

KGHM POLSKA MIEDŹ S.A.

**REPORT ON THE APPLICATION OF
CORPORATE GOVERNANCE PRINCIPLES**

Lubin, March 2008

The Management Board of KGHM Polska Miedź S.A. hereby presents a report on the application of corporate governance principles in 2007, as described in §29 sec. 5 of the Warsaw Stock Exchange Rules.

A) LIST OF CORPORATE GOVERNANCE PRINCIPLES WHICH HAVE NOT BEEN APPLIED BY THE COMPANY, TOGETHER WITH A DESCRIPTION OF THE CIRCUMSTANCES AND REASONS WHY A GIVEN PRINCIPLE HAS NOT BEEN APPLIED, AND THE MEANS BY WHICH THE COMPANY INTENDS TO ELIMINATE ANY POTENTIAL EFFECTS OF NON-APPLICATION OF A GIVEN PRINCIPLE, OR THE STEPS IT INTENDS TO TAKE TO REDUCE THE RISK OF NON-APPLICATION OF A GIVEN PRINCIPLE IN FUTURE

At the beginning of 2007, the Company again applied all of the corporate governance principles described in the document „Best practices in public companies in 2005” (with stipulations to principle 20 on the independence of Supervisory Board members). A „Declaration by KGHM Polska Miedź S.A. regarding the implementation of corporate governance principles by the Company” was signed by the Management Board of the Company on 15 February 2007, countersigned by the Supervisory Board on 23 February 2007, published together with the annual report for 2006 on 12 March 2007 and accepted by the General Shareholders’ Meeting on 30 May 2007.

Stipulations to principle 20 were discussed in the following commentary to this principle:

Due to the nature and character of the Company, to which the law dated 30 August 1996 on the commercialisation and privatisation of State-owned companies still applies as regards the composition of the Supervisory Board (1/3 of the members of the Supervisory Board are chosen by the employees of the Company), as well as taking into account the fact that the State Treasury, as a specific shareholder in possession of over 44% of the shares of the Company, remains the dominant shareholder, and also considering the usual course of voting at General Shareholders Meetings and Supervisory Board meetings, the Management Board and Supervisory Board of the Company have recommended a change in the Statutes to the General Shareholders Meeting, based on which the Company would meet the criteria for independence by members of the Supervisory Board in an analogous way to that described in point d) of Principle Nr 20, in a case where a single shareholder owns a packet of shares granting over 50% of the total number of votes. The General Shareholders Meeting has accepted this recommendation, with the resolution as passed and registered by the court of registrations with respect to the wording of § 16 sec. 5-8 of the Statutes reading as follows:

„5. At least two members of the Supervisory Board should be independent members, meeting the following criteria:

- 1) does not work for the Company, its divisions, or with a related entity of the Company, either as an employee or in any other legal relationship,
- 2) is not a member of the Supervisory Board or Management Board of an entity related to the Company,
- 3) is not a partner or shareholder controlling 5% or more of the votes at the General Shareholders Meeting of the Company or at the General Shareholders Meeting of a related entity,
- 4) is not a member of the Supervisory Board or Management Board or an employee of an entity controlling 5% or more of the votes at the General Shareholders Meeting of the Company or at the General Shareholders Meeting of a related entity,
- 5) is not a direct family member related by blood in an ascending or descending line, a spouse, brother or sister, a parent of a spouse or an adoptee of any of the persons mentioned above in points 1-4.

6. An independent member of the Supervisory Board should meet the criteria for independence defined in sec. 5, throughout his entire tenure on the Supervisory Board. Should the Supervisory Board or Management Board of the Company be informed that an independent member of the Supervisory Board of the Company has ceased during his tenure to meet the criteria for independence, and should this cause the Company to fail to meet the criteria of having at least two independent members, action should be taken to ensure that the said member of the Supervisory Board submit his/her early resignation or that said member is recalled.

7. Prior to being appointed to the Supervisory Board of the Company, a candidate for the position of independent member of the Supervisory Board is required to submit a declaration in writing that he/she meets the criteria for independence defined in sec. 5.

8. A related entity as mentioned in sec. 5 is hereby defined as a parent entity of the Company, a subsidiary of the Company or as a subsidiary of the entity which is a parent to the Company. Determination as to whether an entity is a parent to or subsidiary of the

Company is made based on the appropriate clauses of the Corporate Partnerships and Companies Code or on the Accounting Law”.

