

Declaration regarding implementation of Corporate Governance principles

2005-03-21

DECLARATION
BY KGHM POLSKA MIEDŹ S.A. WITH ITS REGISTERED HEAD OFFICE IN LUBIN
REGARDING THE IMPLEMENTATION OF CORPORATE GOVERNANCE PRINCIPLES BY THE COMPANY

Acting on the basis of § 27 section 2 of the Regulations of the Warsaw Stock Exchange S.A. and in performance of resolution Nr 44/1062/2004 dated 15 December 2004 of the Supervisory Board of the Warsaw Stock Exchange regarding the acceptance of corporate governance principles by joint stock companies being issuers of shares, convertible bonds or privileged bonds, which have been admitted to public trading on an official market, the Management Board of KGHM Polska Miedź S.A. hereby submits the following declaration on the acceptance by KGHM Polska Miedź S.A. of corporate governance principles as described in the document titled „Best Practices in Public Companies 2005”, having the following wording:

PRINCIPLE

YES/ NO
COMMENTS BY
KGHM POLSKA MIEDŹ S.A.

GENERAL PRINCIPLES

I Objective of the Company

The basic objective of operations of a company's bodies is to further the interest of the company, i.e. to increase the value of the assets entrusted to it by its shareholders, with consideration to the rights and interests of entities other than shareholders, involved in the functioning of the company, including, in particular, the company's creditors and employees.

Yes
The bodies of the Company are making every effort to ensure economically-effective operations, while respecting the interests of all groups of shareholders as well as of all other stakeholders in the Company.

II Majority rule and protection of minority

A joint-stock company is a capital venture. Therefore, it must respect the principle of capital majority rule, and the primacy of majority over minority. A shareholder who contributes more capital also bears a higher economic risk. It is, therefore, justified that his interest be taken into consideration in proportion to the contributed capital. The minority must have a guarantee of proper protection of their rights, within limits set by law and commercial

integrity. While exercising its rights, the majority shareholder should take into account the interests of the minority.

Yes

The Management Board and Supervisory Board, in executing and supervising Company business, take care that the rights of the majority shareholder are not allowed to infringe upon those of minority shareholders. Realisation of this principle is carried out et al. by an appropriately-comprised Supervisory Board, which results in the interests of all stakeholders in the Company being represented in the supervisory body of the Company, including the interests of holders of GDRs, who have a representative on the Supervisory Board. The interests of employee shareholders of the Company are likewise represented by three employee-elected members to the Supervisory Board.

The actions of the Company are therefore determined by the collective interests of all groups, and not by the individual interest of any single group.

Care is also taken to ensure adherence to the principle of proportional representation in profits and losses.

III

Honest intentions and non-abuse of rights

The exercise of rights and the reliance on legal institutions should be based on honest intentions (good faith) and cannot reach beyond the purpose and economic reasons for which these institutions have been established. No activities should be taken which exceed the limits so set, and which thus constitute an abuse of the law. The minority should be protected against abuse of ownership rights by the majority and the interests of the majority should be protected against abuse by the minority of its rights, thus ensuring the best protection of equitable interests of the shareholders and other market participants.

Yes

The members of the Company's bodies carry out their duties and exercise their rights and responsibilities, with the greatest of care and good faith.

By attaching their signatures to this declaration, the members of the bodies of the Company have also committed themselves to adhere to the principles of "Best Practices...".

IV

Court control

Neither the company's bodies, nor persons chairing a General Shareholders Meeting, may decide on issues which should be resolved by court judgements. This does not apply to activities which are within the powers of the company's bodies and of persons chairing General Shareholders Meetings, or which they are obliged to undertake by force of law.

Yes

The bodies of the Company and persons chairing General Shareholders Meetings do not decide on issues which should be resolved by court judgements, except for those formal issues which are passed during General Shareholders Meetings.

V

Independent opinions ordered by the company

When choosing an entity which is to provide expert services, including in particular the services of an expert auditor, financial and tax advisory services, as well as legal services, the company should consider whether there exist circumstances limiting the independence of this entity when performing the entrusted tasks.

