

**ANNUAL REPORT ON THE ACTIVITIES
OF THE SUPERVISORY BOARD OF KGHM POLSKA MIEDŹ S.A.
FOR FINANCIAL YEAR 2007**

**reflecting the evaluation of the work of the Supervisory Board
and the report from the work of the Audit Committee and the Remuneration Committee**
(approved by the Supervisory Board of KGHM Polska Miedź S.A. on 16 May 2008)

I. Composition of the Supervisory Board of KGHM Polska Miedź S.A.

The Sixth Term Supervisory Board of KGHM Polska Miedź S.A. (the Sixth Term began on 15 June 2005) in financial year 2007 was composed of the following persons:

From 1 January 2007 to 11 April 2007

1. Adam Łaganowski - Chairman of the Supervisory Board,
2. Stanisław Andrzej Potycz - Deputy Chairman of the Supervisory Board,
3. Józef Czyczerski – Secretary of the Board, Member of the Supervisory Board elected by the employees of the Company,
4. Leszek Hajdacki - Member of the Supervisory Board elected by the employees of the Company,
5. Ryszard Kurek - Member of the Supervisory Board elected by the employees of the Company,
6. Jan Sulmicki - Member of the Supervisory Board,
7. Marcin Ślęzak - Member of the Supervisory Board,
8. Jerzy Żyżyński - Member of the Supervisory Board.

On 11 April 2007 the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. carried out changes to the composition of the Supervisory Board. Jan Sulmicki was dismissed, and Anna Mańk and Adam Glapiński were appointed.

From 11 April 2007 to 10 July 2007

1. Adam Łaganowski – Chairman of the Supervisory Board (until 24 April 2007), and then Member of the Supervisory Board,
2. Adam Glapiński – Chairman of the Supervisory Board (from 24 April to 10 July 2007),
3. Stanisław Andrzej Potycz - Deputy Chairman of the Supervisory Board,
4. Józef Czyczerski - Secretary of the Board, Member of the Supervisory Board elected by the employees of the Company,
5. Leszek Hajdacki - Member of the Supervisory Board elected by the employees of the Company,
6. Ryszard Kurek - Member of the Supervisory Board elected by the employees of the Company,
7. Anna Mańk – Member of the Supervisory Board,
8. Marcin Ślęzak – Member of the Supervisory Board,
9. Jerzy Żyżyński – Member of the Supervisory Board.

On 10 July 2007 Adam Glapiński, Chairman of the Supervisory Board of the Company, submitted his resignation from membership of the Supervisory Board of KGHM Polska Miedź S.A.

From 10 July 2007 to 18 October 2007

1. Stanisław Andrzej Potycz - Deputy Chairman,
2. Józef Czyczerski - Secretary of the Board, Member of the Supervisory Board elected by the

- employees of the Company,
3. Leszek Hajdacki - Member of the Supervisory Board elected by the employees of the Company,
 4. Ryszard Kurek - Member of the Supervisory Board elected by the employees of the Company,
 5. Adam Łaganowski – Member of the Supervisory Board,
 6. Anna Mańk – Member of the Supervisory Board,
 7. Marcin Ślęzak – Member of the Supervisory Board,
 8. Jerzy Żyżyński – Member of the Supervisory Board

On 18 October 2007 the Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. carried out changes to the composition of the Supervisory Board. Adam Łaganowski was dismissed, and Leszek Jakubów and Remigiusz Nowakowski were appointed.

From 18 October 2007 to 31 December 2007

1. Leszek Jakubów – Member of the Supervisory Board, from 6 November 2007 Chairman of the Supervisory Board,
2. Stanisław Andrzej Potycz - Deputy Chairman,
3. Józef Czyczerski – Secretary of the Board, Member of the Supervisory Board elected by the employees of the Company,
4. Leszek Hajdacki - Member of the Supervisory Board elected by the employees of the Company,
5. Ryszard Kurek – Member of the Supervisory Board elected by the employees of the Company,
6. Anna Mańk – Member of the Supervisory Board,
7. Remigiusz Nowakowski – Member of the Supervisory Board,
8. Marcin Ślęzak – Member of the Supervisory Board,
9. Jerzy Żyżyński – Member of the Supervisory Board

II. Principles and manner of operation of the Supervisory Board of KGHM Polska Miedź S.A.

The principles and manner of operation of the Supervisory Board of KGHM Polska Miedź S.A. are regulated by law as respects public, public companies, and by:

- the Statutes of KGHM Polska Miedź S.A.,
- the Regulations of the Supervisory Board of KGHM Polska Miedź S.A. with its registered head office in Lubin, and by
- corporate governance principles.

