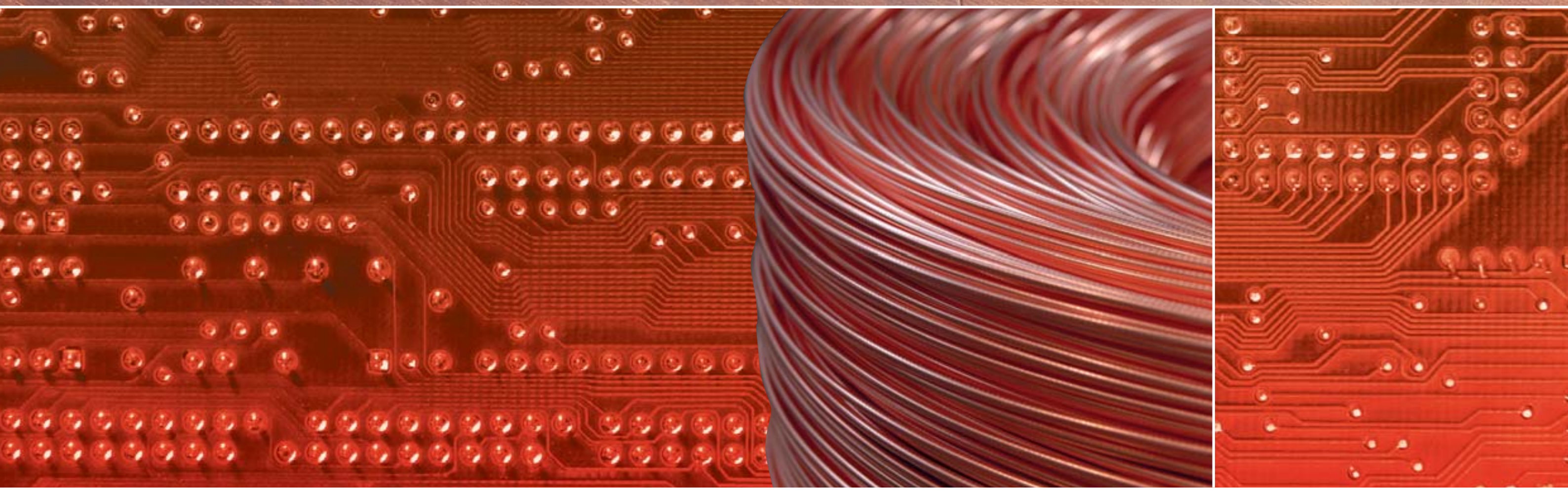


ANNUAL REPORT 2006

45 years

KGHM
POLSKA MIEDŹ S.A.

ANNUAL REPORT 2006

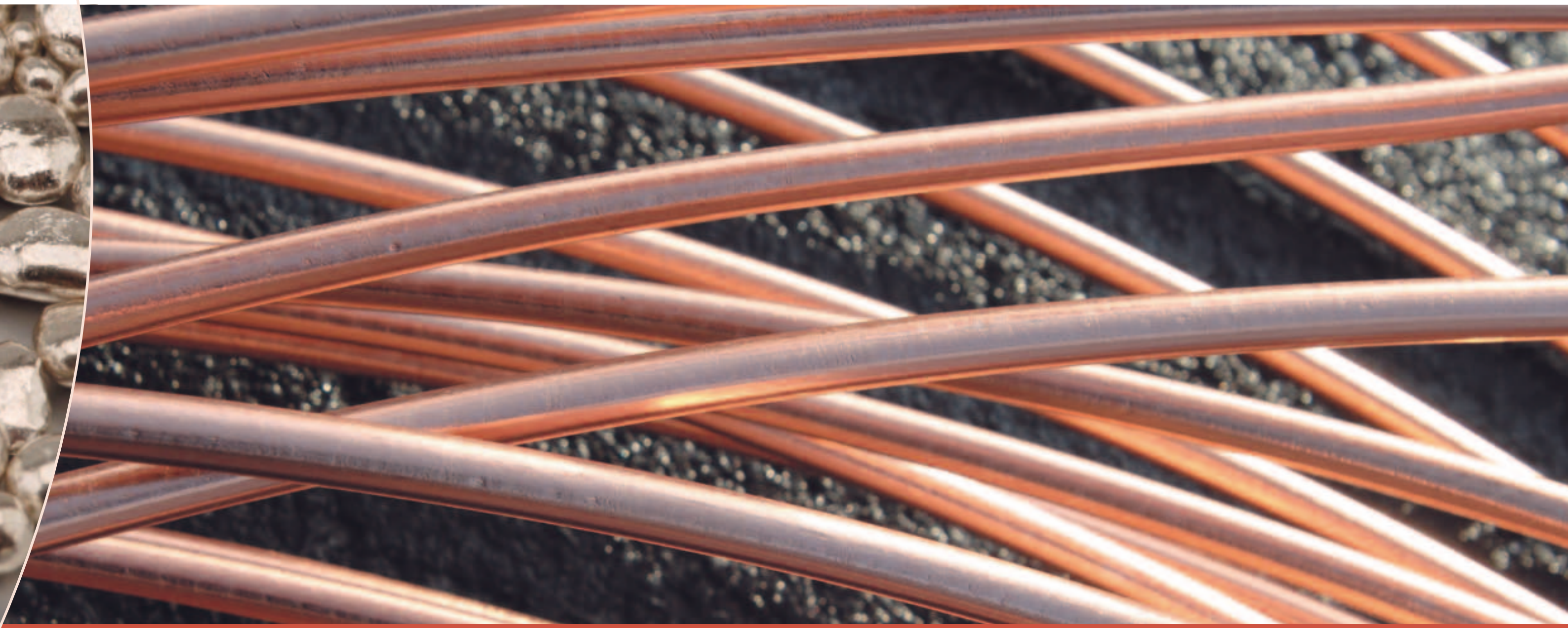
ANNUAL REPORT 2006

KGHM Polska Miedź S.A. in the period 2004–2006

		2004	2005	2006	Change % 2006/2005
INCOME STATEMENT					
Sales	mln PLN	6 342	8 000	11 670	145.9
Profit on sales	mln PLN	1 629	2 707	4 260	157.4
EBITDA*	mln PLN	1 827	2 800	4 546	162.3
Profit before taxation	mln PLN	1 446	2 635	4 053	153.9
Profit for the period	mln PLN	1 397	2 289	3 395	148.3
BALANCE SHEET					
Total assets	mln PLN	8 948	10 997	12 506	113.9
Liabilities and provisions for liabilities total	mln PLN	3 612	4 763	4 575	96.1
Provisions	mln PLN	1 460	1 666	1 705	102.3
FINANCIAL RATIOS					
Earnings per share (EPS)	PLN	6.99	11.45	16.98	148.3
Dividend per share (DPS)**	PLN	—	2.00	10.00	—
Price per share/Earnings per share (P/E)	×	4.5	5.5	5.2	94.5
Current liquidity	×	1.23	1.39	2.12	152.5
Quick liquidity	×	0.77	0.98	1.47	150.0
Debt ratio	%	24.0	28.2	23.0	81.6
Durability of financing structure	%	75.0	70.6	76.4	108.2
Return on assets (ROA)	%	15.6	20.9	27.1	129.7
Return on equity (ROE)	%	26.2	36.8	42.8	116.3
PRODUCTION RESULTS					
Electrolytic copper production	t	550 066	560 255	556 624	99.4
Metallic silver production	t	1 344	1 244	1 242	99.8
MACROECONOMIC DATA					
Copper prices per LME	USD/t	2 868	3 684	6 731	182.7
Silver prices per LBM	USD/troz	6.66	7.31	11.55	158.0
Exchange rate	PLN/USD	3.65	3.23	3.10	96.0
OTHER DATA					
Closing price of Company shares at end-of-period	PLN/share	31.30	62.50	89.00	142.4
Tangible investments	mln PLN	616	651	709	109.0
Equity investments	mln PLN	707	613	24	4.0
Cost of electrolytic copper production	PLN/t	6 660	7 723	10 323	133.7
Cost of electrolytic copper production	USD/t	1 825	2 388	3 325	139.2

* Operating profit + depreciation
** dividend per share paid in financial year

Contents



New industrial reality

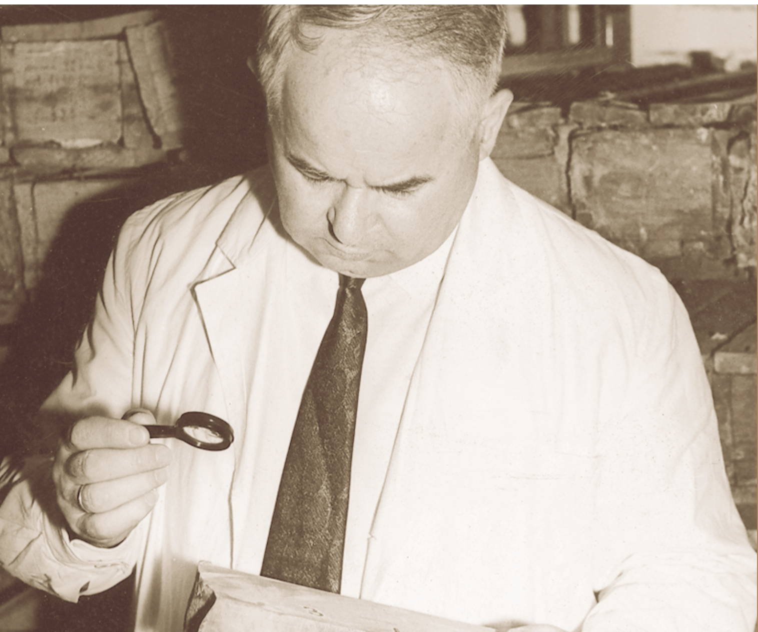
KGHM Polska Miedź S.A. is the precursor of the Polish copper mining industry in Lower Silesia. Its history is the record of the creation of a new industrial reality. Its mission to build a modern Company able to tackle challenges and actively participating in the events unfolding in the world around it define its path in the coming future.

March 1957

On 23 March 1957, in drill hole "Sieroszowice IG-1", at a depth of about 600 m, a rich layer of copper-bearing shale was discovered. This discovery was recognised by Jan Wyżykowski as truly momentous, as confirmed by later analyses. This date is universally recognised as the moment of the birth of the Polish copper industry.

December 1959

On 28 December 1959 the then-Minister for Heavy Industry, Franciszek Waniołka, signed a decree on the creation on 1 January 1960 of the state enterprise "The Lubin Mine" with its registered head office in Lubin.



Jan Wyżykowski
doc. dr inż.

(born 31 March 1917 in Haczowa — died 29 October 1974 in Warsaw) — Polish geologist, trained as a mining engineer, specialised in copper mining. After years of searching he discovered in the vicinity of Lubin the largest copper ore deposit in Europe, becoming one of the founders of the Polish copper industry. Holder of many awards, incl.: State Award II class, Order of Bryła — a symbolic distinction awarded for talent and strength of character.

He remains in the memory of many not only as the discoverer of the largest copper ore deposit in Europe, but above all as a man with a great heart, ardent and passionate, thoroughly committed to the work to which he devoted his life.

August 1957

On 8 August 1957, in drill hole S-19 in Lubin, a rich deposit of sulphate copper ore was confirmed. This success placed Poland amongst the world's copper potentates. The discovery of the copper ore deposit was the greatest achievement of Polish geology of the last century. The establishment of a modern mining and smelting industry fundamentally altered the image and living conditions for the people in this part of Lower Silesia.

*Over an area of 175 km^2
1 364 652 thousand tonnes of ore
was documented, containing
19 339 thousand tonnes of copper (Cu).*

May 1961 The birth of KGHM

The rapid development of a modern mining and smelting industry is associated with the decree of the Minister for Heavy Industry dated 5 April 1961, respecting a change in the activities of the "Państwowych Zakładów Górniczych Lubin w budowie" and its transformation from 1 May 1961 into the "Kombinat Górniczo-Hutniczy Miedzi w budowie". By June the number of employees had already exceeded 200.

January 1969

On 1 January 1969, by a decision of the Minister for Heavy Industry, the name of the state enterprise "Kombinat Górniczo-Hutniczy Miedzi w budowie" was changed to "Kombinat Górniczo-Hutniczy Miedzi".

September 1991

On 11 September 1991 the Minister for Ownership Transformations signed a notary act on the creation of a state-owned, joint stock company under the name KGHM Polska Miedź S.A. The plants and enterprises belonging to the structure of KGHM became Company divisions.

Enrichment of the Polish copper ore, in accordance with global practice, is based on the process of floatation as a method for recovering copper sulphate minerals. Technical diagrams from 1967–1968 which were used in the initial period of ore processing assumed a large amount of products in circulation, engaging a large amount of machinery and equipment.

At that time there was no attention paid to the enrichability of specific parts of the ore, and especially to the possibility that they might be processed separately. A significant change in the enrichment technology led to the selective breakdown and separation from the ore of an enrichable sandstone mixture which was more useful than in carbonate-shale form.

In the years 1973–1976 there was a clear improvement in the effectiveness of the entire enrichment process.

"The size of the deposit and the nature of the ore required the introduction of modern methods on a scale as had never been seen before in the non-ferrous metals industry in Poland. This was possible thanks to the enormous know-how, mining experience and talents of professor Krupiński, who was the driving force behind the concepts and mining methods being applied, the enlightened leader of the teams working on the development of the new copper ore".

Tadeusz Zastawnik
Executive Director of KGHM in Lubin

July 1970

On 1 July 1970, by a decree of the Minister for Heavy Industry, the following industrial units were attached to the Lubin enterprise Kombinat Górniczo-Hutniczego Miedzi (or KGHM): the Legnica smelter, the Mechanical Plant "Legmet" and the Copper Research and Design unit "Cuprum" in Wrocław. On 1 July the Minister for Heavy Industry approved the Statutes of KGHM.

July 1997

On 10 July 1997 the shares of the Company debuted on the Warsaw Stock Exchange. Simultaneously the GDRs of KGHM Polska Miedź S.A. debuted on the London Stock Exchange.

markets. The company was not involved in the sale of its products abroad.

From Kombinat Górniczo-Hutniczy Miedzi to KGHM Polska Miedź S.A.

Few Polish companies have achieved such spectacular success over the last several decades as has KGHM Polska Miedź S.A. During this time the present world-class company has been transformed from a centrally-managed combine into a modern equity company, one of the leading copper and silver producers in the world. The history of KGHM Polska Miedź S.A. may be divided into three stages, as being the most important from the point of view of today's copper giant.

Transformation of KGHM into a state-owned, joint stock company

On 12 September 1991 the state enterprise Kombinat Górniczo-Hutniczy Miedzi w Lubinie was transformed into a state-owned, joint stock company – KGHM Polska Miedź S.A. For KGHM and its nearly 40 thousand employees, a new, challenging period had begun, one which would decide the fate of the company and its employees. This multi-unit organism had to quickly adapt to the variable conditions of the market, as the financial condition of the Company was entirely dependent on adapting to them.

Copper combine on the eve of transformation

From its very beginning KGHM has been under ministerial supervision, although over the years it has been managed by various governmental bodies.
At the beginning of the 1990s KGHM was composed of twenty plants, each of which was a large, specialised enterprise. Some – like the mines and smelters – were directly related to the production of copper, while others were involved in auxilliary activities such as construction, the production and repair of machinery, R&D units, and transport and supply. There was however one basic fault with the system: KGHM, as a state-owned company, was cut-off from its sales

Restructurisation and diversification

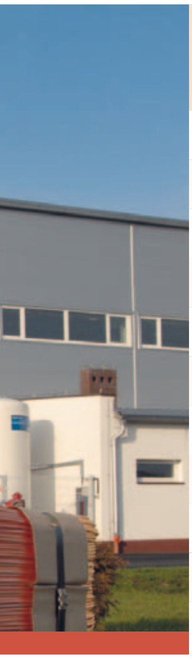
The process of structural transformation was begun in July 1990. It was carried out both through the Company's own efforts as well as through the engagement of external consulting firms. The process of restructuring KGHM was mainly focused on improving the organisational structure and on simplifying the process of management, rationalising costs, and disposing of redundant assets, as well as on creating an improvement program.
In 1991 the subsidiary KGHM Metraco was created to handle copper export sales. In 1993 a sales unit was added to the structure of KGHM, which took over responsibility for sales of the Company's main products.

In 1993 a program was implemented to separate service and auxilliary activities from the core business. Increasing investments in subsidiaries, especially in telecom companies, has meant that the profits of the Company have been continually rising.

KGHM Polska Miedź S.A. as a listed company

On 10 July 1997 KGHM Polska Miedź S.A. debuted on the stock exchanges in Warsaw and London. Its presence on the market has been the crowning achievement of a long process whose beginnings reach back to the changes begun in Poland in 1989. A privatisation consortium formed by the Ministry of Ownership Changes in 1996 prepared an IPO prospectus, which was required to introduce the shares of KGHM Polska Miedź S.A. to public trade.

Within the scope of this public sale of the shares of KGHM Polska Miedź S.A. which was carried out in June 1997, the Polish State Treasury sold 65.7 mln of the 200 million shares which it held, of which 30 mln were sold in a domestic tranche while 35.7 mln were sold abroad in the form of global depositary receipts (GDRs). What is more, the employees of the Company also participated in this process, and received at no cost to themselves 15%, or 30 mln shares, of the total amount of shares issued.



Stages in the development of KGHM Polska Miedź S.A.

Important dates	
1962, January	Creation of the Mine Rescue Unit in Lubin
1967, 5 June	Transformation of the Rescue Unit of the Mine Rescue Station at the Lubin mine
1968, 15 February	Recovery of the first copper concentrate from the Lubin mine
1968, July	Commencement of operations at the Lubin and Polkowice mines
1969, 1 January	Inclusion of the Old Copper Belt – the Konrad and Lena mines – into the oganisational structure of KGHM
1970, 1 July	Inclusion of the Legnica smelter into the oganisational structure of KGHM
1971, 17 July	Commencement of operations at the Głogów I smelter in Żukowice
1974	Commencement of operations at the Rudna mine
1978	Commencement of operations at the Głogów II flash furnace smelter
1979, 9 May	Commencement of operations at the Cedynia wire rod plant in Orsk
1980	Commencement of operations at the Sieroszowice mine
1990, July	Start of process of ownership and structural transformation
1991, July	Assumption by the Company of control over copper export sales (prior to this the state had a monopoly on foreign sales)
1991, 12 September	Transformation from a state-owned enterprise into a state-owned, joint stock company, and commencement of preparations aimed at privatisation. KGHM changes its name to **KGHM Polska Miedź S.A.**
1993	Construction and commencement of operations of the Precious Metals Plant at the Głogów smelter
1996	Combination of the Polkowice and Sieroszowice mines into a single division
1997, 10 July	Privatisation and initial listing of the shares of KGHM Polska Miedź S.A. on the stock exchanges in Warsaw and London
1998, July	Administrative separation of the Ore Enrichment Plants from the mines and their inclusion into a new Ore Enrichment Plants Division
2006, 27 September	Commencement of a new production line at the Cedynia wire rod plant using UPCAST® technology for the production of oxygen-free copper wire rod

Text based on: A. Szydłowska-Szczecińska, "Polska Miedź wczoraj-dziś-jutro", Legnica 2006. © Copyright by A. Szydłowska-Szczecińska

The Supervisory Board of KGHM Polska Miedź S.A.

Supervisory Board of KGHM Polska Miedź S.A.*
from the left:
Marcin Ślęzak
Jerzy Żyżyński
Ryszard Kurek
Stanisław Andrzej Potycz – Deputy Chairman of the Supervisory Board
Leszek Hajdacki
Anna Mańk
Józef Czyczerski – Secretary of the Supervisory Board
Adam Glapiński – Chairman of the Supervisory Board
Adam Łaganowski

*Supervisory Board at 24 April 2007

Dear Shareholders,

2006 was a particularly successful one for KGHM Polska Miedź S.A. The continued bullish conditions on world non-ferrous metals markets, above all that of copper, enabled the Company to achieve a record profit of PLN 3 395 million.

Such conditions, supported by the professional management of the Company, meant that investors placed an enormous amount of trust in KGHM Polska Miedź S.A., as demomstrated by the quotations of the Company on the Warsaw Stock Exchange. For over half a year the share price remained at a level substantially above PLN 100.

The Management Board of the Company, appointed in the first quarter of 2006, got down to work fully cognizant of the fact that the current conditions provided an appropriate opportunity to modernise the Company and to undertake activities aimed at reducing and rationalising production costs.

The first action taken by the Management Board of KGHM Polska Miedź S.A. led by Krzysztof Skóra was to critically analyse those areas of Company activity which were clearly contradictory to requirements faced by a key market entity, and which were at odds with the goals of transparency and good business practice. As a result such harmful practices of prior years were brought to an end, which I do not refrain from calling pathological.
The huge bonuses paid for pseudo-improvements and the tender system including a provision allowing for the right of first refusal were contradictory with basic market principles, and tarnished the good reputation of KGHM Polska Miedź S.A. as a company of global reach.

Actions taken to improve the functioning of the Company were accompanied by work aimed at developing the Company over the following decades. The Company's Strategy for the years 2007–2016 has set out a reliable scenario for the development of KGHM Polska Miedź S.A. both as respects continuation of the bull market in commodities as well as in the case of its deterioration.

The approval by investors of the directions of development for the Group is auspicious news, testifying to their trust for the Management Board, which has accurately defined their expectations towards KGHM Polska Miedź S.A.

Adam Glapiński
Chairman of the Supervisory Board
KGHM Polska Miedź S.A.

Lubin, May 2007

Management Board of KGHM Polska Miedź S.A.

from the left:
Stanisław Kot – Vice President of the Management Board for Smelting*
Ireneusz Reszczyński – Vice President of the Management Board for Trade
Krzysztof Skóra – President of the Management Board
Maksymilian Bylicki – I Vice President of the Management Board for Development
Marek Fusiński – Vice President of the Management Board for Finance

* also temporarily executing the rights and duties attributable to the Vice President of the Management Board for Mining

Letter of the President of the Management Board

Dear shareholders,

I am pleased to present the Report for 2006 fully satisfied not only with the tremendous results of KGHM Polska Miedź S.A., but also that last year's declaration that we would overcome the pathology which has tarnished the good reputation of our Company has been fulfilled.

This satisfaction would not be complete if the actions undertaken to improve the functioning of KGHM were not accompanied by fundamental actions aimed at ensuring the future of the Company. It is precisely this solid foundation for the modern development of KGHM which serves as the strategy approved for the years 2007–2016.
In 2006 our Company produced 556 624 t of electrolytic copper and 1 242 t of metallic silver. Given the excellent conditions on global copper and silver markets, this level of production led to a record financial result. Net profit amounted to PLN 3.395 billion. This was a singular year both for investors and for the value of the Company's shares. Already by 13 April 2006 the share price of KGHM had exceeded PLN 100, and on 11 May 2006 it reached the record level of PLN 135.

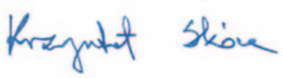
The significant financial result and the record increase in the Company's market value were appreciated by independent experts and economic ranking agencies. KGHM Polska Miedź S.A. held first place in a ranking of companies having the highest economic value added (EVA) and was recognised as the largest exporter in a ranking by the daily newspaper "Rzeczpospolita".
In a ranking by the weekly "Polityka" of the most profitable companies, we also held first place. Our involvement in and support of local companies led to our being honored with the prestigious Lower Silesia Key of Success awarded by the Society for the Promotion of Lower Silesia.

KGHM Polska Miedź S.A. is a world-class company whose shares are publically traded, which has a significant impact on the obligation for transparency and to clearly describe its activities. With this in mind the Management Board has developed regulations and principles for all of the areas which have caused justified concern as to their conformance with the principles of good business practice. We have also endeavored to make it clear to the employees of KGHM Polska Miedź S.A. that we are all mutually responsible for the success of the Company. Each of us, at our workplace, is building the success of KGHM. Every employee is responsible for carrying out his or her own duties and tasks. And the duty of the management staff is to work towards improving the process of production.

In working towards improving the situation in the Company, we have worked simultaneously on a strategy which outlines the extent of growth over the following decades. The Company Strategy for the years 2007–2016 assumes maintaining the current production capacity of KGHM over the long term; continuing work aimed at full access to the Głogów Głęboki Przemysłowy ore deposit; it assumes the possibility of expanding the deposit base through the acquisition of ore deposits beyond Poland which are cheap to operate, and outlines the directions for growth of other entities of the Group.

I wish to thank our shareholders for the trust they have bestowed in us, and all of the employees of KGHM Polska Miedź S.A. for their hard work which has led to the record results achieved in 2006. I also wish to assure you of my determination as well as that of the entire Management Board to implement the Company Strategy, which will ensure its further dynamic growth.

Krzysztof Skóra
President of the Management Board



Lubin, July 2007

Company profile

Dynamic growth based on an intelligent strategy

KGHM Polska Miedź S.A. is one of the largest global producers of copper and silver. Annual production by the Company is around 560 thousand tonnes of electrolytic copper and 1200 tonnes of silver … The resource base occupies an area of appx. 468 km², containing 32.2 mln tonnes of copper. Based on data from 2003 Polish copper resources represent 6.35% of recorded global industrial resources of this metal.

KGHM Polska Miedź S.A. is a company with a very long tradition. In 2006 we celebrated our 45th anniversary. Since 12 September 1991 KGHM Polska Miedź S.A. 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.

As at 31 December 2006 KGHM Polska Miedź S.A. owned shares directly or indirectly in 41 commercial law companies, including: 29 subsidiaries, three associates, and nine other companies which form the KGHM Polska Miedź S.A. Group.

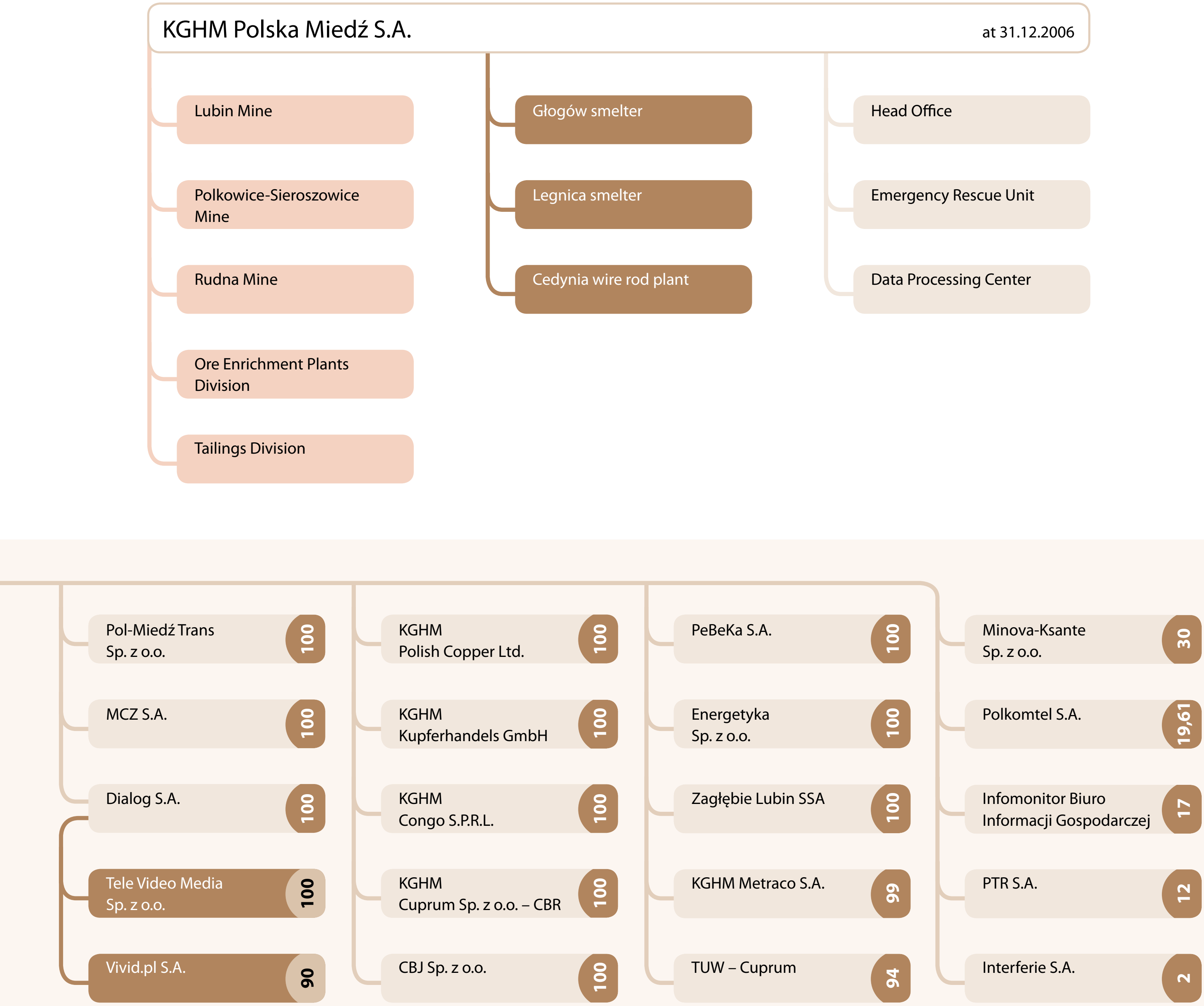
Core business

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. 468 km^2.

