

SHARE CAPITAL (STRUCTURE)								
Issue series	Type of share	Type of prefer-ences	Type of limitation on share-holder rights	Amount of shares	Issue/Series' nominal value	Capital coverage method	date of registration	Right to dividents (from date)
A*	Bearer	Ordinary	none	53 000 000	530 000	the statutory capital and part of state enterprise capital transferred into share capital	1991-09-12	On registr. date
A	Bearer	Ordinary	none	147 000 000	1 470 000	transfer to share capital of part of the reserve capital of the Company	1997-05-16	1997-01-01
Total amount of shares				200 000 000				
Total share capital					2 000 000			
Nominal value per share = 10 PLN								

* The number of shares assumed following a stock split was authorised on the basis of resolution of the Extraordinary General Meeting of 30 April 1997 (date of registration 16 May 1997)

During 2005 there were no changes in the share capital of the Company. At 31 December 2005 the share capital amounted to PLN 2 000 000 000 and was divided into 200 000 000 shares having a nominal value of PLN 10 each. Each share grants the right to one vote at the General Shareholders Meeting of the Company

Based on information received by the Company, pursuant to art. 147 of the Law on the public trading of securities, at 31 December 2005 the following shareholders held a number of shares representing 5% or more of the share capital of the Company, as well as 5% or more of the total number of votes at the General Shareholders Meeting of the Company:

1. The State Treasury - 88 567 589 shares having a total nominal value of PLN 885 675 890, representing 44.28% of the share capital of the Company and the same number of votes at the General Shareholders Meeting (based on an announcement dated 12 January 2001);
2. Deutsche Bank Trust Company Americas (depositary bank in the depositary receipt program of the Company) - 10 013 016 shares, having a total nominal value of PLN 100 130 160, representing 5.01% of the share capital of the Company and the same number of votes at the General Shareholders Meeting (based on an announcement dated 11 May 2005). Based on information received on a quarterly basis from the depositary bank, the number of depositary receipts issued at 31 December 2005 amounted to 7 307 854, representing 14 615 708 shares, having a nominal value of PLN 146 157 080 and representing 7.31 % of the total number of votes at the General Shareholders Meeting of the Company;
3. Lansdowne Partners Limited Partnership - 10 572 441 shares having a total nominal value of PLN 105 724 410, representing 5.29% of the share capital of the Company and the same number of votes at the General Shareholders Meeting (based on an announcement dated 12 July 2005).

After the balance sheet date Lansdowne Partners Limited Partnership reduced its stake in the share capital of the Company to a level below 5%, and at 12 January 2006 controlled, on behalf of the funds which it manages, 9 282 114 shares, representing 4.64 % of the share capital and representing the same number of votes.

in '000 PLN

CHANGE IN OTHER LONG TERM PROVISIONS (BY TYPE)	2005	2004
a) end of the period	**414 701**	**442 077**
- costs of mine closure	373 326	408 104
- future costs of disposal of fixed assets in liquidation	4 363	327
- other provisions for potential losses, expenses and liabilities	37 012	33 646

in '000 PLN

CHANGE IN OTHER SHORT TERM PROVISIONS (BY TYPE)	2005	2004
e) end of the period	**112 012**	**64 729**
- costs of mine closure	5 434	7 890
- future costs of disposal of fixed assets	2 595	6 938
- potential state budget liabilities	2 893	10 416
- disputed issues and other liabilities	101 090	39 485

in '000 PLN

SHORT TERM LIABILITIES	2005	2004
a) toward subsidiaries	**258 486**	**186 339**
- bank and other loans, of which:	26 898	
- long term bank and other loans repayable in the present period	26 898	
- due to issued debt securities		
- due to dividends		
- other financial liabilities, of which:		
- due to trade liabilities:	225 245	181 453
- less than 12 months	225 245	181 453
- over 12 months		
- advances received for deliveries		
- bills of exchange payable		
- other (by type)	6 343	4 886
- due to leasing	1 990	1 978
- other liabilities	4 353	2 908
b) toward associates	**830**	**933**
- bank and other loans, of which:		
- long term bank and other loans repayable in the present period		
- due to issued debt securities		
- due to dividends		
- other financial liabilities, of which:		
- due to trade liabilities:	830	933
- less than 12 months	830	933
- over 12 months		
- advances received for deliveries		
- bills of exchange payable		
- other (by type)		
c) toward other entities	**2 470 099**	**1 692 796**
- bank and other loans, of which:	8 411	229 667
- long term bank and other loans repayable in the present period	8 411	
- due to issued debt securities		
- due to dividends		

