Brief assessment of the standing of KGHM POLSKA MIEDŹ S.A.
for financial year 2008

(approved by the Supervisory Board of KGHM Polska Miedź S.A. on 8 May 2009)

In accordance with chapter III point 1 sub-point 1) of the „Code of Best Practice for WSE Listed Companies" the Supervisory Board of KGHM Polska Miedź S.A. hereby presents a brief assessment of the Company's standing, including an evaluation of the risk management system and the internal control system for the Company. This assessment has been prepared based on documents submitted by the Management Board, discussions held with the participation of the Management Board and other individuals invited to attend meetings of the Supervisory Board, and also reflects the financial statements and the reports of the Management Board on the Company's activities, from the audit of the Company's accounts by a Certified Auditor.

1. Realisation of Company strategy and mission

During 2008 there were no significant changes in basic directions in terms of the existing Company strategy. Operational effectiveness decreased in terms of costs, due to an increase in the costs of materials, fuels and energy, an increase in external service costs, an increase in labour costs, and a decrease in copper content in extracted ore. The Company did not increase its production capacity, maintaining its basic parameters at a comparative level to the prior year. There was likewise no significant improvement in the financial position of the companies in the KGHM Polska Miedź S.A. Group.

In the second half of 2008 the Management Board of KGHM Polska Miedź S.A. began work on the assumptions to the Company Strategy for the years 2009 – 2018. This Strategy, approved by a Resolution of the Supervisory Board of KGHM Polska Miedź S.A. in February 2009, reflects the current situation on global markets, and is based on adjusted macroeconomic assumptions as compared to those in the Strategy in force in the first half of 2008. A large role is played by projects aimed at altering the production technology used in KGHM Polska Miedź S.A. (mechanical mining of ore), as well as projects aimed at improving production effectiveness (intensification of preparatory work, the replacement of mining machinery).

2. Macroeconomic conditions in 2008

In 2008 the average annual price of copper on the London Metal Exchange (LME) amounted to 6 952 USD/t, meaning a decrease by 2.5% versus 2007 (7 126 USD/t). In the second half of 2008 the metals markets experienced a significant decrease, as a result of which copper prices fell, reaching at the end of December the minimum of 2 770 USD/t.

The average annual silver price on the London Bullion Market (LBM) in 2008 reached 14.99 USD/troz, meaning an increase of 12% versus the average price in 2007, i.e. 13.38 USD/troz. Similarly as in the case of copper, the price of silver fell substantially in the second half of 2008, reaching its minimum in October (8.88 USD/troz).

The average USD/PLN exchange rate per the NBP in 2008 amounted to 2.41 USD/PLN and was lower versus the comparative prior period by 13% (2.77 USD/PLN). Until July of 2008 there had existed an appreciating trend in respect of the Polish zloty versus the USD and Euro. In subsequent months the domestic currency weakened rapidly.

3. Basic Company results

Mine and metallurgical production

In 2008 the Company excavated 29.4 million tonnes of ore, dry weight, and therefore 0.8 million tonnes less than in 2007. Simultaneously, as a result of mining moving into areas with lower mineralisation, there was a continued decrease in copper content (from 1.67% to 1.64%) and silver content (from 46.6 g/t to 46.1 g/t) in ore.
These factors were the primary cause of the decrease in the production of copper in concentrate to 429 thousand tonnes, and silver to 1 161 tonnes (a decrease respectively by 5% and 3% versus 2007).

In order to effectively use the Company's existing production capacity, purchased copper-bearing materials were added to the Company's own concentrates. As a result, electrolytic copper production amounted to 527 thousand tonnes, and metallic silver to 1 193 t, meaning a decrease versus 2007 respectively by 1.2% and 1.8%.
There was a change in the product structure, particularly with respect to wire rod, which, due to decreased market demand, was produced in an amount 18% less than in the prior year.

Revenues from sales

In 2008 the Company sold 537 thousand tonnes of copper and copper products (+2.0%, higher by 10 thousand tonnes), including 208 thousand tonnes of wire rod (a decrease by 17%). Total revenues from the sale of copper and copper products, taking into account the positive effects of hedging, amounted to PLN 9 443 million, and were lower than those achieved in 2007 by PLN 886 million.
Revenues from silver sales amounted to PLN 1 349 million (a decrease of PLN 54 million), while revenues from gold sales increased by 38% (to PLN 63 million from PLN 46 million in 2007), with revenues from other products amounting to PLN 366 million (an increase by PLN 40 million).
These amounts reflect adjustments due to the following:

- the settlement of commodity hedging instruments in the amount of PLN 569 million (in 2007: PLN (633) million), and
- the settlement in the result of foreign exchange gains related to the hedging of foreign-denominated credit, which were recognised in cathode exports in the amount of +PLN 11 million (in 2007 +PLN 51 million). In 2008 there was no adjustment to revenues due to the realisation of currency hedging instruments (in 2007 a profit was earned in the amount of +PLN 146 million).

