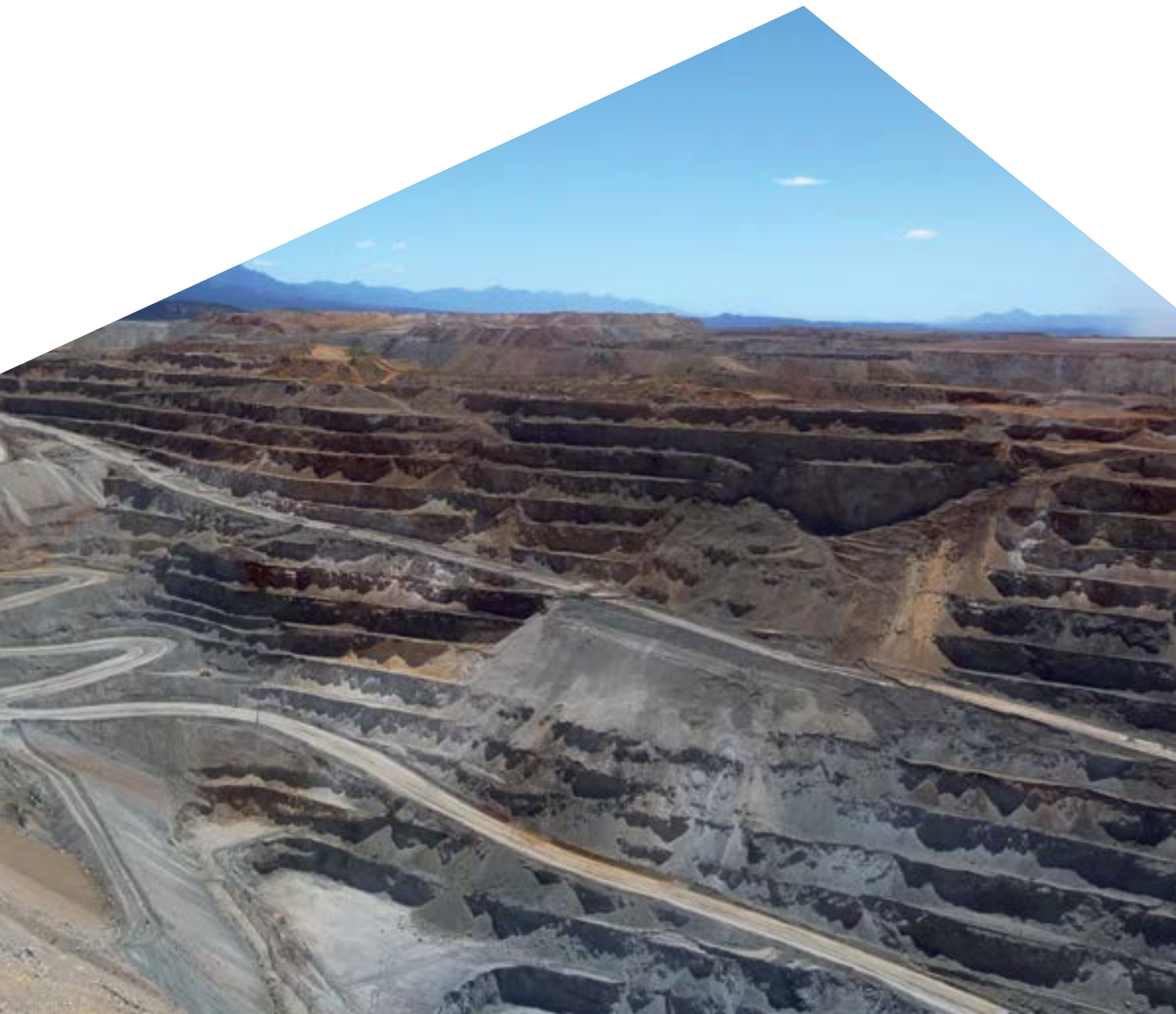
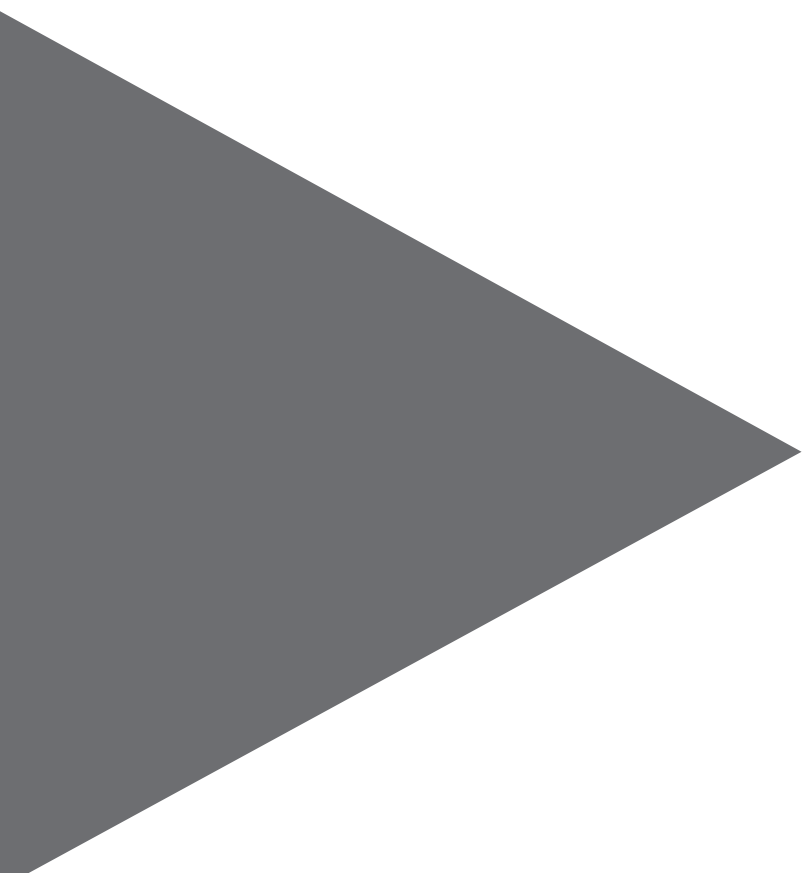




KGHM Polska Miedź S.A.
Integrated Report for 2014





KGHM Polska Miedź S.A. Integrated Report for 2014

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This report and the indicators reported for 2014 are in respect of the company KGHM Polska Miedź S.A.
To ensure the document's usability, in selected places data concerning the Group created by the Parent Entity
is also presented.

IN THIS CHAPTER:

Letter from the President of the Management Board

Letter from the Chairman of the Supervisory Board

2014 in numbers

Key events in 2014



Chapter I. Introduction



Letter from the President of the Management Board





Ladies and Gentlemen,
Dear Shareholders,

It is with great joy and pride that I present to you the Integrated Report of KGHM Polska Miedź S.A. for 2014. For KGHM, 2014 was a year of great challenges, but also historical achievements. They relate primarily to our core business.

A stable level of mining production, growth in metallurgical production, and maintaining cost discipline are the main achievements of the KGHM Group in 2014. 2014 was another year of progress in production areas and development of the resource base, as well as financial security. The established targets were achieved.

In 2014, the production of payable copper was close to that of 2013 and amounted to 663 thousand tonnes. The production of metallic silver increased by 8 percent and reached 1 256 tonnes. This result enabled KGHM to once again become the leader amongst the world's silver manufacturers. On the other hand, the production of other precious metals such as

gold, palladium, and platinum was 152.9 troy ounces, which indicates growth by 15 percent. The KGHM Group closed 2014 with a net result of PLN 2.45 billion.

The difference in the result as compared to 2013 was caused mainly by low commodity prices, primarily copper and silver. The price of silver declined by nearly 20 percent, and copper by over 6 percent, relative to 2013. The minerals extraction tax had a substantial impact on KGHM's results; it amounted to PLN 1.5 billion and accounted for 30 percent of the unit concentrate production cost. The net profit achieved in these conditions is a consequence of stable production and financial discipline.

The most important event for the KGHM Group was the commissioning of the open pit mine Sierra Gorda in Chile, in 2014. This project confirmed KGHM's high expertise and enabled it to become one of the largest copper producers

in the world. Commissioning of the Sierra Gorda mine marks a growth in copper production by KGHM, as well as increased financial effectiveness and an improved product portfolio.

In the second half of 2015, the Sierra Gorda mine should achieve its designed production capacity of at least 110 thousand tonnes of ore per day.

Directional decisions will be made this year concerning the second phase of the project. Upon its completion, the production of copper will have doubled and will reach at least 190 thousand tonnes of ore per day. The areas adjacent to the pit currently under operation, to which KGHM owns the rights, have a promising exploration potential. Initial estimates show the possibility of a substantial extension of the mine's operational life.

The Victoria project – comprising the construction of a polymetallic underground mine in Canada – was continued as planned. Advanced



G4-1

G4-2

project work was continued as well as preparatory work for the sinking of the shaft. Engineering work continued on the Ajax project which take into account the results of analysis conducted to date on technological improvements of the project, which are necessary for the completion of the Basic Engineering Report in 2015.

A stable level of production in Poland is ensured by mining in the area of Deep Głogów which was launched in 2014 at a level below 1 200 meters, as well as other intensive mining work.

We have obtained the rights to new concessions in areas adjacent to our current operating sites in Poland. We have documented resources of 4.1 million tonnes of copper ore and about 7.5 thousand tonnes of silver in the region of Gaworzyce-Radwanice. The life of our deposits in Poland is currently estimated at 30-40 years.

We want to replace every tonne of extracted copper with three tonnes of the metal in our newly-documented resources.

Work on the Pyrometallurgy Modernisation Program at the Głogów smelter/refinery is proceeding according to plan. The goal of the project is to open a second flash furnace installation. KGHM accomplished the main goals of the strategy for 2009-2018, expanding the resource base and

attaining copper production close to 700 thousand tonnes. The main objective of the new Strategy for 2015-2020 with an outlook to 2040 is to achieve annual production capacity of over 1 million tonnes of copper equivalent and to continue work aimed at improving mine operating efficiency.

standards. We remain a reliable producer, a trustworthy business partner, and a corporation committed to pursuing a policy of sustainable development. We continue to unify and build the strong image of KGHM to promote widespread awareness of the values we follow and standards under

According to the Strategy, over the next six years we intend to carry out an investment program worth PLN 27 billion. Of these funds, 65 percent will be allocated to development investments, with the rest to be spent on maintenance and replacement projects. Achievement of our strategic goals will be based on efficiency and innovation, which already distinguish KGHM, and will ensure our competitive advantage in the future.

The development of new projects aimed at expansion of the Group will be possible through the financing secured in 2014 for the Group's investment program. KGHM arranged a syndicated loan of USD 2.5 billion and an investment loan with the European Investment Bank of PLN 2 billion. At the same time we plan to continue a policy of sustainable financing, which provides for the use of internal sources supplemented with debt to the extent where the net debt to EBITDA ratio remains at a safe level. Wherever we operate, we always do so based on the same, highest

which we operate. The common values of all KGHM Group employees are zero harm, teamwork, results orientation, accountability, and courage. These values are the foundation of all activities of KGHM on global markets, and they help consolidate international teams between companies, divisions, and continents.

The KGHM brand has also gained an additional graphic design element. This element is the KGHM mineral, whose three-part design symbolises the pillars on which the brand

rests - knowledge, cooperation, and the company's role in the world. With the knowledge and experience of its employees, KGHM mines and processes precious resources, enabling the development of the modern world. Knowledge is KGHM's most valuable resource, while the long-term and stable development of the company is largely the result of teamwork. At the same time, copper - one of the most amazing metals on earth, which has for thousands of years played a key role in the development of mankind - remains the source of the company's continued existence, development, and success. By discovering new possibilities, KGHM provides the world with further valuable metals and improves upon efficient and environmentally friendly methods of extraction and processing.

In 2014, KGHM strengthened its position as a socially responsible business. Once again it confirmed that it meets the high requirements for companies included in the RESPECT index of the Warsaw Stock Exchange. We are proud to have been a continuous part of the index since its first edition.

We continued activity in the Responsible Business Forum, and we also joined the UN Global Compact, which is the world's largest UN initiative for corporate social responsibility and the promotion of sustainable development.

We continue to expand the formula and scope of activities of the KGHM Polish Copper Foundation, which in 2014 allocated PLN 16 million to support individuals, institutions, and organizations. As at this year, the Foundation has a new, project-based dimension to its activities.

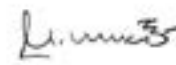
We are one of the most desirable employers for students and university graduates, ensuring stability of employment and remuneration, as well as providing opportunities for improvement and development of their professional careers.

Work on the new strategy has brought about a new vision. We expect to build our competitive advantage through the implementation of new technologies. The strategic objective of KGHM Polska Miedź S.A. is the implementation of modern technologies necessary to develop the world's first intelligent mine based on neural networks.

Can we accomplish this ambitious vision? I am convinced it is possible, because KGHM is a company created by people with passion and competence.

On behalf of the Management Board of KGHM Polska Miedź S.A. I would like to thank everyone who in the past year supported KGHM in achieving its desired objectives. I am convinced that in 2015,

just like in previous years, the actions of the Supervisory Board, Management, and Staff will translate into the joint success of KGHM and all of its stakeholders.



Herbert Wirth
President of the Management Board

Letter from the Chairman of the Supervisory Board

Dear Ladies and Gentlemen,

2014 was for KGHM a period of both great challenges and groundbreaking successes. They proved that KGHM is an excellent choice for investors seeking assets with a stable return and with the potential for growth in the medium and long term. This year showed that, especially in difficult macroeconomic conditions, it is worth investing in a stable organization with strong values, one that cares about society and the natural environment, as well as in experienced staff who through new projects continuously build the company's value for shareholders.

KGHM confirmed its assets, such as a diversified portfolio of projects and a stable resource base, coupled with a consistent policy to improve cost-effectiveness. These advantages are visible in the production and financial results of KGHM for 2014. Total production of payable copper in the Group amounted to 663 thousand tonnes. This level is similar to that of 2013. At the same time, a significant increase was recorded in the production of silver and precious metals (8 per cent and 15 per cent, respectively). Consequently, despite a significant drop in commodity prices on international markets, the KGHM Group managed to close 2014 with a net profit of PLN 2.45 billion.

In terms of mining projects management, 2014 was a

breakthrough year in the history of KGHM. First of all, at a record pace for mining projects – within a mere ten years from the first drillhole – we started production at the Sierra Gorda mine in Chile. The launch of copper production below the level of 1200 meters in the Deep Głogów deposit also represented an important event.

This development requires securing energy supplies for the main production line. In 2014 KGHM achieved this by launching CCGT units in Głogów and Polkowice. Together these units produce about one-fifth of the electricity necessary for KGHM. At the same time, the inclusion of these units in the KGHM energy supply system strengthens the Company's independence from the fluctuating energy price market. Another important step in the same direction was the signing of an agreement by PGE EJ 1 shareholders, a company responsible for the construction of the first Polish nuclear power plant.

The implementation of this project will benefit from our experience in public consultations which we successfully conducted in 2014 in connection with the expansion of the Żelazny Most tailings storage facility. The signing of the agreement with the residents of surrounding communities brings KGHM closer to the completion of this investment, which is essential for the stable

operation of KGHM.

In addition to the aforementioned Sierra Gorda mine and the Deep Głogów area, other strategic investments in progress during 2014 were the Ajax and Victoria projects in Canada. Both of these projects reached important milestones in 2014. The Ajax project received a new plan for the mining plant, which will help optimize the investment and facilitate the process of obtaining environmental permits. The new mine plan meets the expectations of the local communities, whose voice has received KGHM's full attention since the very launch of exploration, and at the same time is fully economically justified. In 2014, significant progress was also made on the Victoria project. The preliminary technical design is currently being developed, which comprises the detailed schedule, budget and a model of the future mine. PeBeKa from the KGHM Group is one of the design team members, whose inclusion will further increase the value of the project for shareholders. Both the Ajax and Victoria projects, the basis for KGHM's future growth in value, will be continued with equal intensity in 2015, as well. The year 2015 should also witness the full production capacities of the first phase and exploration of additional potential around the Sierra Gorda mine. We will also strive to disclose to KGHM's shareholders, as early as 2015, all



we know about the future expansion options for the Sierra Gorda mine. Depending on the solution chosen, the mine's production capacity will increase around the start of 2019 to 220 thousand tonnes of copper per year. In parallel, in 2015 we will analyse the opportunities for copper production from oxide ore, deposited in the rock layers removed when the actual sulphide ore deposits were being uncovered. It is worth noting that the projects we invest in feature a low production cost. In the long term this will provide sustained improvement of our competitive position.

Investments are one of the pillars of KGHM's strategy for the years 2015-2020. The foundation of our investment activities is timely project completion without budget overruns. The strategy provides for implementation of the largest investment program in the history of KGHM, worth PLN 27 billion, over the next six years. Of these funds, 65 per cent will be allocated to development investments and 35 per cent will be spent on maintenance and replacement projects. More than half of these funds will be invested in Poland. These will include the continuation of the Pyrometallurgy

Modernisation Program with a total budget of PLN 2.1 billion. The launch of a new flash furnace at the Głogów smelter/refinery is expected in late 2016.

Investments in the core process line will be matched by continual development of the resource base. We want to ensure replacement of extracted resources, so that one tonne of extracted ore corresponds to three tonnes in proven reserves. Through extensive research and development work we have managed to document copper ore deposits of 4.1 million tonnes in the Gaworzyce - Radwanice region.

The third pillar of the strategy - production and sales - is expected to stabilise production and revenue performance. All activities will be based on efficiency and innovations, which distinguish KGHM today and will do so in the future. Our employees' knowledge and commitment are our most valuable resources. In our daily work, we follow the values shared by all employees in the KGHM Group. Zero harm, teamwork, results orientation, accountability and courage form the catalogue of our core values. The determination and high competence

of employees are the key element of our potential, which helps us reach the deposits of raw materials that are so valuable to our civilization.

While submitting the Integrated Report, on behalf of the Supervisory Board, I would like to thank the Management Board of KGHM, our employees, and all those who contributed to the effective implementation of the Company's business objectives. I believe we can meet the challenges presented by the new strategy for 2015-2020 with an outlook to 2040. We will achieve our set objectives while respecting the interests of society as well as ethical and environmental aspects.

Marcin Moryń
Chairman of the Supervisory Board

2014 in numbers - KGHM

1st place

In terms of global silver production

Revenues:
PLN 20.49 billion

C1 cost:
1.89 USD/lb

8th place

In terms of global copper production

1.53 percent/tonne copper content in ore, for silver –
44.6 g / tonne

Dividend:
PLN 4 per share

KGHM's resources:
44.4 mn tonnes
Cu (measured & indicated)

KGHM's reserves:
22.7 mn tonnes
Cu (proven & probable)

Silver production:
1256 tonnes
in KGHM Polska Miedź S.A.

Total production of gold, platinum and palladium -
152.9 thousand oz t

EBITDA:
PLN 5.31 billion

A decrease in costs in Poland (the parent entity) of **1 percent**

Total Group production of copper equivalent from our own sources:
663 thousand tonnes

An increase in silver production of **8 per cent** and in total production of precious metals of **15 percent**

Total production of copper equivalent includes KGHM Polska Miedź S.A. production:
555 thousand tonnes;
KGHM International:
106 thousand tonnes

An increase in electrolytic copper production in Poland of **2 percent**

Net profit:
PLN 2.45 billion

PLN 27 billion

The amount KGHM plans to spend in the next six years on asset development investments. It will be the largest investment campaign in the history of KGHM. More than half of this amount will be spent in Poland

We completed

45 research

and development

projects

for an amount of nearly

PLN 32 million

and **130 expert**

studies

for an amount of about

PLN 15 million

More than

PLN 16 million

allocated by the KGHM Polska Miedź S.A. Foundation

to support nearly

400 local projects.

The Foundation supported

556 people

in saving lives and health.

Employment of over

18 000 people in KGHM

Polska Miedź SA

and **34 000** employees

in the KGHM Group

PLN 601 million

spent by the Company

on implementation

of environmental

investments

20

the number of consultation

sessions with local

communities, which resulted

in a signed agreement

allowing the Company

to expand the Żelazny Most

tailings storage facility

10.35

- the number of accidents

per million

hours worked

94 percent

of KGHM's stakeholders

admit taking non-

financial data into account

when assessing

the performance of KGHM

PLN 35 million

- earmarked by KGHM

for the sponsorship

of important sport, cultural

and scientific initiatives.

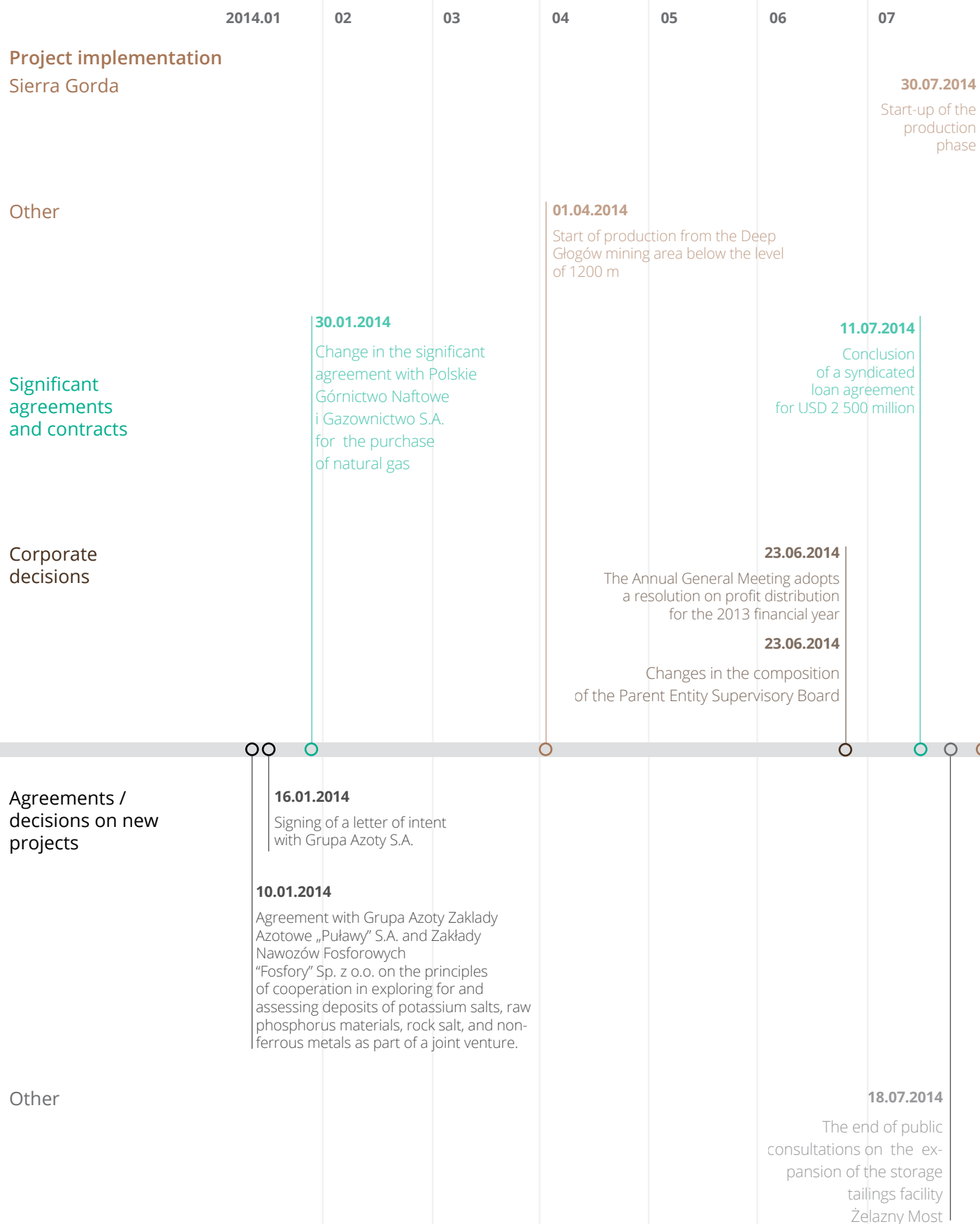
25 percent

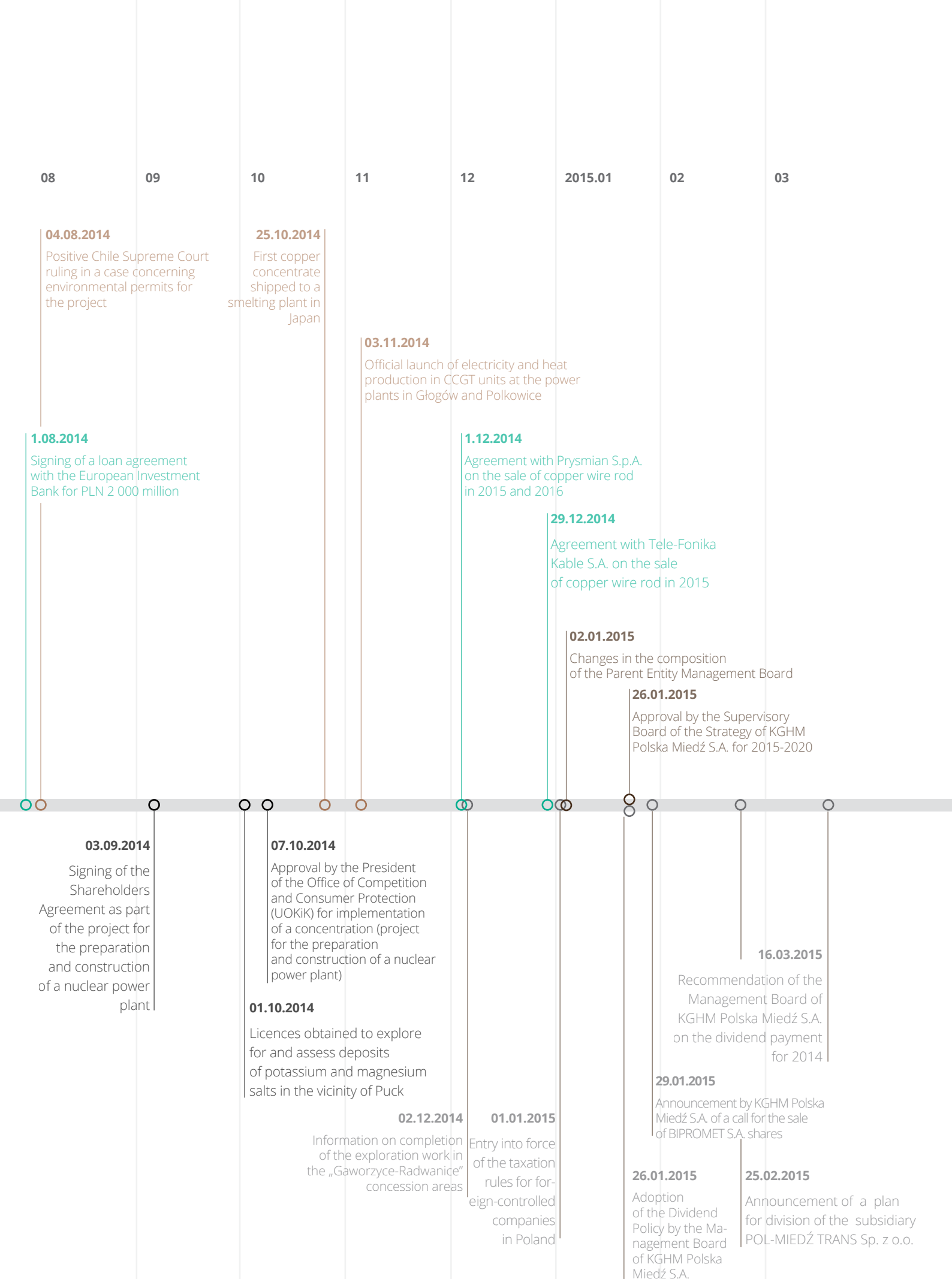
- the amount of KGHM's

energy needs that will be met

by CCGT unit production

Key events in 2014





08

09

10

11

12

2015.01

02

03

04.08.2014

Positive Chile Supreme Court ruling in a case concerning environmental permits for the project

25.10.2014

First copper concentrate shipped to a smelting plant in Japan

03.11.2014

Official launch of electricity and heat production in CCGT units at the power plants in Głogów and Polkowice

1.08.2014

Signing of a loan agreement with the European Investment Bank for PLN 2 000 million

1.12.2014

Agreement with Prysmian S.p.A. on the sale of copper wire rod in 2015 and 2016

29.12.2014

Agreement with Tele-Fonika Kable S.A. on the sale of copper wire rod in 2015

02.01.2015

Changes in the composition of the Parent Entity Management Board

26.01.2015

Approval by the Supervisory Board of the Strategy of KGHM Polska Miedź S.A. for 2015-2020

03.09.2014

Signing of the Shareholders Agreement as part of the project for the preparation and construction of a nuclear power plant

07.10.2014

Approval by the President of the Office of Competition and Consumer Protection (UOKiK) for implementation of a concentration (project for the preparation and construction of a nuclear power plant)

01.10.2014

Licences obtained to explore for and assess deposits of potassium and magnesium salts in the vicinity of Puck

02.12.2014

Information on completion of the exploration work in the „Gaworzyce-Radwanice” concession areas

01.01.2015

Entry into force of the taxation rules for foreign-controlled companies in Poland

16.03.2015

Recommendation of the Management Board of KGHM Polska Miedź S.A. on the dividend payment for 2014

29.01.2015

Announcement by KGHM Polska Miedź S.A. of a call for the sale of BIPROMET S.A. shares

26.01.2015

Adoption of the Dividend Policy by the Management Board of KGHM Polska Miedź S.A.