Yes

The Company endeavors to ensure the full independence of any opinion or expert advice which it seeks. The criteria for selecting an entity which is to provide auditing services to the Company have been outlined in a document titled "Principles for selecting an entity which is to provide auditing services for the financial statements of the Company and of a special purpose auditor" as approved by the Supervisory Board".

BEST PRACTICES OF GENERAL MEETINGS

1

A General Shareholders Meeting should take place in a location and at a time to allow the participation of as many shareholders as possible.

Yes

General Shareholders Meetings are held at the head office of the Company, but may also be held in either Warsaw or Wrocław. Such possibilities, as provided for by the Statutes, allow the Company the opportunity to select a venue for the General Shareholders Meeting which is most advantageous for its shareholders. For many years the Company has followed the principle that General Shareholders Meetings are held at 11 AM, in order to ensure that the largest number of shareholders have the opportunity to attend the meeting.

2

A request for convening a General Shareholders Meeting and placing certain issues on its agenda, made by parties so entitled, should be justified. Draft resolutions proposed to be adopted by the General Shareholders Meeting and other key documents should be presented to the shareholders along with a justification and an opinion of the supervisory board prior to the General Shareholders Meeting, in advance so as to allow them time to review and evaluate the same.

Yes

In a case in which the request to convene a General Shareholders Meeting and to include certain items in the agenda by a shareholder or shareholders is not justified, then, irrespective of the obligation to convene a General Shareholders Meeting, the Management Board will request such justification.

In accordance with standard practice adopted by the Company, all significant materials respecting the General Shareholders Meeting are sent to the largest shareholder 15 days prior to the date of the meeting.

The Company provides the above-mentioned materials to all shareholders who make such a request at least 15 days prior to the date of the meeting.

Application of this principle has been additionally „strengthened” by its insertion into the Statutes of the Company (§ 25 section 3).

Important material related to the General Shareholders Meeting are available on the website of the Company and are therefore available to all interested parties, including shareholders, investors and analysts.

3

A General Shareholders Meeting convened at the request of shareholders should be held on the date given in the request, and if this date cannot be kept, on the closest date which would allow the General Shareholders Meeting to settle the issues placed on its agenda.

Yes

The Management Board adheres to the principle that General Shareholders Meetings convened by the request of shareholders are held within the period described in the request, with due regard to formal requirements arising from current law, unless this is not possible due to practical reasons – in which case another date is

selected in consultation with the party requesting the meeting.

Application of this principle has been additionally „strengthened” by its insertion into the Statutes of the Company (§ 22 section 4).

4

A General Shareholders Meeting whose agenda includes certain issues at the request of authorised entities or which has been convened at such request may be cancelled only upon consent of the requesting parties. In all other instances, a General Shareholders Meeting may be cancelled if its holding is hindered (force majeure) or is obviously groundless. The meeting is called off in the same manner as it has been convened, ensuring as little negative consequences for the company and its shareholders as possible, and in any case no later than three weeks prior to the original date of the meeting. A change in the date of a General Shareholders Meeting is made in the same manner as the cancellation, even if the proposed agenda does not change.

Yes

The Company adheres to the principle that General Shareholders Meetings which have been convened are not cancelled nor is the announced date of the General Shareholders Meeting changed, unless there are extraordinary or specifically justified circumstances. This has not yet occurred in the experience of the Company.

Application of this principle has in addition been „strengthened” by its insertion into the Statutes of the Company (§ 22 sections 6-8) and into the By-laws of the General Shareholders Meeting.

5

In order for a representative of a shareholder to participate in a General Shareholders Meeting, his right to act on behalf of the shareholder should be duly documented. It should be presumed that a written document confirming the right to represent a shareholder at a General Shareholders Meeting is in conformity with the law and does not require any additional confirmations and acknowledgements unless its authenticity or validity prima facie raises doubts by the company's management board (upon drawing up the attendance list) or the chairman of the General Shareholders Meeting.

Yes

Participation at a General Shareholders Meeting and the execution of voting rights only requires a proxy statement (in written form subject to legal invalidity) granted by a person duly entitled to do so, based on an appropriate commercial entry, or in the case of individuals based on the civil code.

When filling out the attendance roster for the General Shareholders Meeting, only the above-mentioned documents are reviewed by the Company.