Total revenues from sales amounted to PLN 11 220 million in 2008 and were lower by 7% than those achieved in 2007, mainly due to appreciation of the PLN and to the rapid fall in copper and silver prices in the fourth quarter of 2008.
Despite worse than assumed macroeconomic conditions, the above level of revenues from sales is only slightly higher than that planned for in the Company Budget, mainly due to a higher volume of copper sales than that assumed in the Budget and to the effects of implemented hedging strategies.

Operating costs

The total unit cost of electrolytic copper production increased from 11 160 PLN/t in 2007 to 11 736 PLN/t 2008.

The increase in the unit cost of copper production in comparison to 2006 by 5.2%, i.e. by 576 PLN/tonne of Cu was mainly due to: an increase in the costs of materials, fuels and energy (an increase of 432 PLN/t), an increase in external service costs (of which mainly mine preparatory work, 232 PLN/t) and costs of depreciation/amortisation (116 PLN/t) as well as to a decrease in copper production from internal concentrates (106 PLN/t). Labour costs (excluding the actuarial provision) increased in 2008 by 79 PLN/t.

The cost of copper production from internal concentrates increased by 1 484 PLN/t, i.e. by 16%, mainly due to the increase in the most important costs by type mentioned above and to the decrease in electrolytic copper production from internal concentrates.

The cost of copper production represented 93% of total costs by type. In 2008 the value of costs by type increased by PLN 549.23 million, i.e. by 8%.

Meanwhile, costs by type, excluding purchased copper-bearing materials in 2008, increased by PLN 400.21 million, i.e. by 7%, mainly due to the increase in: costs of materials, fuels and energy (+ 204.5 million), external services (of which mainly contracted mine preparatory work: PLN 150.00 million), labour costs (of which mainly provisions for future employee benefits: PLN 111.08 million).

Financial results

Profit before tax in 2008 amounted to PLN 3 554 million, and was comprised of the following: profit on sales in the amount of PLN 3 392 million, the profit on other operating activities in the amount of PLN 204 million and the loss on financing activities in the amount of PLN (43) million .

The result on other operating activities was mainly affected by (in PLN million):

– income from dividends	237
– the loss on the measurement and realisation of derivative instruments	(212)
– foreign exchange gains	122
– interest on financial instruments income	113
– impairment losses on shares in a subsidiary	(75)

The loss on financing activities in the amount of PLN (43) million is mainly due to changes in the amount of provisions.

Profit before tax was decreased by corporate income tax in the amount of PLN 633 million, composed of current income taxation in the amount of PLN 576 million and PLN 71 million due to temporary differences. As a result, profit for 2008 amounted to PLN 2 920 million, meaning a decrease versus 2007 by 23%.

EBITDA decreased by 20.1% from PLN 5 101 million in 2007 to PLN 4 078 million in 2008.

Selected financial ratios

Due to the deterioration in financial results, there was also a decrease in profitability ratios:
- ROA from 30.6% to 21.0%,
- ROE from 42.4 to 27.6%.

Similarly, due to the increase in the share of equity in the equity and liabilities structure, the debt ratio decreased from 27.8% to 23.8%.
The Company's favourable financial situation led to a decrease in current liabilities and consequently an increase in the liquidity factors:
- current liquidity from 2.5 to 3.1,
- quick liquidity from 1.7 to 2.2.

The increase in the liquidity factors (and therefore to overliquidity) was mainly due to a decrease in the level of current liabilities by 17% versus 2007, i.e. from PLN 2 018.28 million in 2007 to PLN 1 668.60 million in 2008. Among current liabilities the most important decreases were with respect to corporate tax liabilities (by PLN 278.1 million) and trade liabilities (by PLN 34.7 million).

4. Evaluation of the market risk management system in the Company in 2008

The main types of risk to which the Company is exposed are:
- the risk of changes in metals prices,
- the risk of changes in exchange rates,
- the risk of changes in interest rates,
- liquidity risk,
- credit risk.

The Management Board is responsible for the management of market risk in the Company and for adhering to the approved policy in this regard. The main body responsible for overseeing management of market risk management is the Market Risk Committee, which recommends actions to the Management Board in this regard. The primary technique for market risk management is the use of hedging strategies involving derivative instruments. Apart from this, natural hedging is also used.
The Company continuously monitors the commodity and currency markets, and these monitoring activities are the basis for taking decisions on implementing hedging strategies. The management of market risk is also determined by the internal situation of the Company. KGHM applies cash flow hedge accounting. Monitoring of the amount of market risk in the Company is based on analysis of the impact of market risk factors on the activities of the Company (financial result, balance sheet, cash flow statement) using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology.

