

**Report of the Supervisory Board of KGHM Polska Miedź S.A.
on the results of its evaluation of the report on the Company's activities in financial year 2011,
and of the Financial Statements of the Company for financial year 2011**

(approved by resolution No. 30/VIII/12 of the Supervisory Board of KGHM Polska Miedź S.A.
dated 17 April 2012)

In accordance with art. 382 § 3 of the Commercial Partnerships and Companies Code and §20 sec. 2 points 1) and 3) of the Statutes of KGHM Polska Miedź Spółka Akcyjna, on 17 April 2012 the Supervisory Board of KGHM Polska Miedź S.A. carried out an evaluation of the financial statements of KGHM Polska Miedź S.A. for financial year 2011 and the Report on the Company's activities in financial year 2011.

The Supervisory Board has summarised the conclusions from the above evaluation, after reviewing the following documents presented to it by the Company:

- the financial statements for financial year 2011,
- the report on the Company's activities in financial year 2011, and
- the audit opinion and report of the Certified Auditor on the financial statements of the Company for 2011.

The results of the evaluation of the Supervisory Board are presented in the following report.

**I. Evaluation of the financial statements for financial year 2011
(from 1 January to 31 December 2011)**

The financial statements of the Company were prepared in accordance with International Financial Reporting Standards:

- the statement of financial position, which showed total assets in the amount of PLN 29 253 189 thousand
- the statement of comprehensive income, which showed:
 - o profit for the period in the amount of PLN 11 334 520 thousand
 - o other comprehensive income in the amount of PLN 324 514 thousand
- the statement of changes in equity, which showed an increase in equity of PLN 8 679 034 thousand
- the statement of cash flows, which showed an increase in cash and cash equivalents of PLN 9 364 844 thousand
- the accounting policies and other explanatory information to the financial statements.

I.1 The statement of financial position as at 31 December 2011

Total assets and total equity and liabilities shown in the statement of financial position as at 31 December 2011 amounted to PLN 29 253 189 thousand and versus their amount as at 31 December 2010 increased by PLN 9 423 893 thousand.

Structure of assets in the statement of financial position:

1. **Non-current assets** of PLN 11 696 705 thousand, representing 40% of total assets, of which:

Non-current assets	Amount ('000 PLN)	% of non-current assets
property, plant and equipment	7 277 903	62.2%
shares and investment certificates in subsidiaries	2 012 209	17.2%
available-for-sale financial assets	992 068	8.5%
derivatives	899 400	7.7%
Total	11 181 580	95.6%

The change in the value of non-current assets in the amount of PLN 428 336 thousand (decrease) versus their amount at 31 December 2010 was mainly due to sale of shares of Polkomtel S.A. and shares of Telefonía Dialog S.A.

2. **Current assets** of PLN 17 556 484 thousand, representing 60.0% of total assets, of which:

Current assets	Amount (‘000 PLN)	% of current assets
cash and cash equivalents	12 835 999	73.1%
inventories	2 355 741	13.4%
trade and other receivables	1 502 944	8.6%
Total	16 694 684	95.1%

The change in current assets in the amount of PLN 9 852 229 thousand (increase) versus their amount at 31 December 2010 was due to:

- the increase in cash and cash equivalents,
- the increase in accumulated production inventories matched to the shipment dates stipulated in contracts, and
- the decrease in the balance of receivables due to the decrease in sales in the month of December.

Structure of equity and liabilities in the statement of financial position:

1. **Equity** of PLN 23 135 511 thousand, representing 79.1% of equity and liabilities, of which:

- share capital PLN 2 000 000 thousand,
- accumulated other comprehensive income PLN 535 673 thousand,
- retained earnings PLN 20 599 838 thousand.

The increase in the value of equity in the amount of PLN 8 679 034 thousand versus its amount at 31 December 2010 was mainly due to the excess of profit for 2011 of PLN 11 334 520 thousand over the amount of the dividend, from the allocation of profit for 2010, of PLN 2 980 000 thousand.

2. **Liabilities** of PLN 6 117 678 thousand, representing 20.9% of total equity and liabilities, of which:

- 2.1 non-current liabilities of PLN 2 249 946 thousand, i.e. 36.8% of liabilities, of which:
- liabilities due to employee benefits of PLN 1 216 355 thousand, and
 - derivatives of PLN 538 320 thousand,

The change in non-current liabilities versus their amount at 31 December 2010 involved among others a decrease in derivatives and in provisions for other liabilities and charges due to measurement, and an increase in employee benefits liabilities due to revaluation carried out by actuarial methods due to measurement.