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in '000 PLN

SHORT TERM LIABILITIES	2005	2004
- other financial liabilities, of which:	1 366 160	620 376
- due to valuation of derivative instruments	1 360 533	593 583
- due to factoring	5 627	26 793
- due to trade liabilities:	384 525	273 695
- less than 12 months	380 540	269 046
- over 12 months	3 985	4 649
- advances received for deliveries		2 914
- bills of exchange payable		
- due to taxes, customs duties and related items	543 823	429 807
- due to wages	96 028	84 262
- other (by type)	71 152	52 075
- mining royalty	7 728	8 010
- liabilities due to leasing	4 897	5 739
- environmental fees	40 575	19 113
- settlement of wage deductions	7 612	7 432
- other	10 340	11 781
d) special funds (by type)	**75 650**	**65 139**
- social fund	44 786	46 257
- other funds	30 864	18 882
Total short term liabilities	**2 805 065**	**1 945 207**

Explanatory notes to the income statement

in '000 PLN

NET REVENUE FROM SALE OF PRODUCTS (MATERIAL STRUCTURE - BY TYPE OF ACTIVITY)	2005	2004
- copper, precious metals and other smelter products	7 823 438	6 143 649
- of which: from related entities	1 486 938	1 162 180
- energy		9 799
- of which: from related entities		486
- processing of copper	122	207
- of which: from related entities		
- salt	32 343	26 421
- of which: from related entities	32 343	26 421
- other products	68 292	61 226
- of which: from related entities	47 859	35 398
Total net revenue from sale of products	**7 924 195**	**6 241 302**
- of which: from related entities	**1 567 140**	**1 224 485**

in '000 PLN

COSTS BY TYPE	2005	2004
a) Depreciation	291 304	272 977
b) Consumption of materials and energy	1 910 502	1 822 044
c) External services	885 856	827 806
d) Taxes and fees	243 520	233 850
e) Wages and salaries	1 393 202	1 192 464
f) Social insurance and other benefits	412 928	348 483
g) Other	85 848	78 609
- advertising and promotion costs	21 662	19 223
- property and personnel insurance	18 592	18 251
- business trips	6 094	5 768
- other costs	39 500	35 367
Total costs by type	**5 223 160**	**4 776 233**
Change in work in progress, finished goods and prepayments and accruals	55 008	-119 099
Costs of production of products for internal use (negative value)	-53 224	-32 503
Other adjustments of costs of goods sold (negative value)	-5 262	-5 877
Selling costs (negative value)	-74 461	-73 292
General and administration costs (negative value)	-495 124	-443 978
Costs of production of manufactured products sold	**4 650 097**	**4 101 484**

in '000 PLN

OTHER OPERATING INCOME	2005	2004
a) Release of provisions, due to:	13 412	19 883
- revaluation of provision for Konrad mine closure	1 688	98
- retirement and similar rights	7 909	10 393
- State budget liabilities	1 657	
- other liabilities	2 158	9 392
b) other, of which:	71 340	56 498
- income from other sales	9 036	8 772
- reversal of allowance for assets, upon elimination of cause for their creation	36 396	19 215
- income from liquidation of fixed assets	2 576	2 186
- penalties and damages paid to the company	6 330	6 837
- write-off of liabilities	184	207
- correction of property tax from prior years	1 949	12 072
- refund of insurance premiums	7 829	
- other operating income	7 040	7 209
Total other operating income	**84 752**	**76 381**

in '000 PLN

OTHER OPERATING COSTS	2005	2004
a) Provisions created due to:	218 165	88 297
- future costs of mine closure	21 030	7 573
- Konrad mine closure		178
- retirement and similar rights	113 936	49 756
- costs of repair and liquidation of fire effects		9 303
- provision for donation to related entity	8 960	
- liabilities towards Municipality	1 010	4 782
- disputed liabilities	1 209	13 701
- tax State budget liabilities	65 818	
- other	6 202	3 004
b) other, of which:	42 329	53 546
- costs of other sales	9 036	8 772
- donations	10 731	14 678
- other	22 562	30 096
Total other operating costs	**260 494**	**141 843**

in '000 PLN

OTHER FINANCIAL INCOME	2005	2004
a) foreign exchange gains		
- realised		
- unrealised		
b) release of provisions, due to:		1 126
- tax property interest		1 033
- interest on agricultural tax		93
c) other, of which:	67 173	27 017
- reversal of allowance for bad debtors	13 846	6 148
- revaluation of provision for mine closure costs		8 986
- release of provision for financial risks	1 110	
- measurement of embedded instruments to fair value		2 475
- gains from other financial investment	50 750	8 969
- other financial income	1 467	439
Total other financial income	**67 173**	**28 143**

in '000 PLN

OTHER FINANCIAL COSTS	2005	2004
a) foreign exchange losses, of which:	21 438	49 928
- realised	25 233	38 278
- unrealised	-3 795	11 650
b) provisions created, due to:		
c) other, of which:	32 777	127 815
- bank commission		22 637
- revaluation of provision for mine closure costs	25 221	22 557
- forgival of financial debtors		70 507
- allowance for debtors from financial operations	4 531	9 845
- measurement of embedded instruments to fair value		78
- other financial costs	3 025	2 191
Total other financial costs	**54 215**	**177 743**