The Supervisory Board maintained continuous supervision over the activities of the Company and carried out its tasks based on the specific rights granted to the Supervisory Board of KGHM Polska Miedź S.A. by the Statutes of the Company in Section IVB, § 20, and also by the Regulations of the Supervisory Board in Section III, § 7.

The Supervisory Board carried out its functions at meetings of the Supervisory Board convened for this purpose, as well as through the delegation of its members to work on committees and teams.

During the reporting period the Supervisory Board of KGHM Polska Miedź S.A. held 11 meetings, of which 9 were held at the head office of the Company in Lubin and 2 were held at the office of KGHM Polska Miedź S.A. in Warsaw.

One meeting, called by an announcement from the Chairman of the Supervisory Board (dated 12 December 2007 together with the expanded agenda dated 13 December 2007) for 21 December 2007, was not held on the prescribed date. The Chairman of the Supervisory Board, due to concerns voiced by members of the Supervisory Board respecting the effectiveness of the convening of this meeting, based on legal opinions, decided to postpone the holding of this meeting.

A constant point on the agendas of the meetings of the Supervisory Board of KGHM Polska Miedź S.A. was information on the current work of the Management Board and on the social

situation in the Company. The Supervisory Board also periodically reviewed information of the Management Board concerning the financial results of KGHM Polska Miedź S.A., for specific months of 2007 and accrued results from the beginning of 2007. The work of the Management Board was also evaluated each quarter.

In 2007 the Supervisory Board passed 96 resolutions, including 5 resolutions in a written manner.

The date, place and the most important issues dealt with by the Supervisory Board, as well as resolutions passed by the Supervisory Board at specific meetings, are presented below:

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 8 January 2007 in Lubin

The Board opened with a discussion of the Company Budget for 2007 and the Technical-Economic Plan for the years 2007 – 2011 as presented by the Management Board. It listened to and received information from the Management Board on:

- modernisation of the lead section and its deduster at the Głogów smelter,
- evaluation of the technical and technological condition of the Divisions of KGHM Polska Miedź S.A., and
- the transformation of DSI Metale S.A. into Ecoren S.A.

The Board approved of the acquisition of shares in the increased capital of Energetyka sp. z o.o. and passed a decision on property management. The Board began the process of selecting a certified accountant to audit the financial statements for 2007 and subsequent years, and filled out the composition of the teams and Board Committees.

On 17 January 2007 the Board in a written manner passed resolution no. 7/VI/2007 regarding approval of the „Technical-Economic Plan for the years 2007-2011” and the „Budget for 2007”.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. 23 February 2007 in Lubin

The Board reviewed among others information from the Management Board on:

- the results of the KGHM Polska Miedź S.A. Group,
- the functioning in KGHM of heavy machinery, and on
- ordering a legal opinion to be prepared regarding the possibility of seeking claims against losses incurred in hedging transactions.

The Board heard the report of a Board Committee on the progress in selecting a certified auditor. It reviewed the proposals of the Management Board as to the management of property and as to expressing approval for the acquisition by KGHM Polska Miedź S.A. of a block of shares of KGHM Metraco S.A. The Board also engaged in a discussion (and passed an appropriate resolution) on annulling a resolution of the Board regarding approval of an increase in share capital of „Zagłębie” Lubin SSA for realisation of an investment titled construction of a sporting – entertainment hall and modernisation of the stadium in Lubin.

Members of the Board, by an appropriate resolution, introduced changes in the work contracts of members of the Management Board respecting the civil responsibility insurance of members of the Management Board. The Supervisory Board also set the amount of the quarterly prepayment of the variable remuneration of individual members of the Management Board.

In addition, the Supervisory Board countersigned a Declaration on the acceptance by KGHM Polska Miedź S.A. of corporate governance principles.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 19 March 2007 in Lubin

After reviewing the report of the Board Committee on selection of an auditor to audit the financial statements of the Company, the Board held a meeting with the representatives of two selected auditing firms, reviewed their submitted offers and as a result resolved to select Ernst&Young Audit sp. z o.o. The Board received information from the Management Board on the following:

- contracts signed between Energetyka sp. z o.o. and PGNiG S.A,
- the situation in Dialog S.A. (a presentation and discussion with the participation of the Management Board of Dialog S.A.)
- the possibility of applying technological solutions respecting pyrometallurgy in KGHM.