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, followed by processing in the smelters into anode copper. The process of electrorefining results in the recovery of 99.99% pure copper. A by-product of the copper electrorefining process is anode slime, from which silver and gold are recovered.

Major companies of the KGHM Polska Miedź S.A. Group
(percentage share in company)

KGHM Ecoren S.A.	100
Inova Sp. z o.o.	100
DFM Zanam-Legmet Sp. z o.o.	100
WFP Hefra S.A.	98
Aquakonrad S.A. w upadłości	90
WM ŁABĘDY S.A.	75
PCPM Sp. z o.o.	74
Interferie S.A.	62
Walcownia Metali Nieżelaznych Sp. z o.o.	60
DKE Sp. z o.o.	50
Dol-Eko Organizacja Odzysku S.A.	20
Telewizja Familijna S.A. w upadłości	12
PHP Mercus Sp. z o.o.	100
PU Mercus Serwis Sp. z o.o.	100
PHU Lubinpex Sp. z o.o.	100
PHU Mercus Bis Sp. z o.o.	48
TUW – Cuprum	0,49



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. Other companies of the Group are involved in areas of activity such as power generation and the manufacture of silver-plated cutlery. KGHM Polska Miedź S.A. owns shares directly in 20 entities. Three of the companies belonging to the KGHM Polska Miedź Group are holding entities with their own group structures. These are KGHM Ecoren S.A., PHP "MERCUS" Sp. z o.o. and DIALOG S.A.

Calendar 2006

January

- Change in Company governing bodies. The Extraordinary General Shareholders Meeting made changes to the Supervisory Board on 31 January 2006.

February

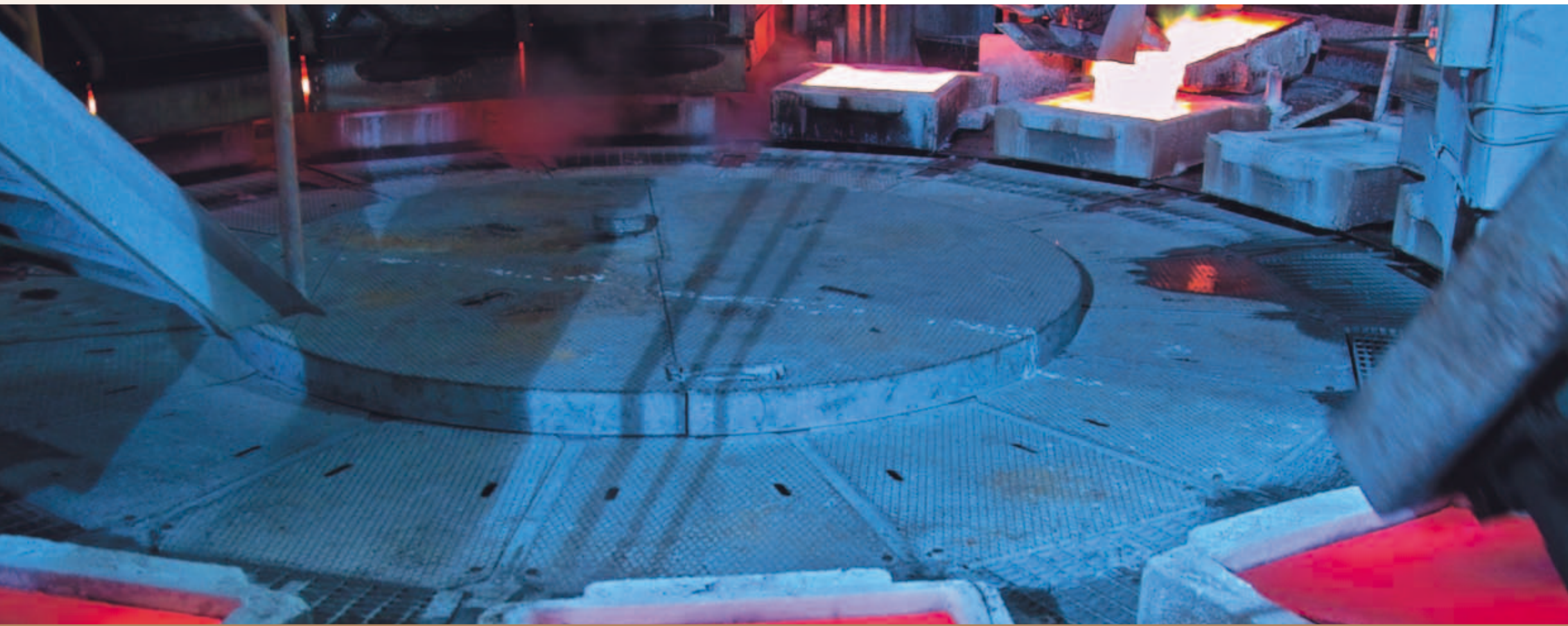
- On 10 February Krzysztof Skóra was delegated to serve as President of the Management Board
- On 24 February 2006 the Supervisory Board appointed a new Management Board of KGHM under the direction of President Krzysztof Skóra
- Awarding by the stock exchange newspaper "Parkiet" of the "Bull and Bear" statue in the category: best investment in a company listed on the WIG 20 stock index

May

- Highest Company share price recorded on the Warsaw Stock Exchange on 11 May 2006 – PLN 135/share

June

- In the ranking "Pearls of the Polish Market" carried out by the stock exchange newspaper "Parkiet" KGHM Polska Miedź S.A. held first place in the category "raw materials and power" as a company which had achieved the greatest financial, market and stock exchange success in this segment
- The Ordinary General Shareholders Meeting of KGHM Polska Miedź S.A. resolved to pay the highest dividend in Company history.
- PLN 2 000 mln was allocated as a shareholders dividend, representing PLN 10.00 per share



March

- Acceptance of corporate governance principles arising from the document titled "Best practice in public companies in 2005" (with due regard to the provisions of "principle 20" on the independence of Supervisory Board members)

July

- The Management Board resolved to commence the Głogów Głęboki investment, which will significantly increase the resource base of the Company, and will also prolong the life of the mines. Planned completion of this investment is by the year 2035. Planned expenditures amount to PLN 1.35 billion

August

- The decision to establish the Legnica Technology Park, in order to make use of the production potential of KGHM Polska Miedź S.A., will strengthen the competitiveness of Legnica and of the region of Lower Silesia, and will create an attractive area for businesses to locate and invest in activities based on new technology, especially that related to the processing of copper and silver
- Interferie S.A. is the first company of the KGHM S.A. Group to undergo an initial public offering (IPO)

September

- Commencement of the production of oxygen-free wire rod using UPCAST® technology at the Cedynia wire rod plant. Annual planned production is 15 thousand tonnes

October

- Low turnout prevented the election of a member of the Management Board by employees

December

- The Supervisory Board of KGHM Polska Miedź S.A. approved the "Strategy of KGHM Polska Miedź S.A. and the Group for the years 2007–2016"
- "Barbórka" miner holiday celebrations

Share performance of the Company in 2006

The shares of the Company have been listed since July 1997 on the primary market of the Warsaw Stock Exchange (GPW) in a continuous trading system, and are a component of the WIG and WIG20 indices.
The Global Depositary Receipts of the Company (GDRs) are traded on the London Stock Exchange.

The share price of the Company on the last day of trading in 2005 on the Warsaw Stock Exchange was PLN 62.50, and since then has repeatedly reached new historic highs, with the all-time-high closing price of PLN 135.00 being reached on 11 May 2006. Thereafter in 2006 the price of the Company remained below this peak, ending the year on the last day of trading – 29 December 2006 – with the closing price of PLN 89.00. Altogether, over the course of 2006 the share price of KGHM Polska Miedź S.A. increased by 42.40%. During this same period the WIG index increased by 41.60%, and the WIG20 index by 23.75%.

In 2006 the share prices of the Company on both exchanges – Polish and British – were similar. The shares of the Company, as in prior years, followed the trend of global copper prices.

Share performance of the Company in 2006
versus the Warsaw Stock Exchange Index

		2004	2005	2006
Issued shares		200 000 000	200 000 000	200 000 000
Closing price from last day of trading in year	PLN	31.30	62.50	89.00
Capitalisation of the Company at end of year	mln PLN	6 260	12 500	17 800
Highest price in year	PLN	39.90	64.40	135.00
Lowest price in year	PLN	25.60	27.60	63.90
Average volume	—	640 468	778 517	813 466
Dividend paid in financial year, PLN per share	PLN	0.00	2.00	10.00

		2004	2005	2006
	Market ratios			
EPS (PLN)	Net earnings (loss) / issued shares	6.99	11.45	16.98
P/CE	Share price / cash earnings per share*	3.7	4.8	4.8
P/E	Share price / net earnings per share	4.5	5.5	5.2
MC/S	Market cap**/ sales	1.0	1.6	1.5
P/BV	Share price / book value***	1.2	2.0	2.2

* Cash earnings per share = net profit + depreciation
** Market capitalisation represents total shares outstanding times share price from the last day of the year
*** Book value equals that of the balance sheet date

The peak in the share performance of KGHM Polska Miedź S.A. in 2006 occurred during the period when copper prices reached their historic peak.

Dividend policy

The attractiveness of investing in the shares of KGHM Polska Miedź S.A. is enhanced by the amount of the dividend payout. In 2006 the Company paid a dividend of PLN 10 per share from the distribution of profit for the prior financial year, which gives a very high dividend payout rate of nearly 9% (calculated on the dividend date of record).

The level of the dividend payout in 2006 places the Company amongst those on the Warsaw stock exchange with the highest level of dividend payout.

The dividend policy approved by the Company in January 2007 reflects common practice applied by companies from the mining sector – based on the principle that excess profits associated with the high point in the raw materials price cycle are paid out to shareholders in the form of a progressive dividend.

The Management Board will recomend a dividend payout – beginning with the distribution of profit for 2007 – based on the following system:

Net profit	Scale of dividend payout	mln PLN	
		minimum	maximum
up to 700	no dividend	—	—
over 700 to 1 700	200 + 50% of the excess over 700	200	700
over 1 700 to 3 700	700 + 60% of the excess over 1 700	700	1 900
over 3 700	1 900 + 100% of the excess over 3 700	1 900	unlimited

Corporate governance

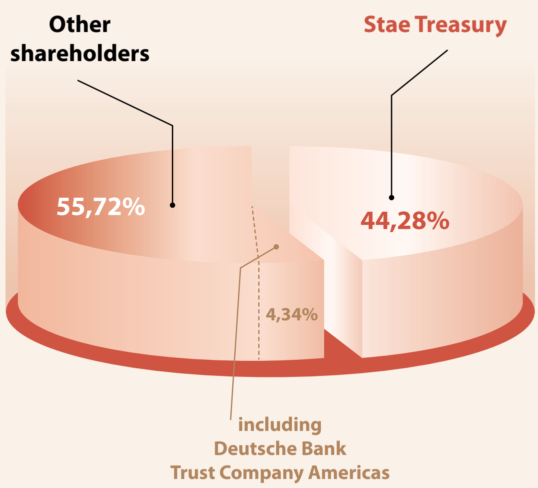
KGHM Polska Miedź S.A. endeavors to ensure that the application of best practices is clear for the Management Board and the Supervisory Board as well as for shareholders, as the Company is aware of its importance for increasing the value of the Company and the way it is perceived by present and potential owners.

The corporate governance principles proposed by the Warsaw Stock Exchange and arising from the document "**Best practice in public companies in 2005**", were initially approved by the Company in 2005. The Company has approved the application of all of the principles, with due regard to the provisions of principle 20, respecting the independence of Supervisory Board members. The full contents of the current "**Declaration regarding the application of corporate governance principles in the Company**" may be found on the website of the Company (www.kghm.pl).

Ownership structure

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. Each share grants the right to one vote at the General Shareholders Meeting of the Company.

At 31 December 2006 the only shareholder holding at least 5% of the total number of shares at the General Shareholders Meeting of the Company was the Polish State Treasury, which held 44.28% of the share capital of the Company and the same number of votes at the General Shareholders Meeting.



The dividend policy represents an element ensuring balance between the amount of the dividend payout and the possibility of effectively investing the earnings of the Company to increase its future value and to allocate funds for as yet unreviewed investments.

Changes in significant packets of shares in 2006

- **Lansdowne Partners Limited Partnership**, which, through the funds it manages, on 31 December 2005 held more than 5% of the total number of shares at the General Shareholders Meeting of the Company (5.29%), on 12 January 2006 reduced its commitment in the share capital of the Company to 4.64%.
- **Deutsche Bank Trust Company Americas** – depositary bank in the depositary receipts program of the Company, which on 31 December 2005 held more than 5% of the total number of shares at the General Shareholders Meeting of the Company (5.31%) and during 2006 frequently passed the 5% share in the total number of votes.

  At 31 December 2006 depositary receipts representing 4.34% of the total number of shares of the Company had been issued.

Following the end of the financial year, on 16 May 2007 the Polish State Treasury reduced its share of the total number of votes to 41.79%.

Development strategy

The art of future planning is based on solid foundations

The year 2006 was one in which, apart from realisation of the strategy for the years 2002–2006, work was also carried out on preparing a new strategy for KGHM Polska Miedź S.A. and the Group for the years 2007–2016. …
On 16 October 2006 at a meeting of the Management Board of KGHM Polska Miedź S.A. the Strategy of KGHM Polska Miedź S.A. and the Group for the years 2007–2016 was accepted.
This Strategy was approved by the Supervisory Board of the Company on 5 December 2006.

Realisation of the strategy in 2006

In 2006 the Company, within the framework of the development Strategy for KGHM Polska Miedź S.A. and the Group for the years 2002–2006 approved in 2002, realised and continued strategic goals initiated in 2005.

In accordance with the Strategy, in 2006 KGHM Polska Miedź S.A. focused on work related to searching for new mining technology and on increasing the effectiveness of the copper ore floatation process. Also significant were actions aimed at optimising the production process in the smelters, which were reviewed and developed as part of the process of modernising the smelters.

In 2006 conceptual work was continued on implementing a Balanced Scorecard, which is a tool for realising the approved strategy for the years 2002–2006, and is also used to monitor its progress.

Strategic goals were grouped and presented time-wise, with an emphasis on perspective financing, perspective markets (customers) and on perspective internal and development processes.

Within the framework of those activities aimed at increasing the Company's copper ore resource base (so-called resource assets), work was continued related to accessing the Głogów Głęboki Przemysłowy ore deposit.

Realisation of this project will increase the resource base of the Company, enabling continuation of the current level of copper production over the long term.

Measurement parameters which have been developed describing the realisation of goals accepted in the strategy of the Company mainly reflected the effectiveness of using capital and the creation of economic value in KGHM.

The proper identification and assignment of specific goals to strategic initiatives will undoubtedly strengthen their impact.

Vision of the future

The year 2006 was one in which, apart from realisation of the strategy for the years 2002–2006, work was also carried out on preparing a new strategy for KGHM Polska Miedź S.A. and the Group for the years 2007–2016. Work carried out in this respect included analyses of the internal and external environment of the Company.

The KGHM Polska Miedź S.A. Strategy team appointed in May 2006 prepared and presented to the Management Board a draft project describing the strategy and the principles for implementing and managing the strategy of the Company.

On 16 October 2006 at a meeting of the Management Board of KGHM Polska Miedź S.A. the Strategy of KGHM Polska Miedź S.A. and the Group for the years 2007–2016 was accepted. This Strategy was approved by the Supervisory Board of the Company on 5 December 2006. In accordance with the approved strategy, the mission of KGHM Polska Miedź S.A. is as follows:

"The effective processing of natural resources is the way to increase the value of the Company."

According to this Strategy, the activities of KGHM Polska Miedź S.A. are aimed at increasing the value of the Company by maintaining its position as a global producer of copper and silver, as well as through development as respects the mining and processing of other non-ferrous metals.

In addition, the Strategy foresees actions being taken as respects waste management and utilisation, the production of rock salt and optimal utilisation of telecom assets.

Strategy KGHM Polska Miedź S.A.

The strategy of KGHM Polska Miedź S.A. is being carried out in three main areas:

Development and increased effectiveness of the core business

The strategic actions of the Company in this area will be aimed at:

- increasing the resource base, including maintaining the current level of copper production from domestic resources by accessing and mining the Głogów Głęboki Przemysłowy deposit (full production capacity in 2013; forecast investment expenditures appx. PLN 1.8 bln, ore resources over 5 mln tonnes of Cu), evaluating the possibility of mining the Radwanice-Gaworzyce deposit and eventual commencement of accessing of this deposit, and exploration of other copper ore resources in Poland. In addition, the Company assumes the acquisition and mining of foreign deposits of copper and other non-ferrous metals, particularly those with low operating costs. As part of its policy KGHM Polska Miedź S.A. assumes that consortiums will be entered into with leaders in a given market.
- improving management effectiveness, among others by limiting core business costs and increasing the effectiveness of Group companies. Actions undertaken will be aimed at improving effectiveness by reducing costs at every stage of the production process, altering the model of mining and smelting management, centralising activities, limiting the number of Group companies and increasing the effectiveness of Group companies operating on the KGHM market. In addition it assumes the modernisation of production assets by improving ore enrichment processes, concentrate hydrotransport, and above all by reducing environmental emissions at every stage of production, which the planned modernisation of the smelters will bring about. A fundamental question is maintaining the capacity to produce high-quality copper and work related to replacing the machinery park. Another goal identified in this area is the improvement of management processes.

Diversification

With respect to the introduction of new standards, the Company plans to:

- optimise utilisation of its telecom assets – Polkomtel and Dialog – guaranteeing an increase in their value, as well as to significantly strengthen their position on the Polish telecom market.
  The actions taken will be aimed at taking over profitable telecom firms and ensuring them of better conditions for growth. In the case of Dialog these investments will be financed by internal funds, as well as through external financing. It is also assumed that there will be an increase in the dividends received from Polkomtel and Dialog, and an increase in their liqidity. An increase in the liqidity of its telecom assets will enable KGHM to exit from these investments at a time and in a means which is advantageous for the Company.

- gain a significant position in the waste management and processing market, in particular by managing and utilising the waste generated by KGHM, as well as to achieve an effective scale of operations in commercial waste management, among others by using new technology for the recovery of copper from waste and by using its own, integrated system of recycling based on smelting.

- commencing the industrial mining of rock salt associated with the copper ore, while also managing post-mining areas. The actions taken will be aimed at ensuring the Company a leading position as a producer of rock salt in Poland.

- examining the possibilities of investing and diversifying into new sectors. The actions taken in this area will be aimed at developing projects with respect to the acquisition of non-ferrous metals and advanced hydrometallurgical technology, and preparing and implementing a Technology Development Center, which will conduct research into advanced methods of production, in particular in metallurgy and in waste processing, as well as in analysing and implementing investment projects in new areas of activity.

Supporting the development of KGHM

In this area the activities of the Company will be aimed at:

- continued implementation of corporate governance principles,
- an increase in human resource management effectiveness and improvement in working conditions, and
- implementation of a Responsible Business program, which means above all an increase in activity by KGHM on behalf of the local community.

Realisation of the Strategy will allow reduction of the cost of producing copper from internal charges (concentrates) ill prepare the Company for any eventual fall in the price of copper. Towards this end the Company plans to diversify its activities, increase the production and sale of other raw materials and increase the role of telecom assets in generating financial resources.

All of the goals described above will enable the Company to earn a sufficiently high net profit so as to ensure the steady growth of the Company and continuation of the dividend payout policy for shareholders. The Management Board will recommend an annual dividend payout of 30% of net profit.

Operational results and forecasts

An initiative guaranteeing achievement of clearly defined goals

In 2006 KGHM Polska Miedź S.A. achieved a record financial result. Profit before extraordinary items and taxation in 2006 amounted to PLN 4 053 mln, and was higher by 54% in relation to the prior year

...

In subsequent years it is assumed that operating costs will decrease, mainly due to a lower value of consumed external copper-bearing materials and a decrease in the scope of external services, including repairs and mine development (drilling).

Global economy

The rate of global economic growth in 2006, based on estimates of the International Monetary Fund and the European Commission, was 5.1%, and was 0.3% points higher than in 2005. Despite a certain slowing in the rate of global GDP growth in the second half of 2006, global economic results for all of 2006 turned out to be better than predicted.

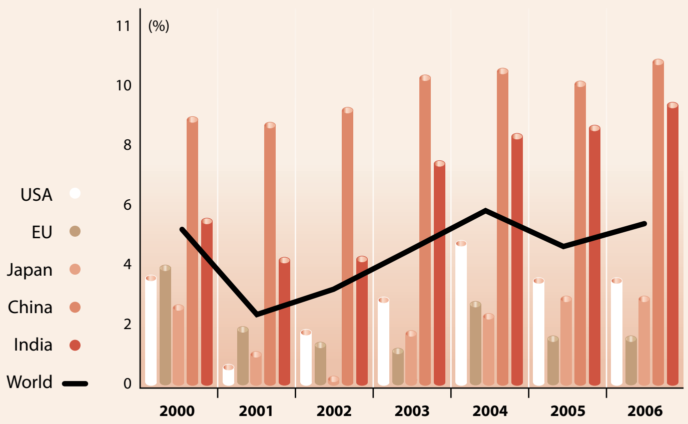
These good conditions did not hurt the higher-than-forecast prices of natural resources, above all crude oil. The more favorable-than-forecast rate of global economic growth was mainly due to a more rapid expansion of the Euro zone, as well as to emerging markets, in particular China and India.

Looking at the global macroeconomic situation in 2006, the fact stands out that, starting from the second quarter, there was a decrease in the rate of growth in the United States. The main cause of this slowing of the American economy was a deterioration of the housing market.

Asian countries, maintained a high rate of economic growth. This is especially true of China and India, which in 2006 recorded economic growth rates respectively of 10.7% and 9.2%. The Chinese economy for the last four years has been growing at a double-digit rate. In 2006 investment expenditures throughout this economy increased by 24.0%, or 2 percentage points less than a year earlier. The rate of increase in retail sales was 13.7%, nearly 1 percentage point higher than the previous year.

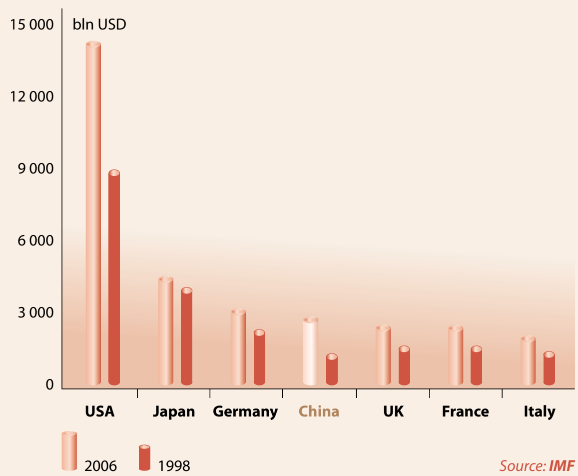
The year 2006 was a further period of a growing trade surplus and current accounts surplus in China. This was mainly due to a rapid increase in exports, higher than that of the rate of import. In addition, despite this rapid rate of economic growth, the half-year inflation rate in 2006 amounted to 1.5%, versus 1.8% the previous year. It is worth noting that, in December alone, inflation increased to 2.8%, i.e. to the highest level since February 2005, which could mean the necessity for a stricter monetary policy.

Change in GDP in the largest global economies
versus the prior year (%)



Source: IMF

GDP of the seven largest global economies
in 2006 and 1998



Source: IMF

The recession observed in this sector (a fall in new housing starts by 12.6%) was the deepest since 1991. The trade deficit of the United States in 2006 reached a record level – USD 763.6 billion, or 6.5% higher than the prior year.
Also significantly below expectations were data on capital flow. In December, for the first time in two years, there was an outflow of USD 11.0 billion.

In contrast however to other historical periods, when a deterioration in the American economy caused a similar drop in the global economy, this time the rest of the world, especially the emerging

China may be currently described as the motor of the global economy. Comparing data from 2006 with data from 1998, we can see a significant movement of China – from seventh place to fourth – in the hierarchy of the largest global economies. During this period the GDP of the Chinese economy increased by 120%. Should the rate of economic increase be maintained at the present level, over the next 25 years the Chinese economy would achieve first place globally as regards GDP.

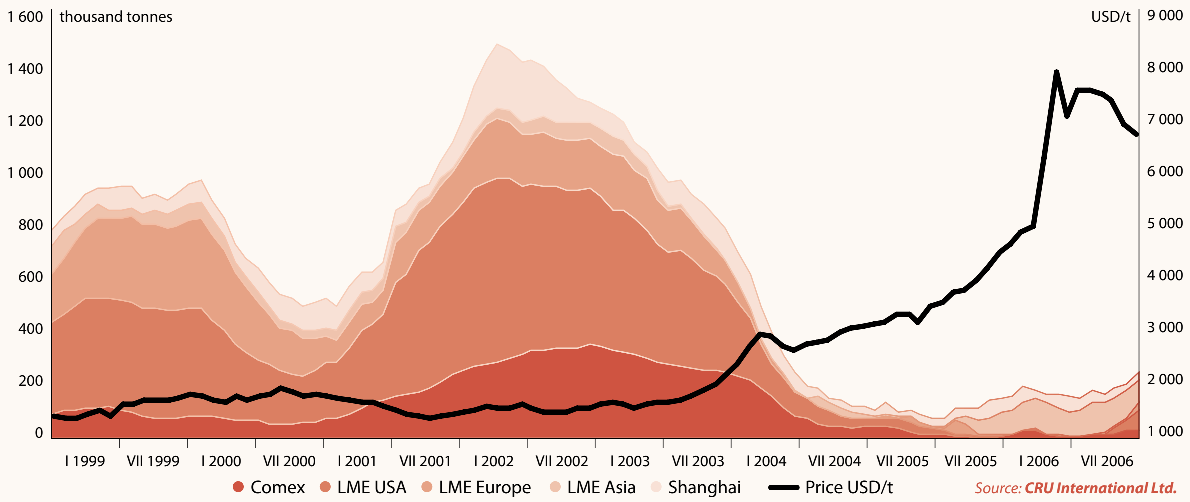
Copper market

The average cash settlement copper price on the London Metal Exchange in 2006 was 6 731 USD/t and was 82.7% higher than the average for 2005, when it amounted to 3 684 USD/t. The lowest price was recorded at the beginning of January (4 537 USD/t). On 12 May 2006 the copper price reached its all-time high. The three-month price amounted to 8 590 USD/t, while the cash settlement price was 8 788 USD/t. The previous high seen, at the end of the 1980s, was 3 496 USD/t.