25.02.2015

Announcement of a plan for division of the subsidiary POL-MIEDŹ TRANS Sp. z o.o.

IN THIS CHAPTER:

KGHM today and tomorrow

Description of KGHM Polska Miedź S.A. activities

Structure of the Group

The model of value creation at KGHM Polska Miedź S.A.

The context of KGHM operations

Extraction and production

Sales

Key financial data

We are proud of our employees



Chapter II. About us



Chapter II.

About us

Consistent implementation of the strategy adopted in 2009 for the years 2009-2018 allowed key business objectives to be achieved. The company has acquired the status of a global copper producer with nearly 700 thousand tonnes per year.

KGHM today and tomorrow

KGHM Polska Miedź S.A. is one of the world's leading manufacturers of copper, and the world leader in the production of silver. The company has over 50 years of experience in mining and processing copper ore. Our main activities are the mining of metal ores and the production of non-ferrous metals and precious metals, mainly electrolytic copper, silver, and gold. KGHM is a publicly traded company with shares held by the State Treasury (31.79 per cent).

Consistent implementation of the strategy adopted in 2009 for the years 2009-2018 allowed key business objectives to be achieved. The company has acquired the status of a global copper producer with nearly 700 thousand tonnes per year.

Achievement of its strategic vision allowed KGHM to build shareholder value. This is illustrated by the increase in total shareholder returns (TSR) with a 33 per cent compound annual growth rate (CAGR) since 2009. In the years 2009-2015, TSR for KGHM were the highest among the peer group of global mining companies against which KGHM compares itself in terms of costs and manufacturing.

Consistent implementation of the strategy allowed KGHM to join the ranks of major global copper producers, creating the potential for further development of the company and thus providing the opportunity to create and sustain shareholder value.

A breakthrough in the company's development came in 2012, with the friendly takeover of the Canadian company Quadra FNX Mining Ltd. (now KGHM INTERNATIONAL LTD.), as a result of which KGHM Polska Miedź increased production by nearly 25 per cent (i.e. 100 thousand tonnes of copper), ensuring its advance from 10th to 8th place in terms of world copper production.

At the same time, the Company's resource base was expanded with mining assets located in Canada, the US and Chile which are rich in copper, silver and other precious metals, as well as nickel and rare metals. One of the Company's most important mining projects is the construction of the Sierra Gorda open-pit mine in Chile, one of the world's largest deposits of copper ore resources, molybdenum, and gold. On 31 July 2014, production was launched at the mine, and in October the first transport of copper concentrate was sent to the Toyo Smelting Plant in Japan.

2.1. Changes in the Group in the years 2009-2014



The successfully executed strategy from 2009 served as the impulse to define new directions of development and aspirations for the Company for the next several decades. In January 2015, the Supervisory Board approved the strategy submitted by the Management Board for 2015-2020 with an outlook to 2040.

The main objective of the new strategic outlook is to achieve annual production capacity of over **1 million tonnes of copper equivalent** and to continue steady improvement of efficiency in mining operations. To achieve this goal KGHM will implement **the largest investment program in the Company's history and the largest exploratory campaign in Polish history**. The company will also become a global leader in mining safety and innovation through implementation of an intelligent mine project.

Key KGHM information:

- More than 50 years of experience in the mining and production of copper and silver.
- Leading positions in world rankings of the largest producers of copper and silver each year.
- International commodity exchange certificates, which confirm the quality of copper and silver produced by KGHM.
- The company is listed on the Warsaw Stock Exchange.
- Production assets in Poland, Canada, the USA and Chile. In addition to copper and silver, metals such as molybdenum, palladium and platinum, nickel and gold are mined.
- An extensive new metal resources exploration program in Poland, Germany, Canada, the USA, Chile and Greenland.
- A Group which consists of dozens of companies.
- Employment in the Group - 34 000 employees.

COMPANY ADVANTAGES

- Positive medium and long term outlook of the copper market.
- Diversified portfolio of projects as well as a stable resource base.
- Reversal of the trend of rising production costs (down 2 per cent per annum in 2012-2014), combined with a further emphasis on improving cost efficiency.
- Stable dividend policy of up to 1/3 of the Company's net profit.
- Experienced staff that have successfully launched new mining projects.
- A stable organization with strong values that cares for the environment and its surroundings.



G4-6

KGHM - LAYERS OF POSSIBILITIES

- **Knowledge** – KGHM is a company with resources of practical knowledge in the field of mining and processing. This knowledge allows the company to operate more efficiently than the competition, and to successfully achieve its objectives
- **Impact on global development** – KGHM is a company that provides precious metals through which the world can grow
- **Cooperation** – KGHM is a company that works as a team with employees and customers, suppliers, and local communities

Description of KGHM Polska Miedź S.A. activities

KGHM runs a high-tech geological, mining and metallurgy business. KGHM's assets are located on three continents. The Company focuses on copper mining and copper production as well as the production of precious metals and other non-ferrous metals.

KGHM is the largest silver producer and eighth largest copper producer in the world. In addition to these two main raw materials, it also produces gold, molybdenum, nickel, rhenium, lead, and platinum. KGHM also mines rock salt, which is extracted from the level above the Polish copper and silver ore deposits.

Copper cathodes, the end product of mines and smelters, are registered on stock exchanges in London and

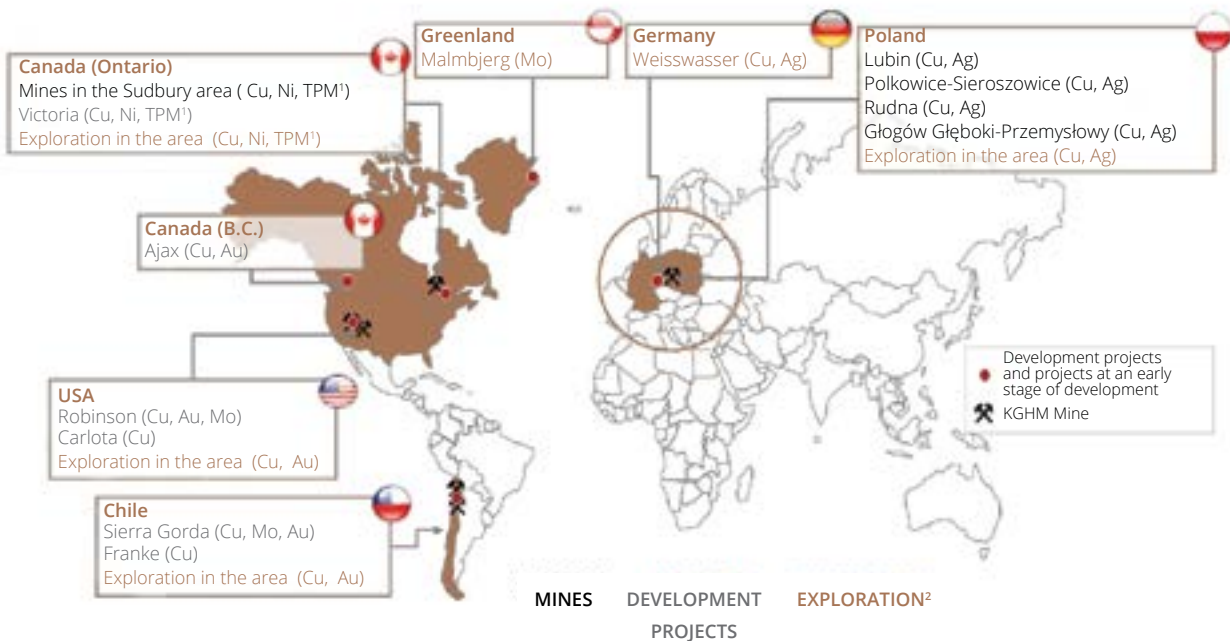
Shanghai, and the refined silver is certified by exchanges in London, Dubai and New York.

The shares of KGHM Polska Miedź have been listed on the Warsaw Stock Exchange (GPW) since July 1997. Since November 2009 the Company has been a part of the RESPECT index of socially responsible companies on the WSE.

KGHM POLSKA MIEDŹ S.A.

has a diversified portfolio of geological and mining projects in various stages of development.

2.2. Locations of KGHM Group geological and mining projects



1. TPM =TOTAL PRECIOUS METALS(PLATINUM, PALLADIUM, GOLD)
2. REFERS TO PROJECTS AT AN EARLY STAGE OF DEVELOPMENT AND EXPLORATION IN THE REGION

KGHM's resources are currently estimated at 44.4 million tonnes of copper in situ, with proven and probable reserves of 22.7 million tonnes. Documented global mineral reserves amount to 700 million tonnes. All around the globe there are more than 1 000 known copper ore deposits, of which approximately 400 are being mined. Copper accounts for 16 per cent of the total value of all metals mined from all world deposits. The good prospects of the copper market today are determined by high demand in China and other Asian countries.

The company is licenced for the mining of Polish deposits, estimated at around 26 million tonnes of copper. They will allow ore extraction in Poland to be maintained at current levels for the next 30-40 years. KGHM strengthened its international position through foreign investments made in 2012.

The company also operates copper mines in North and South America. These include:

- Robinson (USA)
- Franke (Chile)
- Carlota (USA)
- McCreedy (Canada)
- Morrison (Canada)
- Sierra Gorda (Chile)

A special place on the map of KGHM's overseas investments is occupied by one of the world's largest open-pit mines: Sierra Gorda in Chile. KGHM is also developing new promising projects in Canada:

- Ajax – an open-pit copper and gold mine
- Victoria – an underground copper, nickel, and platinum mine

In 2014 work was undertaken to:

- Acquire new exploration concessions
- Document new deposit areas for their future exploitation
- Implement exploration work in concessioned areas

In its history, KGHM has extracted more than one billion tonnes of ore and produced 18 million tonnes of copper.

SIGNIFICANT EVENTS IN 2014

- Acquiring a concession for the exploration and prospecting of copper ore deposits in the **Konrad** area located within the immediate vicinity of the **Synklina Grodziecka** concession.
- Acquiring concessions for copper–silver ore exploration in the **Stojanów** concession. This area is an extension on Polish territory of geological structures located in the area of Weisswasser (Germany).
- Acquiring exploration concessions to search for deposits of potassium and magnesium salts in the vicinity of **Puck**, along with accompanying minerals: copper and silver ores, as well as rock salt.
- The Company continues to await resolution of the issue of granting concessions for the **areas Bytom Odrzanski** and **Kulów-Luboszyce**.
- Documentation work was completed in the **Gaworzyce-Radwanice** area. The prepared geological documentation is pending approval by the Minister of the Environment.
- Phase II of the drilling program in the **Synklina Grodziecka** area was completed. The Company intends to prepare joint documentation of the Synklina Grodziecka and Konrad areas.
- Geological work aimed at the exploration of the **Retków-Ścinawa** and **Głogów** concessions was started. Drilling has commenced.
- As part of work within the **Weisswasser (Germany, Saxony)** project, a seismic survey was completed, and historical data obtained from an exploration drillhole sunk in this area in the 1960s was analysed. The collected data supported the possibility of the existence of copper mineralization which meets KGHM's exploration criteria.

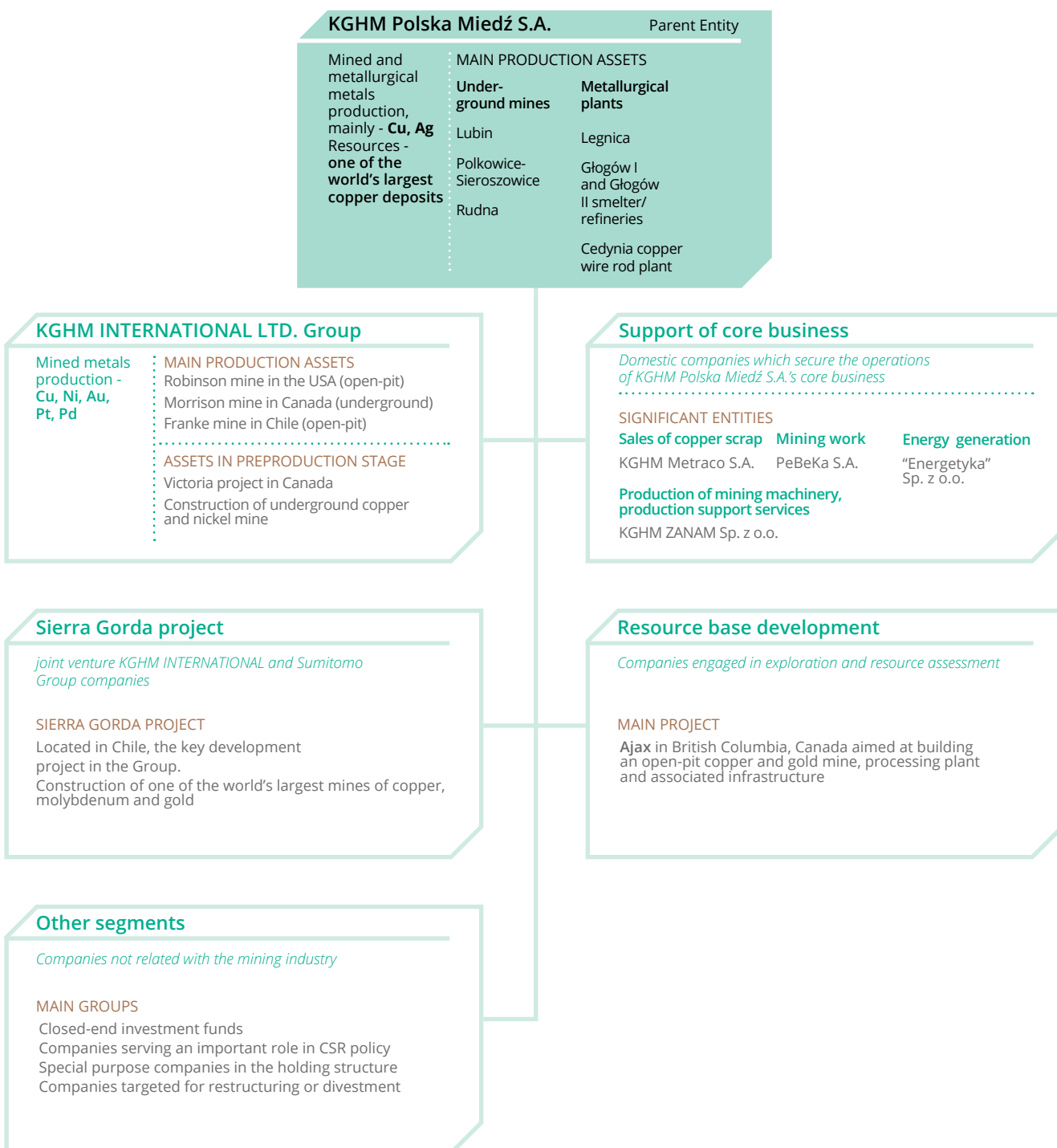
Structure of the Group

As at 31 December 2014, the Group included the Parent Entity - KGHM Polska Miedź as well as 75

subsidiaries. Some of the subsidiaries formed their own groups. The largest of them, both in terms of the number

of operators and the amount of capital, is KGHM INTERNATIONAL LTD. It consists of 26 subsidiaries.

2.3. The segmented structure of the KGHM Polska Miedź S.A. Capital Group as of 31.12.2014



The Group includes companies involved in the core business, i.e. the mined production of metals (such as copper, silver, nickel, gold, platinum and palladium), exploring for and assessing deposits of copper and other metals, and companies

which support the core business, for example companies which provide services involving mine construction, transportation, the production of mining machinery and equipment, the generation of electricity and heat, the production

of explosives and also research and development. Other companies which are not related to the core business provide services in fields such as health care, among others.

The model of value creation at KGHM

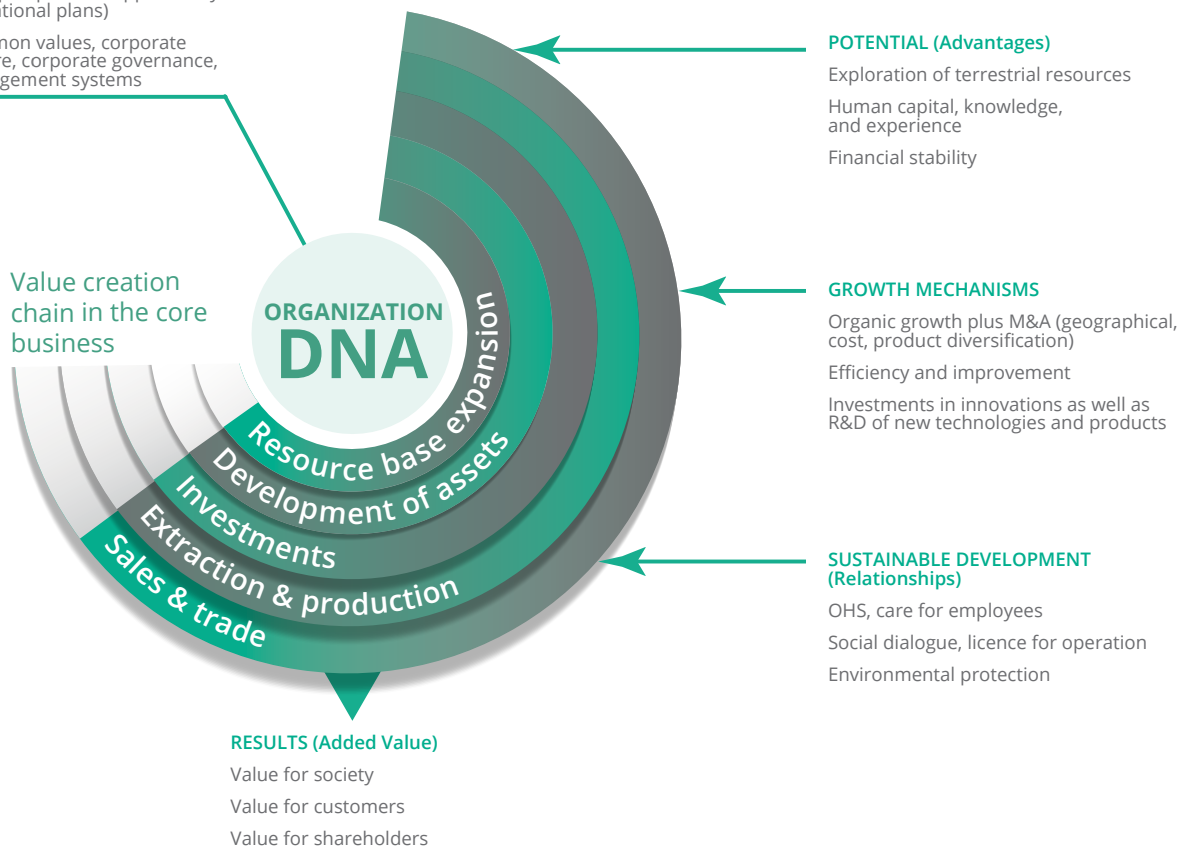
2.4. The model of value creation at KGHM

ORGANIZATION DNA

Aspiring to the role of an industry leader and building permanent competitive advantages (metal yield maximisation, new technologies)

Clear strategic priorities (long term perspective supported by operational plans)

Common values, corporate culture, corporate governance, Management systems





G4-12

Geological, mining, and metallurgical activities in Poland

Production in KGHM Polska Miedź S.A. is a fully integrated production process, in which the end product of one phase is the starting material (half-finished product) used in the next stage. Ore extraction in KGHM Polska Miedź S.A. is performed by three mining divisions: Lubin, Rudna and Polkowice-Sieroszowice; the Concentrators Division, which prepares concentrate for the smelters, and the Tailings Division, responsible for storing and managing the tailings generated by the production process. The organisational structure of KGHM Polska Miedź S.A. includes three metallurgical plants: the Legnica smelter and refinery, the Głogów smelter and refinery complex and the Cedynia copper wire rod plant.

Mining

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting for ore extraction. The mined ore is transported to storage areas near the shafts, from where it is sent by skip hoisting shafts to the surface. After the ore is unloaded at the shaft top, it is transported by conveyor belts or railway to the processing plants located at each of the three mines.

As a result of enrichment by flotation, a concentrate is obtained which is then dried and transported to the smelting plants – Legnica, Głogów and Głogów II.

Flotation waste is transported by pipeline to the Żelazny Most tailings storage facility. This storage site also functions as a reservoir and dosing tank for excess circulating water.

Metallurgy

The copper smelters/refineries produce electrolytic copper from concentrates produced from our own mined ore as well as from purchased copper-bearing material (concentrates, copper scrap and blister copper). Legnica and Głogów I use shaft furnaces, and Głogów II uses smelting technology in a flash furnace, based on a modified concession of the Finnish company Outokumpu. The final product takes the form of 99.99 per cent pure electrolytic copper cathodes. Nearly half of the copper is transported to the Cedynia rolling mill located in Orsk, where copper wire rod, oxygen-free copper wire, and oxygen-free copper wire containing silver are produced. The anode slime produced by the electrorefining process at all three smelters contains precious metals. This anode slime then becomes input material in the production of refined silver, gold, palladium-platinum concentrate, and selenium. Meanwhile, de-copperised electrolyte is used for the production of raw nickel sulphate. Dusts and slimes from the dedusting of technological exhaust gases are used in the production of refined lead.

Down-stream processing

Oxygen-free copper rod and wire, and oxygen-free silver-bearing copper wire production processes are

implemented at the Cedynia rolling mill. They combine state of the art technological solutions of the world's leading companies with automation and continuous quality control of the product. Feedstock for the rod and oxygen-free copper wire production processes, i.e. Contirod and Upcast, respectively, are copper cathodes, which are mainly supplied by the Głogów and Legnica copper smelters/refineries of KGHM Polska Miedź S.A.

Contirod process - In the first phase of the Contirod production process the cathodes are fed to an Asarco melting furnace, which melts 45 tonnes of copper per hour at 1 120°C. The molten copper is then transported through a gutter system to a settling furnace with ca. 20 tonnes capacity. The liquid copper, dispensed into a Hazlett casting machine, crystallizes into a strand of 60 x 122 mm. The copper strand, cast at the rate of 12 m/min at 850°C, is then subjected to plastic forming in 16 roll stands. The final product is 8 mm diameter wire rod, wound into coils weighing 5 tonnes and protected with a synthetic wax layer against secondary oxidation.

Upcast process - In the Upcast line, consisting of a cathode loading system, melting furnace, settling furnace, casting machine with crystallizers for vertical casting, and a coiler, oxygen-free copper wire is manufactured.

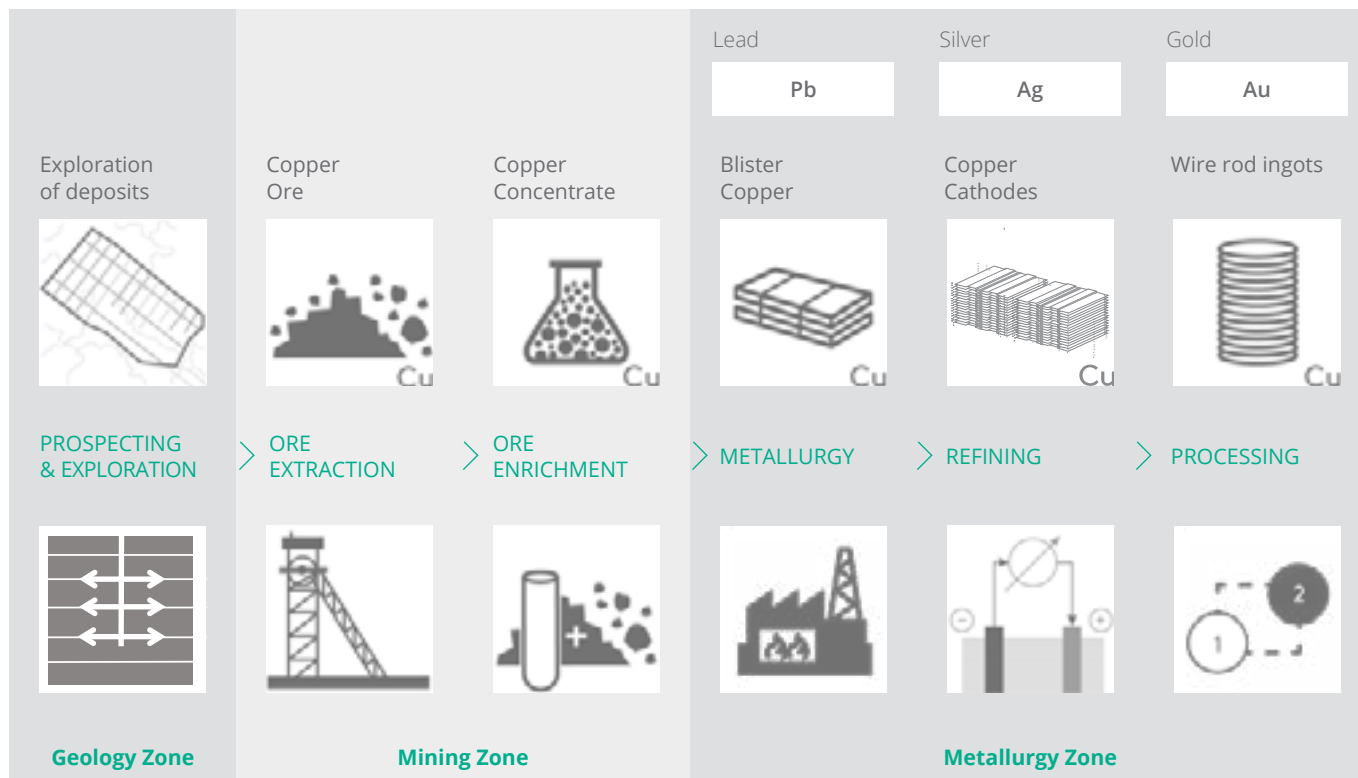
SUPPLY CHAIN

Within the scope of the Purchasing Policy, KGHM Polska Miedź worked with 1 500 suppliers in 2014. The total estimated value of tender procedures carried out in accordance with the Purchasing Policy amounts to PLN 3.2 billion in 2014. KGHM cooperates with all types of suppliers: contractors, agents and wholesalers. In most cases these suppliers are from Poland. In several cases foreign suppliers, mainly from European Union countries, are used. In addition, within the Group, KGHM uses the services of a Logistics Operator – specialized companies performing supply functions.

2.5. Integrated geological, mining and metallurgical operations in KGHM Polska Miedź S.A.



G4-4



Core products

The Company's main products are electrolytic copper cathodes and processed products. Copper cathodes with a minimum copper content of 99.99 per cent meet the highest quality requirements and are registered as grade „A” on the London Metal Exchange (LME), under three brands: HMG-S, HMG-B and HML, as well as on the Futures Exchange in Shanghai. The main customers of cathodes are manufacturers of semi-finished copper products such as wire rods, wires, sheets, and copper alloys. Processed products include:

- copper wire rod (for the cable, electrical, and mechanical engineering industries),

- oxygen-free copper wire and oxygen-free copper wire containing silver (the cable industry, manufacturers of trolleys, electric motors and generators),
- copper billets (the construction and electrical industries).

99.99% pure silver is produced in the form of bars (ingots) with a weight of approx. 1000 oz t (approx. 32.15 kg) and granulate. Silver in the form of bars, registered under the KGHM HG brand, possesses Good Delivery certificates, issued by the London Bullion Market Association and Dubai Multi Commodities Centre, and a

certificate of registration on the NYMEX New York Stock Exchange.

The main recipients of granulate and bar silver are financial institutions. KGHM-produced silver is used as an investment metal, but it is also used in many other sectors, such as jewellery, the electronics industry, the electrotechnology industry, the photovoltaic power industry, numismatics, the photography industry, medicine and tableware production.

Gold in the form of 99.99 percent pure bars is used in the jewellery industry, banks, and electronics industry.

Geological, mining and metallurgical operations in Canada, the USA, and Chile.

The business activity of the KGHM INTERNATIONAL LTD. Group is the mining production of metals, including copper, nickel, gold, platinum, palladium, molybdenum, conducted both in open-pit and underground mines.