The Board examined the financial statements of the Company for 2006 and the report on the activities of the Management Board in financial year 2006, a discussion was held regarding the proposal of the Management Board respecting the appropriation of profit for financial year 2006 and passed appropriate resolutions in this regard. The Supervisory Board approved the „Internal Auditing Regulations of KGHM Polska Miedź S.A. in Lubin” and its evaluation of the „Audit Plan for 2007 and for the years 2007 – 2011 in KGHM Polska Miedź S.A. in Lubin”.

On 5 April 2007 the Board passed the following resolutions in a written manner:

- resolution no. 25/VI/2007 regarding the appointment of a team of the Supervisory Board of KGHM Polska Miedź S.A. and its being tasked with the preparation of a draft, submitted to the General Shareholders’ Meeting, of a brief assessment of the standing of the Company for financial year 2006,
- resolution no. 26/VI/2007 regarding tasks to be accomplished by the Audit Committee of the Supervisory Board (tasking of the preparation of a written Report of the Supervisory Board of KGHM Polska Miedź SA on its evaluation of the Financial Statements of the Company for financial year 2006 and the results of its evaluation of the Consolidated Financial Statements and the Report on the Activities of the Group in 2006),
- resolution no. 27/VI/2007 regarding authorisation of the Chairman of the Supervisory Board to sign work contracts with the Members of the Management Board of KGHM Polska Miedź S.A.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 24 April 2007 in Lubin

Due to changes in the composition of the Supervisory Board carried out by the Extraordinary General Shareholders' Meeting of KGHM, and subsequently to the resignation at a meeting of the Supervisory Board of the then-Chairman, the members of the Supervisory Board selected a new Chairman of the Supervisory Board of KGHM Polska Miedź S.A. In addition, the Board approved of a variety of documents concerning the Ordinary General Shareholders’ Meeting of the Company:

- it evaluated the Consolidated Financial Statements of the KGHM Polska Miedź S.A. Group for financial year 2006,
- it evaluated the Report of the Management Board on the Activities of the KGHM Polska Miedź S.A. Group in financial year 2006,
- it approved the Report on the Activities of the Supervisory Board of KGHM Polska Miedź S.A. in the period from 1 January 2006 to 31 December 2006.
- it evaluated the proposal of the Management Board on setting of the right to dividend date and the dividend payment date for financial year 2006,
- it passed resolutions on submitting proposals approving of the performance of Members of the Management Board to the Ordinary General Shareholders’ Meeting,

- it approved the Report of the Supervisory Board of KGHM Polska Miedź S.A. on its evaluation of the Report of the Management Board on the Company's Activities, the result of its evaluation of the Financial Statements of the Company and the proposal of the Management Board on the allocation of Company profit for financial year 2006.
- it approved the Report on the results of the evaluation of the Report of the Management Board on the Activities of the Group and of the Consolidated Financial Statements of the KGHM Polska Miedź S.A. Group for financial year 2006,
- it carried out a brief assessment of the standing of KGHM Polska Miedź S.A. for 2006.

At the request of the Management Board, the Supervisory Board passed decisions on the following questions:

- setting the number of members of the Management Board,
- changes in the contract with the auditor, PriceWaterhouseCoopers sp.z o.o.,
- giving its opinion on the negotiated draft contract on conducting a review and audit of the financial statements for the years 2007-2009, between KGHM Polska Miedź S.A. and Ernst & Young Audit Sp. z o.o.

The Board accepted information from the Management Board regarding hedging policy and the approved strategy for hedging metals prices and the exchange rate for the years 2007 – 2009. The Board also reviewed the proposal of the Remuneration Committee respecting changes in conditions in the work contracts of Members of the Management Board of KGHM Polska Miedź S.A.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 29 May 2007 in Lubin

After reviewing the proposals of the Management Board, the Supervisory Board expressed its agreement with the creation of the company KGHM LETIA Legnicki Park Technologiczny, for the acquisition of shares of Miedziowy Centrum Zdrowia, and for the acquisition of property. The Board reviewed and accepted information from the Management Board concerning:

- the pyrometallurgy modernisation program,
- exploitation of the Głogów Głęboki deposit,
- the schedule of investments realised by the Company and Group.

The Supervisory Board accepted the reports on the activities of the Remuneration Committee and the Audit Committee and expressed its agreement on the provision of tax advisory services and actuarial services by Ernst & Young Audit sp. z o.o. In addition the Supervisory Board set the amount of the quarterly prepayment of the variable remuneration of individual members of the Management Board, and authorised a representative of the Supervisory Board to sign civil law contracts on the payment of life insurance premiums on behalf of a member of the Management Board.