6

The General Shareholders Meeting should have regular by-laws setting forth the detailed principles of conducting the meetings and adopting resolutions. The by-laws should contain, in particular, provisions concerning elections to the supervisory board by voting in separate groups. The by-laws should not be subject to frequent changes; it is advisable that the changes enter into force as of the subsequent General Shareholders Meeting.

Yes

At the General Shareholders Meeting of 29 May 2003, new General Shareholders Meeting By-laws were approved. The previous By-laws had been in force since 1998. The new By-laws reflect the accrued experience of the Company in carrying out General Shareholders Meetings, and includes among others provisions related to elections, including of the Supervisory Board, in the form of group elections. The new By-laws will come into force as of the next General Shareholders Meeting.

7

A person opening the General Shareholders Meeting should procure an immediate election of the chairman of the meeting, and should refrain from any substantial or formal decisions.

Yes

An appropriate entry has been added to the new General Shareholders Meeting By-laws currently in force (§ 5 section 2).

8

The chairman of the General Shareholders Meeting ensures an efficient conduct of the meeting and observance of the rights and interest of all shareholders. The chairman should counteract, in particular, the abuse of rights by the participants of the meeting and should guarantee that the rights of minority shareholders are respected. The chairman should not, without sound reason, resign from his function, or put off the signing of the minutes of the meeting.

Yes

Pursuant to the General Shareholders Meeting By-laws currently in force (§ 6 section 1):

„The Chairman of the General Shareholders Meeting should lead the General Shareholders Meeting in such a way as to ensure its efficient conduct and the protection of the rights and interests of all shareholders”.

Further provisions of the By-laws are of a nature and wording as to ensure adherence to this principle.

9

A General Shareholders Meeting should be attended by members of the supervisory board and the Management Board. An expert auditor should be present at an annual General Shareholders Meeting and at an extraordinary General Shareholders Meeting if financial matters of the company are to be discussed. The absence of a member of the Management Board or the supervisory board at a General Shareholders Meeting requires justification. This justification should be presented at the General Shareholders Meeting.

Yes

Application of this principle has been additionally „strengthened” by its insertion into § 28 sections 3 and 4 the Statutes of the Company, which read as follows :

„3. Members of the Supervisory Board and members of the Management Board should be present during the General Shareholders Meeting...

4. The Management Board of the Company is obligated to ensure the presence of the Company auditor at those General Shareholders Meetings whose agenda includes a review of Company financial matters”.

A clause has been added to the agreement with the entity providing auditing services describing the requirement that the expert auditor be present at those General Shareholders Meetings which involve discussion of the financial matters of the Company.

10

Members of the supervisory board and the management board and the expert auditor of the company should, within their powers and to the extent necessary for the settlement of issues discussed by the General Shareholders Meeting, provide the participants of the meeting with explanations and information concerning the company.

Yes

Members of the Supervisory Board and the Management Board and the expert auditor of the Company which are present at the General Shareholders Meeting shall, if such a need presents itself, provide the participants of the meeting with explanations and information concerning the Company as lie within their powers and to the extent necessary for the settlement of the issues being discussed.

Application of this principle has been additionally „strengthened” by its insertion into § 8 section 2 of the By-laws of the General Shareholders Meeting.

11

All answers provided by the management board to the questions posed by the General Shareholders Meeting should take into account the fact that the reporting obligations are performed by a public company in a manner which follows from the Law on Public Trading in Securities, and certain information cannot be provided otherwise.

Yes

While the bodies of the Company do not place limits on the information which, in particular, the General Shareholders Meeting of the Company requests to be provided, they remain in adherence to the provisions of the Law on Public Trading (...) and to rulings related to informational requirements.

12

Short breaks in the session which do not defer the session, ordered by the chairman in justified cases, cannot be aimed at hindering the exercise of the shareholders' rights.

Yes

Pursuant to the clause included in the By-laws of the General Shareholders Meeting, short breaks in the session may be ordered by the Chairman. However, the Chairman of the General Shareholders Meeting may not order breaks in the session or act on the motions of General Shareholders Meeting participants if such actions would serve to hinder the exercise by shareholders of their rights (§ 6 section 3 letter a and section 4).

13

Voting on procedural matters may be carried out only on issues related to the conduct of the meeting. This voting procedure cannot apply to resolutions which may have impact on the exercise by the shareholders of their rights.