Additional explanatory notes

INFORMATION ON FINANCIAL INSTRUMENTS		
Item	Description	Financial assets held for trading
1.	**Beginning of the period**	**337 456**
2.	**Increase**	**99 850**
	- acquisition, creation, drawing	99 850
	- valuation	
	- revaluation	
	- reclassification	
	- other	
3.	**Decrease**	**302 224**
	- disposal, release, repayment	302 224
	- valuation	
	- revaluation	
	- reclassification	
	- other	
4.	**End of the period**	**135 082**
of which :		
4.1	**presented in balance sheet with indication of item**	**135 082**
	Long term financial assets- shares	
	Long term financial assets-other securities	
	Short term financial assets-loans granted	
	Other short term financial assets - derivative instruments held for trading	135 082
	Short term financial assets - other securities, other debt financial instruments, Treasury bonds	
	Other cash assets - bank deposits	
	Other cash assets - unpaid interest on debt securities, loans and bank deposit	
	Long term liabilities-bank and other loans	
	Long term liabilities- other financial liabilities	
	Short term liabilities-bank and other loans	
	Other financial liabilities - derivative instruments held for trading	
	Other financial liabilities – factoring	
	Short term liabilities- other financial liabilities	
4.2	**in off-balance sheet items**	

* *excluded from receivables originated are debtors and liabilities related to the physical delivery of goods*

in ' 000 PLN

	Financial liabilities held for trading	Other liabilities	Loans and receivables originated *	Financial assets held to maturity	Financial assets available for sale
	314 396	**303 227**	**327 437**	**717 214**	**23 338**
	97 911	**49 625**	**1 329 656**	**7 504**	
	97 911	49 517	1 321 209	3 601	
			7 481		
		108	966	3 731	
				172	
	272 989	**264 540**	**3 819**	**510 862**	
	272 989	264 181	3 819	510 862	
		359			
	139 318	**88 312**	**1 653 274**	**213 856**	**23 338**
	139 318	**88 312**	**1 653 274**	**213 856**	**23 338**
					23 338
				13 789	
			12 197		
				200 000	
			1 640 111		
			966	67	
		19 000			
		21 489			
		35 309			
	139 318				
		5 627			
		6 887			

RECOGNITION OF HEDGING TRANSACTIONS		
Description	Financial assets - hedging transactions- derivative instruments	Financial liabilities - hedging transactions - derivative instruments
Beginning of the period	174 868	279 187
Increase	**33 877**	**1 182 864**
- acquisition, creation, drawing	33 877	1 182 864
- valuation		
- revaluation		
- reclassification		
-other		
Decrease	**151 669**	**240 836**
- disposal, release, repayment	151 669	240 836
- valuation		
- revaluation		
- other		
End of the period	**57 076**	**1 221 215**

Consolidated Financial Statements 2005

Opinion of Independent Registered Auditor on the condensed financial report for the General Shareholders Meeting and Supervisory Board of **KGHM Polska Miedź S.A.**

The following condensed financial report of the KGHM Polska Miedź S.A. Group with its registered head office in Lubin (hereinafter called "the Group") was prepared by the Management Board of the Company on the basis of the audited consolidated financial statements of the Group for the financial period from 1 January to 31 December 2005 ("the consolidated financial statements of the Group").

We have audited the consolidated financial statements of the Group for the financial year ended 31 December 2005, on the basis of which the following condensed financial report of the Group was prepared, and on 13 March 2006 we issued our opinion on these statements, in the following wording:

"Opinion of Independent Registered Auditor for the General Shareholders Meeting and Supervisory Board of KGHM Polska Miedź S.A.

We have audited the accompanying consolidated financial statements of the KGHM Polska Miedź S.A. Group (hereinafter referred to as "the Group") prepared by KGHM Polska Miedź S.A. (hereinafter referred to as "the Parent Company"), Lubin, ul.Maria Skłodowska-Curie 48, which comprise:

a) the consolidated balance sheet as at 31 December 2005, showing total assets and total equity and liabilities of PLN 11,101,951 thousand;

b) the consolidated income statement for the year ended 31 December 2005 showing a net profit of PLN 2,107,770 thousand;

c) the statement of changes in consolidated equity for the year ended 31 December 2005, showing an increase in equity of PLN 701,370 thousand;

d) the consolidated cash flow statement for the year ended 31 December 2005, showing an increase in cash and cash equivalents of PLN 1,353,619 thousand;

e) the notes to the consolidated financial statements,.

The Management Board of the Parent Company is responsible for preparing consolidated financial statements and a Directors' Report for the Group that comply with applicable laws. Our responsibility was to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit in accordance with the following regulations applicable in the Republic of Poland:

a) the provisions of Chapter 7 of the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2002, No. 76, item 694 with further amendments, hereinafter referred to as "the Act");

(b) auditing standards issued by the National Council of Registered Auditors in Poland.

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a sample test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the accounting policies used by the Group and significant estimates made during the preparation of the consolidated financial statements, as well as an evaluation of the overall presentation thereof.
We believe that our audit provided a reasonable basis for our opinion.