The first months of 2006 saw copper prices nearly double. Such a high rate of increase was due among others to the large, speculative, short position of the Chinese State Reserve Bureau (SRB).

This suggested that Chinese producers are utilising their own stocks and are refraining from material purchases, due to the high prices. The main factors causing the copper price to remain at a high level were the low level of warehouse stocks of this metal and the planned negotiations of wage contracts in many mines and smelters.

Global prices and copper stocks in the years 1999–2006



Source: *CRU International Ltd.*

The increase in prices caused a dramatic increase in required security deposits and the necessity to close short positions generating ever-greater potential losses. Later in the year copper prices remained above 7 000 USD/t.

In 2006 there was a significant drop in the import of refined copper by China. This country also purchased less copper concentrate and scrap than in the prior year. This situation had a very negative impact. This impact was however eased by data on the incredible economic increase and industrial production (including of copper products).

Copper stocks

Since 22 July 2005, when the LME recorded its lowest level of stocks in decades – 25 525 tonnes – their level has systematically increased. This increase has virtually been relegated to warehouses in Asia. This has confirmed the unwillingness of the Chinese to purchase copper at very high prices.

It is believed that the general practice has been to make use of stocks accumulated in prior periods. This low level of stocks, despite the growing trend, caused copper prices to remain at a high level throughout most of the prior year.

Production

Analysts of the International Copper Study Group report that in 2006 copper mine production fell slightly – by 0.25% – versus 2005 and amounted to 14 948 thousand tonnes.
Production of refined copper during this period amounted to 17 384 thousand tonnes, meaning an increase year-on-year of over 4.2%. This increase in production occurred mainly in Asia (and mainly China), as well as in Africa and Europe. In the Pacific region there was a drop in production, while in America production remained at the same level.

Copper consumption

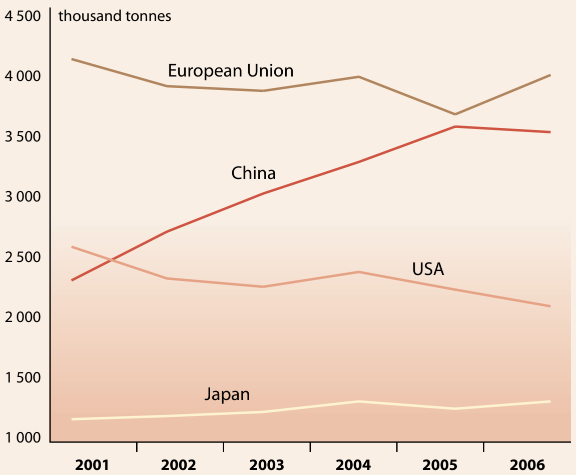
According to the ICSG consumption of refined copper in 2006 increased by 2.25%, although there was a surplus of refined copper production on the market of appx. 360 thousand tonnes. It should however be pointed out that the ICSG data do not reflect the changes in inventories by the Chinese State Reserve Bureau. It is estimated that the SRB was the source in 2006 of appx. 200 thousand tonnes of copper which was supplied to the market.

The largest increase in consumption was recorded in Europe (7.8%), while it was clearly lower than in prior years in Asia (1.8%). In America there was a fall in refined copper production by 3.9%.

Investment Funds

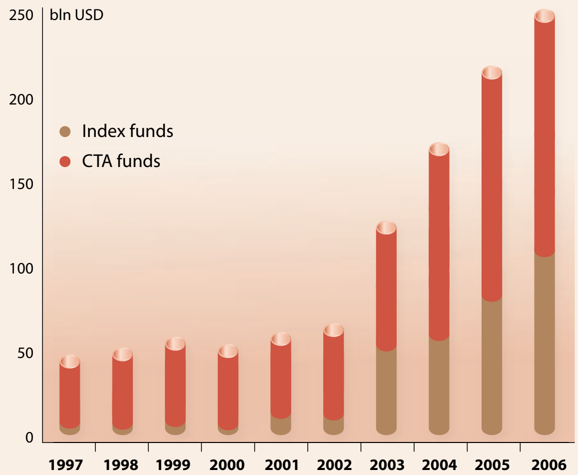
A major factor impacting the copper price is the activity of investment funds. Recently their share in the market has been increasing year by year. According to analysts' estimates the share of investment funds in the commodities markets in 2006 exceeded USD 105 billion, and their assets are expected to further increase.
It should be noted that, apart from index and CTA funds, there are also thousands of active hedge funds on the market, whose assets are estimated at over USD 1 440 billion.

Consumption of refined copper in the largest global economies in the years 2001–2006



Source: **International Copper Study Group – March 2006**

Assets of index and CTA funds on the commodities market



Source: **CRU, Macquarie Bank**

Silver market

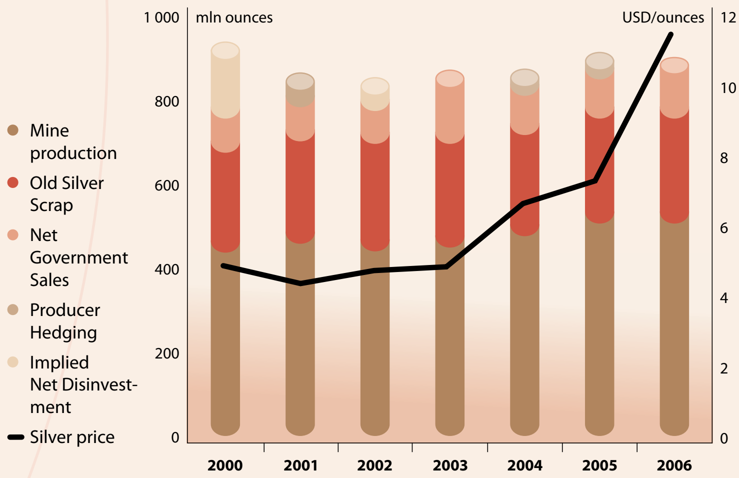
The average silver price in 2006 was 11.55 USD/troz and was nearly 58% higher than the average for 2005, when it amounted to 7.31 USD/troz. The lowest fix price occurred at the beginning of January (8.83 USD/troz), while the highest silver fix price occurred in May (14.94 USD/t).

Silver prices clearly increased in the first months of 2006 on the back of price increases for most assets on the equity markets. The high silver prices in 2006 are mainly the result of activity by investment funds. Increased demand for silver appeared thanks to speculation surrounding the creation of a new financial product, so-called ETFs (Exchange-Traded Funds), which enabled and simplified investments in silver for a significantly larger group of investors. Since its introduction this product has gained great popularity, and its assets at the end of 2006 had already exceeded 100 mln ounces. Despite fluctuations in the silver price, these funds successively increased their assets thoughout the year. It appears that such investments may be treated as of a long term nature, which on the one hand may serve to stabilise the silver market, but on the other may cause a deficit in access to the metal should there occur a further significant increase in ETF assets.

The significant increase in silver prices in 2006 did not lead to an increase in silver supply. Mine production of silver in 2006 remained virtually unchanged versus the prior year. The share of primary silver production in total mine production fell by 10% and amounted to 161.4 mln ounces. This represents barely 25% of total mine production of this metal. The remainder is acquired through the extraction of other metals (mainly copper, zinc, lead and gold).

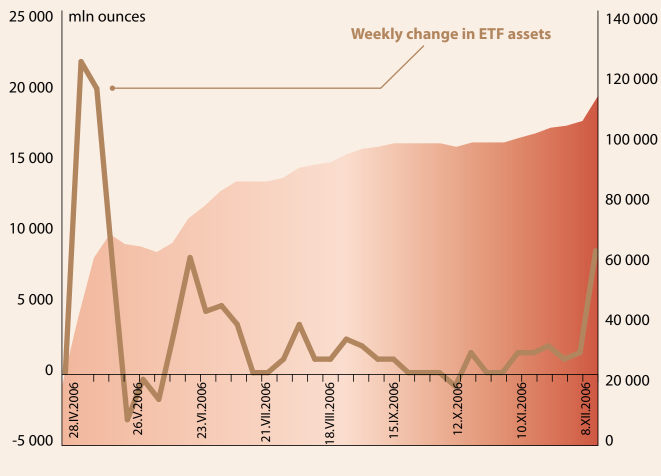
Availability of the metal from recovery increased only slightly (0.9%). The main reason was a fall in the amount of silver recovered from the photographic industry. The main cause of the total decrease in silver supply was the activity of producers in hedging against fluctuations in the price of this metal. In 2005 hedging by producers increased by 27.6 mln ounces, while in 2006, despite the high prices of this metal, it decreased by 6.8 mln ounces. The only element of the silver supply which increased significantly was government sales of the metal (from state reserves). These increased by 17.9% versus 2005. In 2006 demand for silver by industry increased by nearly 6%, to the record level of 430 mln ounces. In recent years the share of this segment in total production demand (industry, photography, jewelry, silver-based products and coinage) has been on the rise. In comparison to 2000 it has increased from 41.8% to over 51%. The increase in demand for the metal, despite the significant increase in its price, suggests a low sensitivity by this segment of the silver market to price fluctuations, at least over the short term. The amount of this demand depends to a significantly greater extent to the development of new technology and to the amount of gobal industrial production. Demand for silver by the photographic industry, in acordance with forecasts, continues to exhibit a falling trend. In 2006 demand decreased by over 10% and amounted to 145.8 mln ounces. Demand by producers of silver-based jewelry decreased by nearly 6.5%, while demand by coinage producers remained unchanged.

Silver supply and price in the years 2000–2006



Source: **Word Silver Survey 2006 – GFMS**

Assets of the ETF I fund-shares



Source: **I-shares**

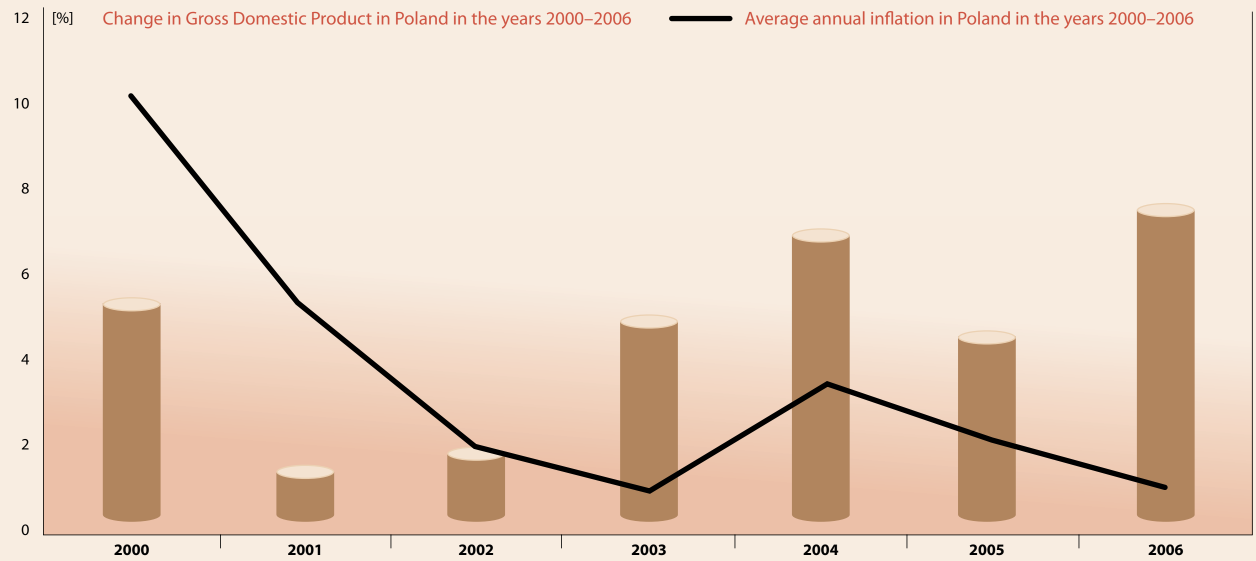
Currency market

During the period decribed the average annual USD/PLN exchange rate amounted to 3.1047, while the EUR/PLN rate amounted to 3.8960. For both of these currencies the USD/PLN rate is lower by 4% versus 2005, while the EUR/PLN rate is 3% lower, where the average annual rates were USD/PLN 3.2347 and EUR/PLN 4.0231.

The annual minimum for the USD/PLN rate was recorded at the beginning of December (2.8628), and the maximum at the end of March (3.3008). The lowest level for the EUR/PLN rate was recorded in the second half of February (3.7565), and the highest at the end of June (4.1065).

The improvement in the Polish macroeconomic environment which began in 2005 continued throughout 2006. The continued improvement in many areas of the Polish economy led to a strong increase in the gross domestic product on the order of 5.8% (in the fourth quarter of 2006 the increase in GDP amounted to 6.4%).

Such good results were due to a large increase in investments, in exports, in the level of industrial production, and were also due to a low current accounts deficit. In 2006 Polish exports increased by nearly twenty percent, and amounted to PLN 342 300 mln.

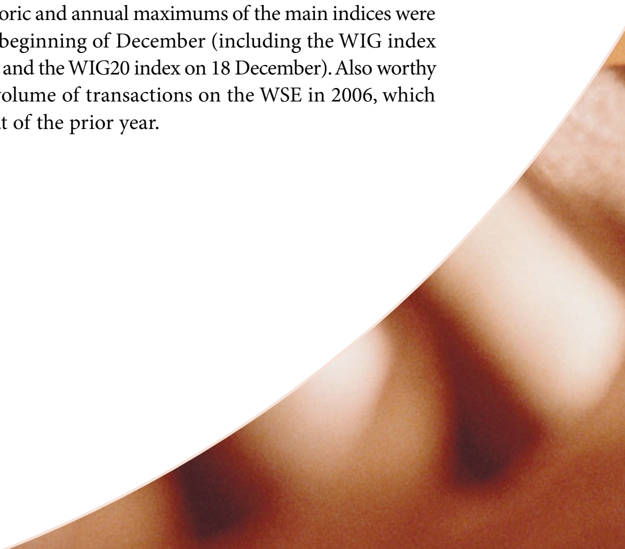


Source: ***Polish Office of Statistics***

Another factor showing the strength of the Polish economy was that inflation remained at a low level (below the inflation target of the Polish Monetary Council), as well as continued improvement in the labor market (falling unemployment, real increases in wages). This allowed a decrease in interest rates by 50 percentage points – to 4.0% at the end of the year.

The continued bull market on the Warsaw Stock Exchange, the increase in foreign equity and direct investments, as well as the inflow of structural funds, led directly to a strengthening of the Polish zloty versus the strongest currencies.

In 2006, 217 out of the 294 listed companies had a positive rate of return. The historic and annual maximums of the main indices were reached at the beginning of December (including the WIG index on 5 December, and the WIG20 index on 18 December). Also worthy of note is the volume of transactions on the WSE in 2006, which was double that of the prior year.



Review financial results

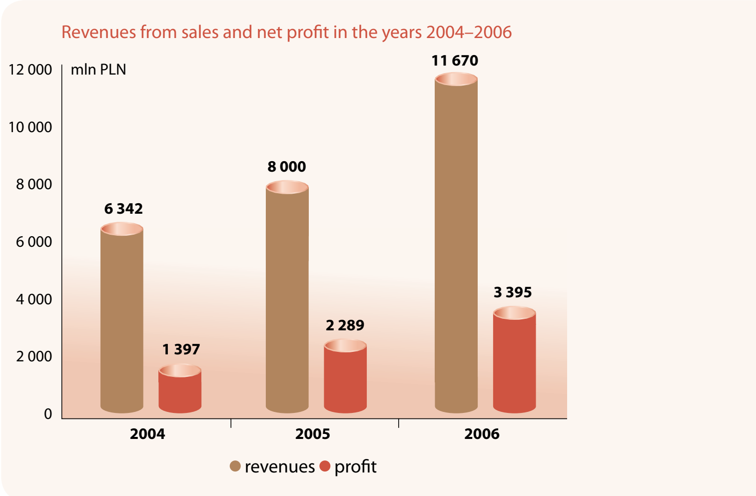
KGHM Polska Miedź S.A. in 2006 achieved a record financial result: profit before extraordinary items and taxation amounted to PLN 4 053 mln and was higher by 54% in relation to the prior year.

This result was due to:
- a profit from sales of PLN 4 260 mln
- a loss on other operating activities of PLN 58 mln
- a loss on financial activities of PLN 148 mln

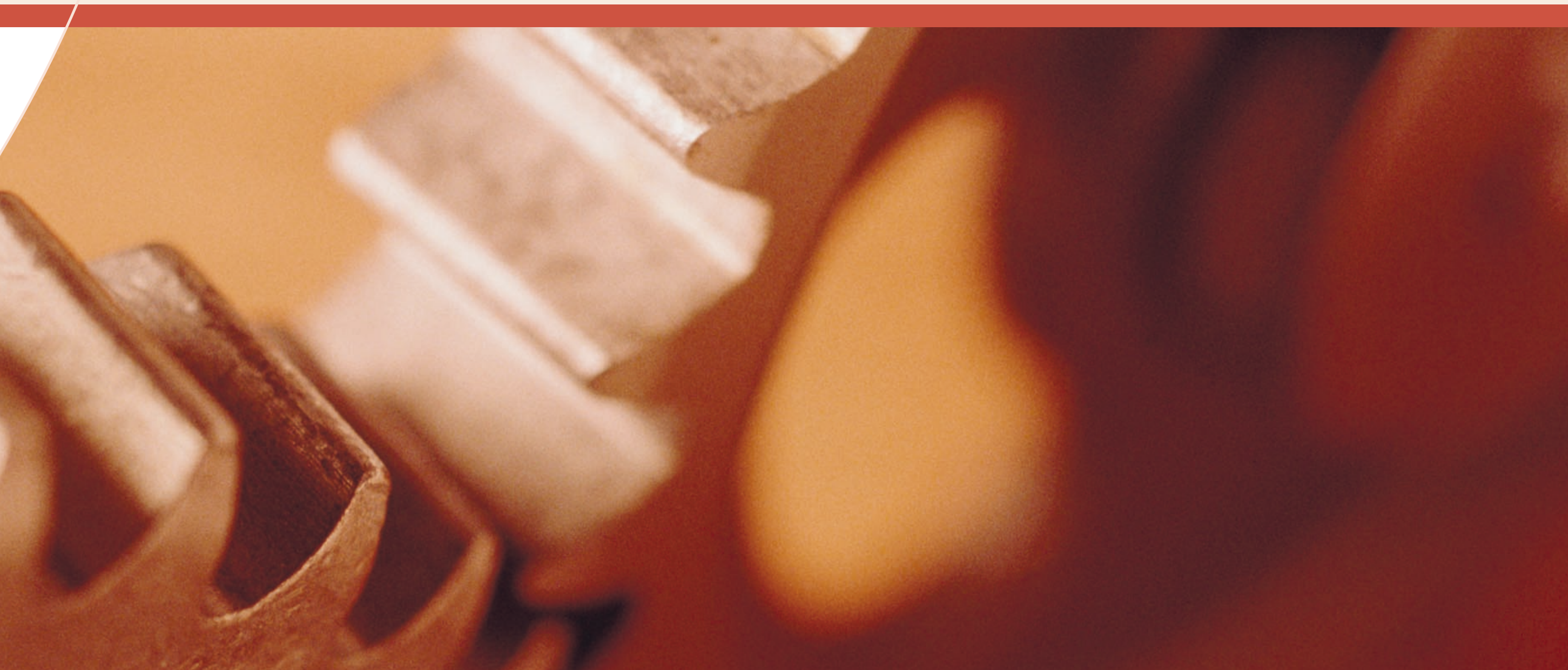
The following external factors were the primary cause of the increase in the result on sales:
- the increase in copper prices by 83% and silver prices by 58%

Also affecting the financial result were:
- the increase in the negative result from the settlement of hedging transactions, from PLN 229 mln to PLN 2 331 mln
- the increase in the unit cost of electrolytic copper production by 34% (including in production from internal concentrates by 7%) and
- the strengthening of the PLN versus the USD by 4%.

In 2006 97% of revenues from sales represented revenues from the sale of products, of which: 43% was from the sale of cathodes and their parts, 35% was from copper wire rod, and 11% was from metallic silver. Revenues from the sale of products were higher by PLN 3 341 mln, i.e. by 42% in relation to the prior year.



	2004	2005	2006	Change %
BASIC ITEMS OF THE INCOME STATEMENT (MLN PLN)				
Revenues from the sale of products, goods for resale and materials	6 342	8 000	11 670	145.9
Operating costs	4 713	5 293	7 410	140.0
Profit (loss) from sales	1 629	2 707	4 260	157.4
Operating profit (loss)	1 554	2 509	4 201	167.5
Profit (loss) before taxation	1 446	2 635	4 053	153.9
Net profit (loss)	1 397	2 289	3 395	148.3



Risk management

In 2006 strategies hedging the copper price represented appx. 34% of sales of this metal realised by KGHM Polska Miedź S.A.
In the case of silver they amounted to appx. 31%. In the case of the currency market, hedged revenues from sales represented appx. 13% of total revenues from sales realised by the Company.

Transactions hedging metals prices were settled with a negative result, while currency hedging transactions were settled with a positive result. In 2006 the result on derivative instruments amounted to PLN (2 482) mln PLN, of which PLN (2 331) mln PLN adjusted revenues from sales (being the amount transferred from equity to profit and loss in the financial period), while PLN (11.9 mln) represented financial costs (loss from the disposal of investments), and PLN (138.6) mln PLN adjusted the financial result due to the measurement of derivative transactions.

In 2006 the Company implemented copper price hedging strategies in the total volume of 84 thousand tonnes and a time horizon falling in 2007, using options and swaps contracts. In addition, during this period the Company implemented adjustment hedge transactions in the total volume of 14.4 thousand tonnes and a time horizon falling in June, August and September 2006, and January, March and April 2007.

With respect to activities on the currency market, KGHM Polska Miedź S.A. implemented strategies hedging the USD/PLN rate in the total nominal amount of USD 90 mln and an expiry date falling in the fourth quarter of 2006, using options and forward contracts. In addition, during the period adjustment hedge transactions were implemented in the total nominal amount of USD 61.37 mln and a time horizon falling in June and July 2006.

The Company remains hedged for a portion of copper sales planned in 2007 (174 thousand t), for a portion of silver sales planned in 2007 (2.1 mln troz) and in 2008 (2.4 mln troz), as well as for a portion of revenues from sales (currency market), planned to be achieved in 2007 (USD 135 mln).

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

In the case of the silver market, during the analysed period strategies were implemented hedging the price of this metal in the total volume of 5.4 mln troz (appx. 168 tonnes) and a time horizon falling in 2007 and 2008, using options instruments, of which 2.4 mln troz respecting 2007 were closed.

In 2006 adjustment hedge transactions were also implemented on the silver market in the total volume of 2 194 111 troz (appx. 68 tonnes) and a time horizon falling in July, November and December 2006.

The Company implemented adjustment hedge transactions on the gold market in a volume of 7 984 troz (appx. 247 kg) and a time horizon falling in August and November 2006.

Balance sheet: assets

Total assets increased by PLN 1 529 mln PLN, i.e. by 14%, in comparison to their amount at the end of 2005 and amounted to PLN 12 506 mln. The largest item in the structure of assets is tangible fixed assets, whose value at the end of 2006 was higher than the prior year by 12%, i.e. by PLN 433 mln. This increase in assets is due among others to realisation of the investment program. Expenditures on the purchase and construction of tangible assets in 2006 amounted to PLN 709 mln, double the amount of depreciation.

In comparison to 2005 there was a significant increase in the value of buildings and engineering infrastructure (an increase by PLN 359 mln, i.e. by 25%) and of machinery and equipment (an increase by PLN 142 mln, i.e. by 10%) – in 2006 expenditures incurred from the replacement of mining machinery amounted to PLN 139 mln.

Long-term investments are primarily composed of shares in the amount of PLN 2 506 mln. During 2006 the value of long-term investments decreased by PLN 127 mln due to the following events:

Value of investments at 31 December 2005	PLN 2 691 mln
■ Revaluation using the equity method	PLN (191) mln
■ Acquisition of limited partner interests	PLN 50 mln
■ An increase in the share capital of companies	PLN 22 mln
■ Other	PLN (8) mln
Value of investments at 31 December 2006	**PLN 2 565 mln**

The primary cause of the decrease in investments was the dividends received from subordinated entities, which decreased the valuation of entities accounted for using the equity method. The value of dividends received in 2006 amounted to PLN 469 mln, of which PLN 461 mln was with respect to the dividend received from Polkomtel S.A. Among the factors increasing the value of long term investments, the most important was the acquisition of limited partner interests in the fund DWS Płynna Lokata Plus for PLN 50 mln.

82% of this amount. The increase in trade debtors by PLN 483 mln, i.e. by 85%, is due among others to a higher value of sales.

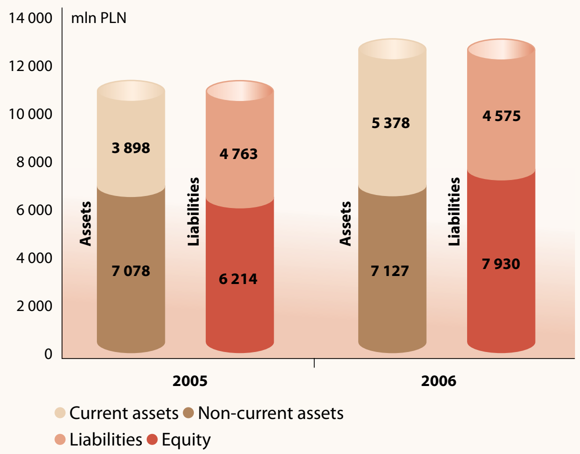
Balance sheet: equity and liabilities

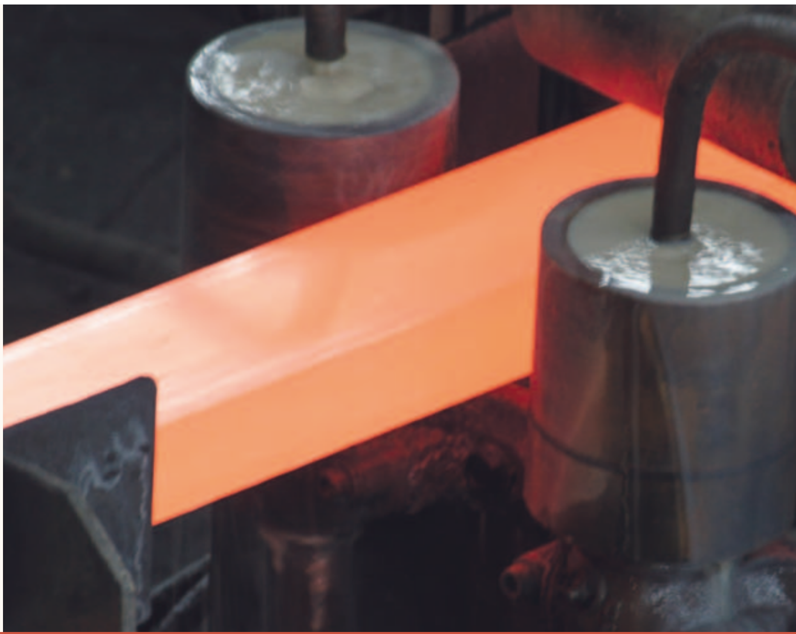
In 2006 the basic source of financing of assets was equity, whose share in total assets amounted to 63% (57% in 2005).

