

**Report of the Supervisory Board of KGHM Polska Miedź S.A.
on the results of its evaluation of the Report of the Management Board of the Company
in financial year 2007, the separate financial statements of the Company for financial
year 2007, and the proposal of the Management Board on the appropriation of
Company profit for financial year 2007**

The Supervisory Board of KGHM Polska Miedź S.A., in accordance with art. 382 § 3 of the Code of Commercial Companies and § 20 sec. 2 point 1 of the Statutes of KGHM Polska Miedź S.A., has carried out an evaluation of the annual financial statements of the company KGHM Polska Miedź S.A.

The Supervisory Board has reviewed the documents of the Company, and in particular:

1. The annual financial statements of the Company:

- **The introduction to the financial statements,**
- **The balance sheet** prepared as at 31 December 2007, which showed total assets and liabilities of PLN 12 379 737 thousand.

Non-current assets amounted to PLN 7 387 532 thousand (i.e. 59.7% of assets), while current assets amounted to PLN 4 992 205 thousand (i.e. 40.3% of assets). Among non-current assets key items were held by: property, plant and equipment (PLN 4 832 630 thousand, i.e. 65.4% of non-current assets), and shares in subsidiaries (PLN 1 803 390 thousand, i.e. 24.4% of non-current assets). The three most important items of current assets are: cash and cash equivalents (PLN 2 534 995 thousand, i.e. 50.8% of current assets), inventories (PLN 1 603 487 thousand, i.e. 32.1% of current assets), and trade and other receivables (PLN 772 279 thousand, representing 15.5% of current assets).

Equity amounted to PLN 8 965 949 thousand (i.e. 72.4% of total equity and liabilities), while liabilities amounted to PLN 3 413 788 (i.e. 27.6% of total equity and liabilities).

The two main items in equity were: retained earnings (PLN 6 952 166 thousand, i.e. 77.5% of equity) and registered share capital (2 000 000 thousand, i.e. 22.3% of equity).

Non-current liabilities reached the level of PLN 1 439 396 thousand and represented 42.2% of total liabilities, while current liabilities amounted to PLN 1 974 392 thousand, i.e. 57.8% of total liabilities.

The main items of non-current liabilities are: liabilities due to employee benefits in the amount of PLN 853 096 thousand, i.e. 59.3% of non-current liabilities, and provisions for other liabilities and charges in the amount of PLN 556 589 thousand, i.e. 38.7% of non-current liabilities.

Meanwhile the main items of current liabilities are: trade and other payables in the amount of PLN 1 466 948 thousand, i.e. 74.3% of current liabilities, as well as liabilities due to current corporate income tax in the amount of PLN 343 022 thousand, i.e. 17.4% of current liabilities.

- **The income statement** for the financial year, comprising the period from 1 January 2007 to 31 December 2007, which showed:
 - revenues from sales in the amount of PLN 12 183 113 thousand and costs of sales in the amount of PLN 6 617 286 thousand, which gave a gross profit on sales of PLN 5 565 827 thousand;
 - operating profit + depreciation (EBITDA) in the amount of PLN 5 100 585 thousand;
 - operating profit in the amount of PLN 4 682 034 thousand;
 - profit before tax in the amount of PLN 4 655 530 thousand, and
 - profit of PLN 3 798 826 thousand;
- **The statement of changes in equity**, showing equity at the end of the period in the amount of PLN 8 965 949 thousand, and a change in equity in the period from 1 January 2007 to 31 December 2007 in the amount of PLN 850 135 thousand;
- **The cash flow statement** for the period from 1 January 2007 to 31 December 2007, which showed:
 - net cash generated from operating activities in the amount of PLN 4 456 322 thousand; net cash used in investing activities in the amount of PLN (566 143) thousand;
 - net cash used in financing activities in the amount of PLN (3 405 550) thousand;
 - as a result an increase in cash and cash equivalents during this period in the amount of PLN 484 629 thousand, and

- cash and cash equivalents at the end of the period in the amount of PLN 2 534 995 thousand;

- **Additional information** in the form of notes to the financial statements.

