

**Report of the Supervisory Board of KGHM Polska Miedź S.A.  
on the results of its evaluation of the consolidated financial statements of the Group  
for financial year 2011 and of the report on the activities of the Group in financial year 2011**

(approved by resolution No. 31/VIII/12 of the Supervisory Board of KGHM Polska Miedź S.A. dated  
17 April 2012)

In accordance with § 20 sec. 2 points 1) and 3) of the Statutes of KGHM Polska Miedź S.A., on 17 April 2012 the Supervisory Board of KGHM Polska Miedź S.A. carried out an evaluation of the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2011 and the Report on the activities of the Group in financial year 2011.

The Supervisory Board has summarised its conclusions from the above evaluation, following a review of documents presented to it by the Management Board of the Company, and in particular:

- the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2011;
- the report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2011; and
- the audit opinion and report of the Certified Auditor on the consolidated financial statements for 2011.

Following are the results of the evaluation of the Supervisory Board.

**I. Structure of the KGHM Polska Miedź S.A. Group**

At 31 December 2011 the Group was composed of:

- KGHM Polska Miedź S.A. - the Parent Entity, and
- 45 direct and indirect subsidiaries.

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

The consolidated financial statements of the Group were prepared in accordance with the International Financial Reporting Standards approved by the European Union, and comprised:

- the consolidated statement of financial position, which showed total assets in the amount of PLN 30 553 874 thousand
- the consolidated statement of comprehensive income, which showed:
  - o profit for the period in the amount of PLN 11 064 003 thousand
  - o other comprehensive income in the amount of PLN 363 297 thousand
- the consolidated statement of changes in equity, which showed an increase in equity of PLN 8 460 234 thousand
- the consolidated statement of cash flows, which showed an increase in cash and cash equivalents of PLN 9 168 831 thousand
- the accounting policies and other explanatory information to the consolidated financial statements.

**II.1 The consolidated statement of financial position as at 31 December 2011**

Total assets and total equity and liabilities shown in the consolidated statement of financial position as at 31 December 2011 amounted to PLN 30 553 874 thousand and versus their amount as at 31 December 2010 increased by PLN 9 313 145 thousand.

## Structure of consolidated assets:

1. **Non-current assets** of PLN 12 037 063 thousand, representing 39.4% of total assets, including:

Non-current assets	Amount (‘000 PLN)	% of non-current assets
property, plant and equipment	9 045 777	75.2%
available-for-sale financial assets	993 960	8.3%
derivatives	899 400	7.5%
Total	10 939 137	91.0%

The change in the value of non-current assets in the amount of PLN 443 579 thousand (decrease) versus their amount at 31 December 2010 was due among others to the decrease in the value of investments in associates due to sale of the shares of Polkomtel S.A. and the increase in the value of property, plant and equipment and intangible assets due to the inclusion to the Group of subsidiaries purchased in the financial period.

2. **Current assets** of PLN 18 516 811 thousand, representing 60.6% of total assets, of which:

Current assets	Amount (‘000 PLN)	% of current assets
cash and cash equivalents	13 130 401	70.9%
inventories	2 658 253	14.4%
trade and other receivables	1 838 979	9.9%
Total	17 627 633	95.2%

The change in the value of current assets in the amount of PLN 9 756 724 thousand (increase) versus their amount at 31 December 2010 was due to:

- the increase in cash and cash equivalents,
- the increase in production inventories,
- the decrease in the balance of receivables due to the decrease in sales outside the Group in the month of December.

## Structure of equity and liabilities in the consolidated statement of financial position

1. **Equity** of PLN 23 382 357 thousand, representing 76.5% of equity and liabilities, of which:
- share capital PLN 2 000 000 thousand,
  - accumulated other comprehensive income PLN 554 924 thousand,
  - retained earnings PLN 20 544 526 thousand,
  - non-controlling interest PLN 282 907 thousand.

The increase in the value of consolidated equity in the amount of PLN 8 460 234 thousand versus its amount at 31 December 2010 was mainly due to the profit earned by the Group in 2011, in the amount of PLN 11 064 003 thousand.

2. **Liabilities** of PLN 7 171 517 thousand, representing 23.5% of total equity and liabilities, of which:
- 2.1 Non-current liabilities of PLN 2 806 375 thousand, i.e. 39.1% of liabilities, of which:
- liabilities due to employee benefits of PLN 1 338 743 thousand, and
  - derivatives of PLN 538 320 thousand,
- 2.2 Current liabilities of PLN 4 365 142 thousand, i.e. 60.9% of liabilities, of which:
- trade and other payables in the amount of PLN 2 182 093 thousand, and
  - current corporate tax liabilities in the amount of PLN 1 595 528 thousand.

The change in non-current liabilities in the amount of PLN 109 394 thousand (decrease) versus their amount at 31 December 2010 related mainly to the measurement of derivatives and deferred tax liabilities.