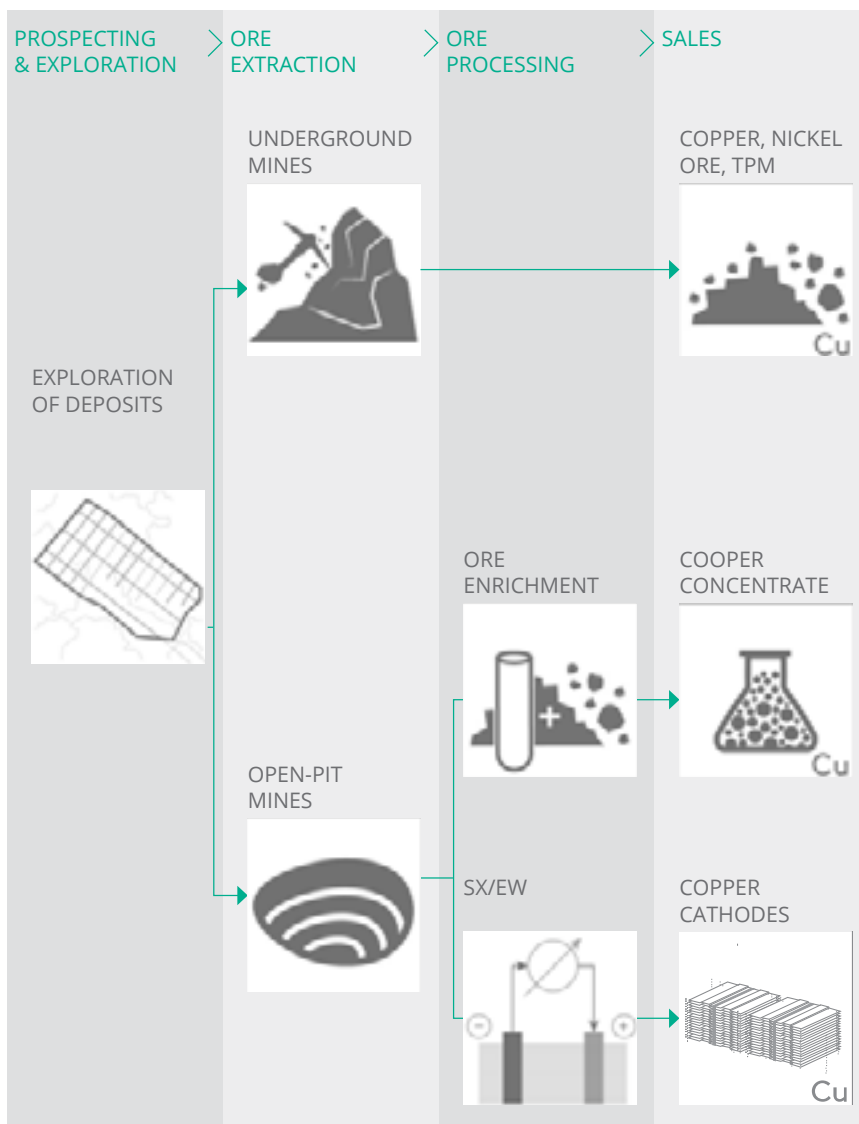
Open-pit mines – Carlota in the US and Franke in Chile – reprocess mined

ore using SX/EW technology (heap leaching, extraction of the resulting solution, and electrolysis of copper metal from the concentrated solution). The main product is electrolytic copper in the form of cathodes.

The Robinson open-pit mine in the US enriches the mined ore and sells the final product in the form of a copper concentrate that has a purity of over 20 per cent. The mine also produces small quantities of molybdenum concentrate.

McCreedy West and Morrison are underground mines in Canada, selling ore rich in copper and nickel as well as gold, palladium and platinum. Sierra Gorda – an open-pit mine in Chile – enriches the mined ore and sells the final product as an approx. 30 per cent pure copper concentrate together with molybdenum concentrate.

2.6. Core business diagram for the KGHM INTERNATIONAL LTD. Group



The context of KGHM operations

The copper market in 2014

Copper prices during the year

The year 2014, in line with market expectations, saw further declines in the price of copper on world stock exchanges. The annual average price of the red metal amounted to 6 862 USD/t and thus was lower by more than 6 per cent, compared to 2013. The beginning of the year, despite the relatively positive macroeconomic data and declining of metal exchange inventories, was marked by a slow decline in copper prices. Negative information coming from China in the following months, however, contributed to a sharp increase in sales of the metal, in March. The PMI index for Chinese industry significantly decreased, crossing the psychological barrier of 50 points, and amounted to 48.5 points. The key factor, however, turned out to be the insolvency of Shanghai Chaori Solar - the first company in the Middle Kingdom which was unable to pay off its bondholders.

The following months of the first half of the year brought an increase in copper prices due among others

to the lower availability of scrap, as well as due to purchases of the metal by the Chinese State Reserve Bureau (SRB). This good run was stopped, however, by further bad news from the Middle Kingdom. In May - for the first time in two years - falling prices were recorded on the Chinese real estate market. This raised considerable concerns about demand for base metals. Meanwhile, in June, a wave of panic triggered an investigation into the illegal use of copper and other metals, accumulated in port warehouses, in financial transactions. The case concerned the port of Qingdao, the seventh largest port in the world. The scandal has not only rocked the faith of investors, but also resulted in the banning of some of these types of financial transactions and the limited availability of credit to Chinese companies.

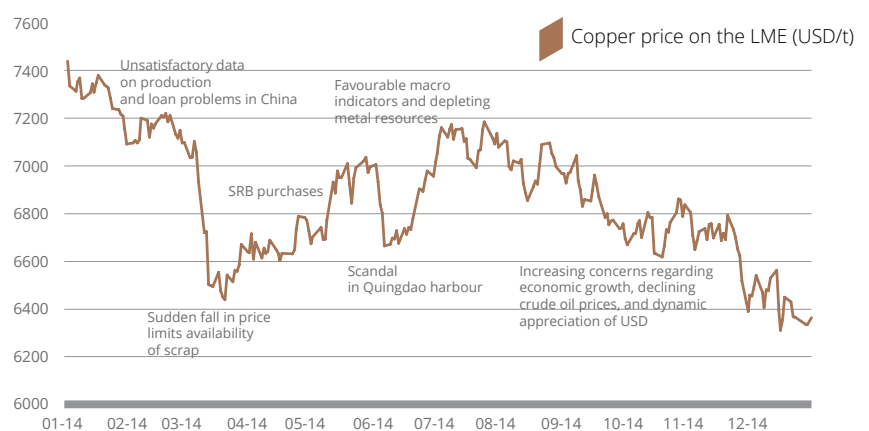
The second half of the year marked a drop in the prices of most raw materials, including copper. Despite the systematic deterioration in market moods and declining stock market inventories, macroeconomic factors prevailed. The increasingly evident slowdown in China, the recession in Japan, and stagnation in the euro area, awakened concerns about demand for base metals in the future. In addition, a huge discount on crude oil has been read as a sign of weakening global economic activity.

One of the key factors for commodity prices in the second half of 2014, was the increase in the value of the US dollar. Completion of the asset purchase program (QE) by the FED, and the faith of investors in the

accelerating US economy meant that the USD rate against the major trading partners of the United States increased in six months by more than 11 percent. This of course meant, that most of the major currencies weakened against the dollar, while the change in metal prices

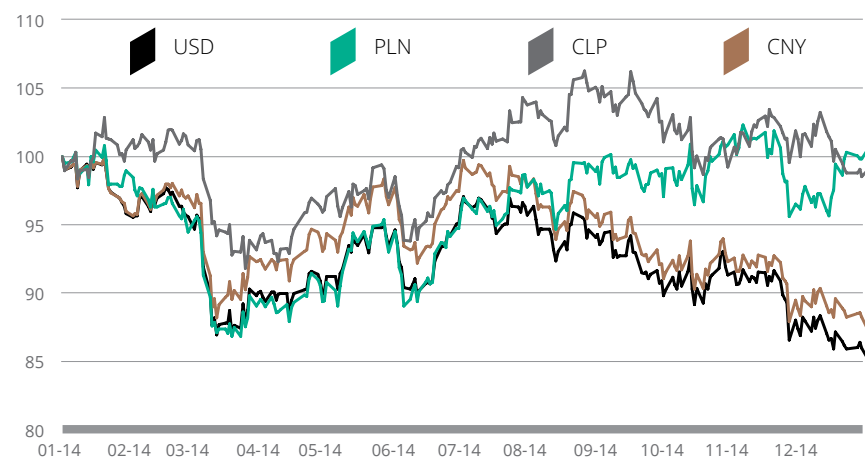
denominated in these currencies was not as significant as in the case of the price in USD. The price of copper at year-end amounted to 6 359 USD/t, while in PLN it was 22 302 PLN/t. The average price of the red metal in the Polish zloty in 2014 amounted to 21 629 PLN/tonne.

2.7. Daily cash settlement copper price on the LME in 2014 (USD/t)



Source: London Metal Exchange (LME), KGHM

2.8. Index of daily cash settlement copper prices on the LME in 2014 in local currencies



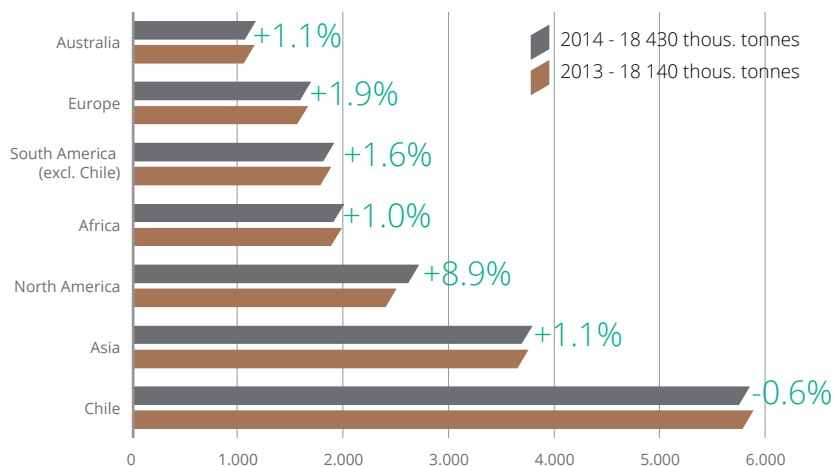
Source: Bloomberg, KGHM

Copper production

The year 2014 proved to be a difficult period for copper producers, not only because of the falling prices of raw materials. According to CRU estimates, the amount of mined copper in the world increased by only 1.7 per cent, which was due to production stoppages, poorer quality ore, and delays in launching new projects.

Chile remains the largest producer of copper concentrate, responsible for almost 1/3 of world production of the metal, but the amount of raw material mined in 2014 in the country decreased in comparison with the previous period. This outcome was strongly affected by numerous strikes, both in the mines as well as in the commercial ports that support exporters. In September, a protest was announced in the largest open-pit copper mine in the world - Escondida, owned by the BHP Billiton Group. Three months later, another strike was announced by highly qualified employees of Los Bronces, which belongs to the Anglo American Group. Throughout the year, protests spread to 14 Chilean ports, which led to paralysis in not only copper exports, but also exports of agricultural raw materials and other goods. Another negative factor last year was the growing opposition of environmental organizations to the expansion plans of the copper industry in the country. Due to the lower quality of the extracted ore, local companies were forced to intensify their search for new

2.9. Production of mined copper in 2013-2014 by region (thousand tonnes)

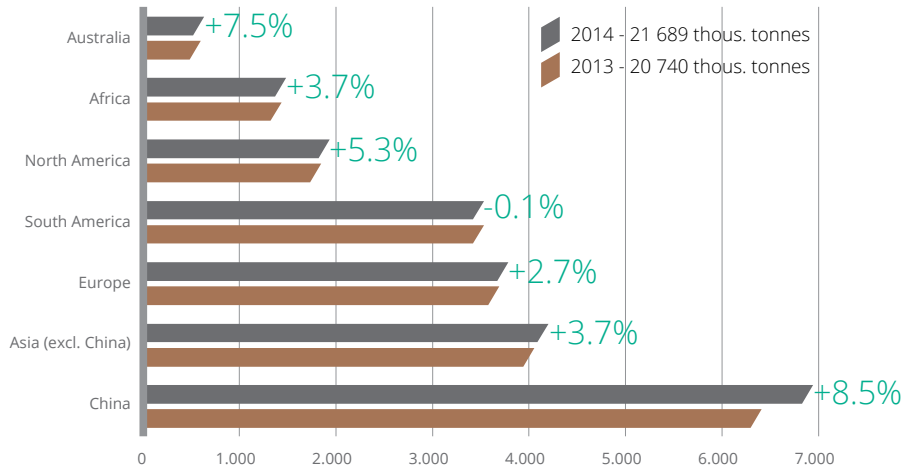


Source: CRU, KGHM

deposits, which raised societal concerns about the degeneration of the natural environment. Tax reform announced by the newly elected President Michelle Bachelet, which aims to reduce social inequalities in the country, also raised concerns. These changes may partly hit local mining companies, among others. International copper producers were also affected by the new regulations concerning the raw materials trade in Indonesia. Early last year, the local government introduced a ban on exports of metal ores, which caused a drastic decrease in the extraction of raw materials, including copper, and universal opposition from the mining industry. The condition for the resumption of metal export outside Indonesia is a commitment by the manufacturer to build a smelting plant in the country. Despite deterioration in market

sentiment, refined copper production in 2014 rose by 4.5 per cent, to 21 689 thousand tonnes. The leaders among manufacturers are Chinese producers, who last year managed to increase the amount of copper cathodes produced by a further 0.5 million tonnes, which reflected earlier high investments in metallurgical capacity expansion. Other regions of the world also significantly improved productivity, with the exception of South America, where the production of the red metal remained essentially unchanged.

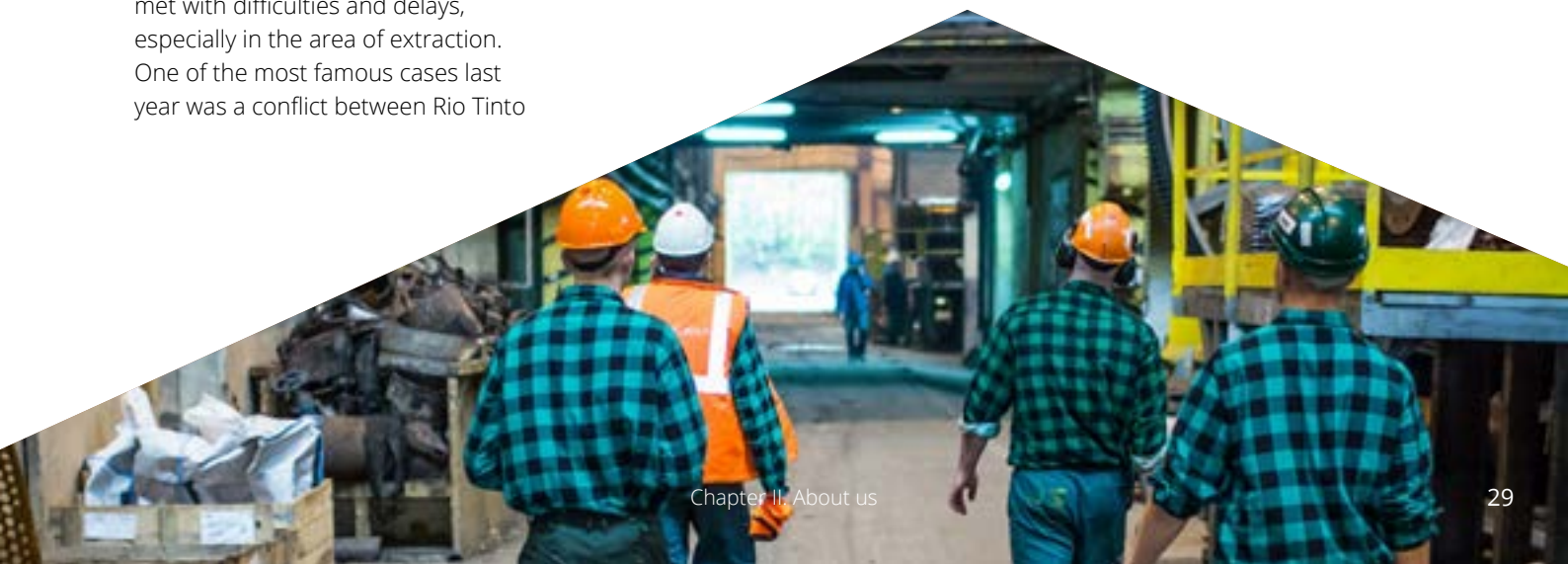
2.10. Production of refined copper in 2013-2014 by region (thousand tonnes)



Source: CRU, KGHM

Codelco still remains at the top of the group of the world's largest copper producers. In 2014, the Chilean giant produced 1 867 thousand tonnes of mined copper and 1 432 thousand tonnes of refined copper, which accounted for 10 per cent and 6.5 per cent of global copper production, respectively. KGHM came in eighth place in terms of mining production, with a score of 526 thousand tonnes, and in tenth position in terms of refined copper: 607 thousand tonnes, which accounts for almost 3 per cent of market share. Although most of the leading manufacturers recorded production growth in 2014, many of them have met with difficulties and delays, especially in the area of extraction. One of the most famous cases last year was a conflict between Rio Tinto

and the Government of Mongolia, which resulted in suspension of expansion of one of the world's largest copper and silver mines located in the country - Oyu Tolgoi. The Freeport McMoRan Corporation also had a dispute with the local authorities, and in order to be able to export copper from the world's third largest mine, Grasberg, the corporation agreed, in the end, to a higher tax rate on minerals, a higher export tax, and promised to build a smelting plant in Indonesia.



In Chile, the production delays affected, among others, the Ministro Hales mine, which is a key element of the 5-year Codelco strategy aimed at overcoming declining production rates. The reason for the stoppages was technical difficulties in processing ores with a high arsenic content. BHP Billiton also reduced its investment plans. The Australian giant suspended Olympic Dam expansion plans, once

a priority project, because of falling metal prices.

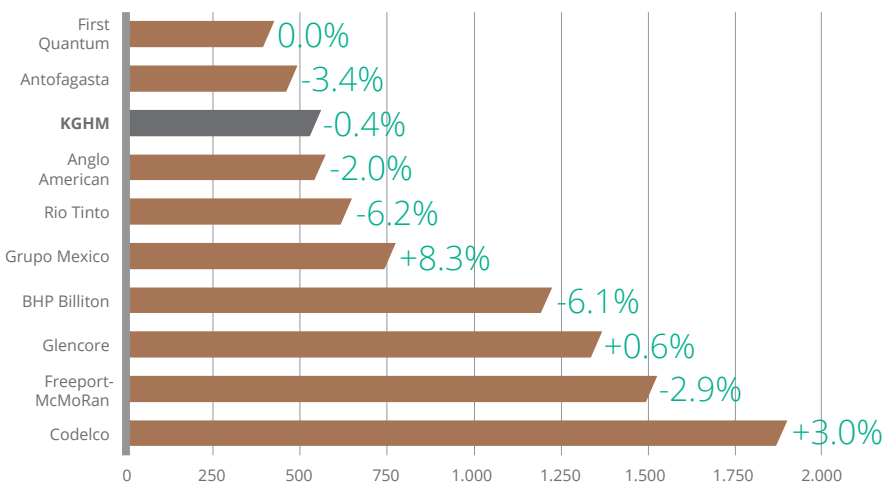
At the end of the year information appeared about the potential takeover of Rio Tinto by the company Glencore. Following the earlier merger with Xstrata and after such a large takeover, the Swiss giant would become the largest mining company in the world.

Copper consumption and deposits

World copper consumption in 2014, according to CRU estimates, increased by 3.5 per cent and amounted to 21 525 thousand tonnes. Undoubtedly, China remains the biggest consumer of copper, which accounts for almost half of the world's consumption of raw materials. The demand for the red metal in the Middle Kingdom amounted to 9 591 thousand tonnes and was higher than the previous year by more than 0.5 million tonnes – which is roughly equal to the increase in refined production in the country. Despite significantly lower economic growth in China in percentage terms, the size of the economy in nominal terms still generates huge demand for raw materials, including copper. World consumption, excluding China, remained at a relatively stable level in 2014. A slightly better economic situation in the euro zone allowed for solid growth, driven among others by growing car sales. The still-growing economies of Asia also increased purchases of the red metal last year.

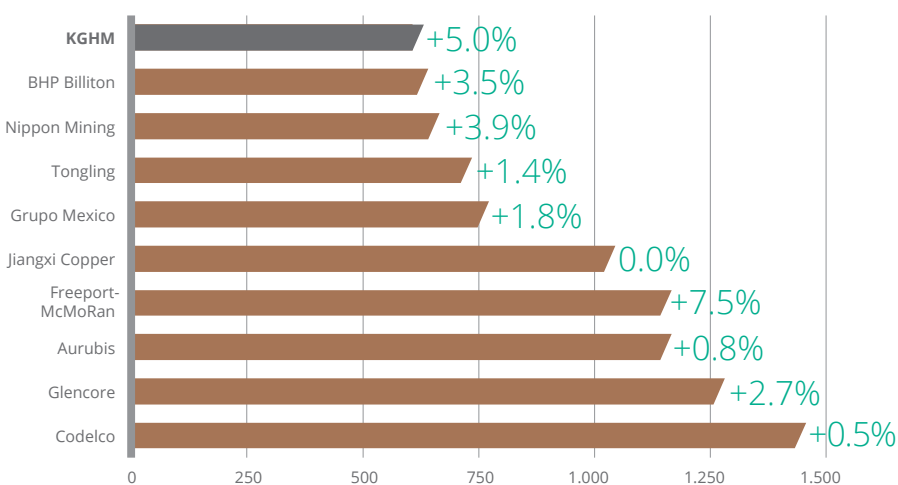
Thanks to the decline in copper prices, the previously-observed strong trend of red metal substitution by aluminium slowed. Studies by a copper producers association have shown that it is the difference in price between the two raw materials that is the main motivation for consumers to seek alternatives to copper.

2.11. The largest producers of copper in 2014 - mine production (thous. tonnes)



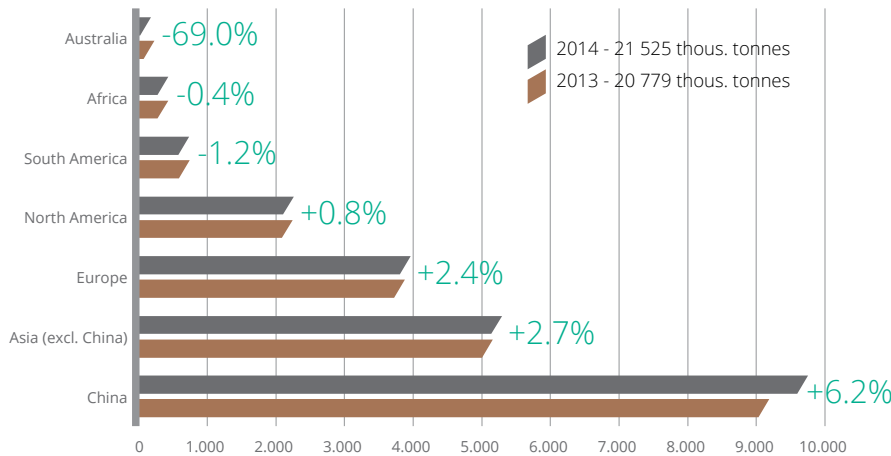
Source: CRU, KGHM

2.12. The largest producers of copper in 2014 - refined production (thousand tonnes)



Source: CRU, KGHM

2.13. Consumption of refined copper in 2013-2014 by region (thous tonnes)

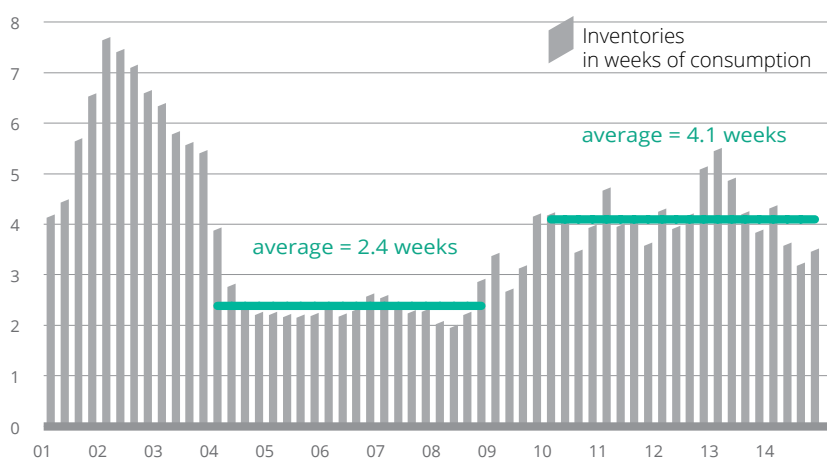


Source: CRU, KGHM

Official inventories on the LME, COMEX and SHFE stock exchanges fell steadily in the first half of the year, continuing the strong trend from the second part of 2013, followed by a relative stabilisation.

According to CRU estimates, inventory levels of metal in the world, in relation to demand, did not differ significantly last year from the level recorded in the previous few years.

2.14. The level of inventories of refined copper globally in weeks of consumption



Source: CRU, KGHM

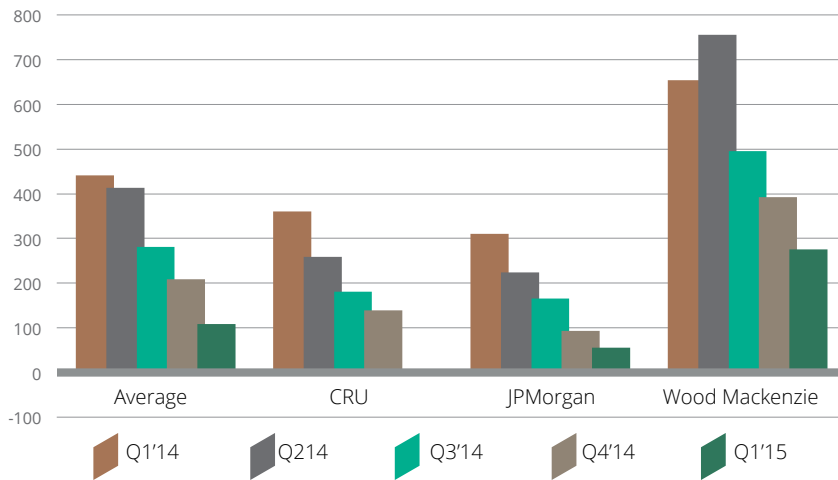
Copper market outlook

According to CRU estimates, world consumption of the red metal will increase by an average of about 3 per cent each year, until the end of the decade. Europe emerging from the economic crisis, Asian and South and Central American countries focused on infrastructure investments, as well as the emphasis on sustainable management – all should contribute significantly to the fulfilment of this forecast.

The most important factor for the copper market will therefore be the supply side. 2014 uncovered a number of factors that may adversely affect the performance of manufacturers. One of the factors most difficult to predict, and having the most serious effects, are changes in legal regulations and community pressures, particularly in developing countries. Other important factors influencing lower production are problems with infrastructure – the insufficient production of electricity in Africa, water shortages in Chile – and an even lower metal content in mined ore.

The past year has also highlighted the sensitivity of investments of mining companies to the price of copper. In response to the falling prices of the red metal, numerous mining projects are being re-examined, which results in delays. This, in turn, means that the originally planned production will not increase the availability of the material, which should affect the price.

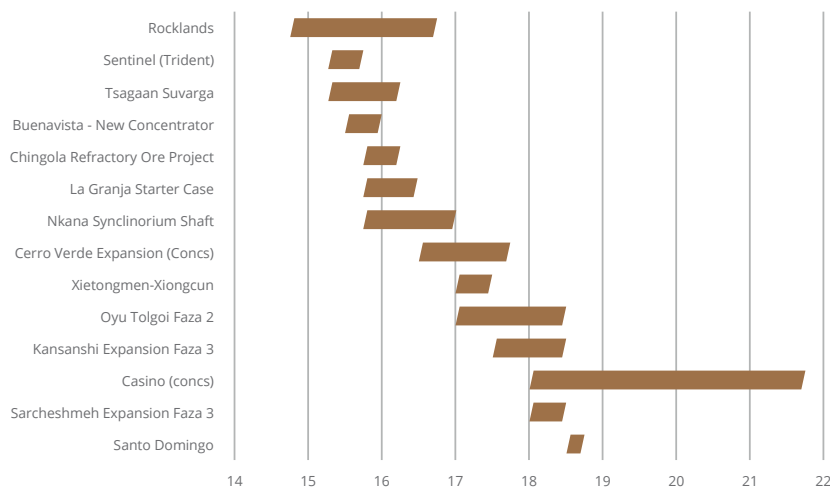
2.15. Estimates on the copper market balance in 2015 (thousand tonnes)



Rising production disruptions as well as revisions of plans to increase production by leading companies are reflected in the estimates of industry analysts. Market balance expectations in 2015 have been systematically revised downwards, and some institutions, which expected an oversupply of the metal, are currently inclined towards the thesis of a raw material shortage.