The information in the Directors' Report for the Group for the year ended 31 December 2005 has been presented in accordance with the provisions of the Decree of the Finance Minister of 19 October 2005 concerning the publication of current and periodic information by issuers of securities and is consistent with the information presented in the audited consolidated financial statements.

In our opinion, and in all material respects, the accompanying consolidated financial statements:

a) have been prepared on the basis of properly maintained consolidation documentation;

b) comply in form and content with the applicable laws;

c) give a fair and clear view of the Group's financial position as at 31 December 2005 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union".

In our opinion, the following condensed financial report of the Group complies in all material aspects with the full consolidated financial statements of the Group as audited by us, which served as the basis for its preparation.

In order to fully understand the fair and clear view of the Company's financial position and of its results of operations for the financial year from 1 January to 31 December 2005, the full consolidated financial statements of the Group must be read, together with the auditor's opinion and report related to these financial statements.

On behalf of PricewaterhouseCoopers Sp. z o.o. and conducting the audit:

Adam Celiński
Board Member

Registered Auditor
No. 90033/7039

PricewaterhouseCoopers Sp. z o.o.
Entity entitled to audit financial statements entered under the number 144 on the list kept by the National Chamber of Certified Auditors

Warsaw, 13 April 2006

Consolidated financial statements

The accompanying condensed financial report of the KGHM Polska Miedź S.A. Group with its registered head office in Lubin was prepared by the Management Board of the Company based on the full audited financial statements of the Group for the financial period from 1 January to 31 December 2005.

For a complete understanding of the material and financial condition of the Group and its financial results for the financial period from 1 January to 31 December 2005, the complete consolidated financial statements of the Group must be read in conjunction with the registered auditor's opinion and report concerning these financial statements.

	At	
CONSOLIDATED BALANCE SHEET	**31 December 2005**	**31 December 2004**
Non-current assets		
Property, plant and equipment	5 581 193	5 458 088
Intangible assets	89 248	90 115
Investment property	28 250	9 878
Investments in associates	931 173	805 095
Deferred income tax assets	162 610	26 670
Available-for-sale financial assets	28 005	31 816
Held-to-maturity investments	44	37 320
Derivative financial instruments	20 548	19 329
Financial assets at fair value through profit or loss	27 464	
Trade and other receivables	15 761	14 745
	6 884 296	**6 493 056**
Current assets		
Inventories	1 244 576	1 034 311
Trade and other receivables	912 669	810 243
Receivables due to current income tax	2 878	1 578
Held-to-maturity investments		5 789
Derivative financial instruments	171 645	494 145
Cash and cash equivalents	1 878 321	523 174
	4 210 089	**2 869 240**
Assets classified as held for sale		
	4 217 655	**2 869 240**
TOTAL ASSETS	**11 101 951**	**9 362 296**

CONSOLIDATED BALANCE SHEET	At 31 December 2005	At 31 December 2004
Equity attributable to shareholders of the Company		
Share capital	2 000 000	7 413 573
Other reserves	-810 388	201 550
Retained earnings	5 153 078	-1 976 873
	6 342 690	**5 638 250**
Minority interests	**14 631**	**17 701**
TOTAL EQUITY	**6 357 321**	**5 655 951**
LIABILITIES		
Non-current liabilities		
Trade and other payables	13 847	15 609
Borrowings	63 388	53 781
Derivative financial instruments	210 298	44 117
Deferred income tax liabilities	16 566	23 035
Liabilities due to employee benefits	816 169	706 720
Provisions due to other liabilities and charges	410 397	444 015
	1 530 665	**1 287 277**
Current liabilities		
Trade and other payables	1 429 258	1 154 488
Borrowings	48 477	273 074
Current income tax liabilities	397 963	299 441
Derivative financial instruments	1 150 239	549 546
Liabilities due to employee benefits	68 646	62 658
Provisions for other liabilities and charges	119 382	79 861
	3 213 965	**2 419 068**
TOTAL LIABILITIES	**4 744 630**	**3 706 345**
TOTAL EQUITY AND LIABILITIES	**11 101 951**	**9 362 296**

CONSOLIDATED INCOME STATEMENT	For the period from 1 January to 31 December 2005	from 1 January to 31 December 2004
Sales	9 029 496	7 322 729
Cost of sales	-5 626 487	-4 866 548
Gross profit	**3 403 009**	**2 456 181**
Selling and marketing costs	-192 044	-154 560
Administrative expenses	-661 924	-639 648
Other gains/losses - net	13 019	-13 406
Operating profit	**2 562 060**	**1 648 567**
Financial costs - net	-37 830	-153 216
Share of profits/losses of associates accounted for using the equity method	210 160	181 924
Profit before income tax	**2 734 390**	**1 677 275**
Income tax expense	-626 620	-300 822
Profit for the period	**2 107 770**	**1 376 453**
attributable to:		
shareholders of the Parent Entity	2 106 085	1 376 715
minority interests	1 685	-262
Earnings per share attributable to the shareholders of the Parent Entity during the period (PLN per share)		
- basic/diluted	10.53	6.88