Yes

Pursuant to the clause included in the By-laws of the General Shareholders Meeting (§ 10 section 1), voting on procedural matters may only be carried out on issues related to the conduct of the Meeting.

14

A resolution not to consider an issue placed on the agenda may be adopted only if it is supported by sound reasons. A motion in this respect should be accompanied by a detailed justification. Removal of an item from the agenda or failure to consider an issue placed on the agenda at the request of the shareholders requires the passage of a resolution of the General Shareholders Meeting, following the earlier-expressed approval of all shareholders present who had put forward the said resolution, and supported by 75% of the votes cast at the General Shareholders Meeting.

Yes

Pursuant to the By-laws of the General Shareholders Meeting all issues included on the agenda should be considered by the General Shareholders Meeting.

This principle, as previously worded, has been inserted directly into the By-laws of the General Shareholders Meeting (§ 11). Due to its modification and introduction of the required majority of votes cast, § 11 of the By-laws will be appropriately modified.

15

A party objecting to a resolution must have an opportunity to concisely present the reasons for its objection.

Yes

In accordance with prior practice, a party objecting to a resolution has always had the right to present its arguments and to justify its opposition.

This principle has been inserted directly into the By-laws of the General Shareholders Meeting (§ 12).

16

Due to the fact that the Commercial Partnerships and Companies Code does not provide for court control in the event where a resolution is not adopted by the General Shareholders Meeting, the Management Board or the Chairman of the Meeting should form the resolutions in such a way that each person who does not agree with a decision being the subject of the resolution, has the possibility of challenging the same.

Yes

The Chairman of the General Shareholders Meeting is charged with ensuring that Resolutions are worded in such a way as to be clear and transparent. The Management Board of the Company also ensures that the Chairman of the Meeting has the assistance of the legal counsel of the Company.

The Management Board also endeavors to ensure that proposed Resolutions for the General Shareholders Meeting, prepared as specific points in the agenda, are written in a manner which is unambiguous and which allows for their being challenged.

17

At the request of a participant in the General Shareholders Meeting, his written statement is recorded in the minutes.

Yes

In accordance with Company practice, the written statements of participants in the General Shareholders Meeting have been recorded in the minutes of the Meeting, if a shareholder has so requested.

In order to ensure that this principle is adhered to, The Management Board of the Company or a person responsible for ensuring the participation of a notary public who will serve at the General Shareholders Meeting, inform the notary of the necessity of adhering to this principle.

BEST PRACTICES OF SUPERVISORY BOARDS

18

The Supervisory Board submits to the General Shareholders Meeting an annual concise evaluation of the company's standing. The evaluation should be made available to all shareholders early enough to allow them to become acquainted with its contents before the annual General Shareholders Meeting.

Yes

Application of this principle has been added to the Statutes of the Company as an additional responsibility of the Supervisory Board (§ 20 section 2 point 5 and § 34 section 2) and to the By-laws of the Supervisory Board (§ 6 section 2 point 5).

The Company assumes that the Supervisory Board will pass resolutions encompassing their own evaluation of the standing of the Company. The basis for this evaluation is those documents which have been reviewed by the auditor and provided to the Supervisory Board by the Management Board, not later than 30 days prior to the scheduled date of the General Shareholders Meeting. The Supervisory Board evaluates the standing of the Company early enough for the Management Board of the Company to provide it to all shareholders in sufficient time so as to allow them to review the report prior to the General Shareholders Meeting.

19

A member of the Supervisory Board should have relevant education, professional and practical experience, be

of high moral character and be able to devote all the time required to properly perform the function on the Supervisory Board. Candidates for members of the Supervisory Board should be presented and supported by reasons in sufficient detail to allow an educated choice.

Yes

In accordance with prior practice, candidates having the relevant education and professional and practical experience to serve on the Supervisory Board are announced by shareholders at the General Shareholders Meeting. Justification is always provided for the candidacy of those persons proposed at the General Shareholders Meeting to serve on the Supervisory Board. The materials presented in this regard include a detailed CV of the candidate. Those persons proposing a candidate carry out appropriate evaluations of the candidate. This practice shall continue to be applied. The specific nature of the Company must, however, be taken into account, to which the law dated 30 August 1996 on the commercialisation and privatisation of State-owned companies (art.14) still applies, based on which 3 members of the Supervisory Board (out of a 9-person Board), are appointed to the Supervisory Board after being elected by the employees of the Company.

