

**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 2009 and the Report on the activities of the  
Group in financial year 2009**

In accordance with § 20 sec. 2 points 1) and 3) of the Statutes of KGHM Polska Miedź S.A., on 29 March 2010 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 2009 and the Report on the activities of the Group in financial year 2009.

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 2009;
- the report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2009; and
- the audit opinion and report of the Certified Auditor on the consolidated financial statements for 2009.

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

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

At 31 December 2009 the Group was composed of:

- KGHM Polska Miedź S.A. - the Parent Entity, and
- 30 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 2009, which shows total assets and total equity and liabilities of PLN 14 897 425 thousand
- the consolidated statement of comprehensive income, comprised of:
  - o the income statement for the period from 1 January to 31 December 2009, which shows profit for the period of PLN 2 359 170 thousand
  - o other comprehensive income for the period from 1 January to 31 December 2009, which shows a decrease of PLN 391 155 thousand

- the consolidated statement of changes in equity for the period from 1 January 2009 to 31 December 2009, which shows a decrease in equity of PLN 359 038 thousand
- the consolidated statement of cash flows for the period from 1 January 2009 to 31 December 2009, which shows a decrease in cash and cash equivalents of PLN 852 748 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 2009

Total assets and total equity and liabilities shown in the consolidated statement of financial position as at 31 December 2009 versus their amount as at 31 December 2008 decreased by PLN 102 680 thousand. This change was mainly due to a decrease in cash and cash equivalents due to payment of a dividend from appropriation of the profit for 2008 in the Parent Entity.

### Structure of consolidated assets:

1. **Non-current assets** of PLN 9 807 639 thousand, representing 65.8% of total assets, including the following major items:
  - property, plant and equipment of PLN 7 673 437 thousand i.e. 78.2% of non-current assets
  - investments in associates PLN 1 346 272 thousand i.e. 13.7% of non-current assets

The change in the value of non-current assets versus their amount at 31 December 2008 is mainly due to the increase in the value of property, plant and equipment and intangible assets due to inclusion of subsidiaries to the Group.

2. **Current assets** of PLN 5 083 112 thousand, representing 34.1% of total assets, of which:
  - inventories PLN 2 072 434 thousand i.e. 40.8% of current assets
  - trade and other receivables PLN 1 531 341 thousand i.e. 30.1% of current assets
  - cash and cash equivalents PLN 1 197 077 thousand i.e. 23.6% of current assets

The change in the value of current assets versus their amount at 31 December 2008 is due to:

- the increase in technological inventories, and
- the decrease in cash and cash equivalents, as detailed in the consolidated statement of cash flows.

3. **Non-current assets held for sale** of PLN 6 674 thousand, representing 0.1% of total assets.

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

1. **Equity** of PLN 10 623 837 thousand, representing 71.3% of equity and liabilities, of which:

- |  |                         |
|--|-------------------------|
| - share capital                          | PLN 2 000 000 thousand, |
| - accumulated other comprehensive income | PLN 126 301 thousand,   |
| - retained earnings                      | PLN 8 429 651 thousand, |
| - minority interest                      | PLN 67 875 thousand.    |

The slight decrease in the value of consolidated equity versus its amount at 31 December 2008 is due to a decrease in accumulated other comprehensive income, in particular income due to future cash flow hedging financial instruments.

2. **Liabilities** of PLN 4 273 398 thousand, representing 28.7% of total equity and liabilities, of which:

- non-current liabilities of PLN 1 970 994 thousand, i.e. 46.1% of liabilities, of which:  
liabilities due to employee benefits of PLN 1 183 350 thousand and provisions for other liabilities and charges in the amount of PLN 527 421 thousand.

The increase in non-current liabilities versus their amount at 31 December 2008 relates to the revaluation of liabilities due to employee benefits, carried out by actuarial methods.

- current liabilities of PLN 2 302 604 thousand, i.e. 53.9% of liabilities, including the most important item - trade and other payables in the amount of PLN 1 575 896 thousand.

## **II.2 The consolidated statement of comprehensive income for the period from 1 January – 31 December 2009**

The consolidated income statement for the financial year showed:

- sales of PLN 12 119 910 thousand,
- a cost of sales of PLN 7 923 233 thousand.

The result was a gross profit of PLN 4 196 677 thousand;

- operating profit + depreciation/amortisation (EBITDA) of PLN 3 423 128 thousand;
- profit for the period of PLN 2 359 170 thousand; of which PLN 2 358 602 thousand is attributable to the shareholders of the Parent Entity, and PLN 568 thousand is attributable to minority interest.

Other comprehensive income shows a decrease in the financial period due to:

- the measurement and settlement of available-for-sale financial assets of PLN (8 411) thousand (net);
- the measurement and settlement of future cash flow hedging financial instruments of PLN (382 744) thousand (net).

## **II.3 The consolidated statement of changes in equity for the period from 1 January – 31 December 2009**

Equity at the end of the financial year amounted to PLN 10 623 827 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 S.A.

At 31 December 2009 the ownership structure of the Parent Entity was as follows:

- the State Treasury 41.79%,
- other shareholders (holding less than 5% of the share capital) 58.21%,

In 2009 the equity of the Group decreased by PLN 359 038 thousand. This change was due to the profit earned for 2009 of PLN 2 359 170 thousand, the allocation of profit for 2008 as a dividend in the amount of PLN 2 336 000 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 (391 155) thousand (net) and an increase in minority interest in the amount of PLN 8 947 thousand due to the acquisition in 2009 of subsidiaries.

On 12 January 2010 the Company received an announcement from the Minister of the State Treasury on the sale by the State Treasury on 8 January 2010, on a regulated market, of 20 000 000 shares of KGHM Polska Miedź SA.

At 31 March 2010 the ownership structure of the Company 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.

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

The consolidated statement of cash flows, during the period from 1 January – 31 December 2009, showed a net decrease of cash and cash equivalents of PLN 852 748 thousand.

Cash and cash equivalents of the Group at 31 December 2009 amounted to PLN 1 197 077 thousand.

Net cash flow was impacted by:

- net cash generated from operating activities: PLN 2 720 749 thousand;
- net cash used in investing activities: PLN (1 255 747) thousand;
- net cash used in financing activities: PLN (2 317 750) thousand.

## **III. Report on the activities of the Group in 2009, which reports the following information:**

- In 2009, the Parent Entity of the KGHM Polska Miedź S.A. Group consolidated in its financial statements 30 subsidiaries, and accounted for the associate - Polkomtel S.A. - 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 S.A. (such as mine construction, the generation of electricity and heat, the production of machinery and equipment for mining, and R&D activities) as well as services unrelated to servicing of the core business of KGHM Polska Miedź S.A., such as telecommunication services, transport, tourism and medicine.
- At the end of 2009 there were 28 884 employees in the KGHM Polska Miedź S.A. Group, meaning an increase in employment by 406 positions versus 2008. The highest average employment in 2009, at 18 370 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 reports were prepared:

- based on the actual state, reflecting truly and fairly the results of economic activities for 2009 and the financial position and the assets of the Group as at 31 December 2009,
- in accordance with legal regulations governing the preparation of financial statements in respect of form and content, including also 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 – Ernst & Young Audit Sp. z o.o., which on 26 March 2010 issued an opinion and report on the audit of the consolidated financial statements for 2009, 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 2009 and the report on the activities of the Group in financial year 2009.

Warsaw, 16 April 2010