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of Company			Attributable to minority interests	Total equity
	Share capital	Other reserves	Retained earnings		
At 1 January 2004	**7 413 573**	**-262 108**	**-3 353 588**	**17 963**	**3 815 840**
Fair value gains on available for sale financial assets		16			16
Impact of cash flow hedging		547 149			547 149
Deferred income tax on cash flow hedging		-83 507			-83 507
Total income/expenses recognised directly in equity		**463 658**			**463 658**
Profit for the period			1 376 715	-262	1 376 453
Total recognised income/expenses		**463 658**	**1 376 715**	**-262**	**1 840 111**
At 31 December 2004	**7 413 573**	**201 550**	**-1 976 873**	**17 701**	**5 655 951**
At 1 January 2005	**7 413 573**	**201 550**	**-1 976 873**	**17 701**	**5 655 951**
Restatement of data at 1 January 2005 due to transition to IAS 32 and 39			**10 293**		**10 293**
At 1 January 2005 after restatement	**7 413 573**	**201 550**	**-1 966 580**	**17 701**	**5 666 244**
Losses due to changes of fair value of available for sale financial assets		-16			-16
Impact of cash flow hedging		-1 242 964			-1 242 964
Deferred income tax on cash flow hedging		231 058			231 058
Total income/expenses recognised directly in equity		**-1 011 922**			**-1 011 922**
Profit for the period			2 106 085	1 685	2 107 770
Transactions with minority interest				-4 755	-4 755
Other changes		-16			-16
Total recognised income/ expenses		**-1 011 938**	**2 106 085**	**-3 070**	**1 091 077**
Coverage of the effects of revaluation of share capital transferred to retained earnings	-5 413 573		5 413 573		
Dividends paid			-400 000		-400 000
At 31 December 2005	**2 000 000**	**-810 388**	**5 153 078**	**14 631**	**6 357 321**

CONSOLIDATED CASH FLOW STATEMENT	For the period from 1 January to 31 December 2005	For the period from 1 January to 31 December 2004
Cash flow from operating activities		
Cash generated from operating activities	3 178 349	2 114 091
Income tax paid	-441 607	-158 637
Net cash generated from operating activities	**2 736 742**	**1 955 454**
Cash flow from investing activities		
Purchase of intangible assets and property, plant and equipment	-880 430	-728 297
Proceeds from sale of intangible assets and property, plant and equipment	7 795	7 094
Purchase of investment property	-152	
Purchase of held to maturity investments	-34 367	-46 973
Purchase of other financial assets	-3 912	-2 061
Proceeds from sale and realisation of held to maturity investments	40 430	58 209
Proceeds from sale of other financial assets	3 037	2 887
Purchase of financial assets at fair value through profit or loss	-3 740	
Proceeds from sale of financial assets at fair value through profit or loss	24 240	
Interest received	584	267
Dividends received	84 395	69 155
Other investment expenses	35 434	-209
Net cash used in investing activities	**-726 686**	**-639 928**
Cash flow from financing activities		
Proceeds from borrowings	33 010	262 595
Repayments of borrowings	-270 320	-1 498 765
Interest paid	-10 339	-41 516
Dividends paid to minority interest	-39	-78
Dividends paid to shareholders of the Parent Entity	-400 000	
Payments of liabilities due to financial leasing	-7 109	-7 558
Other financial expenses	-1 640	-521
Net cash used in financing activities	**-656 437**	**-1 285 843**
Total net cash flow	**1 353 619**	**29 683**
Cash and cash equivalents at beginning of the period	523 174	494 591
Exchange gains/losses on cash and cash equivalents	1 528	-1 100
Cash and cash equivalents at end of the period	**1 878 321**	**523 174**
including restricted cash and cash equivalents	49 053	29 926

INFORMATION ON BUSINESS SEGMENTS

	for the period from 1 January 2005 to 31 December 2005				
	Copper and precious metals, other smelter products	Telecoms and IT services	Other	Eliminations	Consolidated amount
SALES					
External sales	8 075 793	496 664	457 039		9 029 496
Inter-segment sales	140 717	4 768	1 399 717	-1 545 202	
Total sales	**8 216 510**	**501 432**	**1 856 756**	**-1 545 202**	**9 029 496**
RESULT					
Segment result	3 107 334	-94 946	461 019	-318 298	3 155 109
Unallocated costs of Group as a whole					-593 049
Operating profit					**2 562 060**
Financial cost - net					-37 830
Share of profit of associates					210 160
Profit before income tax					**2 734 390**
Income tax expense					-626 620
Profit for the period					**2 107 770**
OTHER INFORMATION					
Segment assets	7 605 228	1 242 674	1 125 426	-339 659	9 633 669
Investments in segment - in subordinated entities accounted for using the equity method		929 035	2 138		931 173
Unallocated assets of Group as a whole					537 109
Total consolidated assets					**11 101 951**
Segment liabilities	2 453 449	92 904	316 279	-224 034	2 638 598
Unallocated liabilities of Group as a whole					2 106 032
Total consolidated liabilities					**4 744 630**
Investment expenditures	650 499	106 812	119 250	-1 312	875 249
Depreciation on property, plant and equipment	313 121	94 665	63 757	-6 098	465 445
Amortisation on intangible assets	10 354	5 081	3 817	-19	19 233
Impairment of property, plant and equipment recognised in income statement	2 089	190 699	839		193 627
Impairment of intangible assets recognised in income statement		3 472			3 472
Reversal of property, plant and equipment impairment recognised in income statement	769	3 793	934		5 496
Other non-monetary costs	250 306	8 791	20 003	-5 201	273 899