In accordance with principle 19, candidates for members of the Supervisory Board should be presented and supported by reasons in sufficient detail to allow an educated choice. The normal practice until now in the Company has been that candidates for the Supervisory Board have been presented during General Shareholders’ Meetings. The Company attempts to ensure that the names of such candidates are made publicly available prior to this.

The most important corporate governance principles are reflected (have been strengthened) in the fundamental documents regulating the activities of the Company:

1. The Statutes of KGHM Polska Miedź S.A.
2. The Regulations of the General Shareholders’ Meeting of KGHM Polska Miedź S.A.
3. The Regulations of the Supervisory Board of KGHM Polska Miedź S.A.
4. The Regulations of the Management Board of KGHM Polska Miedź S.A.

These documents, along with the „Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company” are available on the Internet website of the Company, www.kghm.pl.

B) DESCRIPTION OF THE FUNCTIONING OF THE GENERAL SHAREHOLDERS’ MEETING AND ITS FUNDAMENTAL RIGHTS, ALONG WITH THE RIGHTS OF SHAREHOLDERS AND HOW THEY ARE EXECUTED

The functioning of the General Shareholders’ Meeting of KGHM Polska Miedź S.A., its rights and the rights of shareholders and how they are executed are described in the following documents:

1. The Statutes of the Company - Chapter IV C, § 22 - §30
2. The Regulations of the General Shareholders’ Meeting of KGHM Polska Miedź S.A.
3. The Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company

The schedule of work on organising the General Shareholders’ Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to execute their rights.

The Company has a depositary receipts program. The representative of the owners of GDRs at the General Shareholders’ Meeting is the Depositary Bank, which executes its voting rights through its representative, in accordance with the instructions issued by the owners of the said GDRs and in accordance with the principles of the Depositary Agreement entered into with the Company.

During General Shareholders’ Meetings members of the media are present.

C) THE COMPOSITION AND PRINCIPLES OF FUNCTIONING OF MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY AND THEIR COMMITTEES

Supervisory Board

The principles of functioning of the Supervisory Board of KGHM Polska Miedź S.A. are described in the following documents:

1. The Statutes of the Company - Chapter IV B, § 16 - § 21
2. The Regulations of the Supervisory Board of KGHM Polska Miedź S.A. with its registered head office in Lubin
3. The Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company

In accordance with corporate governance principle 20 together with the commentary included in the „ Declaration” and described in point A) of this report, two members of the Supervisory Board of the Company meet the criteria for independence.

The composition of the VIth term Supervisory Board of KGHM Polska Miedź S.A., during the period from 1 January 2007 to 31 December 2007 was as follows:

<i>First name, surname</i>	<i>function</i>	<i>period when function served in 2007</i>
Adam Łaganowski*	Chairman	01.01.2007 – 24.04.2007
	Member	24.04.2007 – 18.10.2007

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Adam Glapiński*	Member	11.04.2007 – 24.04.2007
	Chairman	24.04.2007 – 10.07.2007
Leszek Jakubów*	Member	18.10.2007 – 06.11.2007
	Chairman	06.11.2007 – 31.12.2007
Stanisław Andrzej Potycz	Deputy Chairman	01.01.2007 – 31.12.2007
Jan Sulmicki*	Member	01.01.2007 – 11.04.2007
Marcin Ślęzak*	Member	01.01.2007 – 31.12.2007
Jerzy Żyżyński	Member	01.01.2007 – 31.12.2007
Anna Mańk	Member	11.04.2007 – 31.12.2007
Remigiusz Nowakowski	Member	18.10.2007 – 31.12.2007
<i>Members of the Supervisory Board elected by the employees of the Company:</i>		
Józef Czyczerski	secretary	01.01.2007 – 31.12.2007
Leszek Hajdacki	Member	01.01.2007 – 31.12.2007
Ryszard Kurek	Member	01.01.2007 – 31.12.2007

* Independent members

The following committees work under the auspices of the Supervisory Board:

- Auditing Committee

The tasks of the Committee and the duties of members of the Supervisory Board assigned to it are described in § 6 sec. 3 of the Regulations of the Supervisory Board:

- 1) supervision, on behalf of the Supervisory Board, of the other participants in the process of financial reporting and the process of reporting to the Supervisory Board,
- 2) analysis of the accounting principles applied in the Company,
- 3) the review of transactions with parties related to the Company and the review of unusual transactions,
- 4) analysis of conclusions arising from the risk management process,
- 5) reviewing the offers of independent auditors, recommending a selected auditor to the Supervisory Board and analysing agreements entered into with an auditor by the Company,
- 6) continuous co-operation with the auditor,
- 7) analysing the opinion of the auditor regarding financial reporting by the Management Board of the Company, as well as the letter of the auditor to the Management Board and the Supervisory Board and preparing the report of the Supervisory Board on its evaluation of the annual report of the Management Board on the activities of the Company as well as the financial statements,
- 8) evaluation of the internal auditing plan of the Company, approval of the internal auditing regulations, and of changes of the director of internal auditing,
- 9) analysis of the conclusions reached and the recommendations made by an internal audit of the Company, with an evaluation of the degree of implementation of these recommendations by the leadership of the Company,
- 10) these tasks and rights of the Auditing Committee do not mean that it has the obligation to plan or conduct an audit of the documents of the Company, or that it must confirm that the documents of the Company are in conformance with accounting principles and prevailing law.

The composition of the Auditing Committee of the VIth term Supervisory Board of KGHM Polska Miedź S.A., during the period from 1 January 2007 to 31 December 2007 was as follows:

First name, surname	period of work of the Committee in 2007
Adam Łaganowski*	08.01.2007 – 18.10.2007
Marcin Ślęzak*	01.01.2007 – 31.12.2007
Leszek Hajdacki	01.01.2007 – 31.12.2007
Anna Mańk	30.08.2007 – 31.12.2007
Leszek Jakubów*	06.11.2007 – 31.12.2007

* Independent members

- Remuneration Committee

The tasks of the Committee and the duties of members of the Supervisory Board assigned to it are described in § 6 sec. 5 of the Regulations of the Supervisory Board:

- 1) to pursue a policy of preparing reserve candidates to serve on the Management Board of the Company,
- 2) to carry out the process of selecting candidates to serve as members of the Management Board and, following their examination, to present the Supervisory Board with selected candidates,
- 3) to supervise realisation of the system of remuneration of the management staff, and to submit recommended changes in remuneration to the Supervisory Board,
- 4) to periodically analyse the strategy of leadership staff remuneration, and to submit if necessary recommended changes in remuneration to the Supervisory Board.

The composition of the Remuneration Committee of the VIth term Supervisory Board of KGHM Polska Miedź S.A., during the period from 1 January 2007 to 31 December 2007 is as follows:

First name, surname	period of work of the Committee in 2007
Adam Łaganowski	08.01.2007 – 18.10.2007
Stanisław Andrzej Potycz	08.01.2007 – 31.12.2007
Jan Sulmicki	08.01.2007 – 11.04.2007
Jerzy Żyżyński	08.01.2007 – 31.12.2007
Remigiusz Nowakowski	06.11.2007 – 31.12.2007

At the end of the year the auditing and remuneration committees submit a report of their activities to the Supervisory Board. These reports, following approval by the Supervisory Board, are made available to shareholders in the materials for the General Shareholders' Meeting.

Management Board

The duties and principles of functioning of the Management Board of KGHM Polska Miedź S.A. are described in the following documents:

1. The Statutes of the Company - Chapter IV A, § 12 - § 15
2. The Regulations of the Management Board of KGHM Polska Miedź S.A. with its registered head office in Lubin
3. The Declaration by KGHM Polska Miedź S.A. with its registered head office in Lubin regarding the implementation of corporate governance principles by the Company

During the period from 1 January 2007 to 31 December 2007 the composition of the Management Board and the delegation of duties amongst the members of the Management Board were as follows:

First name, surname	function	period when function served in 2007
Krzysztof Skóra	President of the Management Board	01.01.2007 – 31.12.2007
Maksymilian Bylicki	I Vice President of the Management Board (Development)	01.01.2007 – 06.11.2007
Marek Fusiński	Vice President of the Management Board (Finance)	01.01.2007 – 31.12.2007
Ireneusz Reszczyński	Vice President of the Management Board (Sales)	01.01.2007 – 06.11.2007
	I Vice President of the Management Board (Sales)	06.11.2007 – 31.12.2007
Stanisław Kot	Vice President of the Management Board (Metallurgy), temporarily acting Vice President of Mining Division	01.01.2007 – 31.03.2007
	Vice President of the Management Board (Production)	01.04.2007 – 31.12.2007
Dariusz Kaśków	Vice President of the Management Board (Development)	06.11.2007 – 31.12.2007

D) DESCRIPTION OF BASIC CHARACTERISTICS APPLIED IN THE COMPANY OF SYSTEMS FOR INTERNAL CONTROL AND RISK MANAGEMENT AS RESPECTS THE PROCESS OF PREPARATION OF FINANCIAL REPORTS

In the process of preparing the financial reports of the Company, one of the basic elements of control is the verification of financial statements by an independent auditor. The tasks of the independent auditor include in particular: review of the half-year financial statements and interim audit and final audit of the annual report.