The increase in equity was mainly the result of net profit and of changes in the revaluation reserve and reserve capital. In 2006 the Company earned a higher profit than in the prior year by PLN 1 106 mln. The revaluation reserve increased by PLN 368 mln, mainly due to the settlement of hedging instruments.
Reserve capital increased by PLN 243 mln due to the distribution from profit over the minimum statutory requirement and to the transfer of revaluation reserve related to the valuation of tangible fixed assets.

Provisions during the period increased by PLN 39 mln and at the end of 2006 amounted to PLN 1 705 mln. The main items were provisions due to:

Balance sheet structure in the years 2005–2006





In current assets the largest item is short term investments, whose value compared to the end of 2005 increased by 20%, i.e. by PLN 405 mln. The financial situation of the Company enabled the investment of unallocated cash resources in financial assets, mainly short term bank accounts.

The carrying value of these assets together with monetary resources increased by PLN 501 mln to PLN 2 145 mln. There was a decrease however in debt securities due to the redemption of bonds by DIALOG S.A. in May 2006 (PLN 200 mln). At the end of the year KGHM owned no short term securities.

An important item in current assets is short term debtors in the amount of PLN 1 282 mln, including trade debtors representing

- future employee benefits: PLN 867 mln – an increase due to revaluation by PLN 50 mln
- mine closure costs: PLN 459 mln – an increase by PLN 80 mln
- deferred income taxation: PLN 313 mln – a decrease by PLN 9 mln

With respect to short term liabilities, nearly half represented liabilities related to financial instruments. Their value decreased in comparison to 2005 from PLN 1 361 mln to PLN 1 048 mln. There was also a decrease in liabilities due to trade debtors, whose value at the end of 2006 amounted to PLN 578 mln – a decrease by 5%. Alongside a higher level of operating costs there was a decrease in the length of the trade liabilities repayment period, from 42 to 28 days.

Financial ratios

In 2006 there was a significant improvement in all of the basic economic ratios of KGHM Polska Miedź S.A.

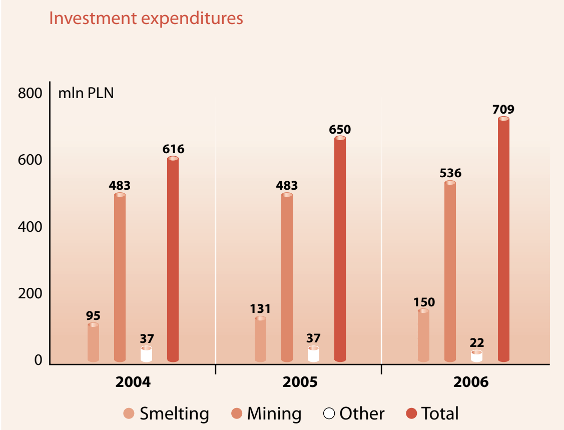
Liquidity ratios show the relationship of current assets, or their more liquid part, to short-term liabilities. The increase in the liquidity ratios was mainly due to an increase in current assets by 38% alongside a decrease in short term liabilities by 10%.

The increase in the financial result by 48% was the main factor responsible for improving the profitability factors (ROA, ROE). The improvement in the financing structure ratios was due to the increase in equity.
The decrease in the debt ratio was due to a decrease in liabilities and provisions for liabilities by 4% alongside an increase in equity by 28%.

The continuation of favorable conditions on the metals market, and consequently the high level of profit, caused an improvement in return on assets and equity. The decrease in the debt ratio was due to an increase in equity, caused mainly by the net profit achieved.

Investments

In 2006 investments were financed by internal Company resources. Investment activities in 2006 were primarily aimed at development-related projects and at the replacement of equipment.



	2004	2005	2006
BASIC ECONOMIC RATIOS DESCRIBING THE ACTIVITIES OF THE COMPANY			
Current liquidity	1.23	1.39	2.12
Quick liquidity	0.77	0.98	1.47
ROA – return on assets (%)	15.6	20.9	27.1
ROE – return on equity (%)	26.2	36.8	42.8
Debt ratio (%)	24.0	28.2	23.0
Durability of financing structure (%)	75.0	70.6	76.4

Realisation of projected financial results

The projection anticipated the achievement in 2006 of revenues from the sale of products, goods for resale and materials of PLN 10 196 mln and net profit of PLN 3 383 mln.

In 2006 the Company earned revenues from sales of PLN 11 670 mln, which means that planned revenues were exceeded by 15%, with a net profit of PLN 3 395 mln, and thus similar to the planned amount.

Revenues were superior to the planned amount due to more advantageous than assumed:

- metals prices on global markets, and
- revenues from the sale of goods for resale and materials

The following factors reduced revenues:

- the effects of settlement of hedging transactions, and
- strengthening of the PLN versus the USD.

The total unit cost of electrolytic copper production in 2006 amounted to 10 323 PLN/t and is higher by 16% than that assumed in the Budget for 2006 (8 880 PLN/t), mainly due to the higher amount and value of purchased copper-bearing materials consumed.

The high level of realisation of the Budget as respects revenues was not reflected in the net profit of the Company due to the following:

- the increase in the share of production of electrolytic copper from purchased copper-bearing materials, causing an increase in costs,
- the settlement and measurement of hedging transactions recognised in financial activity costs, and
- the decision to terminate the process of selling DIALOG S.A., causing a reversal of the deferred tax asset created in 2005.

		Forecast 30.01.2006*	Forecast 14.07.2006**	Execution 2006	Realisation versus forecast
REALISATION OF PROJECTED COMPANY FINANCIAL RESULTS FOR 2006					
Revenues from sales mln PLN	mln PLN	8 117	10 196	11 670	114.5
Net profit mln PLN	mln PLN	1 839	3 383	3 395	100.4
Average annual copper prices	USD/t	4 200	5 800	6 731	116.1
Average annual silver prices	USD/troz	8.00	11.00	11.55	105.0
PLN/USD exchange rate	PLN/USD	3.15	3.15	3.10	98.4
Electrolytic copper production	'000 t	565	550	557	101.3
Silver production	t	1 127	1 156	1 242	107.4
Unit cost of electrolytic copper production	PLN/t	8 910	8 880	10 323	116.3
Tangible investments	mln PLN	932	858	709	82.6

* Based on the Budget for 2006 approved by the Supervisory Board on 30 January 2006
** Based on the Adjusted Budget for 2006 approved by the Supervisory Board on 14 July 2006

Projected financial situation in 2007

On 17 January 2007 the Supervisory Board of KGHM Polska Miedź S.A. approved the Technical-Economic Plan for the years 2007–2011 and the Budget for 2007. The accepted Budget assumes:

- the achievement in 2007 of revenues from the sale of products, goods for resale and materials in the amount of PLN 10 647 mln, and
- net profit of PLN 2 978 mln.

Significant elements of the projection:

Macroeconomic factors:
- average annual electrolytic copper prices 5 700 USD/t
- average annual metallic silver prices 12 USD/troz
- average annual Exchange rate 2,95 USD/PLN

Internal factors:
- Electrolytic copper production 538 thousand t
- Metallic silver production 1 125 t
- Expenditures for the purchase and construction of fixed assets 1 142 mln PLN

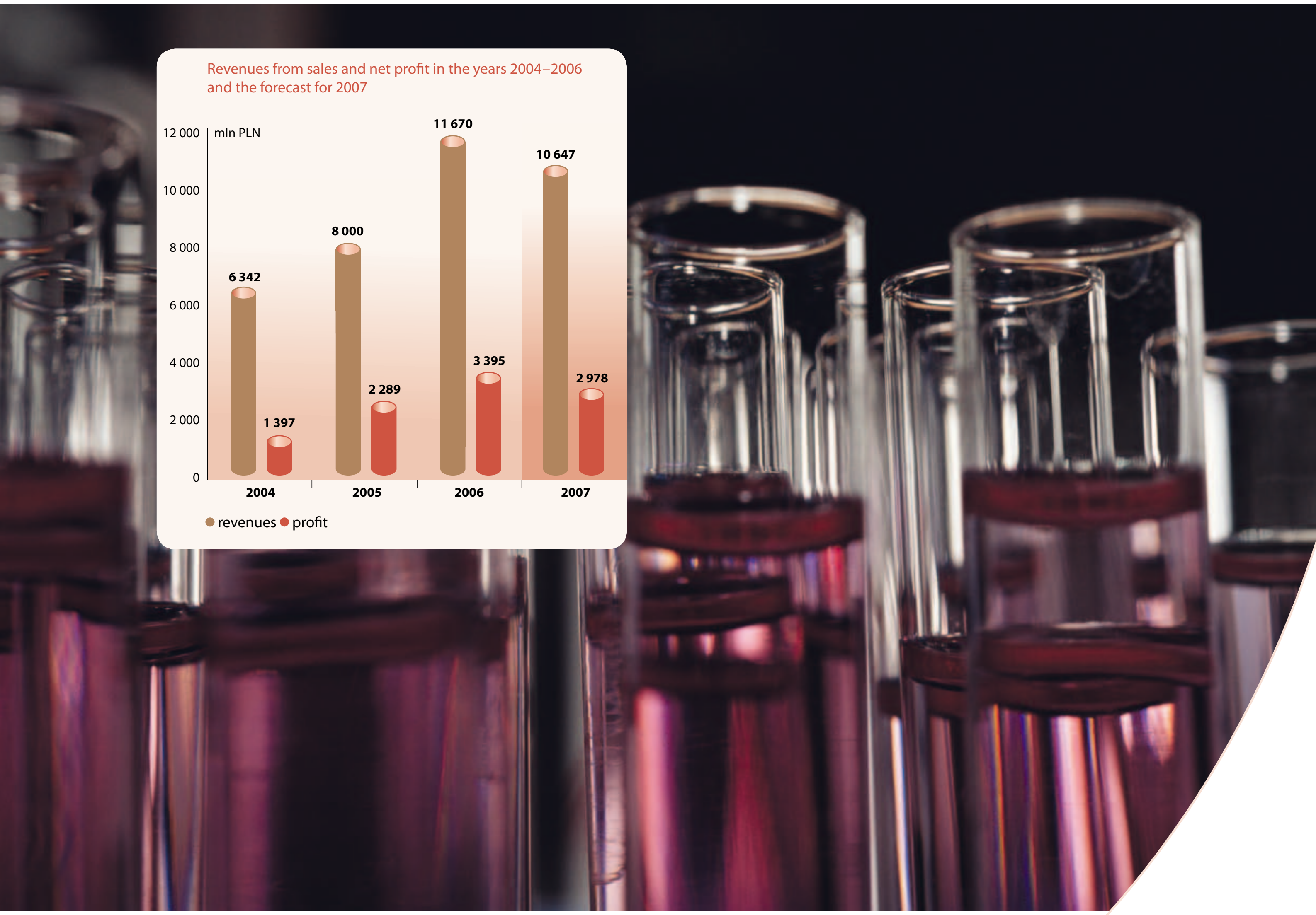
Financial costs

The Company Budget for 2007 forecasts a decrease in operating costs: a total assumed unit cost of copper production of 9 450 PLN/t, which is 8% below that achieved in 2006, alongside a forecast 3% decrease in electrolytic copper production.

The main factors affecting the total planned unit cost of copper production in 2007 are:

- a lower value of consumed external copper-bearing materials,
- an increase in labor costs - mainly due to changes in the Collective Labor Agreement relating to the annual bonus for net profit,
- an increase in mine development costs and depreciation, and
- a decrease in the volume of electrolytic copper production.

In subsequent years a decrease in operating costs is forecast, mainly due to: a lower value of external copper-bearing materials consumed and a decrease in the scope of external services, including repairs and mine development (drilling).



Revenues from sales and net profit in the years 2004–2006 and the forecast for 2007

Main areas of investment in the years 2007–2011

The investment plan for the years 2007–2011 reflects the development strategy accepted by the Management Board of the Company, and is based on realisation of three main goals:

- development and increased effectiveness of the core business,
- diversification, and
- support of the development of KGHM.

Consequently the main areas of investment in the years 2007–2011 involve:

- maintaining the level of copper production from domestic resources,
- replacing the production-related assets in the divisions,
- developing the technical infrastructure in the new mining regions,
- completing construction of the R-IX, R-XI, SG-1 and SG-2 shafts,
- construction of the SW-4 shaft – completing the process of gaining access to the deposit of the Polkowice-Sieroszowice mine, and
- exploring the possibility of mining the Radwanice-Gaworzyce deposit. It is assumed that thse investments will enable access to a reserve deposit estimated at 1.9 mln tonnes of copper in ore at relatively advantageous depths (800 m and 1280 m). Commencement of mining would occur around the year 2012.

Reducing the costs of basic operations and modernising production assets will focus on:

- renovation of the hydrotransport installation, respecting the direct pumping of waste from the Ore Enrichment Plants to the Żelazny Most tailings pond,
- exchanging floatation machinery,
- exchanging screening equipment for preparing ore for grinding in the Ore Enrichment Plants,
- accelerating the exchange of mining machinery, and
- developing the mechanical processing of rock in the mines (the use of combines).

Realisation of other investments related to reducing costs which are awaiting a final decision will be carried out in the following order: improving the process of ore enrichment by accelerating the exchange of floatation machinery in the Ore Enrichment Plants, adapting the AHM 105 IC combines to the preparation of access tunnels, and applying technology for reducing gas i the anode furnaces, concentrate hydrotransport, and pyrometallurgy modernisation. KGHM Polska Miedź S.A. plans to carry out a group of investments related to improving and increasing the safety of working conditions. To increase material reserves, the Company plans to acquire foreign ore deposits. Improving management processes will require the development of a separate IT Strategy.

The Company plans to acquire an important position on the waste management and processing market by:

- building an installation for the production of chemigypsum, and
- building a pilot installation for the production of a backfill mixture based on waste generated by KGHM.

The Company also plans to increase its involvement in the industrial mining of the rock salt that accompanies the copper ore, to make use of the spaces created, and to become a leading producer of rock salt in Poland by modernising salt-related investments. Plans also include greater involvement in new areas of activity, such as developing roadway and other infrastructure connected with the Legnica Technological Park.

Evaluation of the possibility of realising investment plans

The financial results of KGHM Polska Miedź S.A. for 2006 permit realisation of the approved equity investment plan, being an integral part of the Budget of the Company for 2007. The Company assumes investment expenditures in 2007 of PLN 2 858 mln, of which:

- on equity investments PLN 1 716 mln
- on tangible investments PLN 1 142 mln

It is assumed that realisation of these investment projects will be financed primarily from internal Company funds.

The investment plans of KGHM Polska Miedź S.A. are aimed at:

- investing in areas recognised by KGHM Polska Miedź S.A. as strategic,
- realising investments supporting the core business,
- activities aimed at improving the structure of the Group, and
- increasing the liquidity of assets and reallocating them in accordance with strategic areas of investment.

The actions of KGHM Polska Miedź S.A. related to supporting the core business assume the realisation of projects aimed at modernising the processes of copper extraction and processing and reducing production costs. In achieving these strategic goals, it is assumed that the subsidiary "Energetyka" sp. z o.o. will realise an investment project related to expanding power generation capacity.

Negotiations are continuing between "Energetyka" sp. z o.o. and PGNiG S.A. with the participation of KGHM Polska Miedź S.A., on reviewing contracts for the supply of gas signed on 1 December 2003. The changes postulated by "Energetyka" sp. z o.o. and KGHM Polska Miedź S.A. respecting the conditions and amount of supply arise from the updating of the concept of modernising and expanding power generation capacity.

In January 2007 the Extraordinary General Shareholders Meeting of "Energetyka" sp. z o.o. resolved to increase the share capital of the company by PLN 30 mln. All of the shares in the increased share capital were acquired and paid for in cash by KGHM Polska Miedź S.A., while the funds from this increase were used for modernisation of a power plant in Polkowice and for repayment of a loan from KGHM Polska Miedź S.A. in the amount of PLN 9 mln.

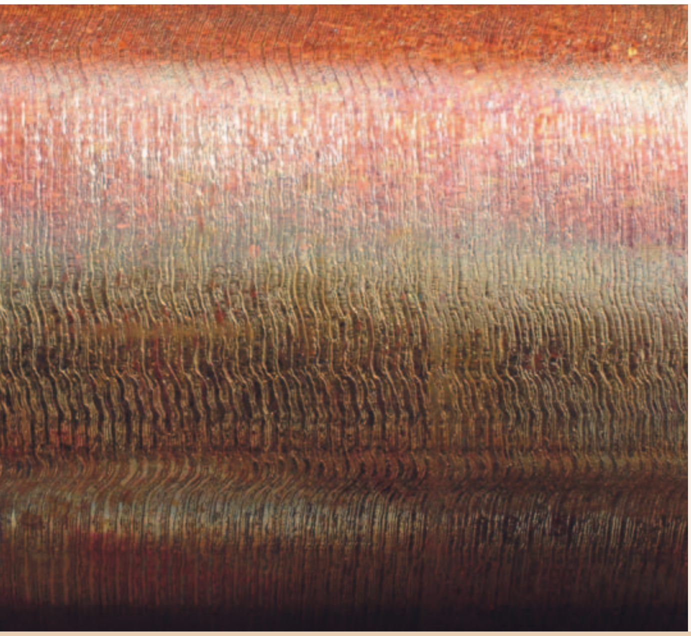
The company POL-MIEDŹ TRANS Sp. z o.o. will also have a significant share in the realisation of investment plans, in which significant investment expenditures are planned on realising investments related to modernising its machine park.

Significant investments will also be realised by KGHM Ecoren S.A. within the framework of the accepted strategy, as this company intends to expand its activities into areas related to waste management and to the recovery of elements associated with non-ferrous metal ores.

The Strategy of KGHM Polska Miedź S.A. towards DIALOG S.A. assumes the active conduct of its business and an increase in the value of this company through the development of new telecom services and the takeover of other operators. In addition, the Parent Entity assumes that in 2007 it will increase its commitment in Polkomtel S.A. from 19.61% to 26.39% of the share capital of this company.

Core business

Effective method for maximising advantages



In 2006 production volume reached record levels in two basic areas: ore extraction and electrolytic copper production … Copper ore extraction increased versus the target set for 2006 by 862 thousand tonnes (2.69%) and reached the record level of 32.88 mln tonnes. … Electrolytic copper production was higher than the planned target by 6 624 tonnes (i.e. 1.2%) and reached the level of 556 624 tonnes.

Resource base

The resource base for the core business of KGHM Polska Miedź S.A. (comprising mines, ore enrichments plants and smelter/refineries) is the largest copper ore deposit in Europe and one of the largest in the world, lying between the towns of Lubin, Sieroszowice and Głogów in south-western Poland.

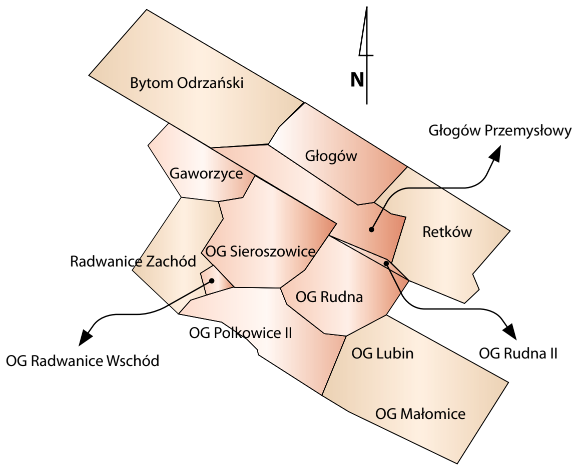
The deposit comprises an area of appx. 468 km^2. That part of the copper ore deposit currently being mined lies at a depth of from 600 to 1380 meters. Among the numerous associated elements – occurring together with the copper ore – are those whose presence in the ore serve to increase the financial result of the Company (e.g. silver, nickel, gold).

Of particular economic importance for the Company is the relatively high silver content of the excavated ore (48 grams per tonne of ore). Due to the thinness of the layer of mineralisation of precious metals (appx. 25 cm), the lack of mineralisation continuity and its high irregularity, the concentrations documented are not treated as ore which meets economic criteria for separate mining operations. It should however be pointed out that a significant part of the precious metals contained in the copper ore are retained in the concentrate and recovered by the processing of anode slimes.

On 25 November 2004 the Minister of the Environment granted KGHM Polska Miedź S.A. in Lubin a license for the extraction of copper ore from the "Głogów Głęboki Przemysłowy" deposit to the year 2054, which also defined the boundaries and extent of the deposit.

The Company will be allowed to prolong the mining licenses which expire in the year 2013, in accordance with Polish law, until the completion of mining operations (i.e. exhaustion of the ore). The estimated amounts of the balance and industrial copper ore reserves are presented in the tables on page 47.

In accordance with the approved strategy of KGHM Polska Miedź S.A. to increase its resource base, aimed at maintaining the present level of copper production for as long as possible, in 2004 work began at the Rudna mine to access the ore located in the "Głogów Głęboki Przemysłowy" deposit. This ore represents a natural continuation of the copper ore which is currently being mined by the Rudna and Sieroszowice mines, extending from their north-western borders.



The size of the documented copper ore resources in areas licensed by KGHM Polska Miedź S.A. sets Poland in 4th/5th place globally as respects copper resources, and in 1st place as respects silver resources (per the U.S. Geological Survey – 2006).

Areas currently being mined

KGHM Polska Miedź S.A. holds licenses for the extraction of copper ore from the following deposits; "Lubin-Małomice", "Polkowice", "Sieroszowice", "Rudna" (mining zones "Rudna I" and "Rudna II") "Radwanice Wschód" and "Głogów Głęboki Przemysłowy".

The licenses held by the Company provide for the extraction of copper ore to the year 2013 in the mining zones of "Lubin", "Małomice", "Polkowice", "Sieroszowice" and "Rudna", to the year 2015 in the mining zone "Radwanice Wschód", and to the year 2046 in the mining zone "Rudna II".

Reserve areas

Adjoining the area of the deposit currently being worked by KGHM Polska Miedź S.A. are the documented ore zones of "Gaworzyce" and "Radwanice Zachód", containing balance copper ore resources. At present these are treated as reserve areas, which may in the future be brought into exploitation.

Balance resources of copper ore and metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (at 31.12.2006)

Mining Division/Zone	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln t]	Amount of Ag [t]
"Lubin"	353	1.27	59	4.5	16 468
"Polkowice--Sieroszowice"	401	2.69	54	10.6	18 965
"Rudna"	533	1.83	43	9.6	17 143
OG "Głogów Głęboki Przemysłowy"	292	2.40	78	7.0	20 834
KGHM Polska Miedź S.A.	1 579	2.06	57	31.6	73 410

Industrial resources of copper ore and metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (at 31.12.2006)

Mining Division/Zone	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln t]	Amount of Ag [t]
"Lubin"	280	1.27	59	3.5	16 468
"Polkowice--Sieroszowice"	349	2.69	54	9.4	18 965
"Rudna"	398	1.83	43	7.3	17 143
OG "Głogów Głęboki Przemysłowy"	268	2.40	78	6.4	20 834
KGHM Polska Miedź S.A.	1 295	2.06	57	26.6	73 410

Balance resources of copper ore and metals (Cu, Ag) in reserve areas*

Unexploited ore	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln t]	Amount of Ag [t]
Bytom Odrzański	31.5	2.47	60	0.8	1 762
Retków	135.8	1.77	86	2.4	11 645
Gaworzyce	44.8	3.13	44	1.4	1 981
Radwanice Zachód	18.6	2.69	42	0.5	783

* to a depth of 1250 m

Following exhaustion of the ore, in a north-westerly direction from the ore currently being worked and from the "Głogów Głęboki Przemysłowy" deposit which is being prepared for exploitation, at a depth of up to 1500 m occur regions of proven increased copper mineralisation: "Głogów", "Bytom Odrzański" and "Retków", which – as they do not meet current criteria for being treated as mineable copper ore at a depth below 1250 m – are not treated as documented copper ore balance resources.
Due to the continuation of high copper and silver prices on the global market, KGHM Polska Miedź S.A. has begun to gather further geological information on the ore zones of "Gaworzyce" and "Radwanice".

Production process

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
In the enrichment plants the copper ore is crushed and wet milled, and then in the form of a water slurry is transported to floatation machinery in order to receive copper concentrate. Concentrate containing from 18% to 28% copper is then transported to the smelters.

Smelting
In the smelters concentrate is processed into converter (or blister) copper. Converter copper is next refined in anode furnaces, then cast into anodes containing appx. 99% copper. These anodes are then electrolytically refined by the smelters.

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.

The production line of KGHM

Production

In 2006 the volume of production reached record levels in the history of the Company in two basic areas: ore extraction and refined copper production.

The main production goal in 2006, given a fall in copper content in extracted ore due to natural geological conditions, was to optimise:

- utilisation of the resource base and production capacity, and
- copper content in ore and concentrate.

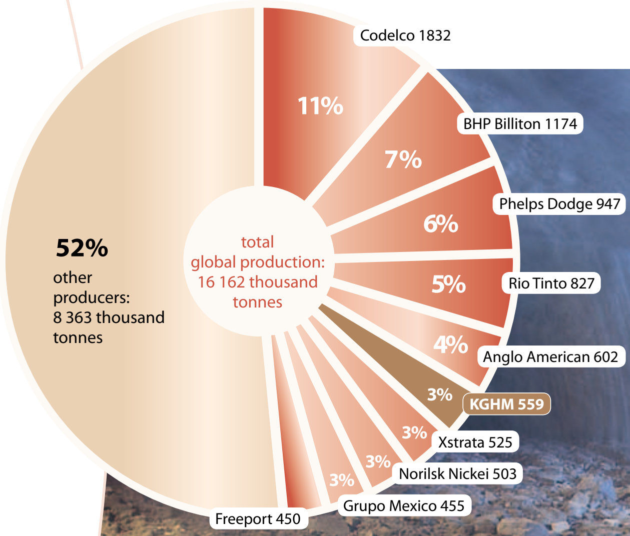
Mine production

Copper ore extraction exceeded the planned level for 2006 by 862 thousand tonnes (2.69%) and reached the record level of 32.88 mln tonnes. This was ore having an average copper content of 1.79%, lower than the planned amount of 1.83%. Despite the fall in average copper content in ore, the planned amounts of Cu and Ag in ore were achieved thanks to an increase in the level of extraction.

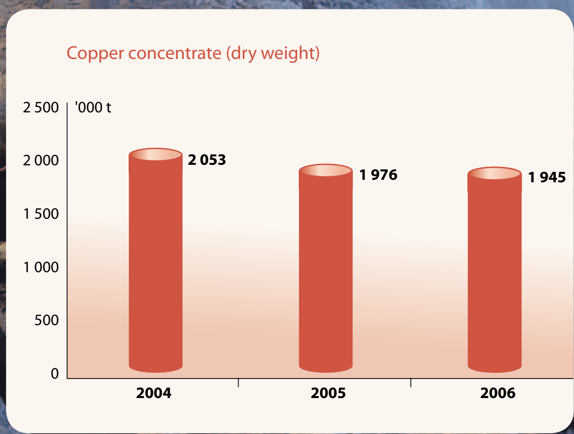
The lower-grade copper ore sent to the ore enrichment plants necessitated the processing of a higher amount of ore to the record level of 32.88 mln tonnes. Due to the decrease in copper content in ore, there was a decrease in the production of copper in concentrate.

