

**Report of the Supervisory Board of KGHM Polska Miedź SA
on the results of its evaluation of the report of the Management Board
on the Company's activities in financial year 2010,
and of the financial statements of the Company
for financial year 2010**

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 28 March 2011 the Supervisory Board of KGHM Polska Miedź S.A carried out an evaluation of the financial statements of KGHM Polska Miedź SA for financial year 2010 and the Report of the Management Board on the Company's activities in financial year 2010.

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 2010,
- the report on the Company's activities in financial year 2010, and
- the audit opinion and report of the Certified Auditor on the financial statements of the Company for 2010.

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

I. Evaluation of the financial statements for financial year 2010

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

- the statement of financial position, prepared as at 31 December 2010, which shows total assets and total equity and liabilities of PLN 19 829 296 thousand

- the statement of comprehensive income for the period from 1 January 2010 to 31 December 2010, which shows:
 - o profit for the period from 1 January 2010 to 31 December 2010 in the amount of PLN 4 568 589 thousand
 - o other comprehensive income for the period from 1 January 2010 to 31 December 2010 in the amount of PLN 83 931 thousand

- the statement of changes in equity for the period from 1 January 2010 to 31 December 2010, which shows an increase in equity of PLN 4 052 520 thousand

- the statement of cash flows for the period from 1 January 2010 to 31 December 2010, which shows an increase in cash and cash equivalents of PLN 1 615 351 thousand

- the accounting policies and other explanatory information to the financial statements.

I.1 The statement of financial position as at 31 December 2010

Total assets and total equity and liabilities shown in the statement of financial position as at 31 December 2010 versus their amount as at 31 December 2009 increased by PLN 5 876 266 thousand.

Structure of assets in the statement of financial position:

1. **Non-current assets** of PLN 12 125 041 thousand, representing 61.1% of total assets, of which:

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|--|------------------------|----------------------------------|
| - property, plant and equipment | PLN 6 551 111 thousand | i.e. 54.0% of non-current assets |
| - shares and investment certificates in subsidiaries | PLN 2 643 046 thousand | i.e. 21.8% of non-current assets |
| - investments in associates | PLN 1 159 947 thousand | i.e. 9.6% of non-current assets |
| - available-for-sale financial assets | PLN 749 824 thousand | i.e. 6.2% of non-current assets |

The change in the value of non-current assets versus their amount at 31 December 2009 is mainly due to:

- investments in machinery and equipment and in buildings;
- the acquisition of shares and investment certificates in subsidiaries and the increase in their value due to increases in the share capital of these subsidiaries
- the acquisition of shares of stock exchange-listed companies and the increase in their value.

2. **Current assets** of PLN 7 704 255 thousand, representing 38.9% of total assets, of which:

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|-------------------------------|------------------------|-------------------------------|
| - cash and cash equivalents | PLN 2 595 529 thousand | i.e. 33.7% of current assets |
| - trade and other receivables | PLN 2 393 986 thousand | i.e. 31.1 % of current assets |
| - inventories | PLN 2 011 393 thousand | i.e. 26.1% of current assets |

The change in the value of current assets versus their amount at 31 December 2009 is due to:

- the increase in cash and cash equivalents,
- the increase in the balance of receivables due to the increase in sales in the fourth quarter of the financial period, and
- the increase in technological inventories.

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

1. **Equity** of PLN 14 456 477 thousand, representing 72.9% of equity and liabilities, of which:
 - share capital PLN 2 000 000 thousand,
 - accumulated other comprehensive income PLN 211 159 thousand,
 - retained earnings PLN 12 245 318 thousand.

The increase in the value of equity versus its amount at 31 December 2009 is mainly due to the excess of profit for 2010 of PLN 4 568 589 thousand over the amount of the dividend, from the allocation of profit for 2009, of PLN 600 000 thousand.

2. **Liabilities** of PLN 5 372 819 thousand, representing 27.1% of total equity and liabilities, of which:

- non-current liabilities of PLN 2 380 314 thousand,
i.e. 44.3% of liabilities, of which:
liabilities due to employee benefits of PLN 1 128 246 thousand and to derivatives of PLN 711 580 thousand,

The increase in non-current liabilities versus their amount at 31 December 2009 involves the revaluation of liabilities due to employee benefits carried out by actuarial methods, and the measurement of derivative financial instruments.