The change in current liabilities in the amount of PLN 962 305 thousand (an increase) versus their amount at 31 December 2010 was mainly due to an increase in current corporate tax liabilities resulting from the difference between taxation due for 2011 and the amount of advances paid in simplified form in fixed monthly amounts.

## **II.2 Consolidated statement of comprehensive income for the period from 1 January – 31 December 2011**

The consolidated statement of comprehensive income for the financial year, composed of:

- continued operations, in which the following were achieved:
  - sales of PLN 22 107 230 thousand,
  - cost of sales of PLN 11 619 941 thousand,
  - gross profit of PLN 10 487 289 thousand,
  - profit for the period of PLN 11 064 003 thousand,  
of which:  
PLN 11 063 456 thousand is attributable to the shareholders of the Parent Entity,  
PLN 547 thousand is attributable to the non-controlling interest.
- discontinued operations, in which profit for the period of PLN 59 631 thousand was achieved.

In other comprehensive income, the increase in income by PLN 363 297 thousand was due to the excess of the increase in value and settlement of future cash flow hedging financial instruments in the amount of PLN 484 508 thousand (net) and the exchange gains on translation of foreign entities in the amount of PLN 37 131 thousand over the decrease in value and settlement of available-for-sale financial assets of PLN (158 342) thousand (net).

Operating profit + depreciation/amortisation (EBITDA) achieved in the financial period from continued operations amounted to PLN 13 997 786 thousand.

## **II.3 The consolidated 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 23 382 357 thousand.

In 2011 the equity of the Group increased by PLN 8 460 234 thousand. The change in equity was due to:

- the profit for 2011 of PLN 11 064 003 thousand,
- the allocation of profit for 2010 as a dividend in the amount of PLN 2 980 000 thousand,
- 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 363 297 thousand (net), and
- an increase in non-controlling interest in the amount of PLN 15 923 thousand due to the acquisition in 2011 of subsidiaries.

The share capital of the Group in the amount of PLN 2 000 000 thousand is the share capital of the Parent Entity, i.e. KGHM Polska Miedź S.A.

At 31 December 2011, the ownership structure was as follows:

- |  |         |
|--|---------|
| - the State Treasury   | 31.79%, |
| - other shareholders (holding less than 5% of the share capital) | 68.21%, |

## **II.4 The consolidated statement of cash flows**

The consolidated statement of cash flows, during the period from 1 January – 31 December 2011, showed a net increase of cash and cash equivalents in the amount of PLN 9 168 831 thousand.

Cash and cash equivalents of the Group at 31 December 2011 amounted to PLN 13 130 401 thousand.

Net cash flow was impacted by:

- o net cash generated from operating activities: PLN 9 098 660 thousand,

In 2011 the Group earned an operating profit of PLN 9 402 490 thousand, which led to the generation of cash,

- net cash generated from investing activities: PLN 3 048 579 thousand, including: the excess of proceeds from the sale and liquidation of subsidiaries and from the sale of an associate over expenditures due to the purchase of investments in subsidiaries in the amount of PLN 4 447 077 thousand, and the excess of expenditures over proceeds from the purchase of property, plant and equipment and intangible assets in the amount of PLN 1 908 189 thousand,
- net cash used in financing activities: PLN (2 978 408) thousand. including expenditures due to the payment of a dividend in the amount of PLN 2 980 000 thousand.

### **III. Report on the activities of the Group in 2011, which reports the following:**

- The Parent Entity of the KGHM Polska Miedź S.A. Group consolidated in its financial statements for 2011 45 subsidiaries, and accounted for an associate – BAZALT-NITRON Sp. z o.o. - using the equity method,
- The main activity of the Group is that of the Parent Entity, comprising the production of copper, and precious metals. The remaining companies of the Group are entities involved in various activities. They offer products and services related to the core business of KGHM Polska Miedź S.A. (such as exploration for and extraction of deposits of copper and other metals, mine construction, the generation of electricity and heat, the production of machinery and equipment for mining, and R&D activities) as well as transport services, tourism, medicine and the depositing of cash.
- Average employment in the KGHM Polska Miedź S.A. Group in 2011 amounted to 31 183 positions, and was slightly higher, i.e. by 255 positions, versus 2010. The largest average employment in 2011 in the amount of 18 578 positions was in KGHM Polska Miedź S.A.

### **IV. 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 Group as at 31 December 2011,
- in accordance with legal regulations governing the preparation of financial statements in respect of form and content, including International Financial Reporting Standards, adopted by the EU.

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 consolidated financial statements for 2011, the Supervisory Board hereby recommends that the General Meeting approve the consolidated financial statements of the KGHM Polska Miedź S.A. Group prepared as at 31 December 2011 and the report on the activities of the Group in financial year 2011.