

**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 activities of the Group in financial year 2010
and of the consolidated financial statements of the Group
for financial year 2010**

In accordance with § 20 sec. 2 points 1) and 3) of the Statutes of KGHM Polska Miedź SA, on 28 March 2011 the Supervisory Board of KGHM Polska Miedź S.A carried out an evaluation of the consolidated financial statements of the KGHM Polska Miedź SA Group for financial year 2010 and the Report of the Management Board on the activities of the Group in financial year 2010.

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 SA Group for financial year 2010;
- the report of the Management Board on the activities of the KGHM Polska Miedź SA Group in financial year 2010; and
- the audit opinion and report of the Certified Auditor on the consolidated financial statements for 2010.

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

I. Structure of the KGHM Polska Miedź SA Group

At 31 December 2010 the Group was composed of:

- KGHM Polska Miedź SA - the Parent Entity, and
- 47 direct and indirect subsidiaries.

II. Evaluation of the consolidated financial statements

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

- the consolidated statement of financial position, prepared as at 31 December 2010, which shows total assets and total equity and liabilities of PLN 21 177 323 thousand
- the consolidated statement of comprehensive income, comprised of:
 - o profit for the period from 1 January to 31 December 2010 in the amount of PLN 4 714 863 thousand
 - o other comprehensive income for the period from 1 January to 31 December 2010 in the amount of PLN 83 520 thousand
- the consolidated statement of changes in equity for the period from 1 January 2010 to 31 December 2010, which shows an increase in equity of PLN 4 316 440 thousand

- the consolidated 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 1 883 655 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 2010

Total assets and total equity and liabilities shown in the consolidated statement of financial position as at 31 December 2010 versus their amount as at 31 December 2009 increased by PLN 6 286 903 thousand.

Structure of consolidated assets:

1. **Non-current assets** of PLN 12 414 423 thousand, representing 58.6% of total assets, including the following major items:

- property, plant and equipment PLN 8 553 634 thousand i.e. 68.9% of non-current assets
- investments in associates PLN 1 431 099 thousand i.e. 11.5% of non-current assets

The change in the value of non-current assets versus their amount at 31 December 2009 is mainly due to the increase in the value of property, plant and equipment and intangible assets due to the inclusion of subsidiaries to the Group.

2. **Current assets** of PLN 8 762 900 thousand, representing 41.4% of total assets, of which:

- cash and cash equivalents PLN 3 086 957 thousand i.e. 35.2% of current assets
- trade and other receivables PLN 2 730 658 thousand i.e. 31.2% of current assets
- inventories PLN 2 222 321 thousand i.e. 25.4% 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, as shown in details in the consolidated statement of cash flows,
- the increase in the balance of receivables due to the increase in sales in the fourth quarter of the financial year,
- the increase in technological inventories.

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

1. **Equity** of PLN 14 891 779 thousand, representing 70.3% of equity and liabilities, of which:

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|--|--------------------------|
| - share capital | PLN 2 000 000 thousand, |
| - accumulated other comprehensive income | PLN 209 821 thousand, |
| - retained earnings | PLN 12 440 852 thousand, |
| - non-controlling interest | PLN 241 106 thousand. |

The increase in the value of consolidated equity versus its amount at 31 December 2009 was due to the increase in profit earned by the Group in 2010, in the amount of PLN 4 714 863 thousand.

2. **Liabilities** of PLN 6 285 544 thousand, representing 29.7% of total equity and liabilities, of which:

- non-current liabilities of PLN 2 882 705 thousand, i.e. 45.9% of liabilities, of which:
liabilities due to employee benefits of PLN 1 221 794 thousand and to derivatives in the amount of PLN 711 580 thousand.

The increase in non-current liabilities versus their amount at 31 December 2009 relates mainly to derivatives.

- current liabilities of PLN 3 402 839 thousand, i.e. 54.1% of liabilities, including the most important item – trade and other payables – in the amount of PLN 1 994 579 thousand,

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

The consolidated statement of comprehensive income for the financial year showed:

- sales of PLN 17 292 590 thousand,
- cost of sales of PLN 9 612 905 thousand,
- gross profit of PLN 7 679 685 thousand,
- profit for the period of PLN 4 714 863 thousand, of which PLN 4 708 946 thousand is attributable to the shareholders of the Parent Entity, and PLN 5 917 thousand is attributable to the non-controlling interest.

Other comprehensive income shows an increase in the financial period due to:

- the measurement and settlement of available-for-sale financial assets of PLN 119 485 thousand (net),
- the measurement and settlement of future cash flow hedging financial instruments of PLN (35 965) thousand (net).

In 2010, the Group realised EBITDA (operating profit + depreciation/amortisation) of PLN 6 389 276 thousand, versus PLN 3 423 128 thousand in 2009.

II.3 The consolidated 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 14 891 779 thousand.

In 2010 the equity of the Group increased by PLN 4 316 440 thousand. The change in equity was due to the profit earned in 2010 in the amount of PLN 4 714 863 thousand, the allocation of profit for 2009 as a dividend in the amount of PLN 600 000 thousand, a change in equity due to the measurement and settlement of hedging instruments and of available-for-sale financial assets in the amount of PLN 83 520 thousand (net) and an increase in non-controlling interest due to the acquisition in 2010 of subsidiaries in the amount of PLN 158 107 thousand.

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 SA.

At 31 December 2010 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 2010, showed a net increase of cash and cash equivalents in the amount of PLN 1 883 655 thousand.

Cash and cash equivalents of the Group at 31 December 2010 amounted to PLN 3 086 957 thousand.

Net cash flow was impacted by:

- net cash generated from operating activities: PLN 5 661 275 thousand,
- net cash used in investing activities: PLN (3 070 123) thousand,
- net cash used in financing activities: PLN (707 497) thousand.

III. Report of the Management Board on the activities of the Group in 2010, which reports the following information:

- In 2010, the Parent Entity of the KGHM Polska Miedź SA Group consolidated in its financial statements 47 subsidiaries, and accounted for an associate - Polkomtel SA - using the equity method,
- The main activity of the Group is that of the Parent Entity, comprising the production of copper, precious metals and other smelter products. 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 SA (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 telecommunication services, transport, tourism and medicine.

- At the end of 2010 there were 30 928 employees in the KGHM Polska Miedź SA Group. Average employment increased by 2 044 positions versus 2009, including 1 881 positions due to the expansion of the Group by new subsidiaries. The largest average employment in 2010 in the amount of 18 465 positions was in KGHM Polska Miedź SA.

IV. Summation

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

- based on the actual state, reflecting truly and fairly the results of economic activities for 2010 and the financial position of the Group as at 31 December 2010,
- 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, 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 28 March 2011 issued an opinion and report on the audit of the consolidated financial statements for 2010, the Supervisory Board hereby recommends that the General Meeting approve the consolidated financial statements of the KGHM Polska Miedź SA Group prepared as at 31 December 2010 and the report of the Management Board on the activities of the Group in financial year 2010.

Lubin, 18 May 2011