This was despite an increase in recovery in the enrichment process and a decrease in Cu content in floatation waste. 497 thousand tonnes of Cu in concentrate was produced, i.e. 0.07% more than planned. The amount of silver in concentrate increased versus the planned amount by 80 tonnes, i.e. 6.74%, due to an increased amount of Ag in ore.

Global copper mine production – ranking of companies and their share in world production in 2006 (thousand tonnes; percentage share)



* ranking of producers per CRU International in 2006



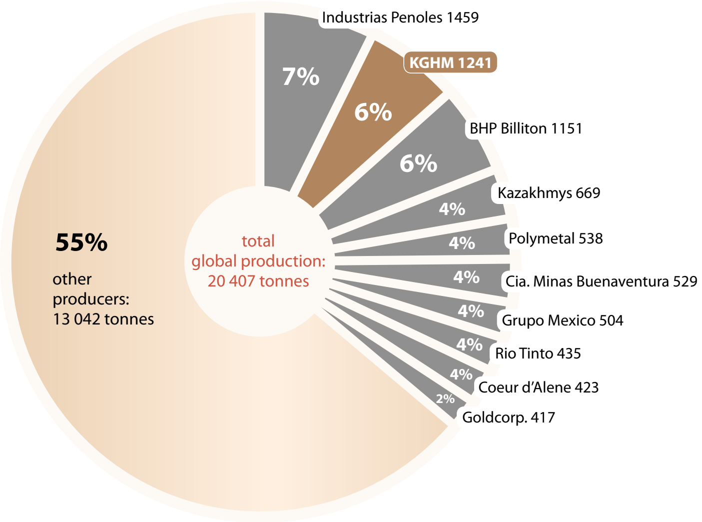
Smelter production

Production of refined copper was higher versus the planned amount by 6 624 tonnes (i.e. 1.2%) and reached 556 624 tonnes. This large increase in production was due to the large share of external charges in the form of imported concentrate, blister copper and scrap, and to the excellent performance of the smelters.

Including external charges with those produced internally by the Company enabled the effective utilisation of existing production capacity, as well as maintaining end-product smelter production at a high level and the rebuilding of copper anode inventories.

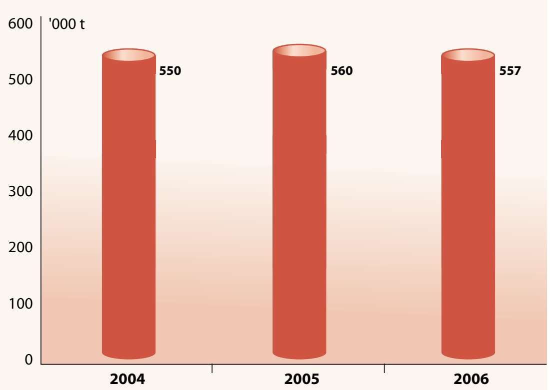
Production of the remaining smelter products derives from the scale of electrolytic copper production and from the type of raw materials used, and also from the demands of the market. The largest increase in production was in the production of gold, due to the processing of imported materials having a higher gold content than in domestic ore. Thanks to this the production of gold reached the level of 1 700 kg.

Global silver production – ranking of companies and their share in world production in 2006 (tonnes; percentage share)

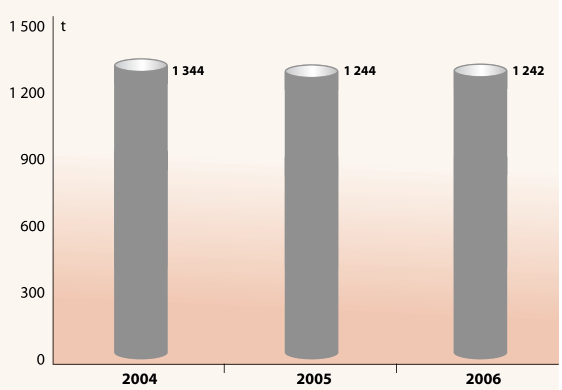


** ranking of producers per CRU International in 2006*

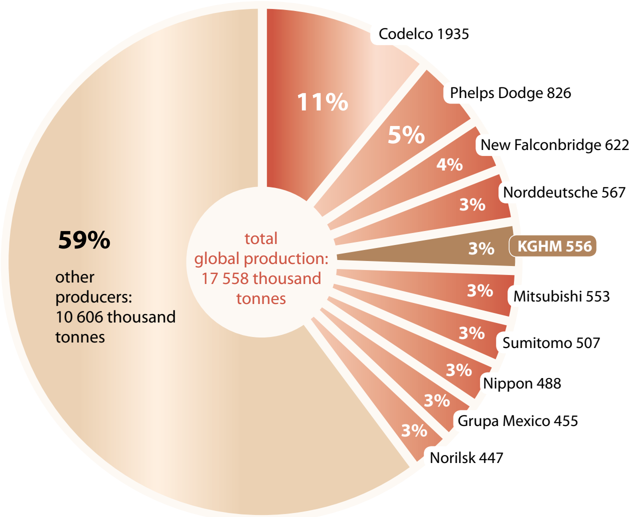
Refined copper production



Silver production



Global refined copper production – ranking of companies and their share in world production in 2006 (thousand tonnes; percentage share)



** ranking of producers per CRU International in 2006*

New product

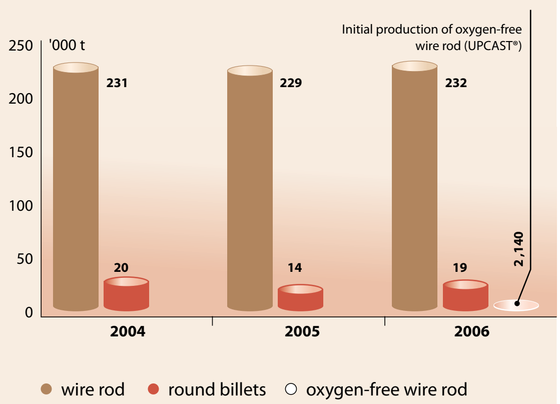
On 27 September 2006 the Cedynia wire rod plant in Orsk commenced operation, based on UPCAST® technology of the Finnish company Outokumpu, of a new installation for the production of oxygen-free 8 mm wire rod. This production line is fully automated. It is serviced by two employees per shift. Planned production capacity of the installation is 15 000 tonnes annually. In 2006 2 140 tonnes of oxygen-free wire rod were produced.

The implementation of UPCAST® technology provides for expansion of the product assortment to include Cu and Cu-Ag wire rod with diameters of 8–22 mm.

Oxygen-free wire rod is used among others in the production of:

- microwire of up to 20 µ
- wires enamelled and coated with Ag, Sn, Ni
- fire-resistant safety cables
- products from low-alloy copper
- audio and video cables of cat. 6 and 7
- trolleys
- a wide variety of products obtained from extrusion and rolling

Copper processing



Products from oxygen-free wire rod have a wide variety of applications, from refined micro-and other electronics to the construction industry. They contain a minimum amount of contaminants, thanks to which they are excellent carriers of audio and video signals, and so are especially valued by manufacturers of musical and audio equipment.

Research and Development work

R&D work is financed by the Company's internal funds. In certain cases this work is realised using the support of public and EU funds.

Expenditures by KGHM Polska Miedź S.A. on R&D work in 2006 amounted to PLN 6 055 thousand. They were lower in comparison to prior years. The work begun in 2006 on the new strategy and on introducing legal and organisational changes in the Company impacted decisions on carrying out certain areas of research.

Work carried out by KGHM Polska Miedź S.A. in 2006 concentrated on projects aimed at:

- reducing production costs
- developing new sources of additional revenues, and
- minimising environmental impact through the implementation of best available technology.

EXPENDITURES ON R&D (PLN '000)

	2004	2005	2006	Change (%)
Mining	5 823	6 698	3 670	54.8
Smelting	3 346	3 516	2 385	67.8
Total	9 169	10 214	6 055	59.3

Major mining projects carried out

- The research program "Scenario for the technological development of the copper ore and associated minerals mining industry"
- The research program "Biomine", involving research into the use of bioleaching for the recovery of useful metals from copper ore, concentrates and floatation tailings
- Development of a plan for the safe exploitation of resources in the mine region of Polkowice East, reflecting extraction of the remaining sections of ore, and of resources trapped in the protective pillars of of shafts P-III and P-IV, in connection with the liquidation of the Polkowice East section of the Polkowice-Sieroszowice mine
- Research into the impact of climatic conditions on the human organism of workers in the salt sections of the Polkowice-Sieroszowice mine
- Research aimed at defining the possibilities of developing new methods for processing the sandstone-carbonate copper ore of KGHM Polska Miedź S.A.

Major smelting projects carried out

- Analysing the effects of using oxygen-enriched air in the converters and stationary anode furnaces in order to optimse the processing of charges and to shorten the production cycle in these units
- Setting criteria for selecting imported concentrates as respects their content of metallic impurities for smelting in the flash furnaces of the Głogów II smelter
- Research into the usefulness of a new generation of electrolytes for removing copper from used electrolyte from the Głogów II smelter
- Development of technology for desulphurisation of converter gases from the Głogów II smelter
- Determining the parameters and optimal conditions for the fire refining of copper in the anode furnaces using gas
- Intensifying the process of lead smelting by applying converted shaft slimes

- Research into developing a plan to mine ore deposits in difficult geological and climatological conditions
- Research into ways to improve the methods applied by the Company for preventing mine tremors and collapses
- Research into ways to ensure the safe operation of the Żelazny Most tailings pond.

Plans call for R&D work to be carried out in 2007, apart from small, specialised subject areas, in the form of large research programs, based on the newly-developed model for managing R&D work.

R&D work will be carried out in particular under the following strategic groups of the Company strategy:

- development and growth of the core business
- diversification of activities
- support of human resource development.

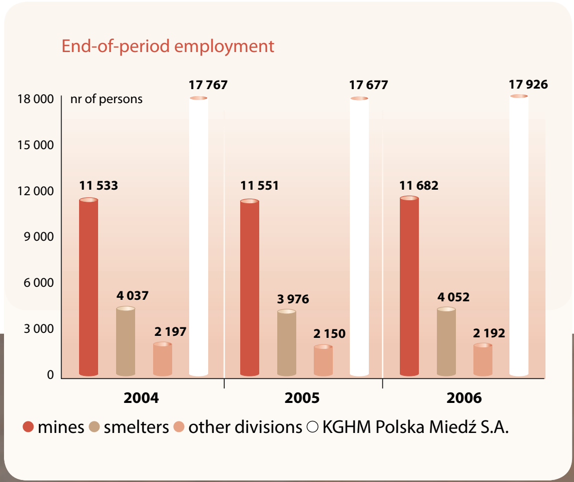
People – the greatest resource of the Company

Satisfaction is guaranteed by creating intelligent opportunities for personal development

Employment in KGHM Polska Miedź S.A. at the end of 2006 was 17 926 persons, and was higher by 1.4% than at the end of the previous year. Average annual employment in KGHM Polska Miedź S.A. was 17 680 persons, and was higher than the level of employment in 2005 by 0.5% … Our personnel strategy is defined by the mission: "By supporting our employees in their personal development, in realising their aspirations and in achieving satisfaction, we strengthen the competitive position of KGHM".

Employment in KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. at the end of 2006 was 17 926 persons, and was higher by 1.4% than at the end of the previous year. Average annual employment in KGHM Polska Miedź S.A. was 17 680 persons, and was higher than the level of employment in 2005 by 81 persons.
This increase in employment was related among others to realisation of the investment project "Construction of a lead refinery at the Legnica smelter" and the start-up at the Cedynia wire rod plant of a new UPCAST® installation for the production of oxygen-free wire rod.



Social activities

KGHM Polska Miedź S.A. offers a social program for its employees, retirees and those on disability, as well as for their families. Apart from the obligatory allocation of funds to the Social Funds of the Divisions of the Company, additional funds are allocated based on the Collective Labor Agreement for the Employees of KGHM Polska Miedź S.A. The total amount of these allocations, both obligatory and additional, amounted in 2006 to PLN 69.6 mln. The Social Funds were also strengthened by a distribution from profit of PLN 500 mln, which was designated to be used for housing.

The Social Fund has financed the following among others:

- the payment of holiday benefits of appx. PLN 1 600 per employee
- subsidising of holidays for children and youth – in 2006 over 7 thousand children made use of these funds to attend employer-organised holiday camps
- subsidising of school supplies for the children of employees in the amount of PLN 1 427 per child
- stays at rehabilitation establishments for 400 workers employed in particularly unhealthy conditions.

Employee retirement program

Since 2004 KGHM Polska Miedź S.A. has provided an Employee Retirement Program. This program is based on the transfer by the employer of employee contributions to investment funds managed by the PZU S.A. Investment Fund Society. The amount of the basic contribution financed by the employer is 3% of an employee's wages. At 31 December 2006 14 553 employees were members of this program, i.e. 81.2% of the workforce; 3 000 employees declared the payment of additional contributions to the Employee Retirement Program financed from their wages.

Apart from the financial benefits mentioned above there is a wide assortment of other forms of recreational and cultural activities available. The Social Fund also plays a significant role in the financing of assistance for employees, retirees and those on disability who find themselves in difficult financial or material situations.

Human resource management system

In 2005 work was completed on developing a human resource management system in KGHM Polska Miedź S.A. Our personnel strategy is defined by the mission:

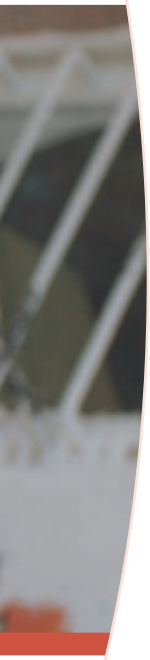
"By supporting our employees in their personal development, in realising their aspirations and in achieving satisfaction, we strengthen the competitive position of KGHM."

Full implementation of this system, planned for 2006–2007, opens the way to realisation of the principle:

"KGHM is not only the best place for employees, but also a place where employees may feel the best."

In August 2005 a Training Management Department was established at the Head Office, whose task is to centralise management of the Company training budget, based on a unified training policy (i.e. the standardisation of procedures).

Throughout the Company a "Skills management system" has been implemented. Of key significance are the motivation of employees to enhance their education and the organisation of various forms of gathering knowledge and skills needed by KGHM.



Multi-Shift Labor System

The positive effects of implementation of a pilot version of the multi-shift labor system in January 2003 led to the decision to fully implement the system from 1 September 2003 throughout the mines. Since that time positive effects have been noted in the major operational areas of the mines.

The organisational changes introduced have enabled an increase in average daily ore extraction, and therefore on an annual scale as well.

The multi-shift labor system has enabled an increase in the effective use of working time throughout the mines in contrast to the prior three-shift system. The result has been an increase in the productivity of both people and equipment.

The increase in the average daily throughput and in the productivity of people and equipment has until now brought positive economic effects thanks to implementation of the new system of labor organisation in the mining divisions.

In light of these observations and after analysis of the functioning of the Multi-Shift Labor System there has been no negative impact on the safety of mining operations in the mines of KGHM Polska Miedź S.A.

The new Multi-Shift Labor System has not prolonged the total time spent by employees at their workstations, including at those places most subject to the threat of roof collapse.

Innovation in the form of searching for new systems of labor organisation allows the Company to stay in the footsteps of the world's largest copper producers. KGHM Polska Miedź S.A. shares success in this area with companies such as Codelco, Phelps Dodge, BHP Billiton, Rio Tinto, Grupo Mexico, Freeport McMoran and Anglo American plc.

Responding to new social challenges, Polish and EU labor laws reflect the necessity to search for new systems of labor organisation, adaptable to the needs and reflecting the centrality and dignity of Man.

Employment in the Group

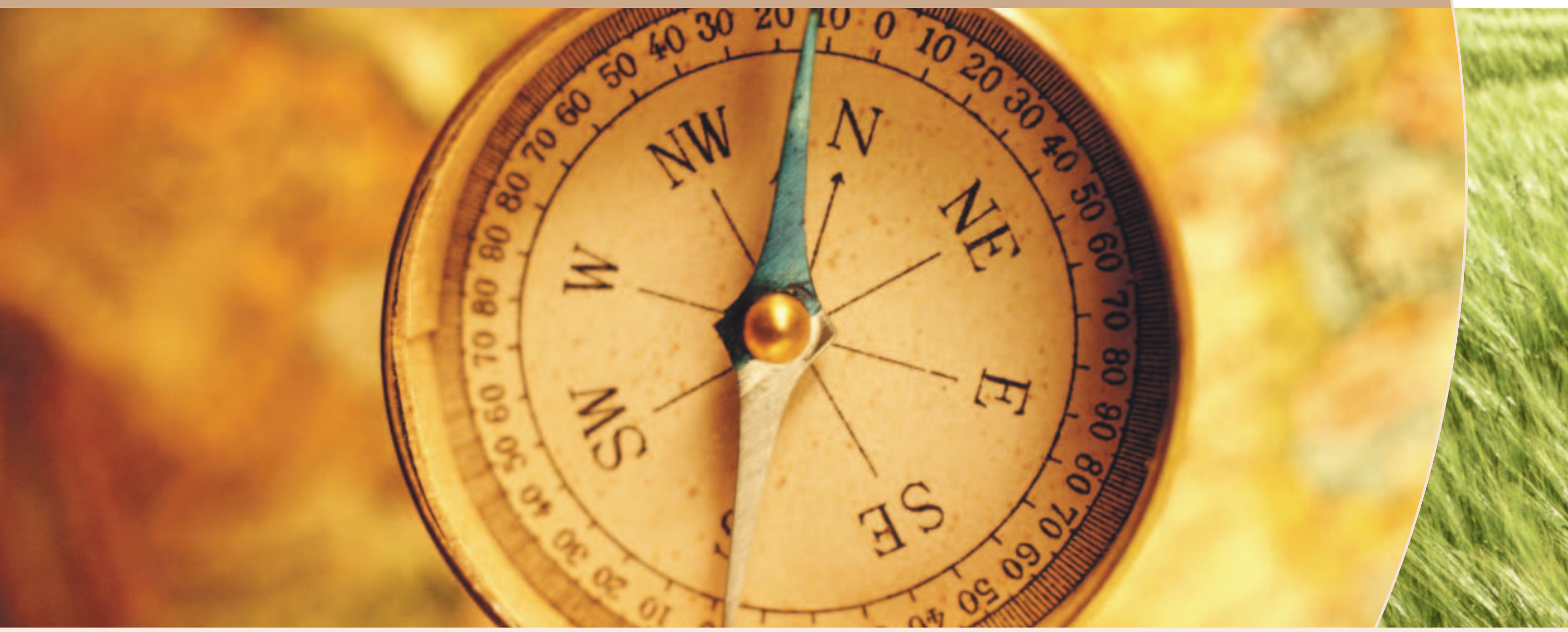
The highest level of employment, at 17 680 persons, was recorded by the Parent Entity. Among the remaining Group companies the highest average number of employees in 2006 was recorded by:

POL-MIEDŹ TRANS Sp. z o.o.	1 519 employees
PeBeKa S.A.	1 452 employees
DIALOG S.A.	996 employees
DFM ZANAM-LEGMET Sp. z o.o.	972 employees

Personnel actions in the Group in 2006 were aimed at introducing methods and techniques for managing the increasing effectiveness of Company operational processes, preparing employee skills to implement the strategy using IT tools.

Description	Average employment in 2006	Average employment in 2005
Total employees:	26 929	26 563
white-collar	8 385	8 352
blue-collar	18 544	18 211

We are part of this world



Care for the environment requires well-considered decisions to be made

Adhering to rigorous environmental standards is possible thanks to the systematic modernisation of existing environmental protection equipment, as well as thanks to new investments in this area. In 2006 the Company spent PLN 25 mln on realisation of ecology-related investments, and another PLN 45 mln on investments qualified as of a development-type and having a significant ecological nature.

Environmental protection

In 2006, 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 2006 the Company spent PLN 25 mln on the realisation of projects related to environmental protection, and over PLN 45 mln on investments qualified as of a development-type or for maintaining production, though of a significant ecological nature.

Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2006 amounted to PLN 88 mln.

In comparison to the prior year these fees increased by 10%, with the largest increase related to fees for the storage of floatation tailings at the Żelazny Most tailings pond. The largest fees paid by the Company were for the following:

- waste storage: 72 mln PLN, including PLN 69 mln for the storage of floatation tailings, and
- discharge of waste water: PLN 10.7 mln, including PLN 10.7 mln for the drainoff of excess water from the Żelazny Most tailings pond.

Legal aspect

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

In the prior year the following facilities received integrated permits:
- the Ore Enrichment Plants for operating an acid wastes utilisation facility, and
- the Cedynia wire rod plant for operating an installation for the melting, continuous casting and drawing of copper.

In 2006 documentation and applications to receive integrated permits were submitted by:
- the Legnica smelter for an installation to produce refined lead, and
- the Głogów smelter for an installation to produce copper, and for the Biechów industrial waste storage facility.

Intentions

The Divisions of the Company have now achieved a high 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 be necessary to perform on-going maintenance of existing equipment, as well as modernisation due to increasingly-strict laws and the necessity to adhere to the requirements of BAT (Best Available Technique). Among the most important investments planned for the near future are the following:
- continuation of current activities aimed at limiting the impact of the Żelazny Most tailings pond on the environment,
- construction of a treated waste drying and filtration loop at the Głogów smelter,
- construction of the Biechów II industrial waste storage facility at the Głogów smelter,
- modernisation of a dedusting installation for the slag crushing loop of the charge preparation section at the Głogów smelter, and
- renovation of the tailings storage facility at the Legnica smelter in Polowice.

Responsibility to society

Responsibility is a basic element of the operational philosophy of KGHM Polska Miedź S.A. It is closely connected to the organisational culture of the Company and its operating profile. The approved strategy of the Company and the Group for the years 2007–2013 reflects the social, ethical and ecological aspects of its economic activities and its corporate responsibility towards those dealing with our Company.

An important goal of the Company is to achieve a balance between effectiveness and profitability on the one hand and social concerns on the other. The model for the Company is to be a responsible business in realising its policy of balanced economic growth of the region.

KGHM Polska Miedź S.A. employs nearly 18 thousand people, with another 10 thousand employed in the Group. Adding in employment in companies which work with KGHM, it may be said that KGHM ensures the livelihoods of 100 thousand people.

KGHM Polska Miedź S.A. has enormous impact on regional growth. The Company is not only the largest, but also the most desireable employer in Lower Silesia. The average wage in 2006 in the mining divisions was around PLN 7 350, and nearly PLN 5 500 in the smelters.

The Company is systematically enhancing the buying power of the local communities, is creating an attractive consumer market and is responsible for a significant part of local economic development.

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.

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.

KGHM financially and physically supports enterprises related to problems involving the development of KGHM and of the region. In 2006 KGHM was involved financially and in the organisation of numerous academic conferences and symposiums, such as:

- The balanced exploitation of European resources – raw materials from tailings
- Hydrotechnical construction
- The School of Underground Exploration
- Metals, the Environment and Health
- The role of KGHM Polska Miedź S.A. in the social and economic development of the region

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. Also in 2006 KGHM was one of the main sponsors of annual sporting events, such as:

- the KGHM Polish Indoors 2006 Tennis Tournament,
- the 20th annual Bieg Piastów 2006 footrace,
- the 41st annual bicycle race Wyścig Kolarskiego Szlakiem Grodów Piastowskich,
- the European 250cc Motocross championship,
- the international equestrian competition Międzynarodowych Zawodów Jeździeckich CSI Wrocław 2006, and
- the 17th International Solidarity and Olympians Run.

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 SATYRYKON festival of drawing in Legnica,
- the Helena Modrzejewska theater in Legnica,
- the International Głogów Jazz Festival,
- the International Wratislavia Cantans" Music Festival, and
- the Exhibition "U Tronu Królowej Polski" at the Royal Palace in Warsaw.

Subsidies

Subsidies granted by the Management Board serve primarily to protect 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-giving 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.

Archive of KGHM POLSKA MIEDŹ S.A.
– photos: Wojciech Obremski, Grzegorz Spała

The Polish Copper Foundation

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 of the Company.

fundacja POLSKA MIEDŹ

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 and other institutions, supporting endeavors aimed at integrating the Republic of Poland with the European Union, working with Polish emigré communities; and 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

The mining and smelting traditions of KGHM Polska Miedź S.A. are as rich as the history of the Land of Copper and KGHM. All of the symbols, rites and ceremonies associated with cultivation of these rich traditions in KGHM became ever richer thanks to the dynamic process of building KGHM and of developing the entire Land of Copper. Today the largest holiday in the Company is the miners holiday Barbórka, which is celebrated each year in December.

On Saint Florian's Day – the patron saint of smelters – just as during the period of Barbórka, numerous celebrations and formal occasions are held in the smelters of KGHM. For several years an inseparable part of the program of the main smelter celebrations are the so-called Dymarki Kaczawskie – historic shows organised in a miner-smelter outdoor museum located in the village of Leszczyna in the Old Copper Belt.

The largest mass event organised by KGHM over the last several years has been the Polish Copper Festival. The inspiration for commencing the organisation of this event was the anniversary of important dates in the history of KGHM.

The dynamic process of building KGHM and the development of the entire Land of Copper is the most important factor uniting the traditions of the past with the present.

KGHM Polska Miedź S.A. continues the heritage of generations, which is so important in the cultivation of the history and traditions of the Company.

KGHM Polska Miedź S.A. Group

Consistent pursuit of greater value for Group companies

The process of structurally transforming the KGHM Polska Miedź S.A. Group began on 12 September 1991 … Following commercialisation KGHM Polska Miedź S.A. endeavored to concentrate on its core business, being the extraction and production of metals. Non-core activities were systematically spun off into separate, individually-operating companies, which form the KGHM Polska Miedź S.A. Group.

Products and services KGHM Polska Miedź S.A. Group

The activities of the Group may be divided into three business segments:

SEGMENT I – metals (copper, precious metals), other smelter products – extraction, processing, production, trade and promotion
SEGMENT II – telecommunications
SEGMENT III – other sectors which comprise the activities of subsidiaries of the Group which are not included in segments I and II

	Entity	Type of activity
		SEGMENT I
1.	KGHM Polska Miedź S.A.	copper ore mining; the production of non-ferrous and precious metals and salt; the casting of light and non-ferrous metals; the management of waste; activities related to financial holding associations; geological-exploratory activities, research and technical analysis; professional rescue services; telecommunications and IT services
2.	KGHM CONGO S.P.R.L	copper and cobalt extraction services
3.	WMN Sp. z o.o.	non-ferrous metals processing
4.	KGHM Polish Copper Ltd	copper trading
5.	KGHM Kupferhandelsges.mbH	copper trading
6.	WM "ŁABĘDY" S.A.	trading in coal, grinding mediums used in the production of copper concentrate
7.	KGHM Metraco S.A.	trading of metals, chemicals, copper scrap
		SEGMENT II
1.	DIALOG S.A.	telecommunications services
2.	Vivid.pl. S.A.	internet sales
3.	Tele Video Media Sp. z o.o.	multimedia services
4.	Polkomtel S.A.	telecommunications services
		SEGMENT III
1.	KGHM Ecoren S.A.	the production and sale of road-building materials and of rhenium compounds
2.	PeBeKa S.A.	construction of mines with infrastructure; building of roadway, railway and subway tunnels, underground construction
3.	DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery, machinery repairs
4.	Energetyka Sp. z o.o.	generation, distribution and sale of electrical and heating energy, water-sewage management
5.	POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport, passenger and cargo road transport, trade in fuels
6.	PHP "MERCUS" Sp. z o.o.	trade in consumer goods, production of bundled electrical cables
7.	INTERFERIE S.A.	tourism services, including holiday resorts, health spas and hotels
8.	MCZ S.A.	medical services
9.	KGHM CUPRUM Sp. z o.o. – CBR	R&D activities
10.	CBJ Sp. z o.o.	research and chemical-physical analysis
11.	INOVA Sp. z o.o.	electrotechnics, attestation and expertise, certification
12.	TUW-CUPRUM	mutual insurance services for its members
13.	DOL-EKO Organizacja Odzysku S.A.	management of non-metallic and metallic waste
14.	WFP Hefra S.A.	production and sale of rust-proof, silver-plated and semi-silver-plated table settings
15.	MINOVA-KSANTE Sp. z o.o.	production of resinous glues, xanthates, xanthenol
16.	PCPM Sp. z o.o.	promotion of copper products
17.	"Zagłębie" Lubin SSA	management of a football club, organisation of professional sporting events
18.	PHU "Lubinpex" Sp. z o.o.	food industry and catering services

KGHM Polska Miedź S.A. Group

The year 2006 was one of many successes for the KGHM Polska Miedź S.A. Group. Record results were achieved during the year. Sales were higher by 42.5% than in 2005, and similarly net profit was higher by 66.8% versus the prior year.