- current liabilities of PLN 2 992 505 thousand,
i.e. 55.7% of liabilities, of which:
trade and other payables in the amount of PLN 1 727 939 thousand,
derivatives of PLN 481 852 thousand and liabilities due to employee benefits of PLN 93 041 thousand.

I.2 The statement of comprehensive income for the period from 1 January – 31 December 2010

The statement of comprehensive income for the financial period showed:

- sales of PLN 15 945 032 thousand
- cost of sales of PLN 8 617 125 thousand,
- gross profit of PLN 7 327 907 thousand,
- operating profit of PLN 5 638 148 thousand,
- profit before income tax of PLN 5 605 567 thousand, and
- profit for the period of PLN 4 568 589 thousand, meaning earnings per share of PLN 22.84.

The increase in other comprehensive income in the financial period of PLN 83 931 thousand was due to:

- the measurement and settlement of available-for-sale financial assets of PLN 119 896 thousand (net),
- the measurement and settlement of future cash flow hedging financial instruments of PLN (35 965) thousand (net).

In 2010 the Company achieved EBITDA (operating profit + depreciation/amortisation) of PLN 6 253 616 thousand, versus PLN 3 645 745 thousand in 2009.

I.3 The statement of changes in equity for the period from 1 January – 31 December 2010

Equity at the end of the financial year amounted to PLN 14 456 477 thousand.

Equity is comprised of:

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|---|-------------------------|
| - share capital | PLN 2 000 000 thousand |
| - accumulated other comprehensive income (from revaluation of financial assets) | PLN 211 159 thousand |
| - retained earnings | PLN 12 245 318 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 7 016 729 thousand |
| - profit for 2010 | PLN 4 568 589 thousand. |

In 2010 the equity of the Company increased by PLN 4 052 520 thousand.

This change was due to:

- the profit for 2010 of PLN 4 568 589 thousand,
- the allocation of profit for 2009 as a dividend in the amount of PLN 600 000 thousand, and
- an increase in accumulated other comprehensive income due to the measurement and settlement of derivative hedging instruments and of available-for-sale financial assets of PLN 83 931 thousand (net).

At 31 December 2010 the ownership structure of KGHM Polska Miedź SA 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 2010 showed a net increase of cash and cash equivalents of PLN 1 615 351 thousand.

Cash and cash equivalents of the Company at 31 December 2010 amounted to PLN 2 595 529 thousand.

Net cash flow was impacted by:

- net cash generated from operating activities: PLN 5 346 791 thousand;
- net cash used in investing activities: PLN (3 125 246) thousand;
- net cash used in financing activities: PLN (606 194) thousand.

II. Evaluation of the report of the Management Board on the activities of the Company in 2010

II.1 Production results

In 2010, KGHM Polska Miedź SA produced 547.1 thousand tonnes of electrolytic copper and 1 161 tonnes of metallic silver.

The increase in electrolytic copper production versus the prior year by 9% is mainly due to an increase in 2010 of electrolytic copper production from purchased copper-bearing materials and the re-start of the flash furnace at the Głogów smelter following its modernisation in 2009.

The production of other smelter products depends on the level of electrolytic copper production, the type of raw materials used (accompanying metals, including silver) and on market demand (wire rod, OFE rod and round billets).

II.2 Sales structure

In 2010 the Company sold 545.3 thousand tonnes of copper and copper products, 1 247 tonnes of silver and 840 kg of gold, meaning an increase versus the prior year respectively by 7%. 4% and 3%.

The above increase in sales volume and the high level of metals prices on global markets resulted in an increase in revenues from sales of products and services by 44%, to the level of PLN 15 830.3 million. An additional factor increasing revenues was the improvement in the structure of sales of copper products – an increase in the percentage of wire rod.