20

a) At least half of the members of the Supervisory Board should be independent members, with stipulations as in point d). Independent members of the Supervisory Board should be free of any relationship with the Company and its shareholders or employees which could significantly effect the capacity of an independent member to make impartial decisions;

b) A detailing of the criteria for independence should be described in the Statutes of the Company;

c) Resolutions should not be passed in the following issues without the consent of a majority of the independent members of the Supervisory Board:

- declarations by the Company of any kind and by any entity related with the Company on behalf of members of the Management Board;
- expressions of consent to enter into a significant contract by the Company or by a subsidiary thereof with an entity related to the Company, a member of the Supervisory Board or Management Board or with entities related to them;
- the selection of a certified accountant to audit the financial statements of the Company.

d) In companies where a single shareholder owns a packet of shares granting over 50% of the total number of votes, the Supervisory Board should contain at least two independent members, including an independent chairman of the auditing committee, if such a committee has been established.

Yes

(introduction by
30 June 2005)

with stipulations as in the commentary

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 decided to recommend 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

proposed change in the Statutes in this respect would read as follows:

In § 16 of the Statutes, sections 5-8 are added after section 4, with the following wording:

„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, action should immediately 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 a company is made based on the appropriate clauses of the Corporate Partnerships and Companies Code or on the Accounting Law”.

The Company intends to introduce the principle and criteria for independence of at least two members of the Supervisory Board by 30 June 2005, making the appropriate changes to the Company Statutes.

21

A supervisory board member should, above all, bear in mind the interests of the Company.

Yes

The members of the Supervisory Board during their term in office primarily bear in mind the interests of the Company. In particular they supervise realisation of the strategy and long term plans of the Company.

22

Members of the Supervisory Board should take relevant actions in order to receive from the Management Board regular and complete information on any and all significant issues concerning the company's operations and on risks related to the business being conducted and the ways of managing such risk.

Yes

Every year the Supervisory Board approves the plan and schedule of their work, which describes the specific details of the work to be performed by the Supervisory Board. This Plan is presented to the Management Board, which enables the proper preparation of regular and exhaustive information for the Supervisory Board as to all important matters related to the operations of the Company.

The agenda of every Supervisory Board meeting includes standard points, comprising information on the economic standing of the Company and on the social situation within the Company, as well as the current work of the Management Board.

At every meeting of the Supervisory Board, the Management Board is obligated to discuss all important matters relating to the operations of the Company. The Supervisory Board also appoints advisory committees to carry out specific supervisory tasks and to submit reports to the Supervisory Board.

The Company also has a system of internal control.

23

A Supervisory Board member should inform the remaining members of the board of any conflict of interest that arises, and should refrain from participating in discussions and from voting on passing a resolution on the issue in which the conflict of interest has arisen.

Yes

This principle has been inserted directly into the By-laws of the Supervisory Board (§ 13 section 10).

24

Information on the personal, actual and organisational connections of a Supervisory Board member with a given shareholder, and in particular with the majority shareholder, should be made available to the public. The company should have a procedure in place for obtaining information from members of the Supervisory Board and for making it available to the public.

Yes

This principle has been inserted directly into the By-laws of the Supervisory Board (§ 15). A member of the Supervisory Board is obligated to immediately submit a written statement in this regard in sufficient time as to enable the Company to publish the information.

Information obtained in this manner is available - at the request of the interested party - at the head office of the Company.

25

Supervisory Board meetings, save for issues which directly concern the Management Board or its members, and in particular their removal, liability and the setting of their remuneration, should be accessible and open to members of the Management Board.

Yes

Members of the Management Board have an invitation to attend meetings of the Supervisory Board.

This principle has been inserted directly into the By-laws of the Supervisory Board (§ 12).

26

A Supervisory Board member should enable the Management Board to present publically and in an appropriate manner information on the disposal or acquisition of shares of the company or of its parent entity or subsidiaries, and of transactions with such companies, provided that such information is relevant for his financial standing.