Source: In-house elaboration, based on analytical reports

2.16. Delays in upcoming mining projects¹



1. The columns represent initial plans and current estimates at the moment of completion of individual projects, with the length of the columns showing the length of delays in their completion.

Source: CRU, KGHM

The silver market in 2014

Silver price during the year

In 2014, silver prices followed those of gold, but the drop in the value of silver was greater, as reflected by the gold/silver index, whose average value for 2014 rose to 60.16. The largest price changes took place in the second half of the year.

At the beginning of the year ore prices correlated mainly with the decisions of the Federal Reserve on phasing out quantitative easing operations and with incoming information about the condition of the US economy. As a result of weak macroeconomic data from the US and a slowdown in emerging economies, precious metals prices rose. They became less expensive, however, in response to the improving economic situation, which made the end of the dollar-weakening monetary policy increasingly justified.

The end of February and beginning of March were marked by the conflict in Ukraine and disturbing information from China. The situation affected growth on the precious metals markets. Taking into account the conflict in Eastern Europe, investors increased the share of ores in their portfolios. At mid-year, a key event for the silver market was the announcement of the London Silver Market Fixing Limited on the termination of the existing mechanism for determining the price fix. The old method was replaced by a new solution based on an anonymous auction system.

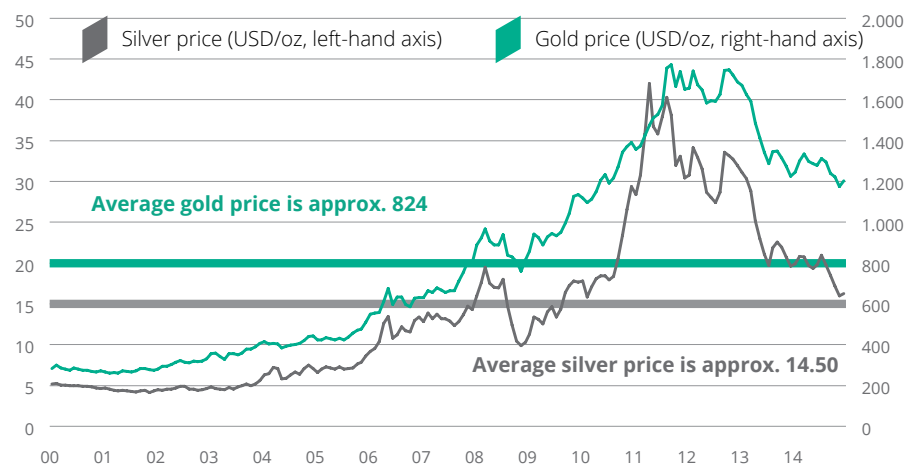
At the end of June and beginning of July, the price of gold and silver increased again, mainly due to geopolitical events: further escalation of the conflict in Ukraine and planned military operations in the Middle

2.17. Monthly gold/silver ratio index since 2000



Source: Bloomberg, KGHM

2.18. Average monthly prices of silver and gold from the LBMA since 2000 (USD/oz. t)



Source: Bloomberg, KGHM

East. From mid-July, the price of silver returned to a declining path, broken by emerging reports on the Fed's planned activities. Final completion of the program of quantitative easing by the FED at the end of the year contributed to the appreciation of the USD and further depreciation of raw materials. In turn, the ECB gave details of a plan to implement its own program of QE in the future. At the end of the year, very positive macro data from the US poured in, and depreciating oil and low inflation

also meant that investors were more interested in equities than commodity markets. Silver closed 2014 at 15.97 USD/oz. t. Compared to the end of 2013, this was approximately a 19 per cent decrease. It is worth noting that, as in the case of copper, the dollar price drop was largely offset by the weakening of most other currencies against the euro. The silver price in PLN at year's end was 56 PLN/oz, or 4.5 percent less than in the final days of 2013.



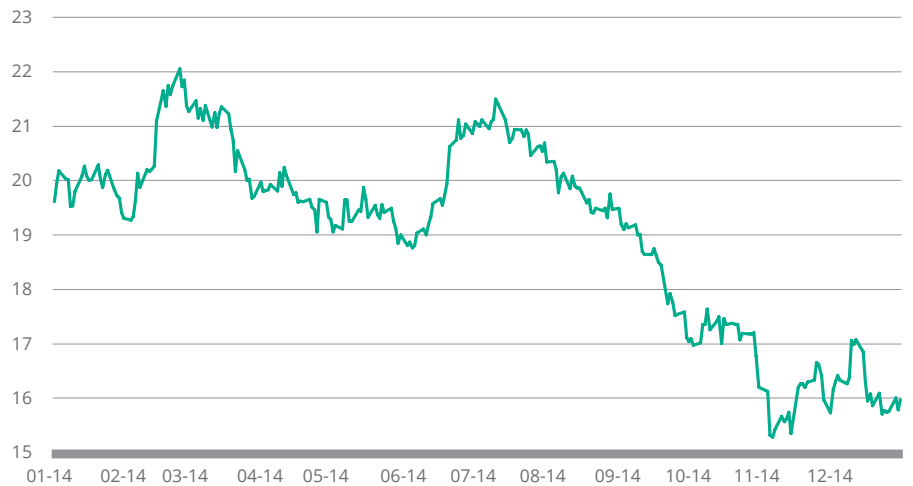
Supply

Silver mining production rose in 2014 by 4.6 per cent, to 27 039 tonnes. Production from scrap amounted to 6 079 tonnes and the final production amounted to over 33 thousand tonnes and was higher by 4.3 per cent, compared to 2013. The largest volume of silver production and also its growth was recorded in South America. A decrease in production occurred in Africa, while in other regions the

supply remained stable. Production from electronic equipment components prevailed in the structure of silver production from scrap.

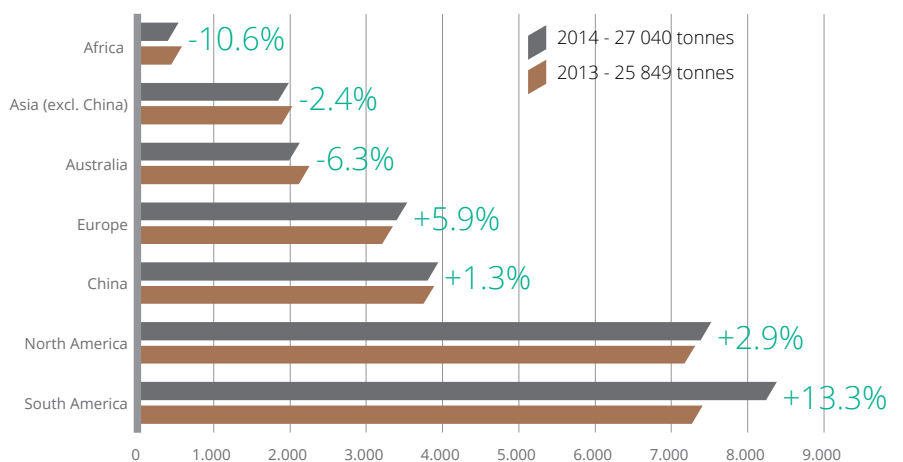
Last year, KGHM produced 1 259 tonnes of silver and returned to the rank of industry leader. In the coming years, forecasts project a decline in production of silver and a reduction of surplus raw materials until 2016, inclusive.

2.19. The daily prices of silver from the LBMA in 2014 (USD/oz. t)



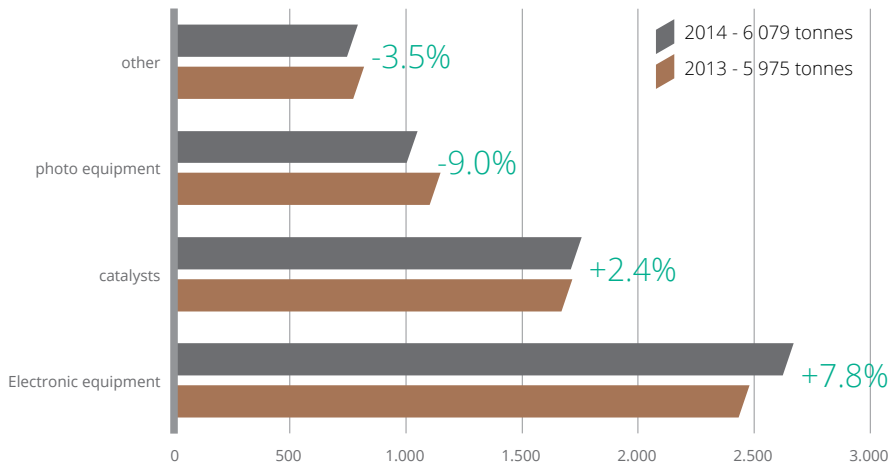
Source: Bloomberg, KGHM

2.20. Mining production of silver in 2013 and 2014 (tonnes)



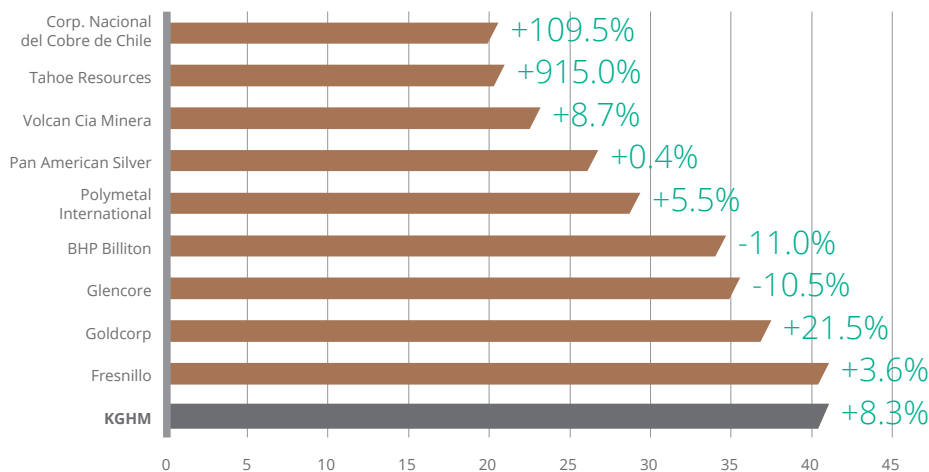
Source: CRU, KGHM

2.21. Silver production from scrap in 2013 and 2014 (tonnes)



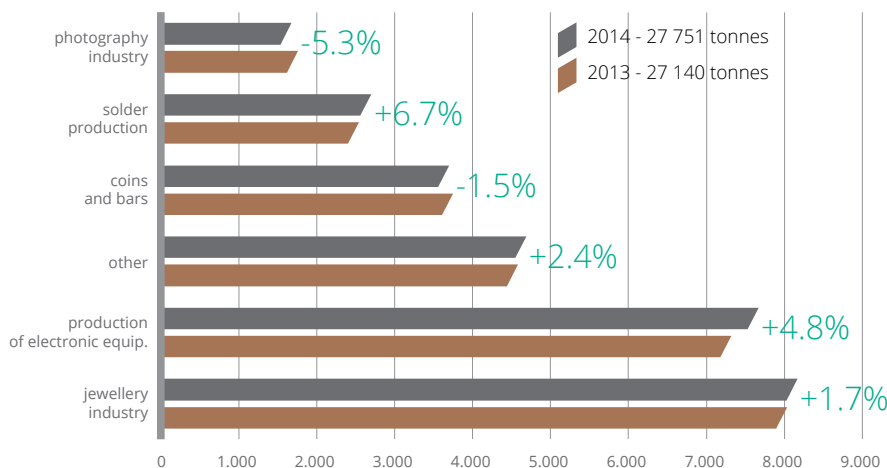
Source: CRU, KGHM

2.22. The largest silver producers in 2014 (in millions of tonnes)



Source: GFMS, Thomson Reuters, KGHM

2.23 Demand for silver in 2013-2014 (tonnes)



Source: CRU, KGHM

Demand

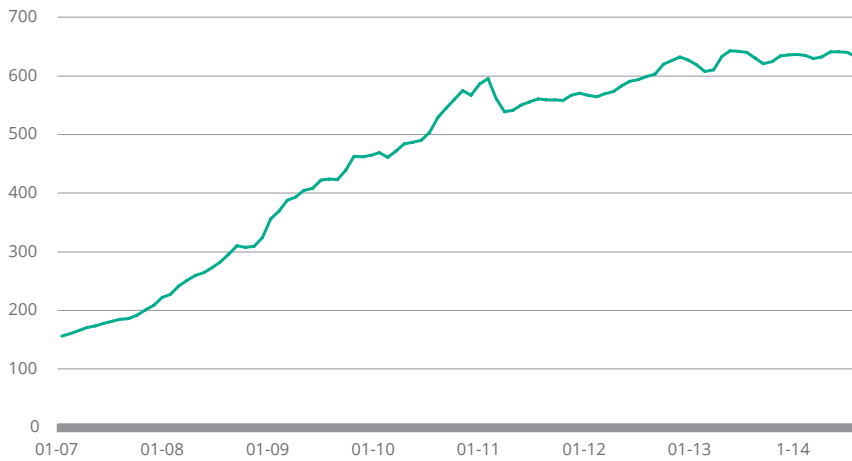
Industrial demand for silver increased by 2.2 per cent, compared to 2013, and amounted to 27 750 tonnes. The biggest growth in demand for raw materials was recorded in the electronics sector. Demand from the photography industry and producers of coins and metals decreased. In July, the US Mint provided information about the decline in sales of coins by 33 per cent month-to-month and 18 per cent year-to-year. Next year, the global demand for silver is projected to increase by about 175 tonnes. It is worth noting that the growing interest in gold and silver is due to China and India, which are the world's biggest buyers of these metals. In the case of gold, demand from these countries currently represents around 60 per cent.

Given the dynamic growth in both economies and the growing wealth of their citizens, this will be an important factor in the development of the metals markets.

Financial markets

Holders of ETFs and investment banks lost most on the declines in the price of gold and silver. ETFs had been reducing their inventories for the better part of the year. At the end of the year, due to the losses incurred, investors closed a significant part of their positions and contributed to the reduction in the size of the funds.

2.24. Average monthly amount of silver held by ETFs (oz. t)



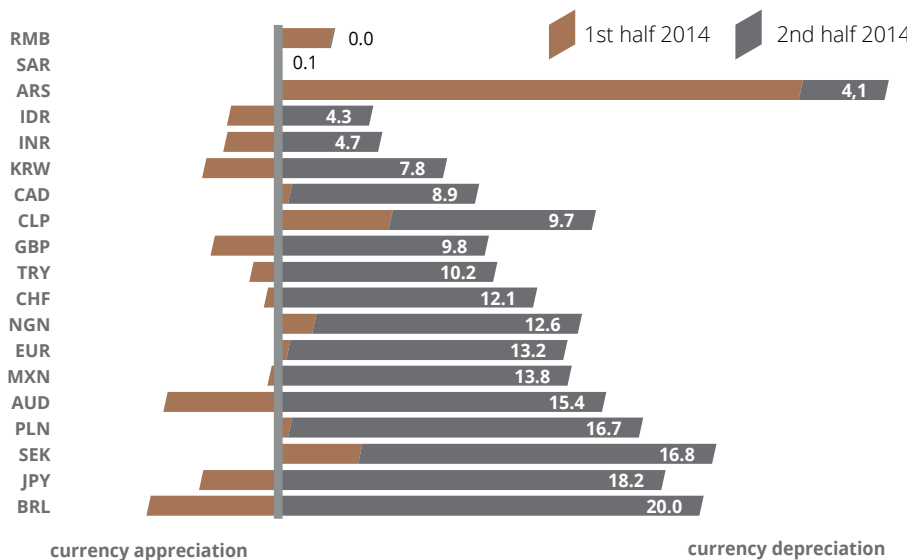
Source: Bloomberg, in-house elaboration.

The currency market in 2014

The key event in currency markets last year was the strong appreciation of the US dollar against most world currencies. The good condition of the US economy and also the end of quantitative easing in the US in

the face of expansionary monetary policy in Japan and the UK, or its expectations in the euro area, caused investors to increase their interest in the dollar. As a result, the value of the US dollar against most currencies of the world's largest economies increased significantly from July to December.

2.25. Changes in the value of currencies of the 25 largest economies in the world* and Chile against the US dollar in 2014



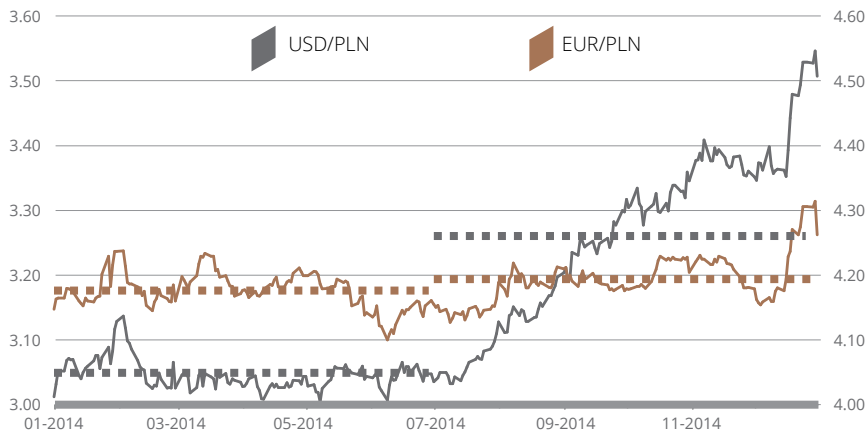
1. Russia excluded.
Source: Bloomberg, KGHM

One of the exceptions to this trend was the Chinese renminbi, whose value in the second half of the year initially declined. However, with announcements on promoting the economy of the Middle Kingdom by the central government, the local currency closed the year at levels similar to those from the end of June. For the global copper market this is a positive message - the red metal in China is inexpensive, due to the strength of the currency, which stimulates consumption, while having a negative impact on the profitability of regional ore mining and metal production. A similar phenomenon is also seen in the US. Another important phenomenon in the global economy was the decline

in the value of the euro, to levels last seen in 2003. Europe's last year was still marked by an atmosphere of stagnation. In order to stimulate the economies, the European Central Bank decided first to set interest rates at a negative level, and later began to prepare for the introduction of the asset purchase program. This was reflected in the withdrawal of investors from the common currency. In Poland, deflation appeared for the first time in July, which continued until the end of the year. A key factor in this situation is considered to be the falling prices of food and fuel, although other price categories also showed no signs of growth. Despite the clear signs of departure by the price and services index from the inflationary target, the

Monetary Policy Council delayed the reduction of interest rates until the October meeting. At the end of 2014, the main reference rate was thus at 2.00 per cent, average annual inflation amounted to zero per cent, and GDP growth reached 3.3 per cent. The Polish zloty was one of the currencies of large economies most affected by the appreciation of the USD; the PLN lost almost 17 per cent in the second half of the year. In addition to deflation and a reduction in interest rates, the outbreak of armed conflict in Ukraine also had an impact on this plunge. It was not without significance that there was also stagnation in the euro zone, to which Poland is strongly linked economically.

2.26. Daily USD/PLN exchange rate (left axis) and EUR/PLN (right axis) in 2014, and half-year averages



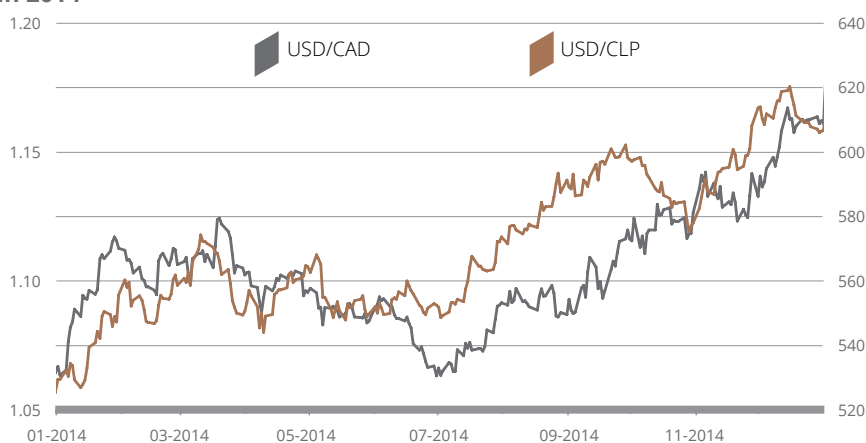
Source: Bloomberg, KGHM

Both the Canadian dollar (CAD) and Chilean peso (CLP) continued the process of depreciation against the dollar in 2014, initiated in previous years. The economies of both countries rely heavily on exports of commodities, so the fall in prices of raw materials translates to their

weakness, and depreciation of their currencies. In the case of the Canadian dollar, its strengthening in the first half of the year was suppressed by a sudden price reduction of energy resources, of which Canada is a major producer. In the case of Chile, in addition to the

decline in copper prices, relatively high inflation compared to other countries had a negative impact on the peso. In both countries, however, as in the case of Poland, the decline in the value of their local currencies has beneficial effects on revenue from the sale of raw materials.

2.27. Daily USD/CAD exchange rate (left axis) and USD/CLP (right axis) in 2014



Source: Bloomberg, KGHM

Extraction and production

In 2014, KGHM extracted **31 million tonnes** of ore (dry weight). This was approx. 0.4 million tonnes more than in 2013. The increase in production can be attributed to the increase in daily output, on working days, and intensification of work, on non-working days.

The average copper content in extracted ore amounted to 1.53 per cent and was lower than what was achieved in 2013 (1.57 per cent), due to a decrease in the content of the red metal in the deposit.

As a result, the amount of copper in mined ore was lower than in 2013 by 8.5 thousand tonnes and reached 473.3 thousand tonnes.

In 2014, 370 thousand tonnes more of the dry weight ore was processed, in relation to 2013. The decline in

the copper content of the treated ore directly contributed to the decrease in the amount of copper in concentrate by 7.6 thousand tonnes, amounting to 421.3 thousand tonnes. Production of dry weight concentrate decreased in relation to 2013 by about 14 thousand tonnes (a decrease from 1 856 thousand tonnes to 1 842 thousand tonnes). The amount of silver in concentrate was lower than in 2013 by 1.1 per cent (down from 1 199 tonnes to 1 186 tonnes).

Electrolytic copper production increased by 11.7 thousand tonnes, compared to 2013 (2 per cent) and reached **the highest level in the history of the Company, i.e. 576.9 thousand tonnes.**

High metallurgical production was achieved despite a maintenance

shutdown in the Legnica smelter/refinery. Increased processing of own concentrates and a share of purchased copper-bearing materials (scrap, copper blister, and imported concentrate) contributed to increased production levels. Supplementing own concentrate with outside sources allowed for the effective use of existing technological capabilities.

2.28. Mining production

	Unit	2013	2014	Change 2013=100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Ore extraction (dry weight)	million t	30.6	31.0	101.3	8.0	7.8	7.8	7.5
Copper content in ore	%	1.57	1.53	97.5	1.57	1.53	1.51	1.50
Amount of copper in ore	thousand tonnes	481.8	473.3	98.2	124.8	118.8	117.9	111.8
Silver content in ore	g/t	45.47	44.60	98.0	44.60	44.59	44.44	44.79
Amount of silver in ore	t	1 393	1 384	99.4	355	347	347	335
Production of concentrate (dry weight)	thousand tonnes	1 856	1 842	99.2	474	461	457	450
Amount of copper in the concentrate	thousand tonnes	428.9	421.3	98.2	109.9	106.1	104.5	100.9
Amount of silver in the concentrate	t	1 199	1 186	98.9	303	296	297	290

2.29. Metallurgical production

					Years	2013=
	Unit	2011	2012	2013	2014	100%
METALLURGY						
Products:						
Electrolytic copper	t	571 041	565 834	565 155	576 876	102.1
Blister copper	t	550 061	549 012	536 798	575 696	107.2
CONTIROD wire rod	t	226 235	228 559	228 936	242 474	105.9
CU OFE (UPCAST) wire	t	15 225	13 457	13 375	12 729	95.2
Cu Ag wire	t	1 198.0	925.51	365.42	714.4	198.8
OC ingots	t	20 320	17 959	17 018	8 800	51.7
Granulated copper	t	2 260	2 154	2 156	2 056	95.3
Other metals:						
Metallic silver	kg	1 259 566	1 273 837	1 161 114	1 256 238	108.2
Metallic gold	kg	703.8	916.4	1 066.4	2 574.7	241.4
Pt-Pd concentrate	kg	77.9	136.4	176.7	137.2	77.6
Refined lead	t	25 234	27 511	26 631	26 128	98.1
Other production:						
Sulphuric acid	t	636 248	630 837	609 019	646 074	106.1
Copper sulphate	t	5 533	5 247	5 826	5 832	100.1
Nickel sulphate	t	2 481	2 600	2 756	2 658	96.4
Technical selenium	t	84.7	90.2	80.2	89.8	111.9

Sales

KGHM Polska Miedź S.A. operates on a difficult market, susceptible to many external factors affecting earnings. Maintaining long-term relationships with customers has become critical in view of increasing competition in the industry. Customers are a fundamental part of the value creation chain within the company.

Signed and implemented contracts ensure stable product sales revenue for the Company in the long term.

The Company's priority in terms of customer service is to meet their growing requirements and serve customers at the highest level. Excellent service backed by highly

competent staff and orientation to customer needs make KGHM a preferred supplier for its business partners. Customer satisfaction is built through good business practices, modern IT, logistics, and financial solutions.

Product sales are based on signed long-term, annual, and short-term contracts. Such a differentiation of concluded trade agreements as well as flexibility ensures, among others:

- the building of lasting relationships with customers
- the security of sales in the long term

KGHM's clients include the largest companies in particular industries, as well as smaller entities operating on both a global and local scale.

Product distribution is carried out directly by the Company, and not only commercial but also logistical teams are involved in sales, as well as external entities cooperating with the Company. Contracts with carriers, shippers, and insurers

and preference in customs service related to the status of Authorised Economic Operator (AEO) allow us to serve customers at the highest level.

KGHM Polska Miedź S.A.'s sales on the Polish market accounted for 22 per cent of the total volume of sales

of copper and copper products. Sales to other European countries accounted for 78 per cent of total copper sales. The largest foreign recipients of copper produced by KGHM Polska Miedź S.A. were China, Germany, the Czech Republic and France.



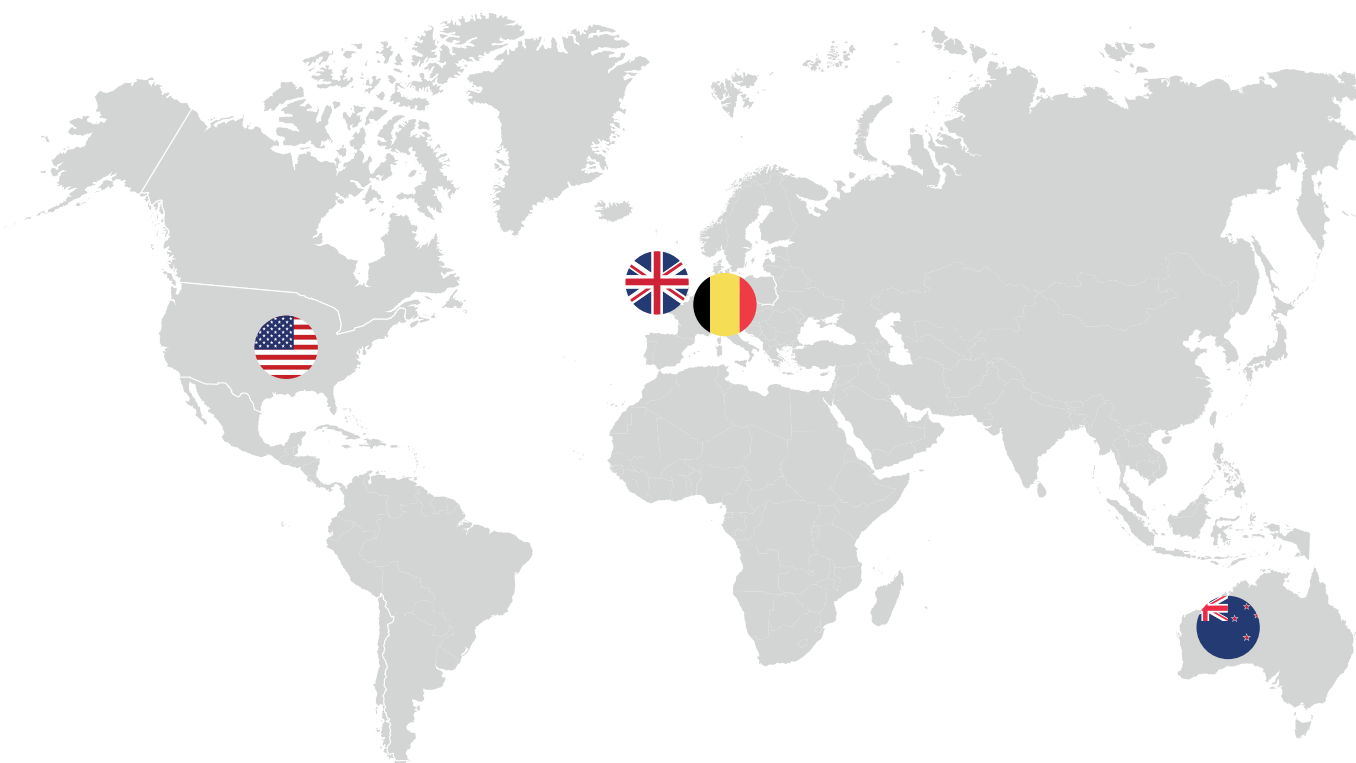
G4-8

2.30. Largest foreign recipients of the copper produced in KGHM Polska Miedź S.A.



In 2014 sales of KGHM Polska Miedź S.A. on the domestic market accounted for 1 per cent of overall sales of silver, while export to European Union countries amounted to 99 per cent. The largest foreign recipients of silver were the United Kingdom, Australia, the US, and Belgium.