PROPERTY, PLANT AND EQUIPMENT	At 31 December 2005	At 31 December 2004
Land	14 942	14 554
Land and buildings	2 727 882	2 877 421
Technical equipment and machinery	1 969 979	1 819 842
Vehicles	96 567	93 541
Other property, plant and equipment	57 115	41 457
Assets under construction	714 708	611 273
Total	**5 581 193**	**5 458 088**

INTANGIBLE ASSETS	At 31 December 2005	At 31 December 2004
Development costs	7 860	6 755
Goodwill	701	701
Software	24 336	28 019
Acquired concessions, patents, licenses	18 379	16 207
Other	37 972	38 433
Total	**89 248**	**90 115**

AVAILABLE-FOR-SALE FINANCIAL ASSETS	At 31 December 2005	At 31 December 2004
Non-current available-for-sale financial assets	**28 005**	**31 816**
- shares in unconsolidated subsidiaries	10 322	10 215
- shares in other not listed companies	14 522	18 540
- state treasury bonds	3 154	3 054
- other	7	7
Current available-for-sale financial assets		
Total available-for-sale financial assets:	**28 005**	**31 816**

HELD-TO-MATURITY INVESTMENTS	At 31 December 2005		At 31 December 2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current held-to-maturity investments:	**44**	**44**	**37 320**	**50 027**
- other securities	44	44	37 320	50 027
Current held-to-maturity investments:			**5 789**	**5 789**
- commercial bonds			5 789	5 789
Total held-to-maturity investments:	**44**	**44**	**43 109**	**55 816**

DERIVATIVE FINANCIAL INSTRUMENTS			At 31 December 2005		At 31 December 2004	
Type of financial instrument	**Volume/ Notional** Cu[000 t] Ag[000troz] Currency [‘000 USD]	**Avg. weighted price/Exc. rate** Cu[USD/t] Ag[USD/troz] Currency [USD/PLN]	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**
Hedging instruments with a maturity up to 12 months						
Copper						
Swaps - exchange of floating prices for fixed	91	2 761		-410 118		-57 510
Collar contracts	111	2511 - 2868	781	-505 229	12 787	-138 817
Bought put options					117	
TOTAL			**781**	**-915 347**	**12 904**	**-196 327**
Silver						
Swaps - exchange of floating prices for fixed	11 850	6.6458		-88 197	7 412	-53 693
Collar contracts	1 500	7.00 – 9.5080	797	-3 491		
TOTAL			**797**	**-91 688**	**7 412**	**-53 693**
Currency						
Forwards - sale	180 000	3.3427	15 323	-12	76 581	
Collar contracts	150 000	3.2024 – 3.5720	13 370	-3 870	58 642	-2
Bought put options	120 000	3.1250	6 257			
TOTAL			**34 950**	**-3 882**	**135 223**	**-2**

All derivative instruments have been recognised in the balance sheet at fair value.

			At			
DERIVATIVE FINANCIAL INSTRUMENTS			**31 December 2005**		**31 December 2004**	
Type of financial instrument	**Volume/ Notional** Cu[000 t] Ag[000troz] Currency [‘000 USD]	**Avg. weighted price/Exc. rate** Cu[USD/t] Ag[USD/troz] Currency [USD/PLN]	**Financial assets**	**Financial liabilities**	**Financial assets**	**Financial liabilities**
Hedging instruments with a maturity over 12 months						
Copper						
Swaps - exchange of floating prices for fixed	30	2 601		-113 283		
Collar contracts	30	2300 - 2898	1 608	-88 016	19 328	-29 951
Bought put options	30	2 500	5 073			
TOTAL			**6 681**	**-201 299**	**19 328**	**-29 951**
Silver						
Swaps - exchange of floating prices for fixed					1	-14 166
Collar contracts	1 500	7.00 – 9.50	1 441	-4 946		
TOTAL			**1 441**	**-4 946**	**1**	**-14 166**
Currency						
Forwards - sale	30 000	3.3354	2 514			
Collar contracts	105 000	3.0571 – 3.7577	9 912	-4 053		
TOTAL			**12 426**	**-4 053**		
Hedging instruments - total			**57 076**	**-1 221 215**	**174 868**	**-294 139**

All derivative instruments have been recognised in the balance sheet at fair value.