Yes

This principle has been inserted directly into the By-laws of the Supervisory Board (§ 16). A member of the Supervisory Board is obligated to submit a written statement, in a wording and form acceptable by the Company.

Information obtained in this manner is available upon the request of the interested party at the head office of the Company.

27

The remuneration of members of the Supervisory Board should be determined based on transparent procedures and principles. Remuneration should be fair, but should not constitute a significant cost item in the company's business or have material impact on its financial results. It should also be in reasonable relation to the remuneration of members of the Management Board. The aggregate remuneration of all members of the Supervisory Board, as well as individually for each member of the Supervisory Board, including a breakdown by the separate types of remuneration, should be disclosed in the annual report, together with information on the procedures and principles for its determination.

Yes

The remuneration of members of the Supervisory Board is not a significant item in the costs of operations of the Company.

The remuneration of members of the Supervisory Board is determined based on a resolution of the General Shareholders Meeting.

28

The Supervisory Board should operate in accordance with its by-laws which should be available to the public.

These by-laws should call for the establishment of at least two committees:

- an auditing committee, and
- a remuneration committee

The auditing committee should comprise at least two independent members and at least one having qualifications and experience in accounting and finance. The tasks of the committees should be detailed in the by-laws of the Supervisory Board. Supervisory Board committees should submit to the Supervisory Board annual reports of their activities. The Company should provide these reports to shareholders.

Yes

The Company possesses by-laws for the Supervisory Board, the contents of which are available on the website of the Company. This principle has been appropriately „strengthened” by its insertion into the Statutes of the Company (§19 section 6).

In the near future, the Supervisory Board will make appropriate changes to its by-laws to adapt them to the current wording of the principle.

29

The agenda of a Supervisory Board meeting should not be amended or supplemented during the meeting which it concerns. This requirement does not apply if all members of the Supervisory Board are present and agree to the amendment or supplementation of the agenda, and in instances where the adoption of certain activities by the Supervisory Board is necessary in order to protect the company against damage and in the case of a resolution which concerns the determination whether there exists a conflict of interest between a Supervisory Board member and the company.

Yes

The agenda for Supervisory Board meetings is set in accordance with the plan and schedule of work of the Supervisory Board. Seven days prior to the planned date of the meeting, members of the Supervisory Board receive an invitation to attend the meeting together with necessary documents, unless there exist circumstances which justify the shortening of this period by the Chairman.

The agenda for a meeting may be changed or added to if all members of the Supervisory Board are present and agree to do so.

This principle has been inserted directly into the By-laws of the Supervisory Board (§ 10, § 13 section 4).

30

A Supervisory Board member delegated by a group of shareholders to permanently exercise supervision should submit to the Supervisory Board detailed reports on the performance of his task.

Yes

In the Company's experience to date, this has not yet occurred. Should such a situation arise, the member of the Supervisory Board delegated by a group of shareholders to permanently exercise supervision would submit to the Supervisory Board detailed, written reports on the performance of his task at each meeting.

31

A Supervisory Board member should not resign from his function during a term of office if this could render the functioning of the board impossible, and in particular, if it could hinder the timely adoption of an important resolution.

Yes

The members of the Supervisory Board have accepted this principle.

BEST PRACTICES OF MANAGEMENT BOARDS

32

Bearing in mind the interest of the company, the Management Board sets forth the strategy and the main objectives of the company's operations, and submits them to the Supervisory Board, for the implementation and performance of which the Management Board is liable. The Management Board takes care to ensure the transparency and effectiveness of the company management system and the conduct of its business, in accordance with legal regulations and best practice.

Yes

The Management Board sets forth the strategy of the Company.

This strategy is subject to approval by the Supervisory Board.

At least once per year the Supervisory Board discusses the strategy and long term plans of the Company and evaluates their execution.

The Management Board is responsible for the implementation and execution of the strategy.

This principle is treated as an obligation of the Management Board, and has been added to the By-laws of the Management Board of the Company (§ 11 points 1 and 2).

33

When making decisions on corporate issues, members of the Management Board should act within the limits of justified economic risk, i.e. after consideration of all information, analyses and opinions, which, in the reasonable opinion of the Management Board, should be taken into account in a given case in view of the company's interest. When determining what is in the interest of the company, the justified long term interests of shareholders, creditors, employees and other entities and persons co-operating with the company with respect to its economic operations, as well as the interests of the local community, should be taken into account.