The Management Board is responsible for the management of financial liquidity in the Company and for adhering to the approved policy in this regard. The Company actively manages financial liquidity, understood as the capacity to punctually regulate its liabilities and to acquire funds to finance its current activities and investment needs. Financial liquidity is analysed across several time horizons, beginning from immediate liquidity to long-term liquidity.

The Management Board is responsible for the management of credit risk in the Company and for adhering to the approved policy in this regard. The main body responsible for overseeing management of credit risk management is the Credit Risk Committee. KGHM continuously evaluates the creditworthiness of its customers with whom physical sale transactions are undertaken; of the financial institutions (banks/brokers) with whom hedging transactions are undertaken; and of the entities in which direct investments or equity investments are made.

In 2008 copper price hedging strategies represented approx. 35% (in 2007 25%) of sales of this metal realised by the Company. In the case of silver they amounted to approx. 32% (in 2007 6%).
In the case of the currency market, hedged revenues from sales represented approx. 11% (in 2007 10%) of total revenues from sales realised by the Company.
In 2008 transactions in derivative instruments entered into on the metals market were settled with a positive result, while currency hedging transactions were settled with a negative result. The impact of all transactions in derivative instruments on the income statement amounted to PLN 368 million (in 2007: PLN (749) million).
In 2008, the Company implemented copper price hedging strategies of a total volume of 99 thousand tonnes and a maturity falling in the fourth quarter of 2008 and the first half of 2009. The Company made use of options. There were no so-called toxic options among these, i.e. of a speculative nature. Additionally, during this period the Company implemented adjustment hedge transactions of a total volume of 24.8 thousand tonnes and a maturity falling in 2008 and 2009.
In 2008 the Company did not implement strategies hedging the price of silver. Adjustment hedge transactions were implemented of a total volume of 643 thousand troz.
In the case of the forward currency market, in 2008 the Company implemented strategies hedging the USD/PLN rate for an amount of USD 1 374 million and a time horizon falling in the fourth quarter of 2008 and in 2009. The Company also made use of options on this market. There were also no toxic options among them.

5. Evaluation of the internal control system

The Company regularly evaluates the quality of its systems of internal control and risk management. A significant element of risk management is the auditing of procedures performed by the Auditing Department. Each time an audit is performed an evaluation of the functioning of the internal control system is carried out as well as of the important types of risk which could have a negative impact on achievement of the Company’s goals.
In 2008 audits were performed with respect to management of the following areas: fixed assets, production and product deliveries, transport services, waste, electrical power, financial tools and IT security. As a result of these actions the actual condition of these processes was determined, along with proposed remediary actions and recommendations critical for leadership to take the appropriate decisions.
Internal (institutional) control operates based on the „Internal Control Regulations” approved by the Management Board of the Company. The internal control system

encompasses all Company areas and organisational units. Additionally, the obligation fully remains for each employee to control their own performance, and for every level of management staff to perform their control – within supervisory/coordination-related duties.

In operation since the second half of 2007, the Department of Internal Control (located within the structure of the Head Office) was initially overseen by the Vice President of the Management Board (Finance), and since 1 June 2008 is directly responsible to the President of the Management Board of the Company. The control activities of the Department (within the prescribed time period) were aimed among others at the need to limit risk related to:

– the selection of contractors/suppliers of work and services,
– the utilisation of financing in analysed areas,
– the management of complex projects.

As a result changes were proposed to procedures and to the description and execution of responsibilities by employees for actions taken or for failure to do so not only at their „own" work station, but also for the realisation of tasks within the scope of the Committees and Teams to which they are appointed.

6. Selected areas requiring attention

The following subjects require particular attention:

- the need to continuously monitor accepted strategic directions in terms of their conformity to approaching changes in the domestic and global economic environment, and their consistent implementation
- the need to intensify the realisation of investment projects, significantly increasing their material scope in coming years;
- the need to secure Company access to domestic copper ore resources through investments;
- the urgent implementation in the Company of realistic programs to reduce the unit cost of copper production, in order to improve the competitive position of KGHM Polska Miedź S.A.;
- the need to continuously monitor strategies hedging against the raw materials and exchange rate risks;
- improving the operational effectiveness of Group companies;
- reviewing transactions realised by the Company with related companies (development of a price transfer policy);
- the need to create an integrated Internal Audit function;
- the need to add an IT risk management element to the total approach to risk management at the Company and Group level.

Lubin, 8 May 2009