2. The Report of the Management Board on the Activities of the Company in 2007, containing among others the following information:

- At the end of 2007 there were 18 259 employees in KGHM Polska Miedź SA, which means an increase in employment by 333 persons versus 2006.
- The Company realised capital expenditures in the amount of PLN 828.1 million, and equity investments in the amount of PLN 154.6 million.
- The market value of the Company at the end of the year amounted to PLN 21 160 million (PLN 17 800 million at the end of 2006). The share price of KGHM Polska Miedź S.A. at the end of December 2007 amounted to PLN 105.8 (i.e. an increase by 18.9% versus the price at the end of December 2006).
- The most important investments realised in 2007 were:
 - modernisation and replacement of machinery in the mines – 242 mining machines purchased;
 - Głogów Głęboki Przemysłowy – 10 115 meters of tunnel were built and infrastructural work was carried out respecting power equipment, dewatering, ventilation and air conditioning, and ore haulage.
 - construction of the SW-4 shaft was continued;
 - power and communications facilities;
 - smelter machinery and aggregates were replaced and modernised;
 - facilities related to improving and maintaining the safe operation of the Żelazny Most tailings pond, and eliminating its impact on the environment;
 - investments related to environmental protection – the pulsation filter at the Legnica smelter was exchanged and work was completed on the realisation of projects at the Głogów smelter;
 - assumptions to the “Program for modernisation of pyrometallurgy in KGHM in the years 2007-2011” were approved;
 - the investment project “Hydrotransport of concentrate from the Ore Enrichment Plants to the Głogów smelter” was implemented;
- The most important equity investments in 2007 were the purchase of shares in:

- Energetyka Sp z o.o.: in the amount of PLN 30 426 thousand to ensure funds for the company for modernisation work and preparatory work related to the expansion of power generation capacity, and for repaying a loan from KGHM Polska Miedź SA;
 - Miedziowym Centrum Zdrowia SA in the amount of PLN 4 300 thousand. The company used these funds for investments in medical equipment;
 - Zagłębie Lubin SSA in the amount of PLN 100 000 thousand to modernise a stadium;
 - KGHM Letia SA in the amount of PLN 18 990 thousand
- In 2007 KGHM Polska Miedź received dividends in the amount of PLN 270 364 thousand, of which PLN 264 221 thousand came from Polkomtel SA;
3. Opinion and report of the certified auditor – Ernst & Young Audit Sp z o.o., auditing the accounts of the Company for financial year 2007, issued with a date of 4 March 2008.
 4. Additional explanations presented by the Management Board of the Company and by representatives of the certified auditor on the audit of the financial statements, received at a meeting of the Supervisory Board on 23 April 2008.

As a result of its evaluation, the Supervisory Board hereby declares that the statements described above were prepared:

- based on the factual state, reflecting the true and fair results of economic activities for 2007 and the financial condition and the assets of the Company as at 31 December 2007, as attested to in the opinion of the certified auditor on 4 March 2008,
- correctly, in accordance with accounting laws currently in force, including also for the first time in the history of the Company in accordance with International Financial Reporting Standards, which were approved by the EU, based on correctly-maintained accounts,

By a Resolution dated 16 May 2008 the Management Board decided to submit to the Ordinary General Shareholders' Meeting a proposal for the appropriation of profit for financial year 2007 in the amount of **PLN 3 798 825 390.87** in the following manner:

- as a dividend payment **PLN 1 800 000 000.00,**
- to the reserve capital of the Company **PLN 1 998 825 390.87.**

The Supervisory Board on 16 May 2008 positively evaluated this proposal of the Management Board to the Ordinary General Shareholders' Meeting for the appropriation of profit of the Company for financial year 2007.

Lubin, 16 May 2008