Yes

The Management Board of the Company closely analyses all actions and decisions taken.

The members of the Management Board fulfil their obligations with great care and through use of their store of knowledge and personal experience.

This principle is treated as an obligation of the Management Board, and has been added to the By-laws of the Management Board of the Company (§ 11).

34

In transactions with shareholders and other persons whose interests have impact on the interest of the company, the Management Board should act with utmost care to ensure that the transactions are at arms' length

Yes

The basis for determining the value of a transaction with shareholders and with other persons whose interests have impact on the interest of the Company, is its market value, if known, and if unknown, such transactions are valued based on market criteria.

35

A Management Board member should display full loyalty towards the company and avoid any actions which could result exclusively in enhancing said member's own material interest. If a Management Board member receives information on the possibility of making an investment or other advantageous transaction concerning

the business of the company, he should present such information immediately to the Management Board for the purpose of considering the possibility of the company taking advantage of it. Such information may be used by a management board member or be passed over to a third party only upon consent of the Management Board and only when this does not infringe upon the company's interest.

Yes

In submitting this declaration on the application by the Company of „Best Practices...”, the members of the Management Board have likewise committed themselves to their personal implementation within the scope described by the declaration submitted by the Company.

This principle is treated as an obligation of each member of the Management Board, and has been added to the By-laws of the Management Board of the Company (§ 11 point 5).

36 A Management Board member should treat his shares in the company and in its dominant companies and subsidiaries as a long term investment.

Yes

Adopted by the members of the Management Board of the Company.

37 Management Board members should inform the Supervisory Board of each conflict of interest in connection with the performed functions or of the risk of such conflict.

Yes

The members of the Management Board are obligated to inform the Supervisory Board of any conflict of interest related to the performance of their duties, or of any possibility that such conflict may arise. This principle is treated as an obligation of each member of the Management Board, and has been added to the By-laws of the Management Board of the Company (§ 11 point 6).

38

The remuneration of Management Board members should be set based on transparent procedures and principles, taking into account its incentive nature and ensuring effective and smooth management of the company. The remuneration should correspond to the size of the company's business enterprise, should be reasonable in relation to the economic results, and be related to the scope of liability resulting from a given function, taking into account the level of remuneration of members of management boards in similar companies in a similar market.

Yes

Pursuant to the Statutes of the Company, the conditions of remuneration are set by the Supervisory Board. Based on these, agreements are signed with the members of the Management Board.

The remuneration of members of the Management Board is composed of a fixed part, and of a variable part which is matched to and dependent on the financial results of the Company.

The remuneration of members of the Management Board is set based on the concepts arising from this principle.

39

The aggregate remuneration of all members of the Management Board, as well as of each individual member of the Management Board to include its detailing by line item, should be disclosed in the annual report as well as information on the procedures and principles for determining such remuneration. If the amount of remuneration of individual members of the Management Board significantly differs, it is recommended that a relevant explanation be published.

Yes

The aggregate remuneration of all members of the Management Board is disclosed in the annual report. The Company has adopted this same principle for each individual member of the Management Board.

40

The Management Board should lay down the principles and procedure of operations and allocation of powers in the by-laws, which should be open and generally available.

Yes

The principles and procedure of operations and allocation of powers of members of the Management Board are set out in the By-laws of the Management Board and in the organisational regulations of the Company. The By-laws of the Management Board are available on the website of the Company and are available upon request.

BEST PRACTICES IN RELATIONS WITH THIRD PARTIES AND THIRD PARTY INSTITUTIONS

41

The selection of an expert auditor for a company should guarantee impartiality of performance of the entrusted tasks.

Yes

The Company has adopted „Principles for selecting an entity which is to provide auditing services for the financial statements of the Company and of a special purpose auditor”, as introduced by the Supervisory Board. An entity serving as an expert auditor is required to submit a statement on the meeting of criteria of impartiality and independence prior to the provision of auditing services as well as upon their conclusion. Furthermore, in accordance with the relevant principle laid down in the „Principles...”, an entity serving as expert auditor may not also serve as a special purpose auditor.