Basic economic data show an increase in effectiveness by and growth of the Group. The primary reason for such excellent results, similarly as in prior years, were the high prices of copper and silver. The positive trend on the metals markets continued unabated in 2006.

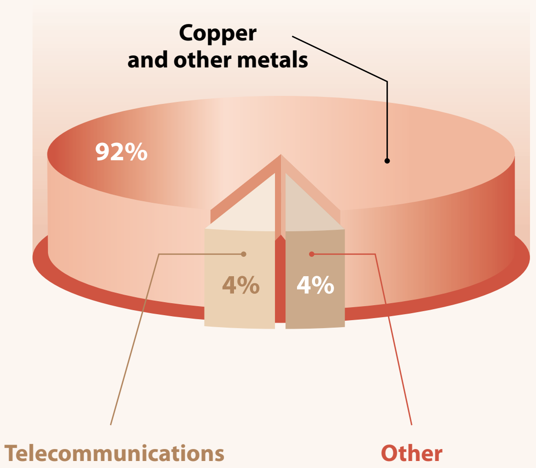
In 2006 the Supervisory Board of KGHM Polska Miedź S.A. approved the "**Strategy of KGHM Polska Miedź S.A. and the Group in the years 2007–2016**". The Strategy is aimed at achieving an increase in the effectiveness of Group companies, understood as including stabilisation, improved financial results and growth in their value.

In pursuit of expanding its product line by including complementary services, last year saw its first acquisitions – Tele Video Media Sp. z o.o. and Vivid.pl. S.A.

In 2006 another company of the KGHM Polska Miedź S.A. Group – INTERFERIE S.A. – had its market debut. Actions are also underway aimed at increasing the value of other Group companies and listing them on a regulated market.

In addition in 2006 the process of reorganising the KGHM Polska Miedź S.A. Group was continued, based on making the ownership structure more transparent – KGHM Polska Miedź S.A. took full control over the company Zagłębie Lubin SSA. Actions were undertaken aimed at assuming full control over indirect subsidiaries which are important to the operations of the core business.

Share of specific segments of the Group in sales in 2006



In KGHM Ecoren S.A. restructurisation was begun aimed at altering its profile from that of supervision of those companies in its portfolio into a company involved in production and services with respect to the production and recovery of metals and the management of waste.

With respect to DIALOG S.A., the decision was made not to sell the company in the short term. The strategy for this company assumes active involvement in the telecom market and an increase in its value. Enhancing the value of DIALOG S.A. is to be carried out by developing new IT services and by taking over other operators.

In 2006 emphasis was placed on eliminating improprieties which had developed in prior years, and which caused the deterioration of results of certain companies. The introduction of proper procedures and the elimination of potentially harmful activities should in future serve to clarify the functioning of the Group.

The forecast rapid growth of Group companies over the next several years will be the direct cause of increased expenditures on strategic investments, including those priority investments of an ecological character.

Telecom assets of the Company

Amongst related entities, the following entities have the largest impact on the Group as a whole:
- the parent entity – KGHM Polska Miedź S.A.,
- Polkomtel S.A., KGHM Polska Miedź S.A. owns 19.61% of the shares – consolidated by 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 impact the consolidated financial results of the KGHM Polska Miedź S.A. Group.

DIALOG S.A.

DIALOG S.A., apart from Netia and Exatel, is one of the most important alternative operators to TP S.A. The company operates in two telecom segments. These are:

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

DIALOG S.A., like other operators, in 2006 carried out projects which over the next several years should lead to further growth of the company and to an increase in revenues. The most important area of activity in 2006 was the active sale of broadband internet access services.

Due to the intensive growth of internet services, as part of the program to build a larger sales network DIALOG S.A. acquired 100% of the shares of the internet shop VIVID.pl S.A. Thanks to this it will be able to expand its product line and activities through an additional channel for selling its services.

In 2006 DIALOG S.A. earned revenues from sales of PLN 500.9 mln (versus PLN 501.4 mln earned in 2005), achieving a profit on sales of PLN 54 mln (versus PLN 61 mln in 2005). EBITDA in DIALOG S.A. during this period amounted to PLN 121 mln (EBITDA adjusted by permanent diminution of value of assets amounted to PLN 148 mln in 2005).

Strong competition from mobile phone operators meant that the company had a lower profitability on services. The EBITDA margin in 2006 was 25% versus 30% in the prior year.

Thanks to this the company in 2006 increased its client base making use of broadband internet access services by 37.8 thousand, and at the end of the year had 96.4 thousand clients using the internet, including 64.9 thousand clients with access based on xDSL technology.

The company is also involved in the sale and continuation of traditional voice services. However, the situation on the market meant that the company reduced its number of lines, and at the end of 2006 had 438 thousand ringing lines. There was also a change in the subscriber structure – the business mix (calculated as the number of business lines to total ringing lines) amounted to 31.8%. In addition, the company pursued projects whose planned implementation will generate revenues over the next several years: the establishment of internet tv (IPTV) and the sale of mobile telephone services as a virtual operator (MVNO).

Thanks to restructuring of the company's debt in 2005, and to the refinancing in May 2006 of the remainder of its debt, DIALOG is generating lower financial costs than in prior periods. In 2006 the result on financial activities was negative, and amounted to PLN (5.5) mln PLN (versus PLN (37) mln in the prior year). In 2006 DIALOG S.A. earned a net profit of PLN 71 mln PLN (versus a loss of PLN (173) mln PLN in 2005).

In 2007 the company plans to further enhance its telecom and multimedial capabilities so as to be able to offer a wider range of services. The company also plans to takeover other operators.
The planned acquisitions on the telecom market will require increased investment expenditures, which will be acquired in future years by accessing the capital markets through IPOs, among others. These actions are in accordance with the strategy of KGHM Polska Miedź S.A., which calls for the systematic growth of Group companies.

Polkomtel S.A.

Polkomtel S.A. is one of three mobile telephone operators in Poland, offering its services under three brands: Plus, Simplus and Sami Swoi. Polkomtel is a pioneer in the introduction to the Polish market of innovative services utilising GSM technology, among others as the first to offer its customers multimedia messaging services (MMS), the possibility of audio short message services (SMS), and data transmission using GPRS and EDGE technology. In September 2004 Plus GSM, was the first operator in Poland to begin offering third-generation mobile telephone services, together with UMTS. The UMTS network being built by Polkomtel S.A. will have a coverage in Poland in 2007 of around 25%.

Polkomtel S.A. is the growth leader on the mobile telephone market, while the Plus and Simplus brands in 2006 were the fastest-growing brands on the market. In 2006 Polkomtel S.A. maintained its position as the leader of the corporate market and strengthened its position in the medium and small firm segment. In 2006 the Simplus brand became the leader of the pre-paid market. In terms of sales, in 2006 Polkomtel S.A. overtook Polska Telefonia Cyfrowa and nearly matched PTK Centertel (owner of the Orange brand).

In December 2005 a group of financial institutions announced a bid for the purchase of the shares of TDC. As a result of settlement of this bid there was a change of control over this entity. Consequently, based on the statutes of Polkomtel S.A., TDC Mobile International A/S offered to sell the shares it holds to the remaining shareholders. 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. obtained the right to acquire a total of 4 019 780 shares of Polkomtel S.A. held by TDC Mobile International A/S. On 10 March 2006, KGHM Polska Miedź S.A., PKN Orlen S.A., PSE S.A. and Węglokoks S.A. as the purchasers, and TDC Mobile International A/S as the seller, executed an "Agreement on the Acceptance of the Offer and Conditional Transfer of Shares in Polkomtel S.A."

In 2007 it is expected that demand for mobile telephones in Poland will continue to maintain its growth trend, both in the voice services segment as well as in data transmission. The mobile telephone market in Poland will however undergo some change due to the activities of new operators, including the Play network and new virtual operators (MVNO), as well as due to regulatory actions (UKE) aimed at increasing price competitiveness on the market. These events may lead to a certain decrease, both in terms of the margins achieved by the operators and revenues from inter-network exchanges, as well as due to a certain amount of weakening of the rate of increase in the results achieved by mobile network operators.

In 2006 the company earned revenues from sales of PLN 7 359 mln (in 2005 revenues amounted to PLN 6 495 mln), achieving a profit on sales of PLN 1 466 mln (versus PLN 1 293 mln in 2005). In 2006 Polkomtel S.A. achieved EBITDA of PLN 2 477 mln (PLN 2 301 mln in 2005) and a net profit of PLN 1 121 mln (PLN 1 067 mln in 2005).

In July 2006 Polkomtel S.A. paid a shareholders dividend from undistributed net profit for the years prior to 2005 and net profit for 2005. The total dividend amounted to PLN 2 352 mln (representing PLN 114.75 per share) and was paid to shareholders proportionally to their commitment in the share capital of Polkomtel S.A. Also, in January 2007 the Supervisory Board resolved to pay an advance on the dividend for 2006 in the amount of PLN 253 mln, and on 29 March 2007 the General Shareholders Meeting of Polkomtel S.A. approved the payment of PLN 1 031 mln as a shareholder dividend from net profit for 2006 (this amount including the previously-paid advance).

The value of the shares of Polkomtel S.A. at 31 December 2006 accounted for using the equity method in the financial statements of KGHM Polska Miedź S.A. is PLN 687.7 mln.

Other important companies of the KGHM Group

KGHM Metraco

The KGHM Group owns 98.96% of the share capital of this company.

This company concentrates on wholesale sales: finished copper products (wire rod, roofing sheets, sheets, pipes, strips), precious metals, chemicals, and also waste, scrap and raw materials and semi-products (copper cathodes, lead concentrate etc.).

The main areas of growth are planned based on actions aimed at gaining new groups of customers beyond KGHM Polska Miedź S.A. and expanding the actions of the Scrap Trading Base and diversifying its product assortment.

Due to the intensive growth of KGHM Metraco S.A., in 2006 its legal form was changed from that of a limited liability company (spółka z ograniczoną odpowiedzialnością) to that of a joint stock company (spółka akcyjna).

KGHM METRACO

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	774.0	753.0	1 148.0
Net profit	9.9	8.5	9.1
Share capital	2.5	2.5	2.5
Total assets	78.6	92.5	114.0

The actions of the Company over the next several years will concentrate on commencing the operation of an installation for the production of rhenium compounds at the Głogów smelter, disposing of redundent assets (restructurisation), and also commencing new projects related to waste management.

In 2006 the company focused on realising the investment project "The industrial recovery of rhenium – II", which includes the renovation of the installation for the production of rhenium eluats and the building of an installation for the production of metallic rhenium. In December 2006 the regional court registered a change in the statutes of the company KGHM Metale DSI S.A. in which the name of the company was officially changed to KGHM Ecoren S.A.

KGHM ECOREN

Financial data for the years 2004–2006

Amount (mln PLN)	2004*	2005	2006
Sales		53.0	53.0
Net profit		3.5	18.7
Share capital		223.0	223.0
Total assets		246.0	279.0

* in September 2005 two entities were combined (KGHM Metale S.A. and DSI S.A.); the resulting newly-formed entity was given the name KGHM Metale DSI S.A. (currently KGHM Ecoren S.A.)

KGHM Ecoren S.A.

The KGHM Group owns 100% of the share capital of this company.

KGHM Ecoren S.A. is in the process of restructuring, based on altering its profile from that of supervision of those companies in its portfolio into a company involved in production and services with respect to the production and recovery of metals and the management of waste.

KGHM Ecoren is an innovative, dynamically growing company involved in the production of metals and their compounds and in the management of industrial waste. The mission of the company is to undertake activities aimed at reducing environmental impact.

This company is the only producer in Europe of rhenium compounds – a highly-rare element and a valuable metal, used primarily in the petrochemical and airline industries. The products of Ecoren are recovered from waste arising from the production of copper in KGHM Polska Miedź S.A.

For many years the Company has successfully made use of its smelter slag. This is an important element of the ecological policy pursued by KGHM Polska Miedź S.A.

PHP MERCUS Sp. z o.o.

The KGHM Group owns 100% of the share capital of this company.

The activities of the company comprise four main sectors: material logistics – mainly on behalf of the divisions of KGHM Polska Miedź S.A. and companies of the Group; production – bundled electrical cables for producers of home appliances and high-pressure hydraulic lines for machinery and equipment used in mining and construction; wholesale and retail sales – department stores, warehouses etc., and also international trade – the import of machinery and equipment.

PHP MERCUS Sp. z o.o. over the next few years plans to increase the production of bundled electrical cables, including the introduction of a new assortment of bundled electrical cables, to expand its sales network and to expand the variety of logistical supply services it offers beyond the KGHM Polska Miedź S.A. Group.

In February 2006 a change in share capital was registered for the company of PLN 4.23 mln. All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. in 2005. The funds acquired from this increase were used to increase production in the Electromechanical Production Plant.

On 27 July 2006 the Mercus Galery of Interior Design was opened in Legnica, where – on a floorspace of nearly 10 thousand m² – the company displayed a full range of furniture, decorative items, home interior equipment and appliances.

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	427.5	555.0	563.0
Net profit	5.2	6.8	4.1
Share capital	6.4	6.5	10.7
Total assets	113.0	138.5	148.0

POL-MIEDŹ TRANS Sp. z o.o.

The KGHM Group owns 100% of the share capital of this company.

Pol-Miedź Trans Sp. z o.o. offers a variety of transportation services: roadway – passenger, commodity, specialist; railway – commodity, specialist; and the distribution and trade of oil-based products, as well as the repair of wheeled and railway vehicles, machinery and equipment. The company also offers laboratory services – the analysis of oil-based products.

Development plans are mainly focused on continued modernisation of the machine park, restructurisation of the roadway transport division, and assuming full servicing of KGHM Polska Miedź S.A. respecting bulk material railway cars, as well as increasing the share of customers apart from KGHM Polska Miedź S.A. and achieving a dominant position in the transport of stone from the vicinity of the town of Złotoryja.

In 2006 the company held eighth place amongst domestic commodity transporters, with a 5.40% share in the market. In the ranking Pillars of the Polish Economy 2006 – Best in Region, the company held fifth place.

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	423.0	441.0	445.0
Net profit	6.8	5.0	(20.0)
Share capital	140.0	140.0	140.0
Total assets	214.0	226.0	223.0

Energetyka Sp. z o.o.

The KGHM Group owns 100% of the share capital of this company.

The company offers services in the following areas: the generation of heat and electricity, the distribution and sale of heat and electricity, the production and distribution of potable water from its own sources, the collection and treatment of sewage and the management of industrial and runoff water, the production of industrial water, the collection and treatment of industrial waste and the management of waste water, as well as services related to these activities.

An investment to increase power generation capacity was undertaken in 2006 in order to guarantee the majority of the energy needs of KGHM Polska Miedź S.A. Further actions taken were concentrated on searching for alternative sources of energy and reducing environmental impact.

In 2006 an industrial waste treatment plant was brought online in the vicinity of the Rudna mine, and analysis was continued for the project "Expansion of power generation capacity" aimed at increasing the volume of energy produced to guarantee the majority of the energy needs of KGHM Polska Miedź S.A.

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	144.0	217.0	229.5
Net profit	0.35	0.067	(13.6)
Share capital	125.0	191.0	191.0
Total assets	236.0	307.0	318.0

PeBeKa S.A.

The KGHM Group owns 100% of the share capital of this company.

PeBeKa S.A. provides complex services in general and specialty civil engineering projects, builds facilities for underground and surface mines, transport and related construction, and industry, and has recently become involved in environmental projects (waste treatment projects).

The company mainly focuses on the construction of mines together with infrastructure (shafts, tunnels, and the assembly and construction of associated facilities), drilling roadway and railway tunnels, underground railways, underground construction (for example metro stations, underground garages), as well as the reconstruction of historic mining facilities, securing excavated construction sites and the construction and repair of all kinds of pipelines without the use of excavation.

The company is a major contractor of mine access and engineering work for KGHM Polska Miedź S.A.

The company plans to increase its share in the non-KGHM Polska Miedź S.A. market as respects investments in mining and specialty construction (infrastructure projects, transportation tunnels, metro etc.), to increase its capability as respects projects for KGHM Polska Miedź S.A. (accessing the ore in the "Głogów Głęboki Przemysłowy" deposit), and also work on implementing new technology for the mechanical mining of hard rock.

In 2006 work was carried out on the project "Construction of the Warsaw metro" in particular tunnel B-20 and station A-20, "Park Kaskada", route B-23 and station A-23, "Młociny" together with a transport loop.

In 2006 the company also completed a contract for assembly of the UPCAST® oxygen-free wire rod installation for the Cedynia wire rod plant of KGHM Polska Miedź S.A. The company also completed construction on the underground station "Politechnika" belonging to the Kraków Rapid Tram transport network.

The share capital of the company increased by PLN 3.47 mln through the issuance of shares which were all acquired by KGHM Polska Miedź S.A., the funds from which were used to replace and expand the machine park.

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	280.0	268.0	3.5
Net profit	3.4	3.9	2.0
Share capital	17.0	27.0	31.0
Total assets	131.0	128.0	196.0

DFM ZANAM-LEGMET Sp. z o.o.

The KGHM Group owns 100% of the share capital of this company.

The company is mainly involved in the production and servicing of machines and equipment for the haulage of ore and drilling (self-propelled mineing machinery, transporters, loading points and related services). In addition it produces steel castings, boilers and steel-based objects.

Strategic activities in the coming years will be aimed at increasing its capacity as respects realising products and services for KGHM Polska Miedź S.A., and at improving the quality of its products and services. The plan to enter external markets will be accompanied by actions aimed at the central planning of production and preparation of an ERP System, as well as the implementation of new products adapted to the needs of KGHM Polska Miedź S.A.

In 2006 the share capital of the company was increased by PLN 5.5 mln by the creation and acquisition of new shares by KGHM Ecoren S.A. The funds acquired from this increase were used for investments. The company won the title "Mistrz Techniki NOT" for its ZKD-Sh130/75 crusher.

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	183.0	199.0	211.0
Net profit	2.3	0.9	3.1
Share capital	12.0	30.0	36.0
Total assets	73.0	87.5	97.0

Centrum Badań Jakości Sp. z o.o.

The KGHM Group owns 100% of the share capital of this company.

The company offers services in the analysis and measurement of factors which are harmful in the workplace, measurements of emissions, the analysis of water, waste and waste runoff, the analysis of foodstuffs, of soil, and also industrial and waste research.

The company is aimed at activities to increase its external market share as respects non-industrial research, on expanding the scope of its research services and on improving its integrated management system.

In 2006 Centrum Badań Jakości expanded its accreditation by a further 27 analytical methods, thereby gaining the right to use the international accreditation symbol ILAC MRA (ILAC Mutual Recognition Arrangement) on its research reports. In November 2006 the company was granted the international certificate IQNet, confirming that the company adheres to the OHSAS 18001:1999 standard on managing workplace safety and hygiene.

CENTRUM BADAŃ JAKOŚCI
SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	32.0	34.0	37.0
Net profit	1.3	2.7	3.3
Share capital	2.9	2.9	2.9
Total assets	22.0	25.0	29.0

KGHM CUPRUM Sp. z o.o. – CBR

The KGHM Group owns 100% of the share capital of this company.

KGHM CUPRUM Sp. z o.o. – CBR is intensifying its R&D work in the following fields: geology, mining, mechanisation, electricity, environmental protection and the restructuring of companies, and in providing expert opinions in these areas. The work carried out comprises all stages of R&D activity: from initial research to the project stage, the evaluation of environmental impact and feasability analysis to supervising realisation of a project. In coming years the company plans to increase its involvement in R&D work in mining and the processing of non-ferrous metal ores and other natural resources. Expanding the scale of provided services to include environmental geoengineering will be accompanied by work aimed at creating a natural resources innovation center in Lower Silesia.

In 2006 construction began of a class-A modern office building at the intersection of Sikorskiego and Podwale streets in Wrocław. Its research laboratories were granted the ISO 17025 standard certificate, and also independently of this was granted the TÜV CERT certificate, confirming the introduction and application of a system of quality management and environmental management respecting R&D and design work, technical-economic feasability studies, environmental engineering and monitoring and the production of air conditioning units for mining.

In October 2006 the company initiated organisational actions aimed at creating a Lower Silesia Natural Resources Innovation Center, whose goal would be to support regional development based on the natural resources of Lower Silesia. Support for this idea has come from the following institutions: Wrocław Politechnical School Wrocław University (The Institute of Geological Knowledge), KGHM Polska Miedź S.A., PCC Rokita BD and the Poltegor Institute.
In November 2006 the company was named as a Gazelle of Business 2006, granted to the most dynamically-developing companies.

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	25.0	30.0	30.0
Net profit	0.6	0.7	1.3
Share capital	3.5	3.0	8.5
Total assets	18.0	19.0	24.0

INTERFERIE S.A.

The KGHM Group owns 65.67% of the share capital of this company.

The company mainly provides domestic and foreign tourism-related services, including: holidays, spas and hotels; the organisation of courses for schools, conferences and symposiums, casual events etc.; and also serves as an intermediary in the sale of tourism services – realised by the Tourism Office of INTERFERIE.

INTERFERIE S.A. plans in the coming years to carry out an investment program aimed at developing its tourism base, enabling an expansion of its holiday services combined with rehabilitation and curative spas, through the purchase or construction of new recreational centers and the renovation and modernisation of existing units. Also planned is the restructuring of assets, involving the lease or sale of less profitable units, and also an increase in sales of services to foreign tourist agencies, mainly from Germany and Sweden.

In August 2006 INTERFERIE S.A. carried out an initial public offer (IPO). The subscription and sale closed in the amount of PLN 30 mln. On 10 August 2006 the company debuted on the Warsaw Stock Exchange. This public issuance of shares was aimed at acquiring capital to realise an investment project – the purchase of tourist facilities located near the coastal region of Poland. INTERFERIE S.A. carried out intensive investment in and modernisation of the overnight and rehabilitation base of the company. Total expenditures in 2006 amounted to PLN 10.4 mln.
In 2006 a restructuring of assets was also carried out, based on the disposal of its DW Kowelin unit in Łeb and the DW Wieżyczki unit in Świeradów Zdrój.

interferie.pl

Financial data for the years 2004–2006

Amount (mln PLN)	2004	2005	2006
Sales	37.0	37.0	37.0
Net profit	2.3	4.2	2.4
Share capital	48.0	48.0	73.0
Total assets	59.0	68.0	99.8

Financial Statements 2006

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 accompanying 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 based on the audited full-year financial statements of the Company for the financial period from 1 January to 31 December 2006 (*the financial statements of the Company*).

This report has been prepared in connection with our audit of the financial statements of KGHM Polska Miedź S.A., ul. Marii Skłodowskiej-Curie 48, Lubin, (hereinafter called *the Company*). The audited financial statements comprise:

(a) introduction;

(b) the balance sheet as at 31 December 2006, showing total assets and total equity and liabilities of PLN 12,506,119 thousand;

(c) the income statement for the year ended 31 December 2006, showing a net profit of PLN 3,395,130 thousand;

(d) the statement of changes in equity for the year ended 31 December 2006, showing an increase in equity of PLN 1,716,781 thousand;

(e) the cash flow statement for the year ended 31 December 2006, showing a net increase in cash and cash equivalents of PLN 501,257 thousand;

(f) additional notes and explanations.

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 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 2006 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 2006 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.

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

Adam Celiński
Member of Management Board
Registered Auditor
No. 90033/7039

Registered Audit Company No. 144

Warsaw, 5 March 2007

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 based on the Act dated 29 September 1994 on accounting for the financial period from 1 January to 31 December 2006.

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 2006, the complete financial statements of the Company must be read in conjunction with the registered auditor's opinion and report concerning these financial statements (the full text of these statements are on the Company website, www.kghm.pl).