On 15 June 2007 the Supervisory Board in a written manner passed resolution no. 61/VI/2007 regarding evaluation of the proposal of the Management Board on a correction of a resolution of the Ordinary General Shareholders' Meeting of KGHM Polska Miedź S.A.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 25 June 2007 in Warsaw

The Supervisory Board discussed questions related to the convening on 9 July 2007 of an Extraordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. and set the amount of the variable remuneration for 2006 for Members of the Management Board of the Company.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 10 July 2007 in Warsaw

The Supervisory Board, after analysing the materials submitted by the Management Board, as well as after reviewing presentations during the meeting and holding a discussion with the participation

of the Management Board, information was received concerning:

- the results of companies of the KGHM Polska Miedź S.A. Group,
- questions related to innovation, and
- the selection of a legal office regarding the seeking of claims against losses incurred in hedging transactions.

In addition the Supervisory Board of KGHM Polska Miedź S.A. positively reviewed the Investment Project titled „Concentrate Hydrotransport from the OEPs of Polkowice and Rudna to the Głogów smelter” and expressed its consent for an increase in the share capital of „Zagłębie” Lubin SSA.

The Supervisory Board also set the amount of the variable remuneration of individual members of the Management Board.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 30 August 2007 in Lubin

The Supervisory Board reviewed and accepted information from the Management Board on the realisation of suggestions of the Supervisory Board respecting innovation. The Board, after reviewing the documents submitted by the Management Board, as well as after discussing specific questions, passed decisions in the following matters:

- approval of the adjusted „Budget for 2007”.
- the acquisition of shares in Polskie Centrum Promocji Miedzi sp. z o.o.
- the expression of consent for the provision of advisory services by Ernst & Young Audit sp. z o.o.
- setting the amount of the quarterly prepayment of the variable remuneration and changes in work contracts of individual Members of the Management Board, and
- filling out the composition of the Supervisory Board Audit Committee.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 4 October 2007 in Lubin

The Supervisory Board discussed matters related to the convening by the Management Board of an Extraordinary General Shareholders' Meeting of the Company, expressed its opinion on the proposal of the Management Board to the Extraordinary General Shareholders' Meeting regarding annulment of a resolution of the Ordinary General Shareholders' Meeting dated 15 June 2005 passed by the Ordinary General Shareholders' Meeting of KGHM Polska Miedź S.A. regarding settlement of the effects of hyperinflationary revaluation of share capital, to be presented in the consolidated financial statements of the KGHM Polska Miedź S.A. Group, prepared in accordance with International Financial Reporting Standards and International Accounting Standards (IFRS/IAS) and regarding a decrease in share capital presented in the separate financial statements of the Company, and the transfer of funds accumulated in share capital to reserve capital.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 6 November 2007 in Lubin

Due to changes carried out in the composition of the Supervisory Board by the Extraordinary General Shareholders' Meeting, the Supervisory Board selected a new Chairman of the Board (since 10 July 2007, when the then-Chairman, Adam Glapiński, submitted his resignation from membership of the Board, the Board had functioned without a Chairman). Leszek Jakubów was selected as the new Chairman of the Supervisory Board of KGHM Polska Miedź S.A. The Board also filled out the composition of the Audit and Remuneration Committees. The Supervisory Board carried out changes to the composition of the Management Board of the Company, and appointed Ireneusz Reszczyński as First Vice President of the Management Board.

The Supervisory Board reviewed information from the Management Board on the intention to dispose of property belonging to Rejon Robót Kwarce, Walcownia Metali „Łabędy” S.A. and Walcownia Metali Nieżelaznych.

Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 22 November 2007 in Lubin

The Board, after reviewing the materials submitted by the Management Board, considered the proposals of the Management Board and passed decisions in the following matters:

- the expression of consent for the provision of auditing services by Ernst & Young Audit sp. z o.o. to selected subsidiaries of the KGHM Polska Miedź S.A. Group,
- the acquisition by KGHM Polska Miedź S.A. of property,
- authorisation of the Chairman of the Supervisory Board to sign a work contract with the newly-appointed Member of the Management Board,
- tasking the Remuneration Committee to clarify certain provisions in the work contracts of Members of the Management Board.

The Board reviewed and accepted information from the Management Board on marketing, representative sponsoring and donation expenditures in KGHM Polska Miedź S.A. for 2006 and in the period January – August 2007, and on the subject of sponsoring by the Company of the „Poland for Chicago” concert.

III. Report on the Activities of the Audit and Remuneration Committees of the Supervisory Board of KGHM Polska Miedź S.A.