Selection of the independent auditor is carried out by the Supervisory Board through a public tender from amongst renowned auditing firms, guaranteeing high standards of services and the required level of independence. The current contract for the auditing of financial statements by a certified auditor was entered into for a 3-year period (2007-2009). The body which supervises the process of financial reporting and which cooperates with the independent auditor is the Auditing Committee, which is appointed by the Supervisory Board.

In order to ensure accuracy in the keeping of Company accounting records and the generation of financial data for high-quality presentation, the Management Board of the Company has accepted and approved for continuous use the following:

1. an Accounting Policy and a Sector Chart of Accounts, in accordance with International Financial Reporting Standards,
2. Principles for Financial Management and for an Economic System,
3. Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets,
4. Sector Inventorisation Instructions, and
5. Documentation for an IT system for the processing of accounting data,

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of the Company.

KGHM Polska Miedź S.A. keeps accounting records in the integrated IT system mySAP. The modular structure of this system ensures a transparent segregation of duties, uniformity in account operating procedures and control between ledgers: special purpose ledger, general ledger and subledgers, through the developed reporting system. The high flexibility of the system enables it to be continuously adapted to changing accounting principles or other legal standards. The system has full technical documentation, both in the part meant for end-users, as well as in the configuration for setting the parameters of the system and calculation algorithms. In accordance with article 10 of the Act dated 29 September 1994 on accounting, documentation of the IT accounting system is periodically updated and confirmed by the Management Board of the Company.

Access to IT system information resources is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

A significant element of risk management with respect to the process of preparing financial statements is the internal control carried out by internal auditing and internal control within the Company.

Internal auditing operates based on the „Regulations for internal auditing in KGHM Polska Miedź S.A.” approved by the Management Board of the Company and on the „Code of ethics for internal auditors in KGHM Polska Miedź S.A.” – developed based on International Professional Standards in Internal Auditing Practice. Amongst the tasks of internal auditing are the examination and evaluation of control mechanisms to ensure the trustworthiness and uniformity of financial data, representing the basis for the preparation of financial statements required by law, and of management reports. In this respect, in 2007 the examination and evaluation of risk was subjected to the following processes: the delegation of rights, the setting of prices and the sale of Company products.

Internal control operates based on the „Internal Control Regulations” approved by the Management Board of the Company. This system of internal control based on the principle of independence comprises all Company processes, including those areas which directly or indirectly affect the correctness of financial statements.

Amongst areas of risk to which the Company is exposed, the most important is market risk. Due to the exposure of the Company to market risk (copper and silver prices and the USD/PLN exchange

rate), derivative instruments are used to manage this risk. Organisation of the market risk management process separates the functions of units responsible for entering transactions on the derivative instruments market from the functions of units responsible for their authorisation, settlement and the preparation of information on the measurement of these transactions. Such an organisational structure, in accordance with best practice in risk management, permits control over the process of entering into transactions and the elimination of derivative instruments transactions unauthorised by the Management Board.

The effectiveness of the control and risk management procedures in the process of preparing financial statements of KGHM Polska Miedź S.A. may be seen in the form of the high quality of these statements, as confirmed by the opinions put forth thus far by certified auditors from their auditing of the financial statements and by the high evaluations of the recipients of these statements. In addition, KGHM Polska Miedź S.A. participates in the competition The Best Annual Report organised by the Institute of Accounting and Taxation under the patronage of the Warsaw Stock Exchange, gaining a leading position amongst listed companies.

Signatures of all Members of the Management Board			
Date	First name, surname	Position/Function	Signature
4 March 2008	Ireneusz Reszczyński	Acting President of the Management Board I Vice President of the Management Board	
4 March 2008	Marek Fusiński	Vice President of the Management Board	
4 March 2008	Stanisław Kot	Vice President of the Management Board	