BALANCE SHEET	in '000 PLN	
	2006	2005
ASSETS		
I. Non-current assets	**7 127 151**	**7 078 691**
1. Intangible assets, of which:	57 235	61 725
– goodwill		
2. Tangible fixed assets	4 035 493	3 602 627
3. Long term debtors	1 664	1 759
3.1. From related entities		
3.2. From other entities	1 664	1 759
4. Long term investments	2 564 745	2 691 428
4.1. Investment property		
4.2. Intangible assets		
4.3. Long term financial assets	2 564 745	2 691 428
a) in related entities, of which:	2 483 138	2 654 301
– shares in subordinated entities accounted for using the equity method	2 483 138	2 650 043
b) in other entities	81 607	37 127
4.4. Other long term investments		
5. Long term prepayments	468 014	721 152
5.1. Deferred income tax asset	467 138	719 762
5.2. Other prepayments	876	1 390
II. Current assets	**5 378 968**	**3 898 563**
1. Inventories	1 638 172	1 133 655
2. Short term debtors	1 282 428	711 716
2.1. From related entities	208 070	67 948
2.2. From other entities	1 074 358	643 768
3. Short term investments	2 453 412	2 047 964
3.1 Short term financial assets	2 453 412	2 047 964
a) in related entities	9 582	212 197
b) in other entities	299 058	192 158
c) cash and cash equivalents	2 144 772	1 643 609
3.2. Other short term investments		
4. Short term prepayments	4 956	5 228
TOTAL ASSETS	**12 506 119**	**10 977 254**

BALANCE SHEET	in '000 PLN	
	2006	2005
EQUITY AND LIABILITIES		
I. Equity	7 930 859	6 214 078
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	2 326 738	2 083 888
5. Revaluation reserve	208 991	(159 166)
6. Other reserve capital		
7. Retained profit (uncovered loss) from prior years		
8. Net profit (loss)	3 395 130	2 289 356
9. Write-off of net profit in the financial year (negative value)		
II. Liabilities and provisions for liabilities	4 575 260	4 763 176
1. Provisions for liabilities	1 704 972	1 666 358
1.1. Deferred income tax provision	313 303	322 626
1.2. Provision for retirement and related benefits	867 110	817 019
a) long term	803 875	756 328
b) short term	63 235	60 691
1.3. Other provisions	524 559	526 713
a) long term	479 910	414 701
b) short term	44 649	112 012
2. Long term liabilities	29 552	40 489
2.1. Toward related entities		165
2.2. Toward other entities	29 552	40 324
3. Short term liabilities	2 541 686	2 808 977
3.1. Toward related entities	222 976	259 316
3.2. Toward other entities	2 178 798	2 474 011
3.3. Special funds	139 912	75 650
4. Accruals and deferred income	299 050	247 352
4.1. Negative goodwill		
4.2. Other accruals and deferred income	299 050	247 352
a) long term	1 654	1 382
b) short term	297 396	245 970
TOTAL EQUITY AND LIABILITIES	12 506 119	10 977 254
Net assets	7 930 859	6 214 078
Number of shares	200 000 000	200 000 000
Net assets per share (in PLN)	39.65	31.07
Diluted number of shares	200 000 000	200 000 000
Diluted net assets per share (in PLN)	39.65	31.07

OFF-BALANCE SHEET ITEMS	in '000 PLN	
	2006	2005
1. Contingent debtors	**157 638**	**65 722**
1.1. From related entities (due to)		
– received guarantees		
1.2. From other entities (due to)	157 638	65 722
– received guarantees		
– disputed State budget issues	157 633	64 845
– other	5	877
2. Contingent liabilities	**730 031**	**38 040**
2.1. Toward related entities (due to)	3 219	36 968
– granted guarantees	3 219	36 968
2.2. Toward other entities (due to)	726 812	1 072
– granted guarantees	4 000	
– agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A.	718 569	
– contingent penalties	4 243	1 072
3. Other (due to)	**416 779**	**458 734**
3.1. Toward related entities (due to)	111	11 337
– liabilities due to R&D and inventions	111	11 337
3.2. Toward other entities (due to)	416 668	447 397
– liabilities due to perpetual usufruct of State Treasury land	379 819	376 425
– liabilities due to R&D and inventions	30 537	68 384
– other liabilities (unresolved and disputed issues etc.)	6 312	2 588

INCOME STATEMENT	in '000 PLN 2006	2005
I. Net revenue from the sale of products, goods for resale and materials, of which:	11 669 730	8 000 085
– from related entities	2 601 921	1 595 571
1. Net revenue from the sale of products	11 264 794	7 924 195
2. Net revenue from the sale of goods for resale and materials	404 936	75 890
II. Cost of products, goods for resale and materials sold, of which:	(6 814 532)	(4 723 734)
– for related entities	(1 278 667)	(968 359)
1. Cost of manufactured products sold	(6 432 583)	(4 650 097)
2. Cost of goods for resale and materials sold	(381 949)	(73 637)
III. Gross profit (loss)	4 855 198	3 276 351
IV. Selling costs	(75 488)	(74 461)
V. General and administrative costs	(520 132)	(495 124)
VI. Profit (loss) from sales	4 259 578	2 706 766
VII. Other operating income	64 495	85 425
1. Gain on disposal of non-financial assets		
2. Subsidies	628	673
3. Other operating income	63 867	84 752
VIII. Other operating costs	(122 904)	(283 493)
1. Loss from disposal of non-financial assets	(10 569)	(86)
2. Revaluation of non-financial assets	(1 275)	(22 913)
3. Other operating costs	(111 060)	(260 494)
IX. Operating profit (loss)	4 201 169	2 508 698
X. Financial income	274 221	395 152
1. Dividends and share in profit, of which:	331	313
– from related entities		
2. Interest, of which:	83 127	93 966
– from related entities	4 832	41 264
3. Gain on the sale of investments		9 942
4. Revaluation of investments	168 798	223 758
5. Other	21 965	67 173
XI. Financial costs	(422 039)	(269 287)
1. Interest, of which:	(13 200)	(10 744)
– to related entities	(1 045)	(1 221)
2. Loss from the sale of investments	(11 883)	
3. Revaluation of investments	(307 373)	(204 328)
4. Other	(89 583)	(54 215)
XII. Profit (loss) before extraordinary items and taxation	4 053 351	2 634 563
XIII. Result on extraordinary items		
1. Extraordinary gains		
2. Extraordinary losses		
XIV. Profit (loss) before taxation	4 053 351	2 634 563
XV. Taxation	(936 283)	(417 331)
a) current taxatio	(789 321)	(520 834)
b) deferred taxation	(146 962)	103 503
XVI. Other obligatory deductions from profit (loss increase)		
XVII. Share in net profits (losses) of subordinated entities accounted for using the equity method	278 062	72 124
XVIII. Net profit (loss)	3 395 130	2 289 356
Net profit (loss) (annualised)	3 395 130	2 289 356
Weighted average number of ordinary shares	200 000 000	200 000 000
Earnings (loss) per ordinary share (in PLN)	16.98	11.45
Weighted average diluted number of ordinary shares	200 000 000	200 000 000
Diluted earnings (loss) per ordinary share (in PLN)	16.98	11.45

STATEMENT OF CHANGES IN EQUITY	in '000 PLN	
	2006	**2005**
I. Equity – beginning of the period	**6 214 078**	**5 336 804**
a) changes in accounting policies		
b) corrections due to errors		
I.A. Equity – beginning of the period, after adjustment with comparative data	**6 214 078**	**5 336 804**
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	**2 083 888**	**1 629 743**
4.1. Changes in reserve capital	**242 850**	**454 145**
a) increase, due to:	242 850	1 018 963
– issue of shares over nominal value		
– from profit distribution (statutory)		
– from profit distribution (over statutorily-required minimum value)	239 356	997 169
– transfer from revaluation reserve	3 494	21 794
b) decrease, due to:	0	(564 818)
– coverage of losses		(564 818)
4.2. Reserve capital – end of the period	**2 326 738**	**2 083 888**
5. Revaluation reserve – beginning of the period	**(159 166)**	**874 710**
5.1. Changes in revaluation reserve	368 157	(1 033 876)
a) increase, due to:	2 548 962	694 387
– settlement of hedging instruments	2 454 118	462 995
– valuation of hedging transactions, in the effective part	94 039	
– reversal of diminution in value of fixed assets	470	334
– excess of a deferred income tax asset over deferred income tax provision		231 058
– increase in value of investments to market price levels	335	

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STATEMENT OF CHANGES IN EQUITY	in '000 PLN	
	2006	**2005**
b) decrease, due to:	(2 180 805)	(1 728 263)
– disposal of fixed assets	(3 494)	(21 793)
– permanent diminution in value of fixed assets subject to revaluation		(511)
– valuation of hedging transactions, in the effective part	(1 957 883)	(1 471 625)
– settlement of hedging instruments	(123 089)	(234 334)
– excess of a deferred income tax provision over deferred income tax asset	(96 339)	
5.2. Revaluation reserve – end of the period	**208 991**	**(159 166)**
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	**2 289 356**	**832 351**
7.1. Retained profit from prior years – beginning of the period	**2 289 356**	**1 397 169**
a) changes in accounting policies		
b) corrections due to errors		
7.2. Retained profit from prior years – beginning of the period, after adjustment with comparative data	**2 289 356**	**1 397 169**
a) increase, due to:		
– distribution of retained profit		
b) decrease, due to:	(2 289 356)	(1 397 169)
– transfer to reserve capital	(239 356)	(997 169)
– dividend payment	(2 000 000)	(400 000)
– transfer for employee-related purposes	(50 000)	
7.3. Retained profit – end of the period		
7.4. Uncovered losses from prior years – beginning of the period		**(564 818)**
a) changes in accounting policies		
b) corrections due to errors		
7.5. Uncovered losses from prior years – beginning of the period, after adjustment with comparative data		**(564 818)**
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		
7.7. Retained profit (uncovered losses) – end of the period		
8. Net result	**3 395 130**	**2 289 356**
a) net profit	**3 395 130**	**2 289 356**
b) net loss		
c) write-off from profit		
II. Equity – end of the period	**7 930 859**	**6 214 078**
III. Equity, after proposed profit distribution (coverage of losses)	**6 530 859**	**4 164 078**

CASH FLOW STATEMENT	in '000 PLN	
	2006	2005
A. Cash flow from operations – indirect method		
I. Net profit (loss)	**3 395 130**	**2 289 356**
II. Total adjustments	**(813 475)**	**215 746**
1. Share in (net profit) loss of entities accounted for using the equity method	(278 062)	(72 124)
2. Depreciation	344 369	291 304
3. Foreign exchange (gains)/losses	49 955	42 762
4. Interest and share in profits (dividends)	(3 715)	(34 243)
5. (Profit) loss on investing activities	5 852	(54 295)
6. Change in provisions	(40 604)	290 761
7. Change in inventories	(504 517)	(226 759)
8. Change in debtors	(570 644)	(70 025)
9. Change in short term liabilities, excluding bank and other loans	(12 718)	291 727
10. Change in prepayments and accruals	208 769	(120 327)
11. Other adjustments	(12 160)	(123 035)
III. Net cash flow from operations (I+/–II)	**2 581 655**	**2 505 102**
B. Cash flow from investing activities		
I. Inflow	**768 435**	**738 489**
1. The sale of intangible assets and tangible fixed assets	979	849
2. The sale of investment properties and intangible assets		
3. From financial assets, of which:	757 769	735 666
a) in related entities	673 834	606 827
– the sale of financial assets	200 000	479 800
– dividends and share in profit	469 267	84 082
– repayment of long term loans granted		1 800
– interest	4 567	41 145
– other inflow from financial assets		
b) in other entities	83 935	128 839
– the sale of financial assets	65 172	77 486
– dividends and share in profit	331	313
– repayment of long term loans granted		
– interest	1 048	290
– other inflow from financial assets	17 384	50 750
4. Other investment inflow	9 687	1 974

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CASH FLOW STATEMENT	in '000 PLN	
	2006	2005
II. Outflow	**(804 296)**	**(1 291 308)**
1. The purchase of intangible assets and tangible fixed assets	(664 224)	(644 509)
2. The purchase of property and intangible assets		
3. For financial assets, of which:	(131 322)	(632 227)
a) in related entities	(20 040)	(539 926)
– the purchase of financial assets	(20 040)	(538 731)
– long term loans granted		(1 195)
b) in other entities	(111 282)	(92 301)
– the purchase of financial assets	(111 282)	(92 301)
– long term loans granted		
4. Other investment outflow	(8 750)	(14 572)
III. Net cash flow from investing activities (I–II)	**(35 861)**	**(552 819)**
C. Cash flow from financing activities		
I. Inflow		**43 199**
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
3. The issuance of debt securities		
4. Other financial inflow		
II. Outflow	**(2 044 537)**	**(674 016)**
1. The purchase of own shares		
2. Dividends and other payments to shareholders	(2 000 000)	(400 000)
3. Other outflow from profit distribution, excepting payments to shareholders		
4. Repayment of bank and other loans	(35 227)	(258 347)
5. The buy-back of debt securities		
6. Due to other financial liabilities		
7. The payment of liabilities from financial leasing agreements	(7 028)	(7 738)
8. Interest	(2 282)	(7 931)
9. Other financial outflow		
III. Net cash flow from financing activities (I–II)	**(2 044 537)**	**(630 817)**
D. Total net cash flow (A.III+/–B.III+/–C.III)	**501 257**	**1 321 466**
E. Change in balance sheet of cash and cash equivalents, of which:	**501 163**	**1 323 023**
– change in cash and cash equivalents due to exchange rate differences	(94)	1 557
F. Cash and cash equivalents – beginning of the period	**1 643 510**	**322 044**
G. Cash and cash equivalents – end of the period (F+/–D), of which:	**2 144 767**	**1 643 510**
– restricted cash and cash equivalents	51 224	35 742

TANGIBLE FIXED ASSETS

	in '000 PLN	
	2006	**2005**
a. Fixed assets, of which:	3 463 258	2 963 047
– land (including perpetual usufruct of land)	11 346	10 593
– buildings, premises and land and water engineering infrastructure	1 817 102	1 457 872
– plant and machinery	1 588 736	1 446 599
– vehicles	30 542	32 219
– other fixed assets	15 532	15 764
b. Fixed assets under construction	572 061	639 221
c. Prepayments for fixed assets under construction	174	359
Total tangible fixed assets	**4 035 493**	**3 602 627**

Due to security on a loan from Voivodeship Environmental Protection and Water Management Fund (Wojewódzki Fundusz Ochrony Środowiska i Gospodarki Wodnej) security was attached to tangible fixed assets (dedusting facility for anode furnaces).

LONG TERM FINANCIAL ASSETS

	in '000 PLN	
	2006	**2005**
a) in subsidiaries	1 793 058	1 723 128
– shares	1 793 058	1 718 870
– debt securities		
– other securities (by type)		
– loans granted		
– other long term financial assets (by type)		4 258
paid but not registered share capital in a subsidiary		4 258
b) in jointly controlled entities	690 080	931 173
– shares	690 080	931 173
– debt securities		
– other securities (by type)		
– loans granted		
– other long term financial assets (by type)		
c) in other entities	81 607	37 127
– shares	23 338	23 338
– debt securities		
– other securities (by type)	58 269	13 789
limited partner interests	58 269	13 789
– loans granted		
– other long term financial assets (by type)		
Total long term financial assets	**2 564 745**	**2 691 428**

INVENTORIES

	in '000 PLN	
	2006	**2005**
a) Materials	145 535	276 753
b) Semi-finished products and work in progress	1 198 788	672 468
c) Finished products	293 041	184 106
d) Goods for resale	268	
e) Prepayments on deliveries	540	328
Total inventories	**1 638 172**	**1 133 655**

SHORT TERM DEBTORS	in '000 PLN	
	2006	2005
a) from related entities, of which:	208 070	67 948
– trade debtors:	195 851	67 670
less than 12 months	195 851	67 670
over 12 months		
– other	12 219	278
– disputed claims		
b) from other entities	1 074 358	643 768
– trade debtors:	854 931	499 715
less than 12 months	854 931	499 715
over 12 months		
tax, subsidies, custom duties, social insurance and other	134 839	103 725
– other	84 588	40 328
– disputed claims		
Total net debtors	1 282 428	711 716
c) allowance for debtors	49 847	79 113
Total gross debtors	**1 332 275**	**790 829**

SHORT TERM FINANCIAL ASSETS	in '000 PLN	
	2006	2005
a) in subsidiaries	9 582	212 197
– shares		
– debtors from dividends and other share in profit		
– debt securities		200 000
– other securities (by type)		
– loans granted	9 582	12 197
– other short term financial assets (by type)		
b) in other entities	299 058	192 158
– shares		
– debtors from dividends and other share in profit		
– debt securities		
– other securities (by type)		
– loans granted		
– other short term financial assets (by type)	299 058	192 158
derivative instruments	299 058	192 158
c) cash and cash equivalents	2 144 772	1 643 609
– cash in hand and at bank	398	2 465
– other cash and cash equivalents		
– other monetary assets	2 144 374	1 641 144
Total short term financial assets	**2 453 412**	**2 047 964**

SHARE CAPITAL (STRUCTURE)								in '000 PLN
Issue series	Type of share	Type of preferences	Type of limitation on shareholder rights	Amount of share	Issue/Series' nominal value	Capital coverage method	Date of registration	Right to dividends (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 share				200 000 000				
Total share capital					2 000 000			
Nominal value per share (in PLN) 10								

* 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)

At 31 December 2006 the share capital of the Company amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares having a face value of PLN 10 each. Each share grants the right to one vote at the General Shareholders Meeting.

During 2006 there were no changes in the share capital of the Company. Ownership structure – shareholders holding at least 5% of the share capital and of the total number of shares:

Based on information provided to the Company by its shareholders, the only shareholder owning at least 5% of the total number of votes at the General Shareholders Meeting of the Company was the Polish State Treasury, which – based on an announcement dated 12 January 2001 – held 88 567 589 shares having a total nminal value of PLN 885 676 thousand, representing 44.28% of the share capital of the Company and the same number of votes at the General Shareholders Meeting.

Changes in significant packets of shares in 2006:

- Lansdowne Partners Limited Partnership, which, through the funds it manages, on 31 December 2005 held more than 5% of the total number of shares at the General Shareholders Meeting of the Company (5.29%, based on an announcement dated 12 July 2005), in January 2006 reduced its commitment in the share capital of the Company to a level below 5% and on 12 January 2006 controlled a packet of shares granting the right to 4.64 % of the total number of votes.
- Deutsche Bank Trust Company Americas - depositary bank in the depositary receipts program of the Company, which on 31 December 2005 held more than 5% of the total number of shares at the General Shareholders Meeting of the Company (5.01%, based on an announcement dated 11 May 2005; the number of issued depositary receipts at 31 December 2005 represented 7.31% of all issued shares of the Company) and during 2006 frequently passed the 5% share in the total number of votes:
  – on 19 June 2006 it reduced its commitment to the level of 4.86% of the total number of votes,
  – on 27 July 2006 it increased its commitment to the level of 5.08% of the total number of votes,
  – on 11 September 2006 it reduced its commitment to 4.97% of the total number of votes.
  At 31 December 2006 depositary receipts representing 4.34% of the total number of shares of the Company had been issued.

OTHER LONG TERM PROVISIONS (BY TYPE)	in '000 PLN	
	2006	**2005**
– costs of mine closure	452 324	373 326
– future costs of disposal of fixed assets in liquidation		4 363
– other provisions for expenses and liabilities in connection with past events	27 586	37 012
total other long term provisions	**479 910**	**414 701**

OTHER SHORT TERM PROVISIONS (BY TYPE)	in '000 PLN	
	2006	**2005**
– costs of mine closure	6 930	5 434
– future costs of disposal of fixed assets in liquidation	5 287	2 595
– state budget liabilities	16 963	75 920
– other provisions for expenses and liabilities in connection with past events	15 469	28 063
total other long term provisions	**44 649**	**112 012**

SHORT TERM LIABILITIES	in '000 PLN	
	2006	**2005**
a) toward subsidiaries	**221 729**	**258 486**
- 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:	220 786	225 245
less than 12 months	220 786	225 245
over 12 months		
– advances received for deliveries		
– bills of exchange payable		
– other (by type)	943	6 343
due to leasing	166	1 990
other liabilities	777	4 353
b) toward jointly controlled entities	**1 247**	**830**
– 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:	1 247	830
less than 12 months	1 247	830
over 12 months		
– advances received for deliveries		
– bills of exchange payable		
– other (by type)		
c) toward associates	**2 178 798**	**2 474 011**
– bank and other loans, of which:	6 007	8 411
long term bank and other loans repayable in the present period	6 007	8 411
– due to issued debt securities		
– due to dividends		
– other financial liabilities, of which:	1 053 676	1 366 160
due to valuation of derivative instruments	1 047 992	1 360 533
due to factoring	5 684	5 627

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SHORT TERM LIABILITIES	in '000 PLN	
	2006	**2005**
– due to trade liabilities:	356 018	384 525
less than 12 months	351 383	380 540
over 12 months	4 635	3 985
– advances received for deliveries	1 153	3 912
– bills of exchange payable		
– due to taxes, customs duties and related items	581 296	543 823
– due to wages	107 331	96 028
– other (by type)	73 317	71 152
mining royalty		7 728
liabilities due to leasing	4 636	4 897
environmental fees	45 643	40 575
settlement of wage deductions	7 801	7 612
other	15 237	10 340
d) special funds (by type)	**139 912**	**75 650**
– social fund	97 876	44 786
– other funds	42 036	30 864
Total short term liabilities	**2 541 686**	**2 808 977**

NET REVENUE FROM SALE OF PRODUCTS (MATERIAL STRUCTURE – BY TYPE OF ACTIVITY)	in '000 PLN	
	2006	2005
– copper, precious metals and other smelter products	11 160 263	7 823 438
of which: from related entities	2 474 751	1 486 938
– processing of copper	222	122
of which: from related entities		
– salt	35 217	32 343
of which: from related entities	35 216	32 343
– other products	69 092	68 292
of which: from related entities	47 933	47 859
Total net revenue from sale of products	**11 264 794**	**7 924 195**
of which: from related entities	**2 557 900**	**1 567 140**

COSTS BY TYPE	in '000 PLN	
	2006	2005
a) Depreciation	344 369	291 304
b) Consumption of materials and energy	4 036 242	1 910 502
c) External services	956 617	885 856
d) Taxes and fees	280 072	243 520
e) Wages and salaries	1 463 267	1 393 202
f) Social insurance and other benefits	478 721	412 928
g) Other	75 637	85 848
– advertising and promotion costs	26 229	21 662
– property and personnel insurance	15 900	18 592
– business trips	4 039	6 094
– other costs	29 469	39 500
Total costs by type	**7 634 925**	**5 223 160**
Change in work in progress, finished goods and prepayments and accruals	(545 136)	55 008
Costs of production of products for internal use (negative value)	(56 583)	(53 224)
Other adjustments of costs of goods sold (negative value)	(5 003)	(5 262)
Selling costs (negative value)	(75 488)	(74 461)
General and administration costs (negative value)	(520 132)	(495 124)
Costs of production of manufactured products sold	**6 432 583**	**4 650 097**

OTHER OPERATING INCOME	in '000 PLN	
	2006	**2005**
a) Release of provisions, due to:	36 866	13 412
– revaluation of provision for mine closure	10 666	1 688
– retirement and similar rights	13 218	7 909
– State budget liabilities	5 122	1 657
– other liabilities	7 860	2 158
b) other, of which:	27 001	71 340
– income from other sales	9 129	9 036
– reversal of allowance for assets, upon elimination of cause for their creation	6 780	36 396
– income from liquidation of fixed assets	2 368	2 576
– penalties and damages paid to the company	2 554	6 330
– write-off of liabilities	141	184
– correction of property tax from prior years	62	1 949
– refund of insurance premiums	796	7 829
– other operating income	5 171	7 040
Total other operating income	**63 867**	**84 752**

OTHER OPERATING COSTS	in '000 PLN	
	2006	**2005**
a) Provisions created due to:	80 040	218 165
– future costs of mine closure	5 403	21 030
– retirement and similar rights	63 309	113 936
– donations to related entity		8 960
– liabilities towards Municipality	1 215	1 010
– disputed liabilities	9 380	1 209
– tax State budget liabilities		65 818
– other	733	6 202
b) other, of which:	31 020	42 329
– costs of other sales	9 129	9 036
– donations	7 556	10 731
– other	14 335	22 562
Total other operating costs	**111 060**	**260 494**

OTHER FINANCIAL INCOME	in '000 PLN	
	2006	2005
a) foreign exchange gains		
– realised		
– unrealised		
b) release of provisions, due to:		
c) other, of which:	21 965	67 173
– reversal of allowance for bad debtors	4 507	13 846
– release of provision for financial risks		1 110
– gains from other financial investment	17 384	50 750
– other financial income	74	1 467
Total other financial income	**21 965**	**67 173**

OTHER FINANCIAL COSTS	in '000 PLN	
	2006	2005
a) foreign exchange losses, of which:	63 653	21 438
– realised	88 100	25 233
– unrealised	(24 447)	(3 795)
b) provisions created, due to:	4 924	
– interest on property tax	4 924	
c) other, of which:	21 006	32 777
– revaluation of provision for mine closure costs	19 708	25 221
– allowance for debtors from financial operations	526	4 531
– other financial costs	772	3 025
Total other financial costs	**89 583**	**54 215**

INFORMATION ON FINANCIAL INSTRUMENTS

in '000 PLN

Item	Description	Financial assets held for trading	Financial liabilities held for trading	Other liabilities	Loans and receivables originated *	Financial assets held to maturity	Financial assets available for sale
1.	**Beginning of the period**	**135 082**	**139 318**	**88 312**	**1 653 274**	**213 856**	**23 338**
2.	**INCREASE**	**129 429**	**129 424**	**6 021**	**203 750 829**	**245 498**	**50 336**
	– acquisition, creation, drawing	129 429	129 424	5 756	203 727 275	244 851	50 000
	– valuation				21 626		336
	– revaluation			265	1 928	647	
	– reclassification						
	– other						
3.	**DECREASE**	**77 344**	**81 575**	**48 288**	**203 250 147**	**451 421**	
	– disposal, release, repayment	77 344	81 575	48 134	203 250 124	450 787	
	– valuation			154	23		
	– revaluation					634	
	– reclassification						
	– other						
4.	**End of the period**	**187 167**	**187 167**	**46 045**	**2 153 956**	**7 933**	**73 674**
4.1	**presented in balance sheet with indication of item**	**187 167**	**187 167**	**46 045**	**2 153 956**	**7 933**	**73 674**
	Long term financial assets – shares in other entities						23 338
	Long term financial assets – other securities					7 933	50 336
	Short term financial assets – loans granted				9 582		
	Other short term financial assets – derivative instruments held for trading	187 167					
	Other cash assets – bank deposit				2 091 251		
	Other cash assets – bank deposits of special-purpose funds				51 195		
	Other cash assets – unpaid interest on debt securities, loans and bank deposit				1 928		
	Long term liabilities – bank and other loans			13 000			
	Other long term financial liabilities – leasing			16 552			
	Short term liabilities – bank and other loans			6 007			
	Other financial liabilities – derivative instruments held for trading		187 167				
	Other financial liabilities – factoring			5 684			
	Other short term financial liabilities – leasing			4 802			
4.2	**in off-balance sheet items**						

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

INFORMATION ON FINANCIAL INSTRUMENTS (cont.)

	in '000 PLN	
Description	Financial assets – hedging transactions – derivative instruments	Financial liabilities – hedging transactions – derivative instruments
Beginning of the period	**57 076**	**1 221 215**
INCREASE	**90 911**	**582 395**
– acquisition, creation, drawing	90 911	582 395
– valuation		
– revaluation		
– reclassification		
– other		
DECREASE	**36 096**	**942 785**
– disposal, release, repayment	36 096	942 785
– valuation		
– revaluation		
– other		
End of the period	**111 891**	**860 825**

Consolidated Financial Statements for 2006

Opinion of Independent Registered Auditor on the condensed financial report 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 2006, showing total assets and total equity and liabilities of PLN 12,993,687 thousand;

(b) the consolidated income statement for the year ended 31 December 2006 showing a net profit of PLN 3,510,003 thousand;

(c) the statement of changes in consolidated equity for the year ended 31 December 2006, showing an increase in equity of PLN 1,905,081 thousand;

(d) the consolidated cash flow statement for the year ended 31 December 2006, showing an increase in cash and cash equivalents of PLN 464,057 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 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 2006 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.

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

Adam Celiński
Member of the Management Board
Registered Auditor
No. 90033/7039

Registered Audit Company No. 144

Warsaw, 13 April 2007

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 audited full-year financial statements based on Intenational Financial Reporting Standards for the financial period from 1 January to 31 December 2006.

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 2006, the complete financial statements of the Group must be read in conjunction with the registered auditor's opinion and report concerning these financial statements (the full text of these statements are on the website, www.kghm.pl).