2.31. Largest foreign recipients of silver produced by KGHM Polska Miedź S.A.





G4-PR5

Over 90% of KGHM's customers have been in on-going cooperation with the company for many years. Customer satisfaction surveys on the quality of products and service are performed continuously at all stages of cooperation. The method used by the sales teams is based on many years of experience, market observation, and on-going direct contact with customers. This allows for an immediate response to customer expectations as well as any reported problems. As part of maintaining good relationships with contractors and the business environment, meetings with domestic and foreign customers are organized annually (including promotional meetings during LME Week in London, as well as industry holidays, i.e. Metallurgist's Day, Miner's Day). By taking part in industry meetings, trade shows, conferences, and seminars, the Company builds and strengthens its bonds with its customers. KGHM allows client visits to manufacturing branches as well as eligibility audits of the Company as a reliable supplier within ISO standards.

In 2014, the Company sold less copper than in the previous year. The decline (by 21 thousand tonnes, or 3.6 per cent) resulted mainly from lower volumes of copper remaining available for sale (including lower initial stock of copper in 2014, compared to 2013) and lower sales in 2014 of remaining copper products, especially the lack of sales of its own concentrate.

Sales of silver in the Company amounted to 1 263 tonnes, an increase of one per cent (12 tonnes), compared to 2013. Sales of gold also increased and amounted to 2 530 kg, an increase of 139 per cent (1 473 kg). A significant increase in gold sales was due to the increase in production of this metal, in comparison to 2013.

Total KGHM Polska Miedź revenues from sales of products in 2014 reached PLN 16 492 million and were 10 per cent lower, compared to 2013. The main reason was a decline in sales and a decline in metals prices: copper on the London Metal Exchange (LME) and silver on the

London Bullion Market (LBMA).

In comparison to 2013, revenues from sales generated by KGHM Polska Miedź S.A were impacted by:

- 8 per cent lower revenues from sales of copper and copper products
- 23 per cent lower revenues from silver sales
- 127 per cent higher revenues from sales of gold

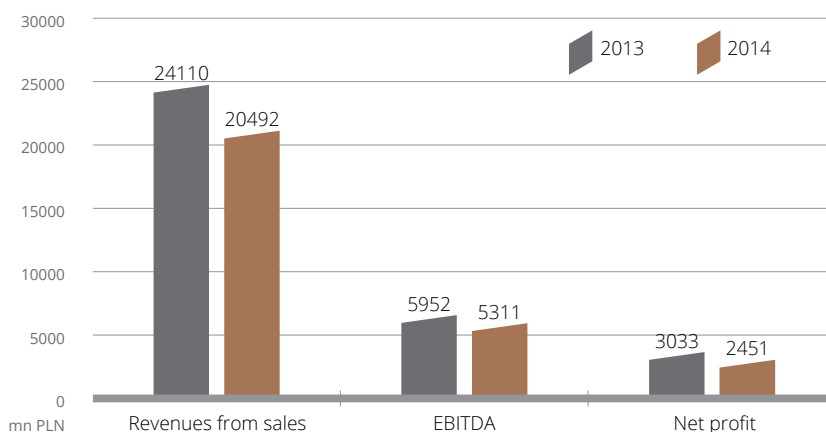
Revenues from sales in 2014 reflect the positive result of the settlement of hedging instruments in the amount of PLN 531 million (previous year: PLN 450 million).



Key financial data

Financial Results of the KGHM Group

2.32. KGHM S.A. Group key financial data



Source: Management Report on activities of KGHM Polska Miedź S.A. Capital Group in 2014.

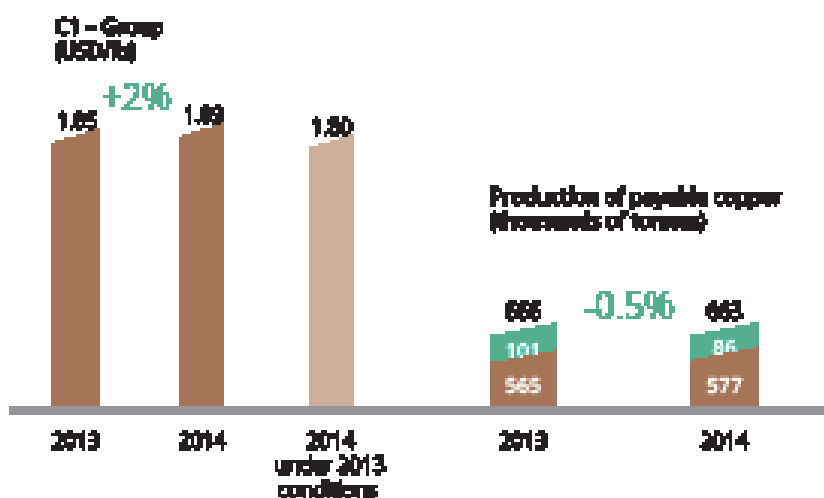
The decline in sales revenue of PLN 3 618 million (15.0 per cent) was mainly due to the lower copper sales volumes (lower by 41.9 thousand tonnes) and a decline in metals prices - copper on the London Metal Exchange and silver on the London Bullion Market. The rapid appreciation of the US dollar had the biggest impact on the decrease in copper prices in 2014, in relation to the previous year. Also significant

were concerns about the sustainability of economic growth in Europe, the noticeable slowdown of the Chinese economy, and expectations of oversupply of the metal. The main factors that influenced lower silver prices in 2014 include: rapid appreciation of the dollar, the end of quantitative easing (QE) in the US, and inflation remaining below the expectations of the US Federal

Reserve System (FED).

EBITDA of the Group in 2014 amounted to PLN 5 311 million and was lower than the result from 2013, by PLN 5 952 million (10.8 per cent). The Group's net profit in 2014 was also lower than the result from 2013, and amounted to PLN 2 451 million, compared to PLN 3 033 million last year (down 19.2 per cent).

2.33. Production and cost position (C1 costs) KGHM S.A. Group



Source: Management Report on activities of KGHM Polska Miedź S.A. Group for 2014.

Total payable copper production in the Group's companies in 2014 amounted to 662.9 thousand tonnes of payable copper and was at the production level reached in 2013 (666.0 thousand tonnes). The share of Parent Entity payable copper production in the Group's production reached 87 per cent. The average C1 cash cost of copper production incurred by the Group in 2014 amounted to 1.89 USD/lb and was higher than last year by 2.2 per cent (1.85 USD/lb).

The level of C1 cost in 2014 placed the Group between the third and fourth quartiles of the cost curve (according to Wood Mackenzie estimates). The median C1 cost in the industry was similar to the volume recorded in the

Group and amounted to 1.79 USD/lb, mainly due to the large number of small, high-cost copper producers on the market. The global average C1 cost, weighted by payable metal production, amounted to 1.55 USD/lb.

The relatively low USD/PLN exchange rate recorded in the first half of 2014 had a negative impact on the Group's position on the cost curve.

Investment outlays

2.34. Outlays on fixed assets and intangible assets by the KGHM Group

mn PLN	2013	2014	Change	Change %
KGHM Polska Miedź S.A.	2 357	2 416	59	2.5%
KGHM INTERNATIONAL LTD capital group	577	771	194	33.6%
Sierra Gorda Project ¹ (55% Capital Group share, company outside Capital Group)	3 551	3 343	(208)	(5.9%)
Resource base expansion	87	170	83	95.4%
Main process line support	277	170	(107)	(38.6%)
Other segments	100	100	-	-

1. Net of consolidation adjustments.

Source: Management Report on activities of the KGHM Polska Miedź S.A. Group in 2014.

2.35. The structure of capital expenditures by operating segment in 2014

Support of the core business

Investments involving replacement of machinery and equipment, modernization and development as part of continued activities

PLN 170 million

Sierra Gorda

55% share of Group

PLN 3 343 million

other PLN 100 million

KGHM Polska Miedź S.A.

- Deep Głogów **PLN 416 million**
- Pyrometallurgy Modernisation **PLN 484 million**
- Replacement of infrastructure **PLN 449 million**
- Replacement of machine park **PLN 201 million**
- Equipping of mine sections **PLN 228 million**

PLN 2 416 million

KGHM INTERNATIONAL LTD

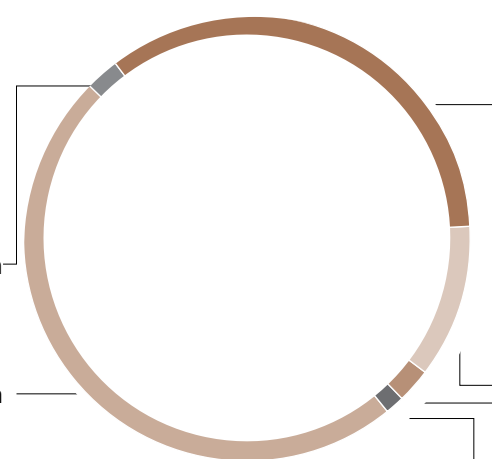
- Victoria project **PLN 204 million**
- Robinson mine **PLN 401 million** (incl. pre-stripping, dewatering of Ruth pit)
- Morrison deposit **PLN 99 million** (including access work and drilling)

PLN 771 million

Resource base development

- Afton-Ajax project **PLN 168 million**

PLN 170 million





G4-EC4

Expenditures on tangible fixed assets and intangible assets in the Group in 2014 amounted to PLN 3 640 million and were higher by PLN 254 million (7.5 per cent), compared to 2013. This was primarily due to the increase in capital expenditures in KGHM INTERNATIONAL LTD. of PLN 194 million (33.6 per cent). In

addition, the most important project carried out by the Group was the Sierra Gorda project in Chile, being run as a joint venture. The share of KGHM INTERNATIONAL LTD. in capital expenditures incurred on the project in 2014 was PLN 3 343 million. The capital expenditures of KGHM Polska Miedź in 2014 amounted to

PLN 2 416 million, and were close to expenditures from the previous year, which amounted to PLN 2 357 million. Major, implemented investment projects include: Pyrometallurgy Modernisation (PLN 484 million), infrastructure restoration (PLN 449 million), and the Deep Głogów project (PLN 416 million).

Debt

2.36. KGHM Group liabilities due to credits, loans and debt instruments

mn PLN	2013	2014	Change	Change %
Non-current borrowings	1 680	2 969	1 289	76.7%
Bank loans	162	143	(19)	(11.7%)
Other loans	5	1 057	1 052	21 040.0%
Debt instruments	1 513	1 769	256	16.9%
Current borrowings	1 198	1 798	600	50.1%
Bank loans	1 186	1 782	596	50.3%
Other loans	3	10	7	233.3%
Debt instruments (interest)	9	6	(3)	(33.3%)
Total:	2 878	4 767	1 889	65.6%

Source: Management Report on the activities of the KGHM Polska Miedź S.A. Group in 2014.

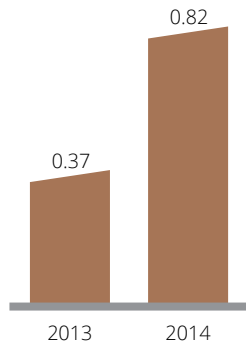
Total Group liabilities due to borrowings and debt instruments at the end of 2014 amounted to PLN 4 767 million and increased by PLN 1 889 million compared to 2013 (65.6 per cent). This increase resulted from an increase in liabilities from credits and loans by KGHM Polska Miedź (an increase of PLN 985 million, mainly as a result of investment borrowing) and by KGHM INTERNATIONAL LTD. (an increase of PLN 701 million). In addition, in 2014 there was an increase in the value of debt instruments by PLN 253 million

compared to 2013. In 2014, KGHM Polska Miedź began the process of Group debt consolidation by acquiring medium and long term financing. Consolidation of the Group's debt at the Parent Entity level is the basic premise of the new funding strategy. This strategy will achieve significant savings in debt servicing costs of the Group and is consistent with best market practices for financing large international groups. In addition, it will allow for an increase in the effectiveness of the liquidity management process,

simplifying the structure of external financing and optimizing financial and non-financial covenants within the Group.

Government support of the Parent Entity in the period 1 January 2014 to 31 December 2014 amounted to PLN 2 million, while government support of the Group amounted to PLN 8 million.

2.37. Net debt/EBITDA



The increase in Net debt/EBITDA in 2014 to a level of 0.82 was due to an increase in borrowings (PLN 4.8 billion at the end of the year) with accumulated cash at a level of PLN 0.5 billion.

In 2014, KGHM secured funding for a strategic investment program amounting to PLN 14 billion, mainly through:

- The conclusion, in 2014, of the agreement on an unsecured, syndicated revolving credit facility in the amount of USD 2.5 billion for a period of five years with an option of extension for a further two years.
- The conclusion, in 2014, of an agreement for an investment loan from the European Investment Bank in the amount of PLN 2 billion, with a repayment term for borrowed tranches up to a maximum of 12 years from the drawdown date. The tranches' availability period is 22 months from the date of signing the contract.
- Credit lines held within the framework of concluded bilateral short-term agreements for a total amount of PLN 3.3 billion. These include short-term working capital loans with periods of availability of up to 2 years. Expiry dates of contracts are successively extended for further periods.

EXPECTED DEVELOPMENTS IN 2015

By the middle of 2015, it is assumed that Sierra Gorda will achieve the full capacity planned for the first stage of the project, enabling the production of 120 thousand tonnes of copper per year (processing 110 thousand tonnes of ore per day).

The Parent Entity assumes it will maintain close to last year's volume of electrolytic copper production. Silver production is expected to be 8 per cent lower than in 2014, mainly due to lower silver content in ore.

KGHM Polska Miedź assumes an increase in the cash cost of copper production in concentrate (C1) of 2 per cent and a pre-precious metals credit unit cost of electrolytic copper production from own concentrate by 4 per cent, due to higher expenses by nature (mainly due to higher depreciation and a wider scope of mine development work than in 2014).

For 2015, the Parent Entity expects metal prices to remain at a level similar to that of the previous year, alongside a more favourable USD/PLN exchange rate. As a result, copper prices expressed in PLN are expected to be at a 4 per cent higher level than in 2014, and for silver 1 per cent lower.

Other key objectives of the Group include maintaining the pace of advancement of the Victoria and Ajax projects and continued work related to the expansion of the Żelazny Most tailings storage facility.

G4-EC1 Indicator for KGHM Polska Miedź S.A.



G4-EC1

Item	Direct economic value generated and distributed	2014 PLN million	2013 PLN million
1	Revenue	17 315	18 611
1.1	Net revenue from sales and equivalent revenue, including from related entities	16 742	18 151
	Net revenues from the sale of products, merchandise and materials	16 633	18 579
	Change in inventories of finished goods and work in progress	-34	-594
	Cost of manufacturing products for internal use	143	166
1.2	Other operating income	573	460
	Gain on disposal of property, plant and equipment and intangible assets	0	0
	Government grants and other donations	2	13
	Other operating income/gains	571	447
2	Operating costs¹	9 207	9 583
2.1	Operating expenses	8 687	8 740
	Depreciation	818	768
	Consumption of materials and energy	5 870	5 740
	External services	1 378	1 516
	Other expenses by nature	485	428
	Cost of merchandise and materials sold	136	288
2.2	Other operating expenses	520	843
	Losses on the sale of property, plant and equipment and intangible assets	8	34
	Other operating expenses	512	809
3	Remuneration and employee benefits	3 022	2 946
	Costs of remuneration	2 097	2 077
	Costs of social insurance	859	854
	Costs of future benefits	66	15
4	Payments to equity providers	1 183	1 972
4.1	Financial expenses	183	12
	Interest costs	8	3
	Gains/losses on foreign exchange differences from the valuation of external financing	124	-27
	Changes in provisions and financial liabilities	30	35
	Other financial costs	14	1
	Losses due to measurement of non-current liabilities	7	0
4.2	Dividend paid	1 000	1 960
5	Payments to the government	2 470	2 996
	Income tax	948	1 138
	Minerals extraction tax	1 520	1 856
	Penalties and compensation paid	2	2
	Payments to local communities due to land-use contracts (excluding the purchase of land)	9	8
6	Investments in communities	54	50
7	Voluntary contribution to the investment of funds in communities	35	34
	Donations made	19	16
8	Retained economic value	1 370	1 056

1. The calculation of operating costs for the purposes of calculating retained economic value differs from that presented in the financial statements. Individual items were calculated in the following manner:

- the amount of remuneration presented in item 3 and the minerals extraction tax in item 5 were deducted from the operating costs in the financial statements,
- the items penalties and compensation paid oraz donations made, shown in items 5 and 7 were deducted from other operating costs in the financial statements.



G4-EC1

G4-EC1 Indicator for KGHM Group

Item	Direct economic value generated and distributed	2014 PLN million	2013 PLN million
1	Revenue	22 922	25 719
1.1	Net revenue from sales and equivalent revenue, including from related entities	22 000	24 871
	Net revenues from the sale of products, merchandise and materials	20 492	24 110
	Change in inventories of finished goods and work in progress	-5	-546
	Cost of manufacturing products for internal use	1 513	1 307
1.2	Other operating income	922	848
	Gain on disposal of property, plant and equipment and intangible assets	0	1
	Government grants and other donations	9	46
	Other operating income/gains	913	801
2	Operating costs¹	12 998	14 767
2.1	Operating expenses	12 423	13 719
	Depreciation	1 635	1 580
	Consumption of materials and energy	7 607	7 899
	External services	1 813	2 280
	Other expenses by nature	834	987
	Cost of merchandise and materials sold	534	973
2.2	Other operating expenses	575	1 048
	Losses on the sale of property, plant and equipment and intangible assets	14	46
	Other operating expenses	561	1 002
3	Remuneration and employee benefits	4 704	4 702
	Costs of remuneration	3 442	3 509
	Costs of social insurance	1 182	1 179
	Costs of future benefits	80	14
4	Payments to equity providers	1 326	2 097
4.1	Financial expenses	326	137
	Interest costs	123	101
	Gains/losses on foreign exchange differences from the valuation of external financing	126	-26
	Changes in provisions and financial liabilities	49	41
	Other financial costs	28	21
4.2	Dividend paid	1 000	1 960
5	Payments to the government	2 172	3 063
	Income tax	647	1 202
	Minerals extraction tax	1 520	1 856
	Penalties and compensation paid	5	5
6	Payments to local communities due to land-use contracts (excluding the purchase of land)	13	12
7	Investments in communities	54	50
	Voluntary contribution to the investment of funds within the community	35	34
	Donations made	19	16
8	Retained economic value	1 655	1 028

1. The calculation of operating costs for the purposes of calculating retained economic value differs from that presented in the financial statements. Individual items were calculated in the following manner:

- the amount of remuneration presented in item 3 and the minerals extraction tax in item 5 were deducted from the operating costs in the financial statements,
- the items penalties and compensation paid oraz donations made, shown in items 5 and 7 were deducted from other operating costs in the financial statements.

We are proud of our employees

The most valuable capital of KGHM is its employees. They decide the global significance of the company, which thanks to them is able to achieve success and take on increasingly bold business challenges. All employees of the Company - in Poland, Chile, Canada, and in the United States - share the same values.

These values form the basis of all activities of KGHM - both on global commodity markets as well as in cooperation with local communities.

A key element is the best use of the creative potential of employees. The company's achievements and market position depend on their **knowledge, ingenuity, cooperation, commitment, and integrity.**

In order to provide an optimal working environment, the company invests in their continual professional development and in a good atmosphere in the workplace.

Employees' professional development radiates into the

entire organization and its ability to expand. The company organizes vocational training, subsidizes academic education, and encourages the exchange of knowledge. In recent years, due to the globalization of our activities, we have been investing heavily in improving language skills and long-term development programs for expert and managerial personnel at all levels of the organization.

Care for employees also includes concern for their safety. The Company has a **“Program to improve workplace safety in KGHM Polska Miedź S.A. to the year 2020”**, with an objective of „zero accidents” through the development of technology and management systems, as well as extensive promotion of safety culture and appropriate behaviour among employees.

As at 31 December 2014, KGHM Polska Miedź employed 18 168 employees.

More on human capital in KGHM can be found in Chapter III, in the section “Developing skills and organizational efficiency.”.

2.38. KGHM's Values



COURAGE



RESULTS-DRIVEN



ZERO HARM



TEAMWORK



ACCOUNTABILITY

IN THIS CHAPTER:

Our results in the area of improving productivity

The most crucial modernisation and new technology projects
Environmental protection
Research and development and innovations

Our results in the area of development of the resource base

Sierra Gorda (Chile)
Ajax (Canada)
Victoria (Canada)
Deep Głogów (Poland)
Exploration projects

**Our results in the area of income diversification
and gaining independence from energy prices**

Combined Cycle Gas and Steam Unit

Our results in the area of regional support

Expansion of Żelazny Most tailings storage facility
Programs for the region

**Our results in the area of development
of organizational abilities and skills**

Programs addressed to the employees
Benefits
Safety



Chapter III.
KGHM in 2014



Chapter III.

KGHM in 2014

In 2014 KGHM successfully carried out its business strategy. The vision of KGHM's development was implemented based on five principles, which were described in the corporate business strategy. In spite of the challenges caused by the turmoil in the metals market, the Company's objectives were achieved, including the main objective which was to join the group of large, global producers of copper and to enhance copper output in the KGHM Group up to approximately 700 thousand tonnes per year.

Implementation of the strategy allowed us to build a global, modern, and innovative company, which focuses on stability, responsibility, and long term growth. The actions taken by KGHM have resulted in a diversified portfolio of world-class ore deposits in safe jurisdictions as well as a constantly growing, professional team of employees.

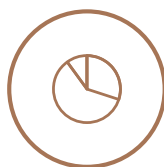
3.1. KGHM Polska Miedź S.A. Strategy Pillars for the years 2009-2018



I. IMPROVING
PRODUCTIVITY



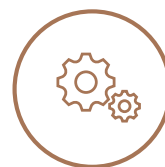
II. DEVELOPMENT
OF THE RESOURCE
BASE



III. INCOME
DIVERSIFICATION
AND GAINING
INDEPENDENCE
FROM ENERGY PRICES



IV. REGIONAL
SUPPORT



V. DEVELOPMENT
OF ORGANIZATIONAL
ABILITIES AND SKILLS

Our results in the area of improving productivity

Efficiency improvement, the purpose of which is to reverse the trend of a rising unit cost of production, is the key area of KGHM's business strategy. Since 2012 the Company has recorded an average annual cost decrease of approximately two percent

(i.e. the aggregate cost of electrolytic copper production after deduction of the minerals extraction tax in KGHM Polska Miedź S.A.), while the desire to reduce production costs is still a huge challenge for KGHM. Major initiatives aimed at enhancement of copper

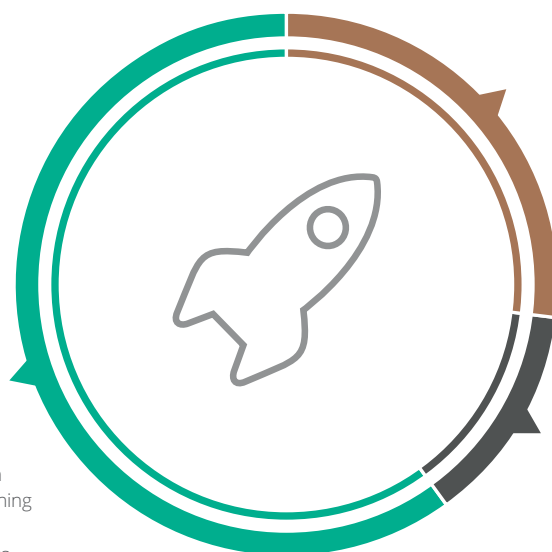
manufacturing cost efficiency include primarily projects, research papers and the implementation of projects involving innovative technological solutions as well as actions aimed at the optimization of core business manufacturing processes.

3.2. Breakdown of Capital expenditures

60%
OF TOTAL
CAPEX

DEVELOPMENT PROJECTS

aiming at increasing the production volume at the process line, maintaining the production costs and projects aiming at adaptation of the business to evolving standards, legal norms and regulations, including those related to environmental protection.



27%
OF TOTAL
CAPEX

REPLACEMENT PROJECTS

projects aiming at maintaining the production assets in non-deteriorated condition to ensure the fulfilment of current production tasks.

13%
OF TOTAL
CAPEX

MAINTENANCE CATEGORY PROJECTS

providing necessary infrastructure in compliance with the progress of mining works and the continuity of waste collection in order to safeguard output at desired level, according to the mining plan.

Facts and figures concerning modernization and new technologies

PLN 1 436 000 000
for development projects

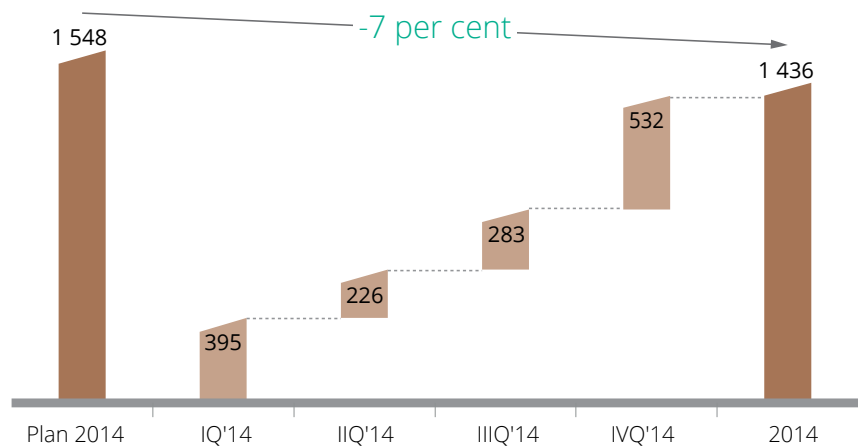
A 50+ percent
drop in dust and gaseous emissions
from the Głogów I smelter/refinery

10.35 - the lowest Lost Time
Injury Frequency Rate (LTIFR) (number
of accidents per million hours
worked) in many years.

The most crucial modernisation and new technology projects

In 2014, investments in new technologies were continued, mainly in the area of mechanical mining technology development in the mines of KGHM Polska Miedź S.A., and in implementation of the Pyrometallurgy Modernisation Program at the Głogów Copper smelter/refinery.

3.3. Expenditures incurred on planned investments in 2014 (PLN mn)



Pyrometallurgy Modernization Program

The Pyrometallurgy Modernization Program was implemented at the Głogów Copper smelter/refinery in 2014. Currently, the Głogów I plant applies shaft furnace technology.

After modernization it will be replaced by a flash furnace, which allows copper to be smelted in a purer form. This will result in cost efficiency and more environmentally friendly copper metallurgy.