Revenues from the sale of products in 2010 reflect the result from the settlement of commodity hedging instruments in the amount of approx. PLN (26.8) million (in 2009, PLN 425.4 million) and currency hedging instruments in the amount of approx. PLN 169.0 million (in 2009, PLN 7.8 million).

II.3 Employment

Employment in the Company at the end of 2010 was 18 639 persons, meaning an increase in employment by 226 persons versus 2009. This increase was mainly due to the development of infrastructure and the replacement of Company maintenance services in the mines.

II.4 Capital expenditure

In 2010 the Company realised capital expenditures of PLN 1 263.0 million (PLN 1 069.8 million in 2009). The increase in expenditures by PLN 193.2 million was mainly due to development projects in the mines of the Company.

The most important investments realised in 2010 were the following:

- continued sinking of the SW-4 shaft,
- the Głogów Głęboki Przemysłowy project,

- developing the infrastructure of the excavation sections of the mines,
- ventilation and air conditioning equipment in the mines,
- modernisation and replacement of the machinery park in the mines and the Ore Enrichment Plants,
- commencement of realisation of the project „Pyrometallurgy Modernisation Program”.

II.5 Equity investments

In 2010, KGHM Polska Miedź SA realised equity investments in the amount of PLN 1 321.1 million, including the acquisition of shares/newly-issued shares for PLN 961.0 million and the acquisition of investment certificates in the amount of PLN 360.2 million.

The main equity investments of the Company in 2010 were as follows:

- **acquisition of the shares of TAURON Polska Energia SA** – in June 2010, KGHM Polska Miedź SA acquired through a public offer 77 882 499 shares of TAURON Polska Energia SA, representing 4.9% of the share capital of the company, for the total price of PLN 399.5 million. Shares were subsequently purchased on the secondary market, and as a result at the end of 2010 the Company maintained its equity investment in TAURON Polska Energia SA at a level above 5%.
- **acquisition of Investment Certificates of KGHM I FIZAN** (total cost of acquisition PLN 347.8 million). The funds acquired were mainly designated to be used to purchase 90% of the shares of each of the following companies: Zespół Uzdrowisk Kłodzkich SA, Uzdrowisko Połczyn SA and Uzdrowisko Cieplice Sp. z o.o.
- **Acquisition of newly-issued shares in the increased share capital of KGHM Ecoren SA** (PLN 115.2 million) due to the purchase of shares of CENTROZŁOM WROCŁAW SA.

In addition, of significance for realisation of the strategy of the Company was the acquisition of shares of Abacus Mining & Exploration Corporation (total cost of acquisition PLN 14.7 million) and of KGHM AJAX MINING INC. (PLN 109.8 million), related to the intention of realisation by KGHM Polska Miedź SA and the shareholders of Abacus of a joint venture to advance the Afton-Ajax copper-gold mining project located in British Columbia in Canada.

In June 2010, KGHM Polska Miedź SA received a dividend from Polkomtel SA in the amount of PLN 24.1 million, due to the appropriation of profit for 2009 (in December 2009, the Company received an interim payment from Polkomtel SA on the dividend for 2009 in the amount of PLN 113.3 million). In addition, in 2010 the Company received two interim dividend payments from Polkomtel SA for profit earned in 2010 in the amounts of PLN 77.5 million and PLN 45.2 million.

II.6 The Company on the securities markets

The capitalisation of the Company on the Warsaw Stock Exchange at the end of 2010 was PLN 34 600 million (PLN 21 200 million in 2009), as the share price of

KGHM Polska Miedź SA increased from PLN 106 on 31 December 2009 to PLN 173 on 31 December 2010.

IV. Summation

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

- based on the actual state, reflecting truly and fairly the results of economic activities for 2010 and the financial position of the Company as at 31 December 2010, and
- in accordance with legal regulations governing the preparation of financial statements in respect of form and content, as well as in accordance with 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 28 March 2011 issued an opinion and report on the audit of the financial statements for 2010 – the Supervisory Board hereby recommends that the General Meeting approve the financial statements of the Company prepared as at 31 December 2010 and the report of the Management Board on the activities of the Company in financial year 2010.

Lubin, 18 May 2011