CONSOLIDATED BALANCE SHEET	At	
	31 December 2006	31 December 2005
ASSETS		
Non-current assets		
Property, plant and equipment	6 005 298	5 555 928
Intangible assets	125 615	114 513
Investment property	18 853	28 250
Investments in associates	690 074	931 173
Deferred income tax assets	174 730	162 610
Available-for-sale financial assets	92 932	55 469
Other financial assets	32 213	20 003
Derivative financial instruments	16 411	20 548
Trade and other receivables	13 481	15 761
	7 169 607	**6 904 255**
Current assets		
Inventories	1 768 750	1 244 576
Trade and other receivables	1 403 112	875 815
Receivables due to current income tax	4 860	2 878
Held to maturity investments	19 070	—
Derivative financial instruments	282 650	171 645
Cash and cash equivalents	2 321 131	1 841 981
	5 799 573	**4 136 895**
Non-current assets held for sale	**24 507**	**7 566**
TOTAL ASSETS	**12 993 687**	**11 048 716**

CONSOLIDATED BALANCE SHEET	At	
	31 December 2006	31 December 2005
EQUITY AND LIABILITIES		
EQUITY		
Equity attributable to shareholders of the Company		
Share capital	2 000 000	2 000 000
Other reserves	(431 161)	(796 342)
Retained earnings	6 648 838	5 139 032
	8 217 677	**6 342 690**
Minority interests	**44 725**	**14 631**
TOTAL EQUITY	**8 262 402**	**6 357 321**
LIABILITIES		
Non-current liabilities		
Trade and other payables	15 361	13 847
Borrowings	150 568	63 388
Derivative financial instruments	880	210 298
Deferred income tax liabilities	21 392	16 566
Liabilities due to employee benefits	864 950	816 169
Provisions due to other liabilities and charges	488 827	410 397
	1 541 978	**1 530 665**
Current liabilities		
Trade and other payables	1 532 723	1 376 023
Borrowings	54 756	48 477
Current income tax liabilities	402 842	397 963
Derivative financial instruments	1 047 124	1 150 239
Liabilities due to employee benefits	72 603	68 646
Provisions for other liabilities and charges	75 957	119 382
	3 186 005	**3 160 730**
TOTAL LIABILITIES	**4 727 983**	**4 691 395**
Liabilities directly associated with non-current assets held for sale	**3 302**	—
TOTAL EQUITY AND LIABILITIES	**12 993 687**	**11 048 716**

CONSOLIDATED INCOME STATEMENT	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
Sales	12 862 861	9 029 496
Cost of sales	(7 763 980)	(5 626 487)
Gross profit	**5 098 881**	**3 403 009**
Selling costs	(193 001)	(192 044)
Administrative expenses	(697 769)	(661 924)
Other operating income	174 644	176 111
Other operating costs	(211 969)	(167 725)
Operating profit	**4 170 786**	**2 557 427**
Financial costs – net	(180 445)	(37 830)
Share of profits/losses of associates accounted for using the equity method	220 780	210 160
Profit before income tax	**4 211 121**	**2 729 757**
Income tax expense	(701 118)	(625 740)
Profit for the period	**3 510 003**	**2 104 017**
attributable to:		
shareholders of the Parent Entity	3 509 806	2 102 332
minority interests	197	1 685
	3 510 003	**2 104 017**
Earnings per share attributable to the shareholders of the Parent Entity during the period (PLN per share)		
– basic/diluted	17.55	10.51

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 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**	**211 843**	**(1 976 873)**	**17 701**	**5 666 244**
Impact of cash flow hedging	—	(1 242 964)	—	—	(1 242 964)
Fair value gains on available-for-sale financial assets	—	4 633	—	—	4 633
Deferred income tax	—	230 178	—	—	230 178
Total net expenses recognised directly in equity	—	**(1 008 153)**	—	—	**(1 008 153)**
Profit for the period	—	—	2 102 332	1 685	2 104 017
Transactions with minority interest	—	(32)	—	(4 755)	(4 787)
Total recognised income / expenses	—	**(1 008 185)**	**2 102 332**	**(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 for 2004			(400 000)		(400 000)
At 31 December 2005	**2 000 000**	**(796 342)**	**5 139 032**	**14 631**	**6 357 321**
At 1 January 2006	**2 000 000**	**(796 342)**	**5 139 032**	**14 631**	**6 357 321**
Impact of cash flow hedging	—	467 185	—	—	467 185
Fair value losses on available-for-sale financial assets	—	(7 071)	—	—	(7 071)
Deferred income tax	—	(94 933)	—	—	(94 933)
Total net expenses recognised directly in equity	—	**365 181**	—	—	**365 181**
Profit for the period	—	—	3 509 806	197	3 510 003
Transactions with minority interest	—	—	—	29 897	29 897
Total recognised income / expenses	—	**365 181**	**3 509 806**	**30 094**	**3 905 081**
Dividends for 2005	—	—	(2 000 000)	—	(2 000 000)
At 31 December 2006	**2 000 000**	**(431 161)**	**6 648 838**	**44 725**	**8 262 402**

CONSOLIDATED CASH FLOW STATEMENT	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
Cash flow from operating activities		
Cash generated from operating activities	3 628 726	3 156 266
Income tax paid	(798 599)	(441 607)
Net cash generated from operating activities	**2 830 127**	**2 714 659**
Cash flow from investing activities		
Purchase of a subsidiary, less acquired cash and cash equivalents	(4 807)	—
Purchase of intangible assets and property, plant and equipment	(891 935)	(880 430)
Proceeds from sale of intangible assets and property, plant and equipment	5 527	7 795
Purchase of investment property	—	(152)
Purchase of held to maturity financial assets	(82 670)	(34 367)
Proceeds from sale and realisation of held to maturity financial assets	68 302	40 430
Purchase of available-for-sale financial assets	(50 300)	(3 740)
Proceeds from sale of available-for-sale financial assets	—	24 240
Purchase of other financial assets	(12 210)	(13 573)
Proceeds from sale of other financial assets	—	3 037
Interest received	1 348	584
Dividends received	462 209	84 395
Other investment proceeds	18 980	35 434
Net cash used in investing activities	**(485 556)**	**(736 347)**
Cash flow from financing activities		
Proceeds from transactions with minority interests	28 873	—
Proceeds from borrowings	156 856	33 010
Repayments of borrowings	(54 783)	(270 320)
Interest paid	(6 576)	(10 339)
Dividends paid to minority interest	—	(39)
Dividends paid to shareholders of the Parent Entity	(2 000 000)	(400 000)
Payments of liabilities due to financial leasing	(4 228)	(7 109)
Other financial expenses	(656)	(1 640)
Net cash used in financing activities	**(1 880 514)**	**(656 437)**
Total net cash flow	**464 057**	**1 321 875**
Cash and cash equivalents at beginning of the period	1 841 981	495 817
Exchange gains on cash and cash equivalents	15 093	24 289
Cash and cash equivalents at end of the period	**2 321 131**	**1 841 981**
including restricted cash and cash equivalents	1 043	1 713

INFORMATION ON BUSINESS SEGMENTS

	for the period from 1 January 2006 to 31 December 2006				
	Copper and precious metals, other smelter products	Telecoms and IT services	Other	Eliminations	Consolidated amount
SALES					
External sales	11 826 783	497 179	538 899	—	12 862 861
Inter-segment sales	144 581	4 540	1 447 895	(1 597 016)	—
Total sales	**11 971 364**	**501 719**	**1 986 794**	**(1 597 016)**	**12 862 861**
RESULT					
Segment result	4 603 604	69 899	394 846	(297 383)	4 770 966
Unallocated costs of Group as a whole	—	—	—	—	(600 180)
Operating profit	—	—	—	—	**4 170 786**
Financial cost – net	—	—	—	—	(180 445)
Share of profit of associates	—	—	—	—	220 780
Profit before income tax	—	—	—	—	**4 211 121**
Income tax expense	—	—	—	—	(701 118)
Profit for the period	—	—	—	—	**3 510 003**
OTHER INFORMATION					
Segment assets	9 534 977	1 185 996	1 249 354	(439 433)	11 530 894
Investments in segment – in subordinated entities accounted for using the equity method	—	687 694	2 381	—	690 075
Unallocated assets of Group as a whole	—	—	—	—	772 718
Total consolidated assets					**12 993 687**
Segment liabilities	2 589 874	119 505	422 040	(236 953)	2 894 466
Unallocated liabilities of Group as a whole	—	—	—	—	1 833 517
Total consolidated liabilities	—	—	—	—	**4 727 983**
Investment expenditures	679 806	115 070	135 442	—	930 318
Depreciation on property, plant and equipment	375 988	85 171	67 313	(7 165)	521 307
Amortisation on intangible assets	10 167	4 856	4 547	165	19 735
Impairment of property, plant and equipment recognised in income statement	637	15 070	14 820	—	30 527
Impairment of intangible assets recognised in income statement	—	—	409	—	409
The reversal of impairment of property, plant and equipment recognised in income statement	919	1 668	1 598	—	4 185
Other non-monetary costs	105 037	32 072	53 485	991	191 585

PROPERTY, PLANT AND EQUIPMENT	At	
	31 December 2006	31 December 2005
Land	17 816	14 942
Land and buildings	3 071 907	2 727 882
Technical equipment and machinery	2 106 982	1 969 979
Vehicles	106 190	96 567
Other property, plant and equipment	48 956	57 115
Assets under construction	653 447	689 443
Total	**6 005 298**	**5 555 928**

INTANGIBLE ASSETS	At	
	31 December 2006	31 December 2005
Development costs	4 544	7 860
Goodwill	2 579	701
Software	21 569	24 336
Acquired concessions, patents, licenses	17 347	18 379
Other intangible assets	41 765	37 972
Intangible assets not yet available for use	37 811	25 265
Total	**125 615**	**114 513**

INVESTMENT PROPERTY	2006	2005
Beginning of financial period	**28 250**	**9 878**
Changes during the financial period	**(9 397)**	**18 372**
– increase due to acquisition	—	152
– increase due to measurement to fair value	13 706	18 220
– reclassification to assets classified as held for sale according to IFRS 5	(23 103)	—
End of financial period	**18 853**	**28 250**

INVESTMENTS IN ASSOCIATES	2006	2005
Beginning of financial period	**931 173**	**805 095**
Share of profits of associates	220 780	210 160
Change in equity due to dividend payment for the prior and financial year	(461 879)	(84 082)
End of financial period	**690 074**	**931 173**

AVAILABLE-FOR-SALE FINANCIAL ASSETS	At	
	31 December 2006	31 December 2005
Non-current available-for-sale financial assets	**92 932**	**55 469**
– shares in unconsolidated subsidiaries and associates not accounted for using the equity method	10 623	10 322
– shares in other not listed companies	14 668	14 522
– state treasury bonds	3 107	3 154
– share in AIG capital	14 191	27 464
– share units in DWS Polska OFI	50 336	—
– other	7	7
Current available-for-sale financial assets	—	—
Total available-for-sale financial assets:	**92 932**	**55 469**

OTHER FINANCIAL ASSETS	At			
	31 December 2006		31 December 2005	
	Carrying amount	Fair value	Carrying amount	Fair value
A. Non-current held-to-maturity financial assets – other securities	44	44	44	44
B. Restricted cash and cash equivalents for the period of over 12 months	32 169	32 199	19 959	19 959
Total other financial assets:	**32 213**	**32 243**	**20 003**	**20 003**

PRESENTATION OF BALANCES OF DERIVATIVE INSTRUMENTS IN THE BALANCE SHEET	At	
	31 December 2006	31 December 2005
Non-current assets, of which:	**16 411**	**20 548**
– hedging instruments with a maturity over 12 months	16 411	20 548
Current assets, of which:	**282 650**	**171 645**
– hedging instruments with a maturity up to 12 months	95 480	36 528
– instruments held for trading with a maturity up to 12 months	186 565	77 378
– instruments held for trading with a maturity over 12 months	605	57 739
Total assets:	**299 061**	**192 193**
Non-current liabilities, of which:	**880**	**210 298**
– hedging instruments with a maturity over 12 months	880	210 298
Current liabilities, of which:	**1 047 124**	**1 150 239**
– hedging instruments with a maturity up to 12 months	859 945	1 010 917
– instruments held for trading with a maturity up to 12 months	186 574	81 583
– instruments held for trading with a maturity over 12 months	605	57 739
Total liabilities:	**1 048 004**	**1 360 537**

In accordance with accepted accounting principles, the KGHM Polska Miedź S.A. Group presents derivative hedging instruments with a maturity exceeding 12 months from the balance sheet date in non-current assets and non-current liabilities. A portion of current derivative hedging instruments are recognised respectively in current assets and current liabilities.

TRADE AND OTHER RECEIVABLES

	At	
	31 December 2006	31 December 2005
Non-current trade and other receivables		
Trade receivables	3 007	2 449
Other non-financial receivables	1 885	2 406
Prepayments, of which	8 992	11 754
– perpetual usufruct of land recognised as an operating lease	6 323	6 133
Provision for impairment of non-current receivables	(403)	(848)
Non-current trade and other receivables, net	**13 481**	**15 761**
Current trade and other receivables		
Trade receivables	1 237 494	724 956
Loans granted	596	1 009
Other non financial receivables, of which:	218 908	215 038
– taxes and other social charges	162 204	158 373
Prepayments	48 821	60 563
Provision for impairment of receivables	(102 707)	(125 751)
Current trade and other receivables, net	**1 403 112**	**875 815**
Total non-current and current trade and other receivables, net	**1 416 593**	**891 576**

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.

PROVISION FOR IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

	2006	2005
Provision for impairment at the beginning of the period	**126 599**	**163 418**
Provision for impairment charged to costs of sales and general administrative costs	11 739	24 092
Reversal of provision for impairment charged to costs of sales	(17 205)	(53 410)
Reversal of provision for impairment charged to other operating income	(1 853)	—
Provision for impairment used during the period	(16 170)	(7 501)
Provision for impairment at the end of the period	**103 110**	**126 599**

INVENTORIES

	At	
	31 December 2006	31 December 2005
Materials	196 816	320 525
Semi-finished products and work in progress	1 223 010	696 552
Finished products	299 729	181 408
Goods for resale	49 195	46 091
Total carrying value of inventories:	**1 768 750**	**1 244 576**

CASH AND CASH EQUIVALENTS

	At	
	31 December 2006	31 December 2005
Cash in hand	674	759
Cash at bank	52 174	12 927
Other cash	416	1 269
Other financial asset payable within 3 months from the date of their purchase	2 267 867	1 827 026
Total cash and cash equivalents	**2 321 131**	**1 841 981**
Restricted cash and cash equivalents	1 043	1 713

Other financial assets with maturity to 3 months from purchase date are composed of: deposits amounted to PLN 2 265 899 thousand (at 31 December 2005 PLN 1 826 036 thousand) and interest on financial assets in amount PLN 1 968 thousand (at 31 December 2005 PLN 990 thousand).

SHARE CAPITAL	Registered share capital	Share capital from revaluation to hyperinflationary conditions at the date of transition of the Group to IFRS	Total
At 1 January 2005	**2 000 000**	**5 413 573**	**7 413 573**
Coverage of the effects of revaluation of share capital transferred to retained earnings based on the Resolution nr 31/2005 of the Ordinary General Shareholders Meeting of KGHM Polska Miedź S.A. dated 15 June 2005	—	(5 413 573)	**(5 413 573)**
At 31 December 2005	**2 000 000**	—	**2 000 000**
At 31 December 2006	**2 000 000**	—	**2 000 000**

During 2006 there were no changes in the registered share capital of the Parent Entity. At 31 December 2006 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.

OTHER RESERVES	Revaluation reserve on available-for-sale financial assets	Revaluation reserve on cash flow hedging financial instruments	Total other reserves
At 1 January 2005	**399**	**201 151**	**201 550**
Restatement of data at 1 January 2005 due to transition to IAS 32	**10 293**	—	**10 293**
At 1 January 2005 after restatement	**10 692**	**201 151**	**211 843**
Gains on the fair value of available-for-sale financial assets	4 633	—	4 633
Impact of effective cash flow hedging transactions entered into	—	(1 471 625)	(1 471 625)
Amount transferred to profit or loss due to the settlement of hedging instruments	—	228 661	228 661
Deferred income tax	(880)	231 058	230 178
Total income/expenses directly recognised in equity	(32)	—	(32)
Total income/expenses directly recognised in equity	**3 721**	**(1 011 906)**	**(1 008 185)**
At 31 December 2005	**14 413**	**(810 755)**	**(796 342)**
At 1 January 2006	**14 413**	**(810 755)**	**(796 342)**
Gains on the fair value of available-for-sale financial assets	5 110	—	5 110
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets	(12 181)	—	—
Impact of effective cash flow hedging transactions entered into	—	(1 863 844)	(1 863 844)
Amount transferred to profit or loss due to the settlement of hedging instruments	—	2 331 029	2 331 029
Deferred income tax	1 342	(96 275)	(94 933)
Total income/expenses directly recognised in equity	**(5 729)**	**370 910**	**365 181**
At 31 December 2006	**8 684**	**(439 845)**	**(431 161)**

The revaluation reserve presented in other reserves, set in the amount of the fair value of hedging instruments in the effective part, and in the amount of the fair value of available for sale financial assets, may not be employed.

TRADE AND OTHER PAYABLES	At	
	31 December 2006	31 December 2005
Non-current trade and other payables		
Trade payables	8 987	8 434
Other non-financial liabilities	577	229
Deferred income	5 797	5 184
Total	**15 361**	**13 847**
Current trade and other payables		
Trade payables	676 276	679 782
Liabilities due to taxation and social insurance	252 221	213 474
Other financial liabilities	130 944	117 214
Other non-financial liabilities	89 910	83 415
Special funds	42 144	30 935
Deferred income	27 100	30 694
Accruals	314 128	220 509
Total	**1 532 723**	**1 376 023**
Total non-current and current trade and other payables	**1 548 084**	**1 389 870**

Trade payables are recognised in the balance sheet at amortised cost, using the effective interest rate, while current trade payables are not discounted. The carrying amount of payables approximates their fair value.

BORROWINGS	At	
	31 December 2006	31 December 2005
Non-current	**150 568**	**63 388**
Bank loans	111 691	8 823
Loans	21 481	29 181
Liabilities due to financial leasing	17 396	25 384
Current	**54 756**	**48 477**
Bank loans	41 713	31 751
Loans	7 707	10 492
Liabilities due to financial leasing	5 336	6 234
Total	**205 324**	**111 865**

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

CHANGE IN LIABILITIES DUE TO FUTURE EMPLOYEE BENEFITS	TOTAL liabilities	Jubilee awards	Retirement – disability rights	Coal equivalent	Other liabilities due to employee benefits
Present value of liabilities – at 1 January 2005	**785 397**	**239 126**	**152 312**	**393 618**	**341**
Interest costs	51 133	15 389	9 919	25 825	—
Current service cost	33 193	15 767	9 168	7 927	331
Past service cost	364	(59)	423	—	—
Benefits paid	(70 558)	(33 302)	(16 921)	(20 316)	(19)
Actuarial gains/losses	99 632	28 886	25 026	45 420	300
Decrease of liabilities due to loss of control	(13)	—	—	(5)	(8)
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
Present value of liabilities – at 1 January 2006	**899 148**	**265 807**	**179 927**	**452 469**	**945**
Interest costs	42 685	12 564	8 466	21 655	—
Current service cost	36 192	16 229	10 361	9 552	50
Past service cost	255	9	246	—	—
Benefits paid	(71 944)	(31 136)	(18 341)	(21 742)	(725)
Actuarial gains/losses	43 864	24 042	11 618	8 204	—
Present value of liabilities – at 31 December 2006	**950 200**	**287 515**	**192 277**	**470 138**	**270**
Past service cost unrecognised at the balance sheet date	(12 647)	—	(12 647)	—	—
Carrying amount of liabilities – at 31 December 2006	**937 553**	**287 515**	**179 630**	**470 138**	**270**
of which:					
Carrying amount of non-current liabilities	**864 950**	255 986	163 383	445 581	—
Carrying amount of current liabilities	**72 603**	31 529	16 247	24 557	270

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 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**
Provisions at 31 December 2006	**564 784**	**459 534**	**5 287**	**19 539**	**80 424**
of which:					
Non-current provisions	**488 827**	**452 335**	—	**22**	**36 470**
Current provisions	**75 957**	**7 199**	**5 287**	**19 517**	**43 954**

NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

	At	
	31 December 2006	31 December 2005
Disposal group		
Property, plant and equipment	—	5 822
Perpetual usufruct of land	—	667
Inventories	—	111
	—	**6 600**
Non-current assets held for sale		
Property, plant and equipment	1 404	930
Investment property	23 103	—
Perpetual usufruct of land	—	36
	24 507	**966**
Total – non-current assets and disposal groups classified as held for sale	**24 507**	**7 566**

IMPAIRMENT LOSSES

Impairment losses by asset class during the financial period from 1 January to 31 December 2006

	Amount of impairment loss	Amount of impairment loss reversed	Amount of impairment loss utilised
Land and buildings	57	2 499	2 338
Technical equipment and machinery	9 563	—	324
Vehicles	24	21	1
Assets under construction	20 883	1 665	526
Goodwill	303	—	—
Development costs	409	—	409
Total	**31 239**	**4 185**	**3 598**

Impairment losses by segment during the financial period from 1 January to 31 December 2006

	Copper and precious metals, other smelter products	Telecoms and IT services	Other	Consolidated amount
Amount of impairment loss	637	15 070	15 532	**31 239**
Amount of impairment loss reversed	918	1 668	1 599	**4 185**
Amount of impairment loss utilised	2 323	861	414	**3 598**

SALES

	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
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	11 233 993	7 915 296
– energy	34 040	32 986
– services	786 760	692 607
– mining machinery, transport vehicles for mining and other	16 970	14 364
– goods for resale	671 131	246 353
– wastes and materials	9 824	22 968
– other products	110 143	104 922
Total	**12 862 861**	**9 029 496**

COSTS BY TYPE	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
Depreciation of property, plant and equipment and amortisation of intangible assets	541 042	484 678
Employee benefits costs	2 696 790	2 444 492
Materials and energy consumption	3 973 381	1 864 498
External services	1 376 478	1 176 610
Taxation and fees	338 281	303 094
Advertising costs and representation expenses	53 953	51 006
Property and personal insurance	15 633	18 780
Research and development costs not capitalised in intangible assets	7 310	10 329
Other costs, including:	51 593	241 930
Impairment losses / reversal of impairment losses on property, plant and equipment and intangible assets	7 836	184 767
of which: impairment losses in respect of goodwill	303	—
Write-down of inventories	6 276	4 099
Provision for impairment / reversal of provision for impairment of receivables	(5 466)	(29 318)
Other operating costs	42 947	82 382
Total costs by type	**9 054 461**	**6 595 417**
Value of goods for resale and materials sold (+)	589 198	157 384
Change in inventories of finished goods and work in progress (+/–)	(646 364)	27 895
Cost of manufacturing products for internal use (–)	(342 545)	(300 241)
Total costs of sales, selling, marketing and administrative costs	**8 654 750**	**6 480 455**

OTHER OPERATING INCOME	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
Income and gains from investments:	**122 598**	**127 274**
– income from interest on cash and cash equivalents and on monetary assets (up to 3 months)	70 438	20 131
– income from interest on receivables (including for default on payments)	18 894	36 418
– income from interest on financial investments	1 766	432
– income from interest on loans granted	79	82
– income from dividends	331	313
– income from investments in available-for-sale financial assets	17 384	50 750
– gains from the disposal of other financial assets	—	928
– changes of fair value of investment property	13 706	18 220
Gains from the measurement and realisation of derivative trade instruments	5 156	612
Gains from exchange differences	—	570
Reversal of an impairment loss on tax receivables	1 853	—
State grants and other donations received	1 717	1 333
Provisions released for disputed issues	26 282	8 589
Penalties and compensation received	7 171	10 291
Other operating income / gains	9 867	27 442
Total other operating income	**174 644**	**176 111**

OTHER OPERATING COSTS	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
Losses from the sale of property, plant and equipment and cost of liquidation of assets	17 037	10 408
Losses from the sale of intangible assets	2	286
Losses from the sale of shares of subsidiaries	2 098	—
Impairment losses on:		
– assets under construction	19 218	6 836
– available-or-sale financial assets	—	4 051
Losses due to exchange rate differences	62 405	—
Donations granted	7 777	9 002
Provisions created for disputed issues	57 309	95 499
Penalties and compensation paid	5 210	2 422
Losses from the resale of services, reinvoiced payments	—	377
Other operating costs/losses	40 913	38 844
Total other operating costs	**211 969**	**167 725**

NET FINANCIAL COSTS	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
Interest expenses	**6 742**	**10 018**
– on bank and other loans	6 316	9 471
– due to financial leasing	426	547
Gains/losses due to net exchange differences on borrowings	—	28 868
Changes in provisions arising from the approach of the time to execute liabilities (unwinding of the discount effect)	19 708	25 221
Gains/losses from the measurement to fair value of derivative hedging instruments in the ineffective part	153 343	(27 026)
Other net financial costs	652	749
Total net financial costs	**180 445**	**37 830**

EARNINGS PER SHARE	For the period	
	from 1 January to 31 December 2006	from 1 January to 31 December 2005
Basic earnings/diluted profit		
Profit attributable to the shareholders of the Parent Entity	3 509 806	2 102 332
Average weighted number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	17.55	10.51
There are no potential ordinary shares.		

CONTINGENT ITEMS AND OTHER OFF-BALANCE SHEET ITEMS	At	
	31 December 2006	31 December 2005
Contingent receivables	**167 792**	**75 734**
– disputed State Budget issues	157 633	64 963
– guarantees received	10 154	10 771
– disputed issues, on-going court proceedings	5	—
Contingent liabilities	**780 941**	**80 983**
– bill of exchange liabilities	12 881	18 996
– guarantees and pledges granted	27 639	58 347
– disputed issues, on-going court proceedings	17 609	2 568
– contingent penalties	4 243	1 072
– agreement on the acceptance of the offer and conditional transfer of shares in Polkomtel S.A	718 569	—
Off-balance sheet liabilities due to inventions, implementation of projects and other unrealised agreements	**30 537**	**79 721**

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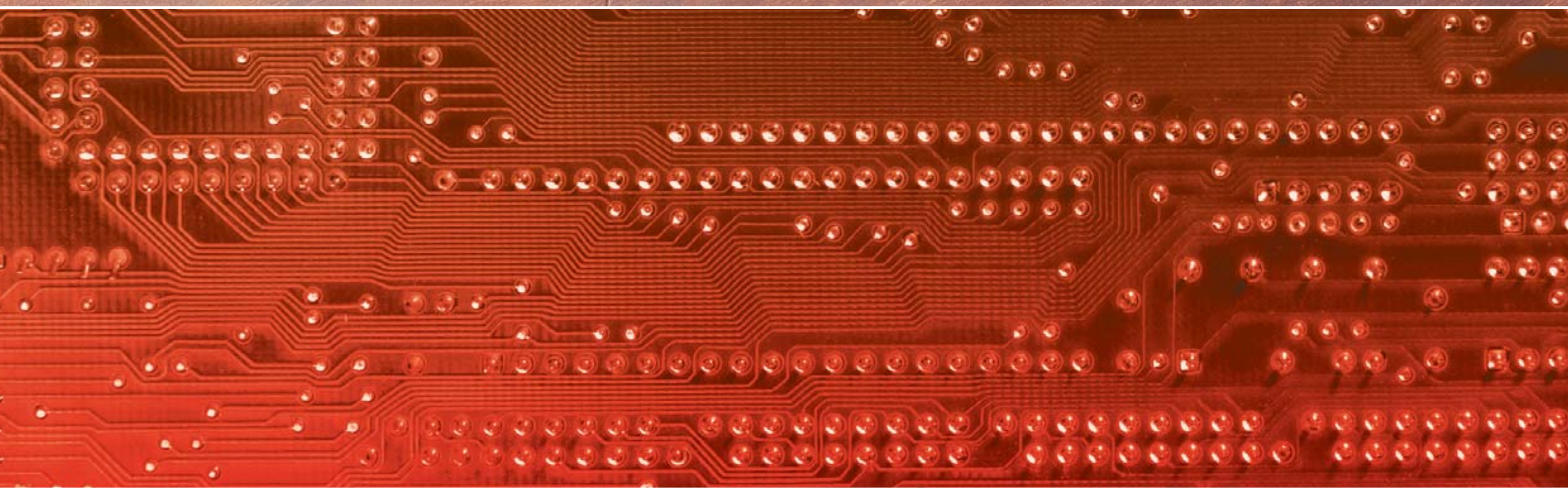

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