3.4. Pyrometallurgy Modernization Program

	Our input	Results
 Finances	<p>Project budget PLN 2.1 BN PLN</p> <p>Up to 31 December 2014, the incurred expenditures amounted to PLN 956 mn, including PLN 484 mn in 2014.</p>	<p>Increasing the revenue of the KGHM Polska Miedź Group from the sale of additional quantities of silver, rhenium and refined lead</p> <p>Reduction of the total unit cost of processing</p> <p>Reduction of replacement investments costs</p> <p>Reduction of repairs costs</p> <p>Reduction of labour costs</p> <p>The possibility of melting imported chalcopyrite concentrates.</p>
 Production	<p>Construction of electrical and flash furnaces.</p> <p>Assembly of the halls.</p> <p>Construction of the reinforced concrete structure of the Power Building and the OSR 11 switching station.</p>	<p>A modernized flash furnace line at Głogów I.</p>
 Knowledge	<p>Project is based on a project concession purchased from the Finnish company Outokumpu Oy (currently Outotec Oyj).</p>	<p>Unification of concentrates smelting technology in KGHM Polska Miedź.</p>
 Employees	<p>Number of employees engaged in project execution (including contractors) is approximately 1 000.</p> <p>79 contractors, with whom nearly 115 contracts were concluded.</p> <p>Project team consists of 34 employees from the Głogów smelter/refinery.</p>	<p>Number of employees engaged in project execution (including contractors) is approximately 1 000.</p> <p>79 contractors, with whom nearly 115 contracts were concluded.</p> <p>Project team consists of 34 employees from the Głogów smelter/refinery.</p>
 Relations	<p>Communication of the project in the local press.</p>	<p>Alleviating negative sentiment amongst local farmers and residents of Głogów by reducing the smelter's impact on the natural environment.</p>
 Environment	<p>Expanded requirements due to more restrictive environmental protection standards considerably increases the risk of continuing to use shaft furnace technology. Flash furnace technology will enable a decrease in emission fees.</p>	<p>Reduced emission of pollutants per tonne of copper blister produced using flash furnace technology as compared to the shaft furnace technology currently applied in Głogów I.</p> <p>Reduction of dust emissions by around 55 percent, gas emissions by around 58 percent, and reduction in the amount of stored solid waste and sewage, including:</p> <ul style="list-style-type: none"> • Reduction of emissions of dust containing copper, lead or arsenic, • Reduction of emissions of process gases containing SO₂, CO, and NO_x, • Reduction in the amount of technological waste and recycled acid waste, • Increase in sulphur recovery to produce H₂SO₄

Development of mechanical mining technology

The copper ore and surrounding rock in the Legnica-Głogów Copper Belt (LGOM) have higher strength parameters when compared to coal. Therefore, mining by KGHM Polska Miedź S.A. is performed mainly with the use of blasting. The Company is conducting testing and research on innovative technology for the mechanical mining of ore deposits - modern technology which can be applied to mining rocks of greater strength. Thanks to mechanical mining, excavated material contains less waste rock. It is also essential that mechanical mining should allow the mining of deposits located deeper and characterized by more difficult geological (thin deposits) and geothermal (high temperature of the rocks) conditions.

Production trials involving the mechanical mining of the ore deposits are carried out in cooperation with Caterpillar Global Mining Europe GmbH (on the ACT mining complex) and SANDVIK (on technology for drilling drifts using a team of three combines; with the participation of PeBeKa S.A.). To increase the probability of success during research and development work on the implementation of mechanical mining technology in the conditions encountered in the mines of KGHM Polska Miedź S.A., in October 2014 KGHM entered into an agreement with KOPEX Machinery S.A., a Polish manufacturer and supplier

of machinery and equipment for the mining sector, on cooperation in the development and implementation of a prototype mechanized longwall system to excavate copper ore deposits.

In 2014 work continued on analysing the possibility of applying mechanical mining technology in KGHM's mines. Based on the current results of performance tests of the ACT mining complex, in a pilot section of the Polkowice-Sieroszowice mine and with the cooperation of Caterpillar Global Mining GmbH, work was started connected with the implementation of necessary modifications both to the body of the combine and to the casing of the prototype device. Once modifications have been introduced, the next stage of performance tests will take place. As at 31 December 2014, incurred capex amounted to PLN 18 million, including PLN 1 million in the year 2014.

At the Polkowice-Sieroszowice mine, production trials continued on the drilling of drifts using the team of three drift combines as part of drift development work, which first commenced in 2013. At the same time, the process of gathering experience as well as technical and economic evaluation of the implemented technology was performed, along with work connected with optimization of the technical and organizational structure of the combine section.

As at 31 December 2014, incurred expenditures amounted to PLN 8 million, including PLN 5 million in 2014.

Development of the mechanical mining technology will contribute to higher efficiency, faster mine advancement, and increased workplace safety. In economic terms, we expect mining costs to be lower and greater ease in carrying out the Company's production plans.

Reorganization of the procurement process in the KGHM Group

Work was completed on the implementation of a global purchasing system for the KGHM Group under the auspices of the Central Procurement Office. This work comprised the following:

- an organisational structure was defined and implemented as well as a management model for the global procurement function in the KGHM Group,
- a draft modified KGHM Polska Miedź S.A. Group Procurement Policy was prepared,
- on-going analysis and process improvements were carried out aimed at achieving synergy and savings with respect to procurement, among others by optimising delivery chains, simplifying purchase procedures, implementing unified IT tools supporting the procurement process, increasing the number of assortment groups realised globally, aggregating procurement volumes and conducting global tenders.



Environmental protection

The extraction of copper ore and its processing by the metallurgical plants is inextricably linked to environmental impact in all its dimensions - both renewable and non-renewable. KGHM does not avoid its responsibility towards the environment, and systematically modernizes its installations designed to protect the environment. Total environmental fees paid by the Company in 2014 slightly exceeded PLN 29.5 million. The level of charges was lower than in 2013, despite the annual increase of environmental fees. This was due to the lower production of tailings at the Legnica smelter/refinery in connection with the plant's maintenance downtime. The highest rates - over PLN 18.8 million - were paid by the Company for the drainoff of excess water from the Żelazny Most tailings storage facility. The second largest expense - exceeding PLN 6.3 million - was the fee for emissions into the atmosphere.

In our efforts to balance our impact on the natural environment, we undertake a number of proactive environmental actions. These include, among others, initiatives aimed at adequate utilization or renovation of the natural environment in places where the company conducts its operations.

The most crucial initiatives were the following:

- commencement of electrical energy and heat production in the combined cycle gas and steam units,
- financial guarantees for the Żelazny Most tailings storage facility,
- commencement of actions connected with the development of so-called initial reports, and
- improvement of air quality around the SG2 shaft in the Polkowice-Sieroszowice mine.

Commencement of electrical energy and heat production

in high-efficiency cogeneration in the combined cycle gas and steam units in Polkowice and Głogów will allow greenhouse gas emissions to the atmosphere to be reduced by 40 percent in relation to emissions from conventional coal-fired sources. The output of these units will cover around one fifth of KGHM's demand for electrical energy.

In the year 2014, for the first time in the Company's history, a financial guarantee was established for the Żelazny Most tailings storage facility. Its purpose was to secure financing for activities related to the future closure of the facility, its renovation, and monitoring.

The Company also commenced actions connected with the development of so-called initial reports for the metallurgical plants in Głogów and Legnica. These reports describe the soil and

water environment. Thanks to this analysis, KGHM will obtain a map of contaminants in the soil and underground water in the area where the metallurgical plants are located. The obligation to have such reports was introduced after an amendment to the environmental protection law in the year 2014.

In order to meet the expectations of local communities, KGHM also undertakes actions aimed at improving air quality around the SG2 shaft of the Polkowice-Sieroszowice mine. In recent years, emissions from the shafts have been burdensome for local residents due to their perceptible, unpleasant odour. The situation improved in 2014 when an installation for fogging the air with a special mixture to reduce the odorous compounds was installed. The measures taken are not fully efficient, and KGHM is working on acquiring technology that will ultimately solve this problem.

KGHM is also a member of six international consortia, formed to comply with the EU's REACH decree on the safe use of chemicals. The relevant documentation on substances used in the Company is constantly updated.

Altogether, the Company spent **PLN 601 million** for environmentally-focused investments in 2014.



G4-EC2



G4-EN1

G4-EN3

The most important ecological actions of the Company, scheduled for the near future, are the following:

- adaptation of administrative decisions to changes in the law,
- continuation of work related to the modernisation of pyrometallurgy at the Głogów smelter/refinery,
- supervision of the system for trading CO2 emissions,
- work related to ensuring the security of the Żelazny Most tailings storage facility, such as strengthening the containment dam,
- continuation of the program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones, and
- development of the Żelazny Most tailings storage facility by the so-called southern quarter.

Indicators

Aspect: Materials

3.5. G4-EN1 Materials used, according to weight and volume

Materials used according to weight and volume	Unit of measurement	2014	2013
Copper ores extraction dry weight	thousand tonnes	31 023	30 647

Aspect: Energy

3.6. G4-EN3 Direct and indirect use of energy by organization

		Value (GJ) 2014	Value (GJ) 2013
Total use of energy from non-renewable resources (owned or purchased) in joules or their multiplicities, divided by the type of resources			
Non-renewable	Gasoline (engine and aviation)	1 518	1 905
	coal	3 420 694.43	3 482 555
	natural gas	4 294 024.68	3 873 770
	heating oil	131 657	159 341
	diesel	1 249 202.96	1 261 088
	Total Total use	9 095 579.07	8 985 595

Total use of energy from renewable resources (owned or purchased) in joules or their multiplicities, divided by the type of resources

Total Total use	0	0
------------------------	----------	----------

Total use of energy produced on its own or purchased divided into: electrical energy, heat energy in joules or their multiplicities

electrical energy	9 435 091	9 331 839
heat energy (including usage of steam and cooling energy)	2 184 643	2 418 054
Sum Energy use	11 619 734	11 749 893

Total sale of energy divided into: electrical, heat, cooling and steam in joules or their multiplicities

Total sales of electrical energy	503 665	466 211
Total sales of heat energy (net)	355 145	132 721
Total sales of cooling energy	0	0
Total sales of steam	85 653	101 981
Total Sales	944 463	598 932

Renewable resources: KGHM plans to build a photovoltaic panels plant; analysis of potential locations for the plant is currently being carried out.



G4-EN6

G4-EN8

3.6. Limiting the use of energy.

Actions aimed at energy saving	Amount of energy saved resulting from performing particular actions (GJ/MWh)	Base of calculation for amount of energy saved, including base year/ base value	Type of energy saved and description of the initiative
2014			
Initiative/project 1	41274.83	Electrical energy saved in relation to the base year 2013	electrical energy
Initiative/project 2	8481	Natural gas saved in relation to the base year 2013	natural gas
Initiative/project 3	1248	Steam saved in relation to the base year 2013	steam
Total	51003.83		

The above data was calculated as the sum of results from completed savings initiatives, as described in the Energy Savings Program of the KGHM core business.

Aspect: Water

3.7. Total water consumption according to the source.

Rudna Mine Division

Year	Water intrusion from the rock mass [m ³ /year]	Total quantity of water pumped out from the Division [m ³ /year]
2013	1 056 725	3 933 490
2014	1 058 032	3 981 528

Lubin Mine Division

Year	Water intrusion from the rock mass [m ³ /year]	Total quantity of water pumped out from the Division [m ³ /year]
2013	8 142 049	8 753 998
2014	8 240 357	8 630 721

Polkowice-Sieroszowice Mine Division

Year	Water intrusion from the rock mass [m ³ /year]	Total quantity of water pumped out from the Division [m ³ /year]
2013	16 434 802	14 542 176
2014	15 920 424	14 015 716

Production of industrial water	Unit of measurement	2013	2014
Tailings Plant	[m ³ /year]	148 958 599	150 875 234
Water from drainage	[m ³ /year]	25 633 576	25 218 813

Water flowing into the mines is considered as an element of their drainage systems and is used in technological processes. The excess is discharged to the Odra river. Water retention takes place in the Żelazny Most tailings storage facility.



Water resources considerably depleted by excessive water consumption.

G4-EN9
G4-EN10
G4-EN11
G4-EN12
G4-MM1

In the vicinity of KGHM's operations there are no water sources considerably depleted due to excessive consumption by the Company. The drainage of KGHM's mines does not affect the underground water outlets from the surface.

Water flowing into the mines is considered as an element of their drainage systems and is used in technological processes. The excess is discharged to the Odra river.

The water retention takes place in the Żelazny Most tailings storage facility.

Aspect: Biodiversity

KGHM in its activities considers the fact that the land it owns includes valuable natural areas, such as natural monuments and national parks, which require additional supervision. The most important among them are the Aleja Dębowa in Nowy Dwór on the territory of the Polkowice mining concession, the Orbiszów and Buczyna Jakubowska national parks on the territory of the

Sieroszowice deposit, three natural and landscape complexes: Guzicki Potok, Trzebcz and Grodowiec, as well as 45 natural monuments on the territory of the Lubin-Małomice mining concession. As a result of research conducted it was confirmed that the operations of the Divisions of KGHM Polska Miedź S.A. in these locations has no material adverse impact on the valuable protected natural species and areas, including those covered by the Natura 2000 Directive.

3.8. Total amount of land (owned or leased, used for production activity or extraction activity)

Division	Land surface, including:	
	Perpetual usufruct/ perpetual co-usufruct /ha/	Ownership/ co-ownership /ha/
Cedynia Copper Rolling Mill	48.28	0.00
Głogów Copper Smelter/Refinery	2 045.15	434.53
Legnica Copper Smelter/Refinery	211.74	183.41
Tailings Facility	3 071.58	344.17
Lubin Mine	47.69	0.00
Polkowice-Sieroszowice Mine	118.56	26.85
Rudna Mine	91.57	8.86
Ore Concentrators	64.10	0.42
Total	5 698.70	998.27

Aspect: Emission



3.9. Total direct greenhouse gases emission according to weight

Lp.	Direct emissions	GHG emissions [tCO ₂ e]		GHGs included in calculations
		2014	2013	DESCRIPTION
1	Emissions from electric energy generation	821 761	845 992	Throat gases delivered to the company Energetyka (in the EU, ETS is treated as emissions by Energetyka)
2	Emissions from heat generation	39 356	61 153	Emission from natural gas and heating oil combustion
3	Emissions from physical and chemical processing	543 631	441 403	Processing emissions
4	Hydrofluorocarbon (HFC) emissions	35 481	34 169	Refrigerants and insulators (SF6)
5	Emissions from transport of materials, products, and waste	92 217	92 867	Engine fuel
Total direct emissions		1 532 446	1 475 584	
6	Biogenic carbon dioxide emission (in metric tonnes of CO ₂ equivalent)	131 874	140 795	This also includes the transfer of organic carbon in throat gas to Energetyka's power and heat-generating plant

G4-EN15

G4-EN16

G4-EN19

Correction was made to the indicator G4-EN15 for the year 2013. Reduction of direct emission took place mainly due to the reduction of physical and chemical emissions (processing emissions).

3.10. G4-EN15 Total indirect greenhouse gases emission, by weight

Lp.	Indirect emissions by source	GHG emissions (tCO ₂ e)		GHG in calculations
		2014	2013	DESCRIPTION
1	Emission resulting from electrical energy, purchased for the needs of the organization	1 916 645	1 947 702	Indirect emission connected with electrical energy purchased from different entities
2	Emission resulting from heat energy, purchased for the needs of the organization	309 319	309 425	Indirect emission connected with all heat purchased (heating water, technological steam) lack of data - included in point 2
Total indirect emissions		2 225 964	2 257 127	

3.11. Reduction of greenhouse gases emissions

Lp.	Description of initiatives and actions taken aimed at reduction of GHG emission (indicating which year 2014, 2013)	GHG emission reduction compared to base value (in CO ₂ equivalent)	Types of reduced gaseous emissions (CO ₂ , CH ₄ , N ₂ O, HFC, PFC, SF ₆ , NF ₃ , or all)
1	Initiative 1: Electric energy savings	30 450	CO ₂
2	Initiative 2: Gas gasoline savings	8 481	CO ₂
3	Initiative 3: Steam savings	1 248	CO ₂

Reduction of emissions was obtained through modernization, optimization, rationalization, and efficiency improvements. At the same time, indirect emissions increased. This outcome is mainly due to:

- increased production of electrolytic copper in 2014 (by around 2%), and of copper rod (by around 6%);
- decreased share of scrap and copper blister in the charge material.



3.12. Emission of NO_x, SO_x, and other significant air emissions, by type and weight.

G4-EN21

Lp.	Emission of NO _x , SO _x , and other significant air emissions.	Weight of significant air emissions (in tonnes)	
		2014	2013
1	NO _x	1 249.36	1 291.951
2	SO _x	4 836.88	5 007.361
3	Dust (PM)	409.24	530.772
4	Cu	9.53	9.026
5	Pb	4.58	4.483

G4-EN22

G4-EN23

G4-EN29

G4-EN31

Aspect: Waste water and tailings

3.13. Total volume of waste water, by quality and destination

Lp.	Waste water disposal point	2014
1	To groundwater	240 000
2	To surface water (lakes, rivers, etc.)	19 175 560
3	To utility companies	13 462 910
4	Total amount of waste water	32 878 470

Lp.	Treatment of waste water	2014
1	By the organization	19 415 560
2	By the waste water treatment plant	13 462 910
3	Treated waste water in total	32 878 470

Loads of pollutants [kg] sent to receivers: chlorides: 306834400; sulphates: 57390366; general nitrogen 382619; copper: 606; lead 168.

3.14. Total weight of waste by type and treatment method

Lp.	Total hazardous and non-hazardous waste, by treatment method	Total waste in 2014 [t]	
		non-hazardous	hazardous waste
3	Recovery (including energy recovery)	20 473 124.13	81 928.665
5	Depositing of waste in tailings facilities	10 477 922.73	33 714.618
	TOTAL	30 951 046.86	115 643.283

The company paid a fine of PLN 23 thousand for non-compliance with environmental law.

Aspect: Compliance with regulations

3.15 Total environmental capex by type

Lp.	Total environmental capex	2014	2013
1	Costs of waste disposal, emission treatment, and remediation ('000 PLN)	29 638.43	29 638.43
2	Costs and capex dealing with prevention and management of environmental protection ('000 PLN)	601 308.39	180 961.92

3.16. Number of claims concerning environmental impact, directed and solved by means of formal instruments



G4-EN34

Lp.	Number of claims connected with impact on the environment	2014
1	Total number of complaints concerning impact on the environment, reported in the reporting period, in the formal process of addressing the complaints.	65
2	Number of raised issues which were directed for review	65
3	Number of raised issues which were directed for review	65

Most of the complaints (47) were filed due to the odours coming from the Polkowice-Sieroszowice shaft. KGHM is actively implementing solutions to resolve this problem.

Integrated management system

The aim of KGHM is to provide the highest quality of products it offers, while minimizing impact on the environment, the preservation of safe working conditions and safety information processed by the Company, as well as efficient energy management and IT services.

KGHM's Divisions implement and certify the management systems shown in table 3.17.

In 2014, the implementation of an Integrated Management System was commenced. The foundation of this system is process management based on international standards in the areas at quality (ISO 9001), environment (ISO 14001), OHS (OHSAS 18001), energy management (ISO 50001), IT services (ISO 20000-1) and information safety (ISO 27001). It aims to merge and adapt the existing systems in the various Divisions, and integrate the newly created system for the entire organization, based in the Company's Head Office.

3.17. Management systems of KGHM Polska Miedź S.A.

Division	Name of the certificate
Cedynia Copper Rolling Mill	Integrated management system certificate meeting the PN-EN ISO 9001, PN-EN ISO 14001, and PN-N-18001 standards
Legnica Copper Smelter/ Refinery	Integrated management system certificates meeting the PN-EN ISO 9001, PN-EN ISO 14001, and PN-N-18001/ OHSAS 18001 standards
Głogów Copper Smelter/ Refinery	Management system certificates meeting the PN-EN ISO 9001, PN-EN ISO 14001 and PN-N-18001/ OHSAS 18001 standards
Rudna Mine	Safety and health management system certificate meeting the PN-N-18001 Polish standard
Lubin Mine	Safety and health management system certificate meeting the PN-N-18001 Polish standard
Polkowice - Sieroszowice Mine	Safety and health management system certificate meeting the PN-N-18001 Polish standard
Tailings Plant	Management system certificates meeting the PN-EN ISO 14001, PN-N-18001, and PN-EN-50001 standards
Ore Concentrators	Integrated management system certificate meeting the PN-EN ISO 9001, PN-EN ISO 14001, and PN-N-18001 standards
Mine-Smelter Emergency Rescue Division	Management system certificate covering workplace health and safety pursuant to the Polish standard PN-N-18001 with respect to performing work underwater
Data Center Division	Management system certificate covering IT services pursuant to the ISO/IEC 20000-1 standard

Research and development and innovations

Purposes, direction, and vision

The KGHM Group is a knowledge-based organization and the Company uses that knowledge to face its challenges, armed with research and innovation. The focus is mainly on:

- Improvement in the efficiency of manufacturing processes, and
- Development of new technologies in mining and ore processing and in the metallurgy of non-ferrous metals

In the long-term perspective we plan to implement the idea of the so-called Smart Mine and of a fully integrated „Smart Manufacturing Line“ ensuring safety and technological efficiency, as well as the capability to efficiently and flexibly manage all of our manufacturing processes. KGHM focuses on projects arising from our current Corporate Strategy, which are key to ensuring the continuity of the manufacturing process, as well as on preparing our global organization to meet the challenge of creating value in years to come.

Our integrated R&D comprises the entire value chain of mineral resources containing base metals

(Cu, Zn, Pb), associated and critical metals (Ni, Co, Ag, Au, PGM, Re, REM (rare earth metals), In, Ge, and others) - from ore processing through metallurgical processes, downstream processing and developing new materials, to recycling, taking into consideration critical metals and the substitution of critical metals contained in certain products.

The minerals mining and processing sector is a complex system comprised of various branches which ensure the smooth functioning of the various stages of production. Taking into consideration the global trends resulting from the depletion of easily-available and low-cost mineral resources, it becomes necessary to reach out for more difficult technologies and innovations, ones requiring the application of new solutions comprising the development and implementation of new techniques to ensure the sustainable management of available resources.

Strong emphasis is placed on projects that will facilitate the development of technologies aimed at speeding up the availability of deep deposits, providing opportunities for the utilisation of resources located in adverse climate conditions and associated hazards.

Other projects focus on the development of new technologies for reducing the amount of excavated

material, enabling a significant reduction in energy consumption in ore processing as well as higher recovery of useful minerals.

In terms of waste management and metallurgy, projects are underway aimed at fully utilising our products and half-finished products - which is bringing the Company closer to the introduction of waste-free technology. There are also projects being launched that are aimed at the recovery of associated metals from both ore and waste materials.

Research is being conducted involving the safe operation and development of the Żelazny Most tailings storage facility.

Innovations in the area of mining and enrichment are aimed at ensuring the stable operation of the Company and continuation of the Intelligent Mine and Smart Manufacturing Line concepts. The Company's metallurgical innovations are focused on the growth of economic efficiency and reducing environmental impact, as well as flexible integration with the processing plants. The Company's objective is to have an intelligent process line, enabling the holistic management of resources contained in geological and anthropogenic deposits.

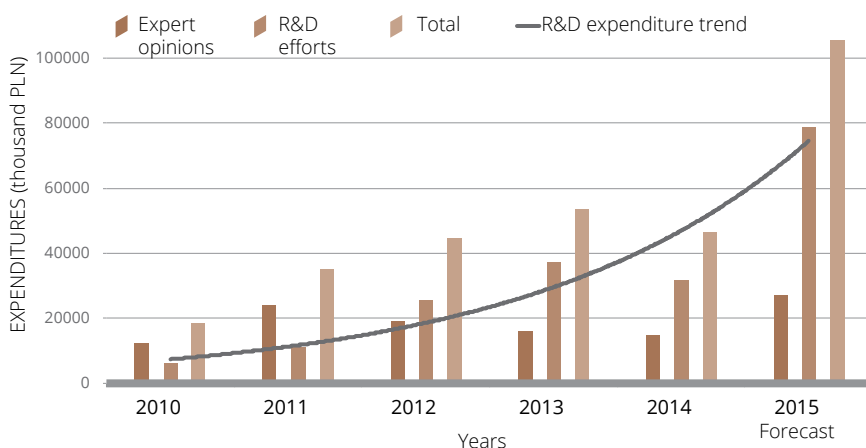
3.18 R&D percentage share of Company revenues in 2010 - 2014 (IBR indicator)

	2010	2011	2012	2013	2014
R&D Expenditures	18 474 000	35 313 000	44 608 000	53 520 000	46 581 000
Revenues	15 945 000 000	20 097 000 000	20 737 000 000	17 315 000 000	18 611 000 000
IBR indicator	0.11%	0.17%	0.21%	0.30%	0.25%

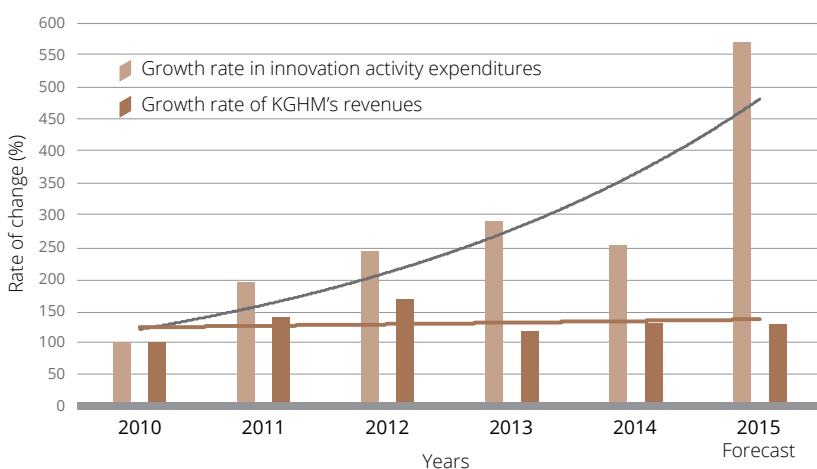
Currently, the Company is carrying out almost 30 programs or projects of highly innovative potential, including but not limited to the development of:

- innovative methods of accessing deep copper ore deposits,
- URB /ZS-3-type automatic equipment for breaking up rocks in underground copper ore mines,
- a KOT-170A self-propelled bolting rig with automatic bolting head,
- a highly efficient conveyor belt with control and automation systems,
- energy-saving technology for copper ore reduction at the Polkowice Concentrator,
- innovative technology for preparing copper ore for flotation (using high-energy milling techniques),
- highly effective technology for the enrichment of copper ore,
- innovative technology to remove copper from slag in the flash furnace technology process, and
- innovative technology for energy storage, with the use of artificial intelligence techniques.

3.19. R&D expenditures in 2010 – 2015



3.20. Growth rate of innovative activity expenditures and changes in sales revenues, compared to 2010



NUMBER OF PROJECTS AND EXPENDITURES

In 2014, there were **45 research** and development projects completed, for the amount of nearly **PLN 32 million**, and **130 expert opinions**, for the amount of around **PLN 15 million**. In total, the Company spent **PLN 46.5 million** for research and development activities. In the future, KGHM is planning a further dynamic increase of expenditures for research and innovation. The scale of investment is presented in the charts below.

Initiatives supporting knowledge and innovation development

To make the best use of the accumulated knowledge of the Company, KGHM engages in a number of actions to strengthen the communication and cooperation between experts representing various disciplines within the KGHM Group.

This was one of the reasons for the establishment of the **Knowledge Centre** in the Company's structure. Its mission is to stimulate, design, implement, and coordinate the interdisciplinary research and development programs in the KGHM Group, in Poland and abroad. The Centre will be focused on developing innovative solutions to strategic, technical, and technological challenges, and providing continuous support for analytical and project needs.

In the year 2014, work connected with determining the organizational framework for the Knowledge Centre was conducted. The needs of KGHM and its employees' duties provide the basis for setting the business objectives and areas of activities of the Centre.

The entity is currently operating under a consortium agreement between four companies of the KGHM Group:

- KGHM CUPRUM sp. z o.o. – CBR

(research and development),

- INOVA sp. z o.o. (production of equipment, implementations, data transmission, communication),
- BIPROMET S.A. (design and construction of production lines, machines and equipment, environmental protection facilities),
- CBJ sp. z o.o. (modern analysis, laboratory facilities).

In the coming years, we plan to enhance the integration of these entities as well as to merge their capital. We also plan to involve other research facilities and national technical universities in the projects realized by the Centre.

In addition to the Knowledge Centre, our annual, international **TOP100** conference provides an opportunity for KGHM's employees to share their experiences. The conference is a meeting of the leaders and top managers of selected companies of the Group.

During the discussions and plenary sessions, experts share their knowledge and experience on various substantive areas at the Company, both in technological development (underground and open-pit mining, enrichment of minerals, metallurgy), as well as in the management and organization of projects in terms of integration of personnel and the flow of knowledge within the Group. The best technical, technological, and organizational solutions are proposed and implemented by the employees of the Group.

The conference and the accompanying **Knowledge Fairs** are a good example of the practical results of KGHM's long term policy aimed at enhancing communication and cooperation between the Group's experts. In 2014, among others, the following projects were presented and distinguished:

"Underground copper leaching at the Carlota mine", the aim of which was to increase the efficiency of the mine's operations (uncovering savings and increasing the mine's profitability).

The main prize was received by the following project - „Platform to optimise control of the copper ore enrichment process". Experts appreciated its universality and scalability. Improving efficiency was also the aim of another project presented in 2014 - „Haulage Vehicle CB4-20TB", due to the scale of innovation connected with increasing the range of mining machines and its influence on the entire mining industry.

Financing research by external funds and international cooperation

To minimize the financial risk connected with conducting innovative research, the Company also participates in programs financed from external funds.

1. Horizon 2020 Program

This program requires wide and interdisciplinary consortia and the participation of industry and science partners, and also provides the ability to deal with the challenges faced by the European economy. Currently, KGHM is taking part in 2 projects financed by the Horizon 2020 framework program, which puts the Company in the forefront of companies and other scientific entities in Poland.