- 2.2 current liabilities of PLN 3 867 732 thousand, i.e. 63.2% of liabilities, of which:
- trade and other payables in the amount of PLN 1 827 536 thousand,
 - current corporate tax liabilities in the amount of PLN 1 587 847 thousand,
 - derivatives of PLN 330 347 thousand, and
 - liabilities due to employee benefits of PLN 107 471 thousand.

The increase in trade and other payables involved the accumulation of invoices with respect to investments in property, plant and equipment in the month of December.

The increase in current corporate tax liabilities was mainly due to the difference between taxation due for 2011 and the amount of advances paid in simplified form in fixed monthly amounts.

I.2 The statement of comprehensive income for the period from 1 January – 31 December 2011

The statement of comprehensive income for the financial period showed:

- sales of PLN 20 097 392 thousand
- cost of sales of PLN 9 877 794 thousand,
- gross profit of PLN 10 219 598 thousand,
- operating profit of PLN 13 687 640 thousand,
- profit before income tax of PLN 13 653 597 thousand, and
- profit for the period of PLN 11 334 520 thousand.

As at 31 December 2011, earnings per share amounted to PLN 56.67.

The increase in other comprehensive income in the financial period of PLN 324 514 thousand was due to:

- the measurement and settlement of available-for-sale financial assets of PLN (159 995) thousand (net),
- the measurement and settlement of future cash flow hedging financial instruments of PLN 484 509 thousand (net).

Operating profit + depreciation/amortisation (EBITDA) achieved in the financial period amounted to PLN 14 360 013 thousand.

I.3 The statement of changes in equity for the period from 1 January – 31 December 2011

Equity at the end of the financial year amounted to PLN 23 135 511 thousand.

Equity was comprised of:

- share capital	PLN 2 000 000 thousand
- accumulated other comprehensive income (from revaluation of financial instruments)	PLN 535 673 thousand
- retained earnings	PLN 20 599 838 thousand
of which:	
- reserve capital created in accordance with art. 396 of the Commercial Partnerships and Companies Code	PLN 660 000 thousand
- reserve capital created in accordance with the Statutes of the Company	PLN 8 605 318 thousand
- profit for 2011	PLN 11 334 520 thousand.

In 2011 the equity of the Company increased by PLN 8 679 034 thousand.

This change was due to:

- the profit for 2011 of PLN 11 334 520 thousand,
- the allocation of profit for 2010 as a dividend in the amount of PLN 2 980 000 thousand, and
- an increase in accumulated other comprehensive income due to the measurement and settlement of hedging instruments and of available-for-sale financial assets of PLN 324 514 thousand (net).

At 31 December 2011 the ownership structure of KGHM Polska Miedź S.A. was as follows:

- the State Treasury: 31.79%, representing PLN 635 899 thousand of the share capital,
- other shareholders (holding less than 5% of the share capital): 68.21%, representing PLN 1 364 101 thousand of the share capital.

I.4 The statement of cash flows

The statement of cash flows, during the period from 1 January – 31 December 2011 showed an increase of net cash and cash equivalents of PLN 9 364 844 thousand.

Cash and cash equivalents of the Company at 31 December 2011 amounted to PLN 12 835 999 thousand.

Net cash flow was impacted by:

- net cash generated from operating activities: PLN 8 768 122 thousand;
in 2011 the Company earned an operating profit of PLN 9 363 553 thousand, which led to the generation of cash.
- net cash generated from investing activities: PLN 3 589 742 thousand;
including: the excess of income due to the sale and liquidation of subsidiaries and the sale of an associate over expenditures due to the purchase of investments in subsidiaries in the amount of PLN 4 452 581 thousand, and the excess of expenditures over income due to the purchase of property, plant and equipment and intangible assets in the amount of PLN 1 459 548 thousand.
- net cash used in financing activities: PLN (2 993 020) thousand.
including expenditures due to the payment of a dividend in the amount of PLN 2 980 000 thousand.

II. Evaluation of the report of the Management Board on the Company's activities in 2011

II.1 Production results

In 2011, KGHM Polska Miedź S.A. produced 571 thousand tonnes of electrolytic copper and 1 260 tonnes of metallic silver.

In the financial year, electrolytic copper production increased versus the prior year by 4.4%. The increase in production was due to higher processing of own concentrate and use of purchased copper-bearing materials in the form of scrap, copper blister and imported concentrate. The augmentation of own concentrates with purchased copper-bearing materials enabled the effective utilisation of existing technological abilities.

The production of other smelter products (silver, wire rod, OFE and CuAg rod and round billets) depended on the level of electrolytic copper production, raw materials used and on market demand.