	At	
TRADE AND OTHER RECEIVABLES	**31 December 2005**	**31 December 2004**
Current trade and other receivables		
Trade receivables	724 956	560 828
Loans granted	1 009	190
Other non financial receivables, of which:	251 892	357 085
- taxes and other social charges	158 373	271 877
Prepayments	60 563	54 686
Provision for impairment of receivables	-125 751	-162 546
Current trade and other receivables, net	**912 669**	**810 243**

TRADE AND OTHER RECEIVABLES	At 31 December 2005	At 31 December 2004
Non-current trade and other receivables		
Trade receivables	2 449	3 291
Other non-financial receivables	2 406	3 951
Prepayments, of which	11 754	8 375
- perpetual usufruct of land recognised as an operating lease	6 133	8 032
Provision for impairment of non-current receivables	-848	-872
Non-current trade and other receivables, net	**15 761**	**14 745**
Total non-current and current trade and other receivables, net	**928 430**	**824 988**

Trade and other receivables are measured at amortised cost using the effective interest method less provision for impairment. The carrying amount of receivables approximates their fair value. Trade receivables with a maturity of up to 12 months from the date of their arising are not discounted.

INVENTORIES	At 31 December 2005	At 31 December 2004
Materials	320 525	83 892
Semi-finished products and work in progress	696 552	754 506
Finished products	181 408	152 176
Goods for resale	46 091	43 737
Total carrying value of inventories:	**1 244 576**	**1 034 311**

CASH AND CASH EQUIVALENTS	At 31 December 2005	At 31 December 2004
Cash in hand	759	448
Cash at bank	34 465	68 559
Other cash	1 269	2 731
Other financial asset payable within 3 months from the date of their purchase	1 841 828	451 436
Total cash and cash equivalents	**1 878 321**	**523 174**
Restricted cash and cash equivalents	38 053	29 926

Other financial assets with maturity to 3 months from purchase date are composed of deposits amounted to PLN 1 840 838 thousand (PLN 451 338 thousand at 31 December 2004) and interest on financial assets in amount PLN 990 thousand (PLN 98 thousand at 31 December 2004).

TRADE AND OTHER PAYABLES	At 31 December 2005	At 31 December 2004
Non-current trade and other payables		
Trade payables	8 434	9 551
Other non-financial liabilities	229	281
Deferred income	5 184	5 777
Total non-current trade and other payables	**13 847**	**15 609**
Current trade and other payables		
Trade payables	679 782	510 177
Liabilities due to taxation and social insurance	213 474	199 057
Other financial liabilities	117 214	128 976
Other non-financial liabilities	84 928	59 891
Special funds	82 657	73 191
Deferred income	30 694	9 333
Accruals	220 509	173 863
Total current trade and other payables	**1 429 258**	**1 154 488**
Total non-current and current trade and other payables	**1 443 105**	**1 170 097**

BORROWINGS	At 31 December 2005	At 31 December 2004
Non-current	**63 388**	**53 781**
Bank loans	8 823	
Loans	29 181	23 260
Liabilities due to financial leasing	25 384	30 521
Current	**48 477**	**273 074**
Bank loans	31 751	258 051
Loans	10 492	7 752
Liabilities due to financial leasing	6 234	7 271
Total	**111 865**	**326 855**

The fair value of bank and other loans drawn approximates their carrying amount.

EMPLOYEES BENEFITS	TOTAL liabilities	Jubilee awards	Retirement - disability rights	Coal equivalent	Other liabilities due to employee benefits
Present value of liabilities - at 1 January 2004	**743 092**	**221 390**	**139 989**	**380 418**	**1 295**
Present value of liabilities - at 31 December 2004	**785 397**	**239 126**	**152 312**	**393 618**	**341**
Past service cost unrecognised at the balance sheet date	-16 019		-16 019		
Carrying amount of liabilities - at 31 December 2004	**769 378**	**239 126**	**136 293**	**393 618**	**341**
of which:					
Carrying amount of non-current liabilities	**706 720**	210 822	123 603	372 080	215
Carrying amount of current liabilities	**62 658**	28 304	12 690	21 538	126
Present value of liabilities - at 1 January 2005	**785 397**	**239 126**	**152 312**	**393 618**	**341**
Present value of liabilities - at 31 December 2005	**899 148**	**265 807**	**179 927**	**452 469**	**945**
Past service cost unrecognised at the balance sheet date	-14 333		-14 333		
Carrying amount of liabilities - at 31 December 2005	**884 815**	**265 807**	**165 594**	**452 469**	**945**
of which:					
Carrying amount of non-current liabilities	**816 169**	235 701	151 009	429 134	325
Carrying amount of current liabilities	**68 646**	30 106	14 585	23 335	620