Since February 2015, KGHM has been conducting a project called „New Mining Concept for Extracting Metals from Deep Ore Deposits using Biotechnology" (Acronym: BioMORe), where KGHM plays a prestigious role as the coordinator of the entire project. Together with

21 scientific and industrial partners from Europe, Canada, and South Africa, a demo installation is going to be constructed at the Rudna mine, aimed at confirming the possibility of using a combination of fracturing and bio-leaching technology for the recovery of metals from deep and poor deposits located within Europe. The Project is expected to last 3 years while its total budget exceeds EUR 8.5 million.

The next project within the Horizon 2020 framework in which KGHM is participating is the DISIRE („Integrated Process Control based on Distributed In-Situ Sensors into Raw Material and Energy Feedstock”) project. The main aim of the DISIRE project is the development of a new method for the assessment and control of production processes, based on the characteristics of the excavated material and required product parameters, with the use of a new type of in-situ sensors. The proposed approach assumes that an integrated Process Control System (PCS) will allow reconfiguration and optimization of all production lines using objective internal data analyses instead of external experts.

A number of academic institutions are participating in the project, as well as Polish and European companies, including Wrocław Technical University, the University in Lulea and the German Fraunhofer. The total budget of the Project amounts to nearly 6 million Euro.

2. Sector Program CuBR

CuBr is an ongoing (since 2012) joint venture with the National Centre for Research and Development, where specialists work on solutions that allow for the sustainable development of the non-ferrous metals industry, using innovative technologies.

The aim of CuBr is to increase the competitiveness of the Polish economy and support the development potential of Polish science and industry. In the case of KGHM, this means selecting promising ideas for KGHM, and using them to develop breakthrough technologies or innovative equipment to improve the functionality of the core business line.

In the year 2014, two editions of the CuBr Program competition were launched simultaneously, with a total allocation of over PLN 90 million. 12 research programs were approved for implementation, including research and development work connected with new technologies in mining, metallurgical processes, new products, and recycling, while reducing environmental costs.

Other tasks connected with the next edition of the CuBR competition were commenced - including those related to mining process automation, increased efficiency of copper ore processing, and the use of rhenium in various types of coatings, as well as increased energy efficiency.

3. Knowledge and Innovation Community in the area of raw materials - KIC Raw MatTers

KGHM's membership in this European consortium of over one hundred partners from 22 European Union countries, including mining companies, universities, and research institutes, enables the international sharing of experience.

At the end of 2014, the consortium won a competition organized by the **European Institute of Innovation and Technology (EIT)** to carry out a seven-year program called “Knowledge and Innovation Community in the area of natural resources” under the framework **EIT Raw Materials** program

The EIT Raw Materials program is aimed at integrating and strengthening innovation in the raw materials sector, through the introduction of new technologies, products, and services for the sustainable exploration, extraction, processing, and recycling of natural resources. The role of all partners will also be to provide technology and services to meet the changing needs of society, as well as education, entrepreneurship, the creation of new jobs, and overcoming challenges associated with the scarcity of raw materials in Europe and the need to import them. KGHM's active measures allowed the Company to report the areas of research which are the most important challenges faced by the Group - among others, the reduction of waste, the automation of mining processes and efficiency issues.

The budget of the project with the EIT is expected to reach more than EUR 400 million.

The main office is in Berlin, but thanks to the commitment of KGHM and the companies from the Group, one of the six trans-national knowledge hubs – integrating Poland, Austria and eastern Germany – will be created in Wrocław. This will allow for the integration of the macro-region, in which the scientific community, together with industrial partners, will develop technological specializations utilizing the existing potential - from generating collected ideas for innovation in the primary sector of business and academia, in support of start-ups and SME-type enterprises, to large pilot projects testing the technology at higher levels of development.

Our results in the area of development of the resource base

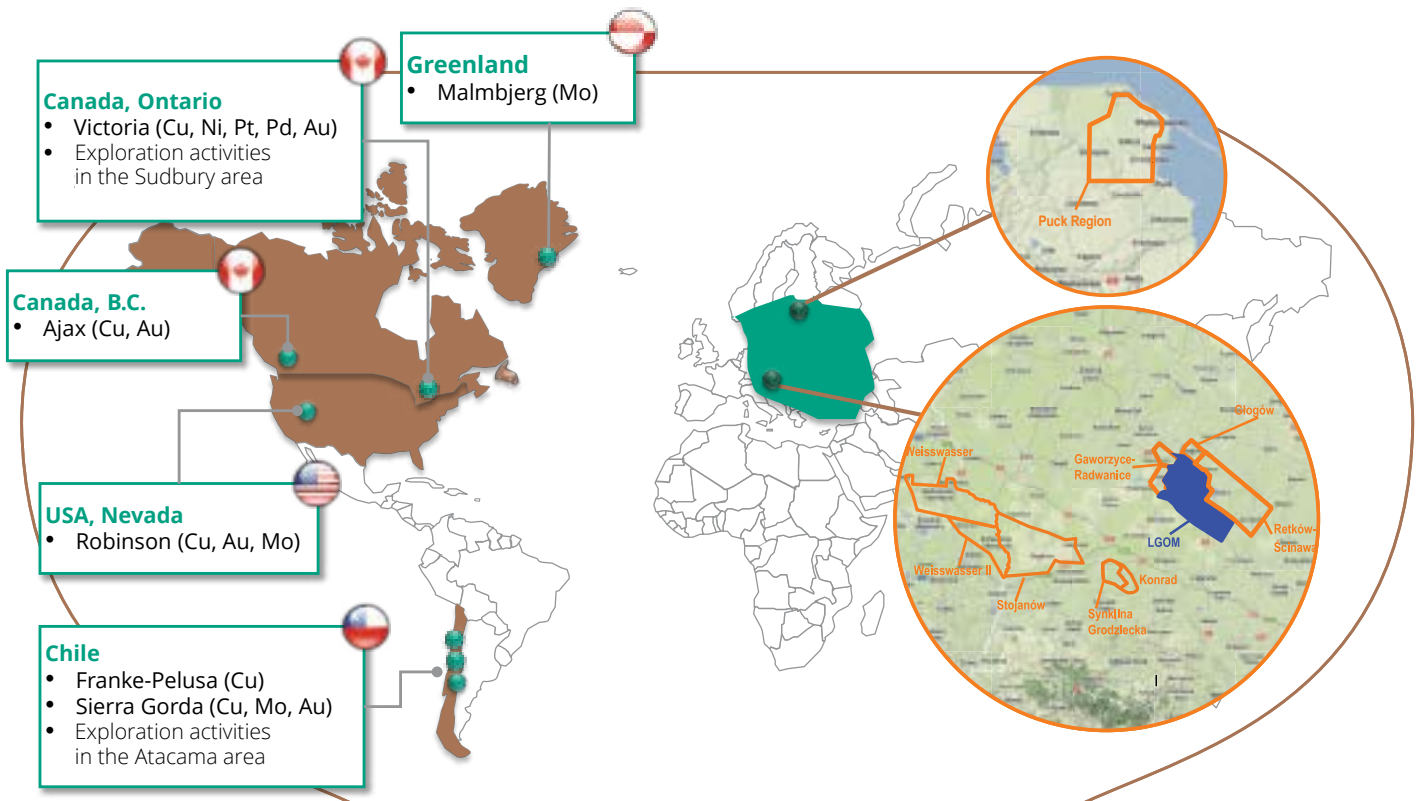
The value of a mining company - apart from that of the people working in it - is determined first and foremost by its resource base. The quality of a company's resources is determined by geological factors (the content of minerals), mining factors (the depth and structure

of deposits), and political factors (the geopolitical safety of the areas hosting the deposits).

KGHM understands the need to secure and increase its own resource base, both by carrying out exploration on sites to which

the Company holds appropriate exploration concessions, as well as through expansion by making acquisitions of mining entities which have assets of economically attractive geological resources (and which meet the Company's project evaluation criteria).

3.21. Maps of KGHM Group operations and projects



Sierra Gorda (Chile)

Chile occupies a special place in investments involving the development of the resource base of the KGHM Group. The Sierra Gorda open-pit mine is located in the northern part of the country, in the Atacama desert, and is the most important overseas project of the Company, as it possesses one of the largest deposits of copper and molybdenum in the world, with low production costs and high growth potential. Region II, where the Sierra Gorda mine is located, is the most important one in terms of copper production in Chile, amounting to 16 percent of the world's total copper production.

The Sierra Gorda mine is an example of the most quickly completed project, counting from the first documentation of the deposit to commencing production, in Chile (10 years vs. 19 years on average, in the industry). After the three-year period of the mine's construction,

on July 30th, 2014, the Company commenced production, and a few months later the first transport of about 6,000 tonnes of copper concentrate was sent to the Japanese Toyo Smelting Plant. Between the start of production and 31 December 2014, the Sierra Gorda mine produced about 35,600 tonnes of concentrate (10.5 thousand tonnes of pure copper). The cost of copper production in the Sierra Gorda mine is one of the lowest in the world and amounts to USD 2 500 per tonne (in the mines in Poland it is about USD 4 thousand per tonne).







Benefits from the Sierra Gorda mine for the KGHM Group:

- Higher copper and gold production,
- Commencement of molybdenum production,
- Decrease of the average weighted cost of copper production, and
- Enhanced employee skills and experience.

This investment in Chile is being done in two stages. The first was the building of the open-pit mine with technical infrastructure (social facilities, fresh water supplies, tailings storage facility, power network and salt water pipeline). The assembly of processing plant installations and machines was conducted with a processing capacity of 110 kt of ore per day (120 kt of copper per year). Obtaining the full processing capacity forecasted for the first stage is scheduled for the second part of 2015. During the course of the project, technical optimizations were implemented which enabled an increase of Sierra Gorda's mineral reserves.



3.22. Sierra Gorda Investment

	Our input	Results
 Finances	Investment cost US \$ 4.2 bn Ownership: 55 per. KGHM, 45 per. Sumitomo	Cost of copper production in the first 5 years at a level around US\$ 2.5 thousand per tonne – one of the lowest in the world
 Production	Construction of infrastructure allowing commencement of mining	Planned average annual target production at the level of at least 220 kt of copper, 25 million pounds of molybdenum, and 64 k ounces of gold
 Knowledge		Detectors in the mine Modern and innovative technologies are being used at SG – e.g. high pressure grinding rollers (HPGR) SG operates the largest molybdenum concentrate production plant in the world
 Employees	Work by the teams amounted to 18.5 million working hours	Current employment: around 1300 employees Target employment after the completion of phase II: 2000 employees
 Relations	Structured process of dialogue with local communities, based on local coordinators and various communication channels (post box, phone line, e-mail) “Catabela” Newsletter for local communities Training courses for local communities Regular meetings with the local communities	Policy of answering the inquiries of interested parties within 20 days
 Natural environment	4 weather stations to measure the quality of air Monitoring of ground water Waste management Salt water pipeline, 143 km long and around 90 cm in diameter Observing the legal norms	Meeting the requirements of the Chilean Government’s Environmental Superintendence of Environmental Commitments Load. Currently, RCA N°137/2011

Preparations are underway to begin the second phase of investment. Its aim is to increase the processing capacity of the plant from 110 kt of ore per day to at least 190 kt of ore per day. Design work has commenced connected to development of the infrastructure. Additionally, it is assumed that an extension of the mine’s operational life could be achieved through development of the mineralized areas at Pampa Lina and Salvador, adjacent to the Sierra Gorda mine’s infrastructure available in the second stage of the investment.

There is also the Sierra Gorda Oxide Project, which aims to process the oxide ore gathered during the construction and development

of the Sierra Gorda mine, in a metals recovery installation using SX/EW technology. The oxide ore is being separately stored in heaps for subsequent leaching. The project includes stacking and semi-industrial trials, the results of which will allow KGHM to choose the most effective way to process the oxide ore.

Sierra Gorda is not only an example of the excellent work of our engineers but it is also a model project reflecting KGHM’s approach to employee safety, relations with local communities, and how to reduce environmental impact. Throughout the mine a policy of Zero Harm is enforced, meaning zero accidents, zero breakdowns, and zero harm to the surroundings.

The building of Sierra Gorda and extraction of its valuable deposit would be very difficult or even impossible without good relations with local authorities and communities. To ensure a friendly atmosphere towards the investment, the process of dialogue with the communities has been structured – local coordinators were established and special communication channels were created (separate phone line, dedicated e-mail).

WATER IN SIERRA GORDA

Stable functioning of the Sierra Gorda mine requires permanent access to large quantities of water. The mine uses over 250 thousand m³ of water per day, i.e. 92 million m³ per year. It is estimated that, in future, the demand may increase to around 440 thousand m³ daily, meaning over 160 million m³ per year.

The investment's location - the Atacama desert in Chile (one of the driest areas in the world) - means that any attempts to obtain water in such a place would affect the region's resources and would have a negative impact on the quality of life of local communities. Failure to maintain good relations with the local people would constitute a danger for continuity of the mine's operations, in the short as well as medium term.

Water is a non-renewable natural resource. That is why the Company made a decision to carry out an innovative and technologically complicated investment, which makes it possible to recover the water used in another plant. The pipeline of around 90 cm in diameter runs from the city of Mejillones, situated on the coast of the Pacific Ocean. Salt water comes from the cooling systems of the local electrical power and heating plant. Instead of going back to the ocean, it is pumped into the pipeline, which leads to Sierra Gorda. The infrastructure is supplemented by a coastal pumping station, port facilities, and fibre-optic cable, situated along the entire pipeline.

The length of the pipeline amounts to over 142.6 kilometres. That is why, during its assembly, KGHM's engineers worked with an ecological organization. Steps were taken to protect the area's biodiversity, including precious species of Peruvian tern and grey seagull.

The pumped water goes to a reservoir with a capacity of 750 thousand m³. This amount of water is sufficient for several days of operations by the mine, which considerably diminishes the risk of interruptions to planned operations as a result of a possible pipeline breakdown.

We also took care to ensure that water use by Sierra Gorda would not have a negative impact on the quality of local ground water. Flotation tailings are separated from the natural environment, and in order to monitor and swiftly detect possible leaks, additional protective installations were built.

The pipeline is not the only water project of KGHM connected with the mine on the desert; the Company also constructed one of the most modern potable water treatment plants in this part of Chile, at a cost of over USD 8 million. Its significance for the people of the nearby town of Sierra Gorda cannot be underestimated.

This huge, international investment by KGHM is also a chance for the Company's staff to gain new experiences and knowledge. The Group has a program which enables employees from Poland to work in Sierra Gorda. As a part of the GO GLOBAL! Initiative, students' internships can also take place in the mine.

KGHM's Chilean investment is also proof that Polish companies are becoming increasingly capable of effectively competing with foreign ones when it comes to innovation and the quality of products offered. Of particular importance in this regard is the providing of mutual

assistance, cooperation, and the sharing of practical knowledge about internationalization. Over 600 contractors were engaged in the construction of the Sierra Gorda mine, including 2 companies from Poland: TELE – FONIKA Kable and Sempertrans. KGHM, with its best practices and contacts, supports Polish companies which are considering global expansion through both the Polish – Chilean Mining Investment Seminar and the Think Tank POLAND, GO GLOBAL! Initiatives.

KGHM has taken the opportunity of operating in Chile to call attention to the achievements of the great Polish scientist and explorer, Ignacy Domeyko, one of the most accomplished founders of the modern Chilean economy and educational system in the nineteenth century. During his 46-year stay in South America, Domeyko laid the foundations for the Chilean mining and metallurgy industry, conducted geological, geographical and anthropological research, and headed the first modern University in Santiago de Chile.

Ajax (Canada)

The Ajax Project is situated in British Columbia, Canada, approximately 400 km north-east of Vancouver, in the close vicinity of the town of Kamloops. The shareholders of the project are KGHM Polska Miedź S.A. (80 percent) and Abacus Mining & Exploration (20 percent), based in Vancouver.

Ajax's target is to produce 50,000 tonnes of copper and approximately 100,000 ounces of gold, per year. In 2014, a new strategy for the mining plant was published, which foresees






that the future infrastructure of the Ajax open-pit mine will be situated further away from the nearest homes in the town of Kamloops, which will reduce the impact of mining on the local communities and environment.

At the same time, to gain better knowledge of the deposit as well as to identify possible additional mineralization, drilling was carried out in the area of the planned open-pit mine, and in its vicinity. An analysis was then conducted aimed at possible technological improvements to the mine, which

would allow for optimization of the investment and its operating costs and, consequently, would lead to a significant increase in the economic attractiveness of the project.

The adopted schedule will result in the construction of the mining plant in the second half of 2016. The Company assumes that production of the first copper concentrate by the Ajax mine should commence at the end of 2019. The mine will decrease the unit production costs in the KGHM Group.

3.23. Ajax Project

	Our input	Results
 Finances	Project financed by the founders of the KGHM Ajax S.A. JV, proportionally to the shares held: KGHM Polska Miedź (80 per.) and Abacus Mining & Exploration (20 per.).	Reduction of unit production cost in KGHM Group
 Production	To be built: <ul style="list-style-type: none"> • ore enrichment plant, • tailings storage facility, • waste rock storage facility • service facilities for machinery and equipment 	Increase in the production of gold and copper - approx. 50 kt copper/year and approx. 100 k oz of gold per year in concentrate
 Employees		Target headcount: around 400 employees
 Relations	Engagement in range of charity actions, sponsoring actions and organization of discussion meeting concerning the benefits resulting from Ajax mine construction	October 2014 – signing of agreement with First Nations
 Environment	Monitoring of any impact on the environment throughout the production cycle 5 air quality measurement stations Ground water monitoring	In terms of engineering, design work is being carried out on the new tailings storage facility. After completion of this work it will be possible to assess the percentage of recovered water





Victoria (Canada)

The second of the Canadian projects, an extension of the resource base, is the construction of the Victoria underground copper and nickel mine. In 2014, work was carried out involving levelling land to build the surface

infrastructure as well as continuation of activities connected with drilling an adit leading to the mine shaft. Work also continued on preparing the Integrated Development Study for the Victoria project, being the equivalent of a Feasibility Study.

KGHM Cuprum and PeBeKa are engaged in work connected with developing the project's technical aspects, while also supervising the process of shaft sinking.

3.24. Victoria Project

	Our input	Results
 Finances	Currently, design work is being carried out. Once completed we will be able to publish an estimate of expenditures	Decreasing the average weighted cost of copper production (C1) in the KGHM Group.
 Production	Preparation work connected with shaft sinking Levelling land for surface infrastructure Preparation for construction of the waste rock storage facility	Average planned annual production ~16 kt Ni, ~15 kt Cu, and ~150 k oz TPM (Au, Pt, and Pd).
 Relations	Building relations with the First Nations.	Signing of an agreement with First Nations in Ontario - Atikameksheng and Sagamok.
 Environment	Monitoring of environmental impact throughout the project's development and production cycle.	Waste management – water treatment and storage.

Deep Głogów (Poland)

According to estimates, deposits in the area of Deep Głogów (GG-P) constitute around one-fourth of the copper resources and around one third of the silver resources in all of KGHM's concessions in Poland. The only way to obtain full access to these resources is the development of a deep mining system. The experience gained by experts during the Deep Głogów project is unique in the world.

The process of mining the deposits of Deep Głogów consists of three stages:

- Stage I – gaining access to the level of 1 200 m – the creation of main mining corridors, linking the shafts containing the deposits, along with the construction of technical infrastructure necessary in the shafts, construction of the GG-1 shaft complex and the surface air cooling stations,
- Stage II – gaining access to the deposit in the Deep Głogów mining area, creation of the

headings system (drifts and declines), separating the working blocks and their infrastructure,






- Stage III – preparation works – creation of preparatory workings dividing the blocks into working fields, along with infrastructure development.

In 2014, drift mining was continued in order to make the Deep Głogów mining area accessible, along with the development of technical infrastructure. Sinking of the GG-1 air inlet shaft continues using tubing technology. Construction of the GG-1 shaft will be carried out in stages with completion in 2019. It will be the deepest shaft in the Copper Belt – its targeted depth is 1 340 m, with diameter of 7.5 m. In April 2014, the first mining section commenced work in the Deep Głogów area and excavation below the level of 1 200 m was started. The deposit is being mined by two existing mines, Rudna and Polkowice-Sieroszowice. Deep Głogów's development will allow the Company to prolong its mining operations in

Poland, using its own deposits, for the next 30-40 years. During the peak period of extraction, i.e. in the years 2028-2035, production volume will amount to over 10 million tonnes of ore and 200-220 thousand tonnes of electrolytic copper, per year.

Mining at such depth brought new challenges to KGHM's engineers. For example, it was necessary to identify possible gas and geodynamic hazards. Testing with the use of seismic scanning was done – for the first time in the world on such a scale. This technique allows recognition of the structure of the rock mass with the use of seismic waves.

3.25. Deep Głogów Program

	Our input	Results
 Finances	<p>Approved budget for realization of the program - PLN 2 792 million</p> <p>As at 31 December 2014, expenditures amounted to PLN 1 299 million, including PLN 416 million in 2014.</p> <p>Ownership: 100 % KGHM.</p>	<p>Ensuring revenues for KGHM from its basic activities by prolonging the mining activities of the Company on its own deposits, up to the year 2042. Ensuring a stable level of KGHM production over the long term at the following level:</p> <ul style="list-style-type: none"> • in the years 2009 - 2022 - 28.5 million tonnes of ore/year, • in the years 2023 - 2035 - 24.5 million tonnes of ore/year, • in the years 2036 - 2042 - around 9.7 million tonnes of ore/year.
 Production	<p>Drift mining to gain access,</p> <p>Development of heavy machinery chambers,</p> <p>Creation of the ventilation and air cooling infrastructure.</p> <p>61 171.6 meters of mining was done, financed from investment funds, and 12 528.6 meters of mining financed from operational funds (a total of 73 700.2 meters) along with necessary technical infrastructure (water pipelines, power cables, electrical switchboards, belt conveyors, retention dams, pipelines and air cooling equipment, and telecommunications equipment).</p>	<p>Gaining access to and mining the copper ore deposit with estimated balance resources of 7 011 thousand of tonnes of Cu and 22 981 tonnes of Ag (as at 31.12.2007).</p> <p>As at the end of 2014, the Deep Głogów project area comprised over 348 kt of ore.</p> <p>180 items of equipment representing fixed assets with a total value of PLN 215 466.4 were completed and put into operation in the Rudna and Polkowice-Sieroszowice mines, including 123 items of equipment representing fixed assets with a total value of PLN 174 822.5 in the Rudna mine and 57 items of equipment representing fixed assets with a total value of PLN 40 643.9 in the Polkowice-Sieroszowice mine.</p>
 Knowledge	<p>The Deep Głogów deposit development program was created by KGHM Cuprum sp. z o.o., a KGHM Group company</p> <p>Managed in accordance with the TenStep project management methodology adopted by KGHM.</p>	<p>Know-how in the areas of trigeneration technology and mechanical mining</p>
 Employees	<p>Deep Głogów program team: 23 persons.</p> <p>Number of employees working for external Contractors: around 2000</p> <p>30 contractors, with whom nearly 80 contracts were concluded.</p>	<p>Higher employment in the short term and retention of jobs in the long run.</p>
 Relations	<p>Program realized on the basis of a concession obtained by KGHM in 2004 for mining of the Deep Głogów copper ore deposit (valid to 25 Nov 2054).</p> <p>Development of the Communication Plan with stakeholders.</p>	

Exploration projects

In 2014 resource base development also included KGHM's regional exploration program.

As a result of exploration, we planned to expand the Company's resource base. Geological deposits of copper ore will be assessed in regards to their possible usage. After identifying and documenting deposits, the next step is to commence the process of obtaining mining concessions for identified and documented areas which, in consequence, creates opportunities for the development and expansion of the mines of KGHM in the long term.

Ongoing exploration projects:

- **Gaworzyce-Radwanice Project** - exploratory work scheduled in 2008-2014 was completed. In 2015, technical and design work will be continued aimed at obtaining an operational concession for the extraction of copper ore in the area. The Gaworzyce-Radwanice concession covers a total area of 99 km², and is adjacent to the western border of the mining areas currently operated by the company (Polkowice-Sieroszowice mine).
- **Grodziecka Synklina Project** - the exploration drilling program planned for 2011-2014 was completed in the area of the so-called Old Copper Belt, near Bolesławiec. Geological work is to be continued jointly with the adjacent Konrad concessioned area to develop joint documentation.
- **Konrad Project** - preparation and organizational work was completed before commencing geological work in the concessioned area. Tenders are underway for performing geophysical work.
- **Retków-Ścinawa and Głogów Projects** - drilling commenced.
- **Weisswasser Project** (Germany, Saxony) – geological and exploration work was continued in the area of Weisswasser. Seismic measurements and the analysis of historical data obtained from previous exploratory drilling in this area in the 1960s were carried out. The data gathered facilitated identification of potential copper mineralization meeting the exploration criteria of KGHM for such types of deposits. To verify this data, the company KGHM Kupfer AG Company is heading the Weisswasser project on behalf of KGHM Polska Miedź S.A., and will conduct drilling and relevant measurements.
- **Stojanów Project** – re-interpretation of the historical-geophysical data is currently underway.
- **Bytom Odrzański and Kulów - Luboszyce Projects** – administrative proceedings are underway aimed at obtaining

consent for exploration of these areas.

- **Zatoka Puck Project** - in 2014, the Minister of the Environment issued a concession to KGHM Polska Miedź S.A. to explore for potassium-magnesium salt deposits in the area of Puck, along with accompanying minerals: copper-silver ores and rock salt. In 2015, KGHM Polska Miedź S.A. began work aimed at exploration of the deposit. Apart from that, work is being carried out to establish a joint venture company together with companies of the Grupa Azoty S.A. Group which is to supervise the work in the area of Puck Bay.

Our results in the area of income diversification and gaining independence from energy prices

The KGHM Group is the second largest consumer of energy in Poland after PKP (Polish Railways), both electricity and heat. During the year, KGHM's manufacturing plants consume approx. 2.6 TWh of electricity – this is more or less as much as a city with 150 thousand inhabitants. The strategic actions taken by the Company in 2014 led to the diversification of energy supply and to the generation of a great amount of it by its own generating sources. The aim of these actions is to secure the energy needs of the Company at the level of around 30 percent, and to achieve diversification of the power generation portfolio as well as a significant reduction of the Company's exposure to the risk of climate policy and changes in fuel and electricity prices.

Electrical energy generation will gradually secure KGHM's energy needs and will lead to diversification of the power generation portfolio. Additionally, it will considerably reduce the Company's exposure to the risk of climate policy or changes in fuel and electrical energy prices. Moreover, the energy generation technologies applied by KGHM are highly efficient and environmentally friendly. Their costs for the investor are compensated through the support system, guaranteed up to the year 2018, in the form of so-called yellow certificates.

The first of the units was put into operation in Q4 2013 and the second in Q3 2014. Expenditures incurred for construction of the two units totalled PLN 0.5 BN, including PLN 33 million in 2014. Usage of the Combined Cycle Gas and Steam Units will result in optimization of the costs of electrical energy supply in KGHM. The combined heat and power generation from its own sources, at around 560 GWh of electricity, will be earmarked entirely for KGHM's own energy needs in Poland. The Units - which were tested last year - also guarantee that in the case of breakdown of the national energy system the most important facilities in the Polkowice and Rudna mines (hoisting machines and fans) will still be able to operate.

The Combined Cycle Gas and Steam Units are also beneficial to the environment. Greenhouse gases emission is also lower – by 40% - in comparison to the conventional resources fired with coal.

Preparations are continuing to construct the first nuclear power plant in Poland. In 2014, together with PGE Polska Grupa Energetyczna, TAURON Polska Energia and ENEA, the final draft of the PGE EJ1 shareholders agreement was completed. Grupa PGE performs the role of Project leader, while PGE EJ 1 will act as the power plant

operator in the future. As part of the agreement, KGHM, TAURON, and ENEA, as Business Partners, will acquire from PGE a total of 30 percent of the shares (10 percent each) of PGE EJ 1. The Parties also jointly committed, proportionally to the shares held, to finance the Preliminary Phase of the Project. The financial commitment of KGHM Polska Miedź S.A. does not exceed the amount of, approximately, PLN 107 million.