The Audit Committee of the Sixth Term Supervisory Board during the period from 1 January to 31 December 2007 functioned with the following composition:

- Leszek Hajdacki – during the period from 1 January to 31 December 2007
- Leszek Jakubów – during the period from 6 November to 31 December 2007
- Adam Łaganowski – during the period from 8 January to 18 October 2007
- Anna Mańk – during the period from 30 August to 31 December 2007
- Marcin Ślęzak – during the period from 1 January to 31 December 2007

During the period in which they served on the Supervisory Board of KGHM, members of the Board Adam Łaganowski, Pan Leszek Jakubów and Pan Marcin Ślęzak met the criteria for independence.

During the reporting period the Audit Committee realised its tasks based on § 6 point 3 of the Regulations of the Supervisory Board of KGHM Polska Miedź S.A. The members of the Audit Committee in particular paid great attention to the question of internal auditing, as a result of which the Supervisory Board issued a positive recommendation with regard to approval of the „Internal Auditing Regulations of KGHM Polska Miedź S.A. in Lubin” and the „Audit Plan for 2007 and for the years 2007 – 2011 in KGHM Polska Miedź S.A.” (both documents were approved by Supervisory Board resolution no. 24/VI/2007). In accordance with its regulatory duties, the Audit Committee, following its analysis of the documents submitted by the Management Board, prepared for the Supervisory Board a written Report of the Supervisory Board of KGHM Polska Miedź S.A. on the results of its evaluation of the Financial Statements of the Company for financial year 2006 and from the results of its evaluation of the Consolidated Financial Statements and the Report on the Activities of the Group in 2006.

The Remuneration Committee of the Sixth Term Supervisory Board during the period from 1 January to 31 December 2007 functioned with the following composition:

- Adam Łaganowski – during the period from 8 January to 18 October 2007

Remigiusz Nowakowski – during the period from 6 November to 31 December 2007
Stanisław Andrzej Potycz – during the period from 8 January to 31 December 2007
Jan Sulmicki – during the period from 8 January to 11 April 2007
Jerzy Żyżyński – during the period from 8 January to 31 December 2007

During the reporting period the Remuneration Committee realised its tasks based on § 6 point 5 of the Regulations of the Supervisory Board, which sets forth the tasks of the Remuneration Committee. The main areas of interest of the Remuneration Committee in 2007 were questions related to supervision over the realisation of the management staff remuneration system, and recommending changes in the amount of such remuneration to the Supervisory Board. The result of these actions was proposals and recommendations for the Supervisory Board regarding changes in work contracts for the Members of the Management Board, as well as with respect to the amount of remuneration of the President of the Management Board and the Members of the Management Board. The Supervisory Board positively evaluated the proposal of the Remuneration Committee, and by a resolution dated 30 August 2007 changes were introduced to the work contracts for the Members of the Management Board with respect to the amount of remuneration of the President of the Management Board and the Members of the Management Board.

On 29 May 2007 by resolution no. 54/VI/2007 the Supervisory Board of KGHM Polska Miedź S.A. approved the Reports of the Audit and Remuneration Committees of the Supervisory Board of KGHM Polska Miedź S.A. on their activities in 2006.

The Committee for the selection of an entity to provide certified auditing services to audit the separate and consolidated financial statements of KGHM Polska Miedź S.A. for the years 2007 – 2009.

The Supervisory Board, by a resolution dated 8 January 2007, appointed a Committee to select an entity to provide certified auditing services to audit the separate and consolidated financial statements of KGHM Polska Miedź S.A. for the years 2007 – 2009.

The Committee was composed of the following members of the Supervisory Board: Adam Łaganowski (Chairman of the Committee), Ryszard Kurek, Jan Sulmicki and Jerzy Żyżyński. The Committee worked with Ludmiła Mordylak – Chief Accountant of KGHM Polska Miedź S.A. The Committee carried out the process of selecting a certified auditor, the result of which was the passage by the Supervisory Board of the following resolutions:

- regarding selection of the firm Ernst & Young Audit sp. z o.o. as certified auditor to audit and verify the Financial Statements of KGHM Polska Miedź S.A. and the Consolidated Financial Statements of the KGHM Polska Miedź Group for the financial years 2007– 2009,
- positively evaluated the negotiated draft contract presented by the Management Board on the review and audit of the financial statements for the years 2007-2009, between KGHM Polska Miedź S.A. and Ernst & Young Audit Sp.z o.o.

IV. Evaluation of the work of the Supervisory Board of KGHM Polska Miedź S.A.

This report describes the main directions of activities of the Supervisory Board in financial year 2007. All of the members of the Board did their utmost to carry out their duties on the Board, applying all of their knowledge and experience in the operation and supervision of commercial companies.

In submitting this report the Supervisory Board requests that its members be granted approval for the performance of their duties in financial year 2007.