PROVISIONS FOR OTHER LIABILITIES AND CHARGES	TOTAL	Costs of closing mines and other technological objects	Costs of scrapping property, plant and equipment and assets under construction	Disputed issues and court proceedings	Other provisions for anticipated losses, expenses and liabilities
Provisions at 1 January 2004	**511 737**	**414 793**	**7 304**	**11 504**	**78 136**
Provisions at 31 December 2004	**523 876**	**416 139**	**7 265**	**27 781**	**72 691**
of which :					
Non-current provisions	**444 015**	**408 115**	**327**	**642**	**34 931**
Current provisions	**79 861**	**8 024**	**6 938**	**27 139**	**37 760**
Provisions at 1 January 2005	**523 876**	**416 139**	**7 265**	**27 781**	**72 691**
Provisions at 31 December 2005	**529 779**	**378 973**	**6 958**	**23 348**	**120 500**
of which :					
Non-current provisions	**410 397**	**373 337**	**4 363**		**32 697**
Current provisions	**119 382**	**5 636**	**2 595**	**23 348**	**87 803**

IMPAIRMENT LOSSES

Impairment losses by asset class during the financial period from 1 January 2005 to 31 December 2005

	Amount of impairment loss	Amount of impairment loss reversed	Amount of impairment loss utilised
Land and buildings	117 206	1 089	922
Technical equipment and machinery	65 355	480	467
Vehicles	374	126	2
Other assets	63	8	
Property, plant and equipment under construction	10 629	3 793	
Computer software	3 413		
Concessions, patents, licenses	59		
Total	**197 099**	**5 496**	**1 391**

Impairment losses by segment during the financial period from 1 January 2005 to 31 December 2005

	Amount of impairment loss	Amount of impairment loss reversed	Amount of impairment loss utilised
Segment I	2 089	769	1366
Segment II	194 171	3 793	
Segment III	839	934	25
Total	**197 099**	**5 496**	**1 391**

	For the period	
SALES	**from 1 January to 31 December 2005**	**from 1 January to 31 December 2004**
Net revenues from the sale of products, goods for resale and materials (material structure - by type of activity)		
- copper, precious metals and other smelter by-products	7 915 296	6 225 410
- energy	32 986	29 818
- services	692 607	680 624
- mining machinery, transport vehicles for mining and other types of equipment	14 364	17 858
- other products	246 353	268 799
- goods for resale	22 968	18 774
- wastes and materials	104 922	81 446
Total	**9 029 496**	**7 322 729**

	For the period	
COSTS BY TYPE	**1 January to 31 December 2005**	**1 January to 31 December 2004**
Depreciation of property, plant and equipment and amortisation of intangible assets	484 678	454 714
Employee benefits costs	2 444 492	2 067 897
Materials and energy consumption	1 864 498	1 812 185
External services	1 176 610	1 058 733
Taxation and fees	303 094	285 743
Advertising costs and representation expenses	51 006	39 210
Property and personal insurance	18 780	17 661
Research and development costs not capitalised in intangible assets	10 329	8 709
Other costs, including:	**241 930**	**64 743**
Impairment losses on property, plant and equipment and intangible assets	184 767	2 248

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COSTS BY TYPE	For the period 1 January to 31 December 2005	For the period 1 January to 31 December 2004
Write-down of inventories	4 099	2 718
Provision for impairment of receivables	-29 318	-4 293
Other operating costs	82 382	64 070
Total costs by type	**6 595 417**	**5 809 595**
Value of goods for resale and materials sold (+)	157 384	213 084
Change in inventories of finished goods and work in progress (+/-)	27 895	-120 353
Cost of manufacturing products for internal use (-)	-300 241	-241 570
Total costs of sales, selling, marketing and administrative costs	**6 480 455**	**5 660 756**

NET FINANCIAL COSTS	For the period from 1 January to 31 December 2005	For the period from 1 January to 31 December 2004
Interest expenses	**10 018**	**35 691**
- on bank and other loans	9 471	37 621
- due to financial leasing	547	-1 930
Gains/losses due to net exchange differences on borrowings	28 868	-14 192
Changes in provisions arising from the approach of the time to execute liabilities (rewinding of the discount effect)	25 221	15 777
Gains/losses from the measurement to fair value of derivative hedging instruments in the ineffective part	-27 026	92 402
Other net financial costs	749	23 538
Total net financial costs	**37 830**	**153 216**

CONTINGENT ITEMS AND OTHER OFF-BALANCE SHEET ITEMS	At 31 December 2005	At 31 December 2004
Contingent receivables	**141 511**	**135 745**
- bill of exchange receivables	65 777	25 841
- disputed State Budget issues	64 963	104 298
- guarantees received	10 771	5 606
Contingent liabilities	**80 983**	**77 588**
- bill of exchange liabilities	18 996	34 819
- guarantees and pledges granted	58 347	40 538
- disputed issues, on-going court proceedings	2 568	1 499
- contingent penalties	1 072	732
Off-balance sheet liabilities due to inventions, implementation of projects and other unrealised agreements	**79 721**	**118 110**

EARNINGS PER SHARE	For the period from 1 January to 31 December 2005	For the period from 1 January to 31 December 2004
Basic earnings/diluted profit		
Profit attributable to the shareholders of the Parent Entity	2 106 085	1 376 715
Average weighted number of ordinary shares (‘000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	10.53	6.88

There are no dilutive potential ordinary shares.

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