II.2 Sales structure

In 2011, versus the prior year, the Company increased the volume of copper sales by 21.6 thousand tonnes (4.0%). The structure of sales changed, i.e. the volume of cathode sales increased by 11.2% (31.0 thousand tonnes) alongside lower sales of copper wire rod by 5.7% (13.5 thousand tonnes). The volume of sales of precious metals was lower versus the prior year - silver sales amounted to 1 179 tonnes and were lower by 5.5% (68 t), while gold sales decreased by 21.4% (180 kg) and amounted to 660 kg.

Total revenues from the sale of products in 2011 amounted to PLN 19 977 066 thousand, and were higher by 26.2% than revenues achieved in 2010, mainly due to higher copper and silver prices and an increase in the amount of copper sold. Revenues from the sale of copper and copper products were higher by 18.2%. Revenues from silver sales versus their level in 2010 were higher by 64.8%, while revenues from gold sales were higher by 10.2%.

Revenues from the sales in 2011 reflected the positive result from the settlement of hedging instruments in the amount of PLN 241 565 thousand (in 2010, PLN 142 187 thousand).

II.3 Employment

Employment in KGHM Polska Miedź S.A. at the end of 2011 amounted to 18 615 persons, which was slightly lower than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 578. Due to further centralisation of accounting and investment functions in the Head Office, there was a change in the employment structure.

II.4 Capital expenditure

Expenditures on property, plant and equipment and intangible assets incurred in the financial year amounted to PLN 1 518 509 thousand, and were higher than in the prior year by 20%. Although the realised value of investments was lower than planned, due to more favourable prices their physical scope was near the planned one.

The most important investments realised in 2011 were the following:

- continued construction of the SW-4 shaft,
- the Głogów Głęboki Przemysłowy project,
- construction of Gas-Steam Blocks in the Powerplants in Głogów and Polkowice,
- developing the infrastructure of the excavation regions of the mines, and
- realisation of the project „Pyrometallurgy Modernisation Program”.

II.5 Equity investment and divestments

In 2011, total equity investments amounted to PLN 639 771 thousand, meaning a decrease versus the prior year by PLN 681 346 thousand. These amounts also reflect expenditures on the purchase of listed companies shares.

Sale of the shares of Polkomtel S.A.

On 9 November 2011, an agreement was entered into for the sale of 100% of the shares of Polkomtel S.A. Pursuant to the agreement, KGHM Polska Miedź S.A. sold the shares it held in Polkomtel S.A. representing 24.39% of the share capital of Polkomtel S.A. (all of the shares held by KGHM Polska Miedź S.A.), for the total price of PLN 3 672 147 thousand.

Sale of the shares of Telefonía DIALOG S.A.

On 16 December 2011, KGHM Polska Miedź S.A. sold to Netia S.A. 19 598 000 shares of Telefonía DIALOG S.A. with its registered head office in Wrocław with a nominal value of PLN 25 per share and a total nominal value of PLN 489 950 thousand, representing 100% of the share capital of Telefonía DIALOG S.A.

Purchase of the shares of NITROERG S.A.

On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the purchase by KGHM Polska Miedź S.A. of 85% of the shares of NITROERG S.A. in Bieruń, for PLN 120 052 thousand. The shares were paid in cash.

The control held by KGHM Polska Miedź S.A. over „NITROERG” S.A. (one of the largest producers of explosive materials in Poland), enables the strengthening of competitiveness in supplying the production needs of the core business, as well as new resource projects in the future (in accordance with realisation of the strategy of increasing the copper ore resource base).

Purchase of the shares of KGHM HMS Bergbau AG (currently KGHM Kupfer AG)

On 20 April 2011, KGHM Polska Miedź S.A. purchased from HMS Bergbau AG, 25.1% of the shares of KGHM HMS Bergbau AG for EUR 128 thousand, i.e. PLN 509 thousand. The share of the KGHM Polska Miedź S.A. Group in the share capital of KGHM HMS Bergbau AG following purchase amounts to 100%.

On 27 April 2011, the Ordinary General Meeting of KGHM HMS Bergbau AG resolved to increase the share capital of the company from EUR 50 thousand to EUR 800 thousand. The newly-issued shares, with a nominal value of EUR 1 per share and an issue price of EUR 17.71, were acquired by KGHM Polska Miedź S.A. and paid in cash in the amount of PLN 52 364 thousand on 27 April 2011.

On 16 May 2011, the court registered change of name of the company from KGHM HMS Bergbau AG to KGHM Kupfer AG.