KEY FIGURES







20 percent

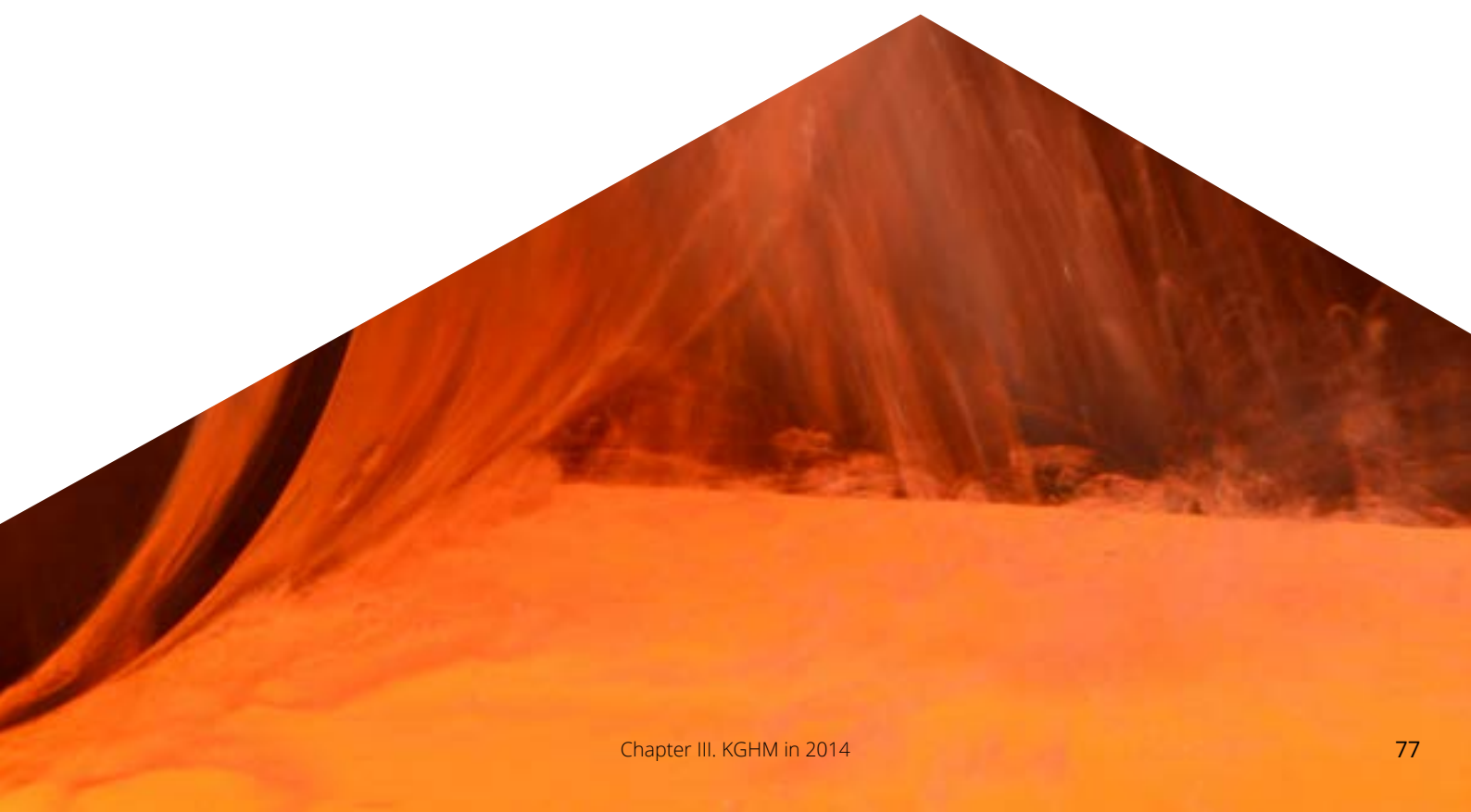
the amount of energy needed by KGHM to be generated by combined cycle gas and steam units in the Głogów and Polkowice combined heat and power plants

40 percent

amount by which GHG emissions from coal-fired sources will be reduced

3.26. Extension of the Combined Cycle Gas and Steam Units

	Our input	Results
 Finances	PLN 501 million, including PLN 33 million in 2014.	Obtaining cheaper electrical energy, generated by owned sources, compared to forecast market prices.
 Production	Construction of the Combined Cycle Gas and Steam units: electric power approx. 42 MWe and thermal power - around 40 MWt.	Covers ¼ of KGHM's energy needs. Development of KGHM's own generation of electrical energy and heat in high-efficiency cogeneration.
 Knowledge	Defining the technical requirements and contribution to the construction of the target model of source cooperation.	Development of the Head Office and Energetyka's competencies in the energy area through access and use of the latest technologies.
 Employees	Size of the project's team: 3 members. Hundreds of employees hired by the contractors.	Generating units created as a result of the investment project will be operated by Head Office workers hired pre-project and by Energetyka as Operator.
 Relations	Building and maintaining good relations with the key suppliers and contractors of the Combined Cycle Gas and Steam Units.	Improvement of KGHM's image as a power sector company with a positive environmental impact.
 Environment	Use of domestic natural gas.	Reduction of GHG air emissions by more than 40 percent.





Our results in the area of regional support

G4-SO1

Good relations with our stakeholders, based on mutual understanding and trust, are of great importance to KGHM. Particularly significant is the „Good Neighbour“ Policy. It deals with a range of initiatives and actions taken by KGHM and the KGHM Polish Copper Foundation in order to meet the expectations and needs of the inhabitants of the region – one of the most important stakeholders in the company.

The company always acts in the best interest of the region and maintains “social concession for activity” in the business areas (G4-SO1).

Expansion of Żelazny Most tailings storage facility

Flotation waste, a by-product of copper mining, is stored and deposited in the Żelazny Most tailings storage facility. The facility has operated since 1977, covers an area of 1 580 hectares, and is the biggest such facility of this type in Europe.

Due to the necessity of depositing greater and greater quantities of waste, it is necessary to further expand the facility, by 609 hectares. This will allow the Company's operations in Poland to continue for decades to come.

Such a large investment cannot be developed without the consent of the local communities. As a result of meetings held with them as well as around 20 consulting sessions, an agreement was reached which allows the Company to develop Żelazny Most, enabling the safe, stable functioning of the facility over the long term.

The Agreement provides for a wide spectrum of obligations, covering subjects of mutual importance for all of the communities covered by the Agreement, as well as specific ones for given locations. An interdisciplinary team of KGHM employees is engaged in carrying out these obligations.

KEY FIGURES

PLN 35 million

allocated by KGHM to sponsor major sport, cultural, and scientific initiatives

Over PLN 16 million

The KGHM Polish Copper Foundation allocated this amount for supporting nearly 400 local projects as well as 556 persons in initiatives to protect life and health

50 projects were

completed by KGHM volunteers for the benefit of local communities

695 children and 75 adults

the number of people covered by the Health Promotion Program in 2014

In 2014 there were no claims made involving territorial disputes, nor were there any events which led to resettlement.

3.27. Process of dialogue during the course of the Żelazny Most tailings storage facility expansion project

Sept-Nov 2013

Preliminary diagnosis

of project's social and environmental impact

Nov-Dec 2013

Preparatory consulting sessions

at 5 localities, without involvement of KGHM and the Polkowice Municipality

Jan-Feb 2014

Meetings and workshops

held by KGHM and Polkowice Municipality officials, providing answers to requests of local communities

Mar-May 2014

Public meetings to discuss the solutions,

enabling presentations and consulting with all parties involved

June-July 2014

Defining of the agreement's

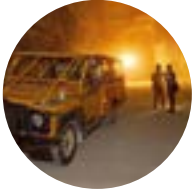
contents during working sessions used to develop the final scope of activities

18 July 2014

Agreement signed

by KGHM, the Municipality of Polkowice and local communities

SUBJECTS OF MUTUAL IMPORTANCE FOR ALL COMMUNITIES



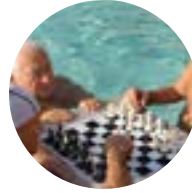
JOB AT KGHM



YOUTH
HOLIDAYS



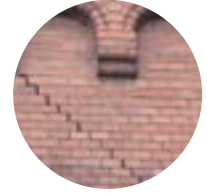
HEALTHCARE



SPAS FOR
ADULTS



DITCH CLEANING



MINING
DAMAGES

COOPERATION IN THE DIALOGUE PROCESS, IN NUMBERS

- **1** a coherent path of unification of the mines' operating procedures respecting mining damage was proposed.
- **3** quarterly meetings on „How to get a job”.
- **5** towns covered by the Agreement.
- **8** number of people employed by KGHM in 2014 from the towns covered by the Agreement.
- **10** published issues of the „Po sąsiedzku” („Neighbours”) newspaper.
- Around **20** meetings with communities to discuss the planned development of Żelazny Most.
- **58** number of children sent to a winter holiday camp.
- **77** number of wells, plus two surface water outlets, tested within the scope of water checks.
- **91** number of people medically examined as a part of the „white Saturdays” initiative.
- **141** number of emergency shelters purchased for residents (86 delivered by the end of April).
- **198** thousand PLN spent supporting the KGHM Polish Copper Foundation for the Żelazny Most region in the year 2014.
- **300** meters of pipeline exchanged in total in 2014 (Tarnówka and Dąbrowy regions).

Programs for the region

KGHM is involved in the social support of the region and is the creator of special programs in the fields of preventive medicine, ecology, business education, and corporate volunteering which were commenced in the year 2014.

The EKO-Zdrowie (Eco-Health)

Program, is a preventative healthcare project. The company encourages the residents of the region to participate in sports activities and medical examinations free of charge, and organizes sport and recreational events. The pro-health initiatives are addressed to the largest possible number of people in various age groups. The following events are organized regularly:

- swimming lessons for children (2014 – over 400 children took part),
- preventive classes at swimming pools for children and youth (682 participants from primary schools and kindergartens of the Kotla, Krotoszyce and Żukowice Municipalities),
- football classes for boys with the participation of KGHM Football Academy trainers (2014 – 150 children),
- sport and recreational events with guest participation of popular athletes from the region (e.g. events at primary schools with the international and European champion Radosław Kawęcki),
- so-called „green schools” (summer school camps) for the youngest children (210 from primary schools and junior high schools of the Jerzmanowa, Kotla, Krotoszyce, and Żukowice Municipalities).
- Nordic walking for adults (in 2014 there were around 700 participants),



G4-SO6

Innovation Zone is a program which supports the process of creating leaders, people able to face the challenges that come with managing a company on an international level, in accordance with the best corporate governance practices. The program is addressed to the managers of small and medium-sized companies, and government bodies supporting the international expansion of Polish companies. In this framework, four conferences were held at Warsaw's National Stadium, which were attended by about 250 people. The result was the exchange of knowledge, experiences, and practices in the field of international projects.

The Copper Heart (Miedziane Serce)

- voluntary program - nearly 50 projects were carried out within the framework of this program. The operation involved more than 500 people, who worked together for over 1000 hours. One of the most organizationally advanced voluntary projects is the activity of the KGHM Bone Marrow Team. The team, for years, has been promoting the idea of the fight against leukaemia and registers potential bone marrow donors. The volunteers have registered more than 1 000 people who have declared their willingness to donate bone marrow; 3 people from this group ended up doing so, and thus saving lives. There was also cooperation both with NGOs and schools. Forms of corporate volunteering depend on the current capabilities of the company, the needs of the community, and the initiative and creativity of the employees themselves. The benefits of volunteering extend further than those who receive the support, also to the employees themselves. Thanks to their commitment they gain satisfaction, new skills, experience, and the feeling of a job well done. The essence

of volunteering is, first and foremost, the people themselves, their passion and enthusiasm.

KGHM Cultura is a CSR program which supports cultural initiatives as well as artistic and educational activities in the region and throughout Poland. Its purpose is to protect the national heritage, preserve historical identity, and create sensitivity to cultural phenomena. To date the program has supported, among others, the Wrocław Opera, philharmonic halls in Jelenia Góra and Wrocław, theatres in Legnica and Wrocław, the Legnica Silver Festival, and the Satyrykon festival. An important element of the pro-culture policy in the region is providing support for the ongoing preparations for Wrocław to become the European Capital of Culture in 2016.

KGHM Polish Copper Foundation activities

2014 is also a year of improvements for the KGHM Polish Copper Foundation, which has been supporting the region and the Copper Belt's residents for over 12 years. New projects for the benefit of local communities were prepared and application procedures were simplified. Nearly 400 institutional projects received grants, for a total amount of over PLN 15 million. Over 550 donations were given to institutions in an amount exceeding PLN 1.3 million.



Five of the Foundation's main projects prepared in 2014 are:

- **Your five minutes – first aid training**
Training in first aid which was developed in order to make young people understand the importance of helping others. The fundamental goal of the project is to prepare students to take appropriate actions in situations when health and life are in danger. Objectives and types of activities were selected accordingly to the participant's age. The target group consists of young people, who will obtain pre-medical knowledge and learn to control their emotions.
- **Football for everybody**
An initiative promoting physical activity among children aged 5 – 10 years old. The project covers the overall Copper Belt region so that as many children as possible can participate in this organized form of spending free time. The activities conducted by specialists allow children to learn about the environment they live in, identify talented children from rural areas, and finally, create a sense of responsibility, reliability, and the ability to manage time in all of the project's participants.
- **Copper Math School**
Project addressed to junior high and secondary schools pupils. The program will commence with the new school year; currently the project is still in the development stage. It is worth noting that most of KGHM's employees are graduates of technical and economic schools. By developing the passion for mathematics in children, the future staff of the KGHM Group is being shaped.
- **Monuments Rescue Team**
A program designed to protect the national heritage. To date



G4-S06

it has financed, among others, the revitalization of the historic church in Głogów and the Cistercian Abbey Complex, along with its surroundings, in Krzeszów. Thanks to the commitment of the Foundation, unique projects were implemented, such as the creation of the museum of mining and metallurgy in Leszczyna near Złotoryja and the revitalization of the Chinese Avenue (Aleja Chińska) in the historical garden of the Łazienki Royal Park Museum in Warsaw.

- **Miedziorys – People and traditions of Polish Copper** one of the elements of KGHM's culture-oriented policy is to nurture and cultivate KGHM's mining and metallurgical traditions. The Company celebrates St. Barbara's Day (Miner's day) and St. Florian's Day (Metallurgist's day), every year. KGHM's traditions are promoted among children and young people from the region, and the institutions as well as social organizations protecting the values and historical heritage of the Copper Belt are supported by donations. In 2013, KGHM began publishing the "Miedziorys - People and traditions of Polish Copper" quarterly, the aim of which is to familiarize readers with the people who have been connected to KGHM for many years of their professional lives.

Sponsoring

KGHM's **sponsorship policy** aims to promote the Company and the Lower Silesia region. Total expenditure on culture, science and sport in 2014 amounted to more than **PLN 35 million**.

The main aim of sponsoring sport is to build a positive Company image as well as engage its employees. The Company supports both top-class professional sporting competitions as well as amateur sport. KGHM also supports universities and institutions, both financially and by helping with projects related to KGHM and regional issues.

KGHM is also a patron of the arts and culture. It participates in cultural organizations and provides patronage over major projects addressed to communities of the region as well as the whole country. In 2014, the Company did not sponsor any political parties or politicians.

3.28. Sponsorship expenses by subject

BRANCH	PLN AMOUNT
SPORT	27 947 500
CULTURE	4 955 250
SCIENCE	2 172 979
TOTAL	35 075 729

Program to Promote Health

In 2014, the Company continued the Program to Promote Health and Prevent Environmental Threats. The program is aimed mainly at children from ages 1 – 16, who live in the vicinity of our metallurgical facilities, and is comprised, among others, of performing blood tests for lead content, "Green School" summer school camps, swimming pool-related activities, and education on ecology and health. In the year 2014, **695 children** and **75 adults** took part in the program.

Liming

According to the Agreement for Sustainable Development concluded between the Głogów municipality and KGHM, soil tests were carried out in 2014 in the area of the Jerzmanowa municipality and the Głogów municipality's rural zone. Over 3 000 soil samples were collected, in total. Moreover, in 2014, liming was carried out in the area of the Kotla municipality. A total volume of 22 480 tonnes of calcium-magnesium fertilizer was purchased for the area of 2 652 ha.



Thanks to the variety of charity work performed by the Foundation, the Company has maintained its position as a national leader, taking 2nd place (in Poland) in the „Charity Leaders 2014” competition, in the category “Corporations which donated the highest amount of funds to charity last year”.

Our results in the area of development of organizational abilities and skills

The key element of KGHM's Business Strategy is the best possible use of the employees' potential, whose knowledge, honesty, and skills affect the results and overall standing of the Company. To ensure employee job satisfaction, KGHM constantly invests in the professional development and training of its employees, and provides a positive working environment.

In the year 2014, the process of changing the HR function in the Company is being continued. The Company's HR function was transformed from a purely administrative one into a modern and effective organisation, prepared to achieve the Company's strategic goals. The HR function carried out a range of employee programs, the purpose of which was to develop employees and enhance their effectiveness.

FACTS AND FIGURES ABOUT TRAINING ACTIVITIES

30 686 employees participated in an individual training event

812 employees participated in a number of industry symposiums, conferences, and seminars, both in Poland and abroad

102 employees made use of grants for financing their studies

818 employees made use of grants for various types of language courses

28 persons began post-graduate education in the field of geology and exploration methodology. Educational support was aimed at those employees whose responsibilities are indirectly connected with the subject of geology

Programs addressed to the employees

One of the key initiatives realized in 2014 was the Employee Mobility Program. The international mobility policy was approved under this program and the instruments and products connected with the mobility management procedures were developed. Currently, the implementation of the policy in the Group companies is being implemented, as well as the unification of the procedures and practices on a global scale.

Over 50 employees of the KGHM Group participated in the international mobility program in 2014.

In order to continue developing successfully, KGHM pursues a policy of developing employees' talents. There are appropriate programs created to ensure the availability of human resources required for realization of business challenges by the Company. The process deals with identification of the future leaders and support of their development as key members for the organization. In the year 2014, the process of identification and evaluation of employees with a high development

potential was carried out.

The next area of the company's responsibility for development of its employees is training. The purpose of the training policy of KGHM is to maintain and develop its human capital, while managing the intellectual capital of the Company with focus on its mission and strategy as well as long term development plans, in particular:

- Increasing the qualifications and improving the educational structure of the Company's employees, through continuation of the earlier launched co-financing of post-graduate studies,
- Participation of the employees in periodical H&S training and exams entitling an employee to perform his or her given role, where specialized activities are performed in underground mines and other positions in the company,
- Development of employees, competencies through training and other activities supporting their development, with special focus on managerial and interpersonal skills as well as change and project management.

The Mobility Policy determines the Group's binding principles concerning the transfer of employees delegated from one entity of the Group to another entity of the Group, located in another country. The purpose of the Policy is the following:

- establishing uniform principles of international transfers in relation to the process of delegating employees abroad, their remuneration (including benefits resulting from delegation) and settlement of tax issues.
- ensuring that the adopted principles meet the KGHM Group's business needs and are compliant with the best market practices in this scope.
- determining the division of duties at all stages of the process of delegating the employee abroad, among the companies of the KGHM Polska Miedź Group engaged in the process.
- risk management (including legal, tax, immigration, etc.) in the process of delegating employees abroad, from both parties engaged in this process.

The Company's employees are entitled to increase their qualifications in the context of forecasted organizational and technological changes by participating in training sessions, courses, conferences and pre- and post-graduate studies. KGHM ensures a high level of training by adjusting and creating training programs linked with business purposes.

Training needs are reviewed once a year, and are the basis for creating a training plan and calculating the funds needed for its realization. Both skills development as well as expenditures incurred under a given budget are regularly monitored. The Company has developed

a **uniform Competence**

Model. It determines the scope of behaviour anticipated from employees and managerial staff. The model was based on the company's values and contains five general corporate skills:

- communication
- building of relations and cooperation
- engagement and initiative
- reliability and safety
- results orientation

The model also defines four required managerial skills – leadership, management, team building, and decision making.

The year 2014 is also a year of

continued development of the Project Management project. Training sessions provided knowledge about the methodology adopted in the Company as well as the scheduling of projects, as well as use of dedicated project management software. Over 600 employees of the Company participated in the training sessions. Other training projects, scheduled for 2015, in KGHM are, for instance, the Trainer Academy, established with the aim of better availability and compatibility of training provided to meet the specific requirements of the Company. Another pilot project is also planned involving mentoring in the mines.

The development activities undertaken are of an open nature, and provide for the systematic identification of training needs arising due to the tasks performed and the identification of development needs of both the employees and the Company. The availability of these activities is not limited by criteria such as age or gender.

Programs for students

To ensure the stability of its production processes, KGHM invests in obtaining new employees.

Thus, the Talent Forge (IV) Program continues, in cooperation with the University of Economics in Wrocław. The program covers both the organization of internships for students as well as a series of lectures at the university, performed by experienced specialists employed by the company. In 2014, internships for 32 students and graduates were organized and 57 lectures were performed.

The most talented students and graduates from the specialized divisions of universities had a chance to participate in a unique program called Talent Mine. The participants of the program got to learn

GO GLOBAL INTERNSHIPS

- international internships in the USA, Canada, Chile for a period of two months,
- addressed to the students of mining and geology.

Within the framework of the Go Global Internships program, KGHM organizes internships abroad for the most talented students from Poland, which can result in an employment offer from the Company. Many of them have a chance to ultimately join the managerial team of the Company and support the company in the completion of its strategic goals.

People who already have great potential supplement their existing knowledge with practical abilities by working for KGHM International. Thanks to this opportunity, they have a chance to become the future leaders and continue on the path of long-range development of the company.

Participants of the internships get to learn how to operate the overseas mines, the technical aspects of work and the culture of countries where KGHM International has its operations. Thanks to the internships, the students have a better understanding of the process of how mineral deposits are formed, get to know the legal provisions connected with the mining sector for a given location, and have an opportunity to operate the computer software used in the company.

Number of GO GLOBAL participants:

2013 – 12 persons (one-month internships) from AGH University of Science and Technology, Wrocław University of Technology and Silesian University of Technology

2014 – 14 persons (two-month internships) from AGH University of Science and Technology and Wrocław University of Technology

2015 – 25 persons (two-month internships) from AGH University of Science and Technology, Silesian University of Technology and Wrocław University of Economics



G4-LA2

about various business areas – starting with the strategy, through production, through financing. The best participants in the program received an offer of employment from the Company.

Number of Talent Mine program participants

I edition (2012-2014)

408 candidates participated in the recruitment process, 12 participants were selected, of which following the program:

- 5 were employed in Poland
- 3 were employed in Sierra Gorda (Chile)

II edition (2013-2015)

860 candidates participated in the recruitment process, 16 participants were selected, of which:

- 2 were employed in Poland
- 1 was employed in KGHM International
- 13 persons are still participating in the program to the end of August 2015

Social Benefit Funds

In KGHM, each of the Company's divisions has its own Social Benefit Fund. The total average contribution to the Social Fund (basic

and additional, under the Collective Labour Agreement), per employee amounted in 2014 to over PLN 6 thousand. This contribution allows the social needs of employees to be met to a considerably higher degree than the standards followed in other companies. In total, the number of the above-mentioned contributions (i.e. statutory and additional) amounted in 2014 to PLN 115.5 million. Nearly 18 400 employees and almost 16 500 pensioners are covered by the Fund. Family members of the employees are also covered by the benefits.

3.29. Selected benefits from the Company's Social Benefit Fund in 2014.

#	Details	2014		
		Number of benefits used by employees	Number of children	Amount of benefits paid (in PLN thousands)
BENEFITS				
1	Holiday benefits	18 474		46 671
2	Refund of holiday travel costs	7 329		1 356
3	Preventative healthcare holidays	443		1 474
4	Education expenditures subsidies	7 510	10 490	24 076
5	Co-financing of holiday retreats for children and youth	4 481	4 904	8 545
6	Co-financing of fees for nurseries, pre-schools and clubs for children	2 648	3 202	1 437
7	Financial support for employees in the form of vouchers, coupons, prepaid cards	12 050		8 286
8	Co-financing of sport, recreation, and tourism	51 573		8 334
9	Co-financing of culture and education	5 755		723
10	Co-financing of employees' holidays (apart from holiday benefits)	1 506		1 701
11	Allowances	6 468		4 914
Benefits in total		118 237	18 596	107 516
LOANS FOR HOUSING PURPOSES				
1	Loan for purchase/ building of a flat/ house	505		24 170
2	Loan for housing renovation and modernization	1 304		11 245
3	Other loans	232		2 049
Loans in total		1 809		37464

Employee Retirement Program

Since 2005, KGHM has had an Employee Retirement Program

in the form of an employer contribution (7 percent contributed to the investment funds). Participation in the program is voluntary. Employees can

also declare and pay additional contributions into the fund they choose.

3.30. Assets of Employee Retirement Program as at 30 December 2014 (PLN)

Division	Assets as at 30 December 2014	Number of persons	Average assets
Lubin mine	139 827 708	3 364	41 566
Polkowice-Sieroszowice mine	193 832 984	4 862	39 867
Rudna mine	215 313 613	4 899	43 951
Legnica smelter/refinery	31 534 706	890	35 432
Głogów smelter/refinery	87 795 993	2 461	35 675
Cedynia wire rolling mill	8 986 495	225	39 940
Concentrators	35 735 579	913	39 141
Tailings Plant	11 344 009	335	33 863
Emergency Mine-Smelter Rescue Unit	4 516 277	111	40 687
IT Division	9 217 652	243	37 933
Head Office	37 898 582	708	53 529
Total	776 003 598	19 011	40 819

Medical Care Package

Employees and their families can join the Medical Care Package program in KGHM Polska Miedź

S.A. The employer covers the costs of employees' monthly contributions, whereas in the case of family members, it is the employee who is responsible for the payments.

The monthly contribution amounts to 35 PLN per person. Holders of the MCP cards can take advantage of a wide range of specialists and medical examinations.

3.31. Functioning of the medical care package as at 31 December 2014

Division	Employment as at 31 December 2014	Number of employees having joined the package	Percentage share
Lubin mine	3 266	1 880	58 per.
Polkowice-Sieroszowice mine	4 614	2 411	52 per.
Rudna mine	4 476	2 662	59 per.
Głogów mine	2 448	1 356	55 per.
Legnica mine	879	623	71 per.
Cedynia wire rolling mill	232	144	62 per.
Concentrators	922	586	64 per.
Tailings Plant	355	239	67 per.
IT Division	240	172	72 per.
Emergency Mine-Smelter Rescue Unit	112	86	77 per.
Head	624	529	85 per.
Total	18 168	10 688	59 per.



G4-10

G4-MM4

Employees insurance

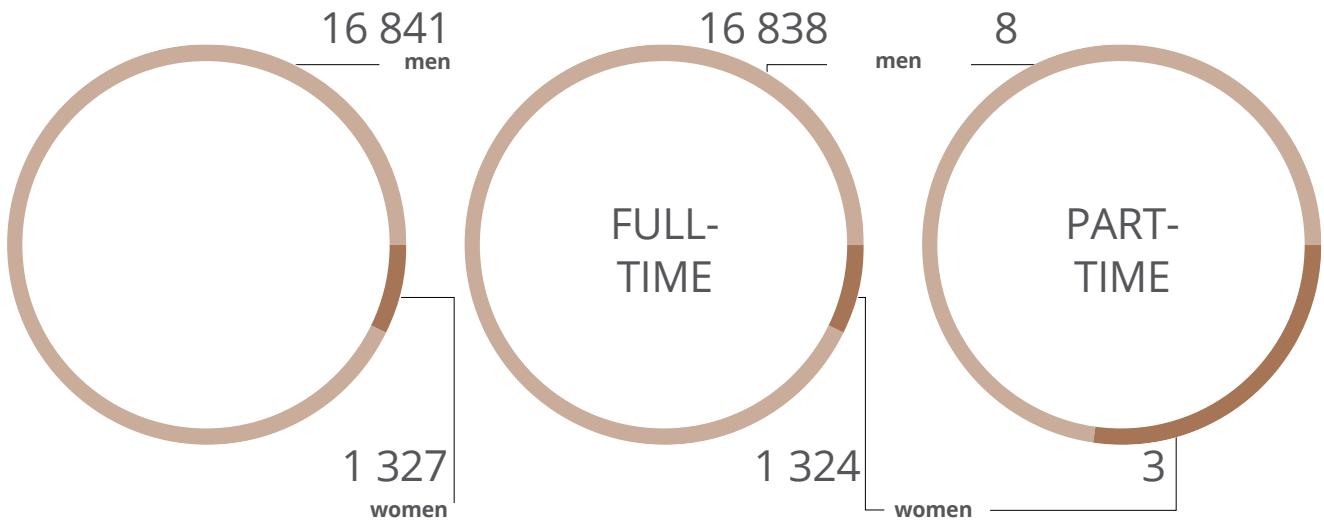
KGHM guarantees its employees life insurance coverage. The contribution financed by the employer amounts to 25 PLN monthly.

All the above-mentioned benefits are available for all employees - in KGHM Polska Miedź S.A. full time employees and permanent or part time employees are treated the same in terms of additional benefits.

In 2014, there were no employees strikes.

Indicators

3.32. Total number of employees by type of employment and region, as well as by gender



#	Total number of employees and associates who were:	Number of employees	
		Women	Men
			2014
1	Employed for limited period	43	901
2	Employed for unlimited period	1 284	15 940
3	Employed under a commission contract	22	134
4	Employed under a contract to perform a specific task	0	1
5	Employed under a training contract	10	62
6	Self-employed	0	0
7	Employees under supervision and/ or seasonal employees	0	0
	Total	1 327	17 038

3.33. Total number of newly hired employees, employees who have left the company and variation by age group, gender and region

Location	Minimum wage for the given