42

In order to ensure proper impartiality of opinion, the company should change the expert auditor at least once every five years. By a change in expert auditor is also meant a change in the person carrying out the audit. In addition, over the long term a company should not make use of the services of the same entity for carrying out the audit.

Yes

The document „Principles for selecting an entity which is to provide auditing services for the financial statements of the Company and of a special purpose auditor” includes the rule that the entity providing expert auditing services is obligated by its agreement to change the individual who audits the documentation of the Company at least every four years.

43

The expert auditor should be selected by the Supervisory Board after presenting the recommendation of the audit committee, or by the General Shareholders Meeting after presenting the recommendation of the Supervisory Board containing the recommendation of the audit committee. Any other selection made by the Supervisory Board or the General Shareholders Meeting than that recommended by the audit committee should be justified in detail. Information on the selection of an entity to serve as the expert auditor together with justification of this choice should be included in the annual report.

Yes

Pursuant to § 20 section 2 point 6) of the Statutes of the Company, the selection of an entity to provide auditing services is made by the Supervisory Board of the Company after reviewing the opinion of the Auditor Selection Committee (AUDIT COMMITTEE). This Committee is comprised of members of the Supervisory Board who are selected by the Supervisory Board, and may also include other members selected by the Supervisory Board who are representatives of the Company.

44

A special purpose auditor may not be an entity which currently, or during the period related to the audit, serves as expert auditor in the company or a subsidiary thereof.

Yes

The Company, adhering to this principle, ensures that any entity serving as a special purpose auditor does not also serve as an expert auditor for either the Company or its subsidiaries. An appropriate entry was added to the „Principles for selecting an entity which is to provide auditing services for the financial statements of the Company and of a special purpose auditor”.

45

A company should acquire its own shares in such a way that no group of shareholders is privileged.

Yes

Although the Company has not to date carried out a buy-back of its own shares, the Management Board declares that, in the case of such a transaction, it would make every effort to ensure that no group of shareholders was privileged.

46

The statutes of the company, its basic internal regulations, information and documents related to General Shareholders Meetings, and the financial statements should be made available in the registered head office of the company and on its website.

Yes

The Statutes of the Company, its basic internal regulations, information and documents related to General Shareholders Meetings, and the financial statements are available in the registered head office of the Company and on its website.

47

The company should have proper media relations procedures and regulations, and an information policy ensuring coherent and reliable information about the company. The company should, in compliance with the legal regulations and taking into account its interests, make available to mass media representatives information on its current operations and business standing, and allow their presence at General Shareholders Meetings.

Yes

Within its organisational structure, the Company has a Public Relations department, which organises and ensures full and honest information about the Company.

The Management Board of the Company (and its spokesperson) applies this principle of full information about the Company by making every effort to ensure that members of the press are provided with honest information on the current operations of the Company and on the economic situation of the Company, reflecting however the fact that the Company operates within the confines of the law on the public trading of securities.

As needed, the Management Board organises press conferences, or else the President or another Member of the Management Board gives interviews.

Up to now the Company has permitted members of the press to be present at General Shareholders Meetings, and intends to continue this practice in the future.

48

In its annual report, a company should make public its declaration on the application of corporate governance standards. If the standards are not applied to any extent, the company should also publically explain this fact.

Yes

The Company adheres to the principles outlined in the document „Best practices (...)” in force on the Warsaw Stock Exchange, in accordance with the contents of this declaration.

Lubin, 7 February 2005

Management Board (Signatures) :

1. Wiktor Błądek – President of the Management Board
2. Jarosław Andrzej Szczepek – Ist Vice President of the Management Board

3. Andrzej Krug – Vice President of the Management Board
 4. Robert Nowak – Vice President of the Management Board
 5. Marek Szczerbiak – Vice President of the Management Board
- Approval (counter signature) of the Supervisory Board (signatures) :

1. Józef Czyczerski
2. Leszek Hajdacki
3. Tadeusz Janusz
4. Ryszard Kurek
5. Janusz Maciejewicz
6. Jerzy Markowski
7. Elżbieta Niebisz
8. Jan Rymarczyk
9. Marek Wierzbowski

(Translation from the original Polish version. In the event of differences resulting from the translation, reference should be made to the official Polish version.)