KGHM Polska Miedź S.A. decided to purchase the shares of KGHM HMS Bergbau AG from the German shareholder, in order to independently continue the exploration project „Weisswasser” (exploration for and investigation of deposits of copper and other metals in the region).

Purchase of the shares of Uzdrowisko „Świeradów-Czerniawa” sp. z o.o.

On 20 September 2011, the investment fund KGHM I FIZAN, a subsidiary of KGHM Polska Miedź S.A., purchased from the State Treasury 87.74% shares of Uzdrowisko „Świeradów-Czerniawa” sp. z o.o. with its registered head office in Świeradów Zdrój for the total amount of PLN 21 000 thousand.

Establishment of the companies Fermat 1 S.à r.l. and Fermat 2 S.à r.l.

On 30 December 2011, KGHM Polska Miedź S.A. established a company under the name Fermat 1 S.à r.l. with its registered head office in Luxembourg. The share capital of the newly-established entity amounted to EUR 12 500. KGHM Polska Miedź S.A. acquired 100% of the share capital of Fermat 1 S. à r.l. and paid in cash in the amount of EUR 12 500.

On 30 December 2011, Fermat 1 S.à r.l. established a company under the name Fermat 2 S.à r.l. with its registered head office in Luxembourg. The share capital of the newly-established entity amounted to EUR 12 500.

Fermat 1 S. à r.l. acquired 100% of the share capital of Fermat 2 S.à r.l., and paid in cash in the amount of EUR 12 500.

In addition, at the start of 2012, Fermat 2 S.à r.l. established a special purpose company under the name 0929260 B.C. Unlimited Liability Company in Canada, while Fermat 1 S.à r.l. established a company under the name Fermat 3 S.à r.l. in Luxembourg.

The establishment of these entities is related to the creation of an optimal transaction structure for purchase the shares of Quadra FX.

Combination of subsidiaries: Walcownia Metali Nieżelaznych Sp. z o.o. and WM „ŁABĘDY” S.A.

In January 2011, the companies Walcownia Metali Nieżelaznych Sp. z o.o. and WM „ŁABĘDY” S.A. were combined through the founding of a new entity called Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.

The share capital of the newly-founded company amounts to PLN 49 145 thousand and was set based on the sum of the share capital of the combined entities amounting to PLN 97 898 thousand, less the share of the company WM „Łabędy” S.A. in the share capital of Walcownia Metali Nieżelaznych spółka z o.o. prior to the combination, in the amount of PLN 45 985 thousand, and the coverage of losses from prior years in the amount of PLN 2 768 thousand. The share of the Group in the share capital of the newly-founded company amounts to 84.96%.

Liquidation of companies

Due to the conclusion of liquidation procedures, the following companies were de-registered:

- KGHM Polish Copper Ltd. in liquidation - de-registered on 23 December 2011,
- „Serwis-Erg” Sp. z o.o. in liquidation - de-registered on 18 October 2011,
- FADROMA S.R. SP. Z O.O. in liquidation - de-registered on 12 August 2011.

Opening of proceedings to liquidate KGHM Kupferhandelsges. m.b.H.

On 30 May 2011 the Extraordinary General Shareholders' Meeting of KGHM Kupferhandelsges. m.b.H. with its registered head office in Vienna resolved to dissolve and liquidate the company as at 1 June 2011 and to appoint a liquidator. The request to liquidate the company was filed at the Commercial Court in Vienna.

The decision to liquidate KGHM Kupferhandelsges. m.b.H. is connected with the takeover by KGHM Polska Miedź S.A. of the commercial activities of this company.

II.6 Valuation of Company's shares on the Warsaw Stock Exchange

The market value of the Company at the end of 2011 was PLN 22 120 million (PLN 34 600 million at the end of 2010). The share price of KGHM at the end of December 2011 amounted to PLN 110.60 (decrease of 36.1% versus the share price at the end of December 2010).

III. Summation

As a result of its evaluation, the Supervisory Board hereby finds that the above-mentioned statements and report were prepared:

- based on the actual state, reflecting truly and fairly the results of economic activities for 2011 and the financial position of the Company as at 31 December 2011, and
- in respect of form and content in accordance with legal regulations governing the preparation of financial statements, including International Financial Reporting Standards.

Based on the results of this evaluation and on the positive opinion of the Certified Auditor – PricewaterhouseCoopers Sp. z o.o., which on 27 March 2012 issued an opinion and report on the audit of the financial statements for 2011 – the Supervisory Board hereby recommends that the General Meeting approve the financial statements of the Company prepared as at 31 December 2011 and the report of the Management Board on the activities of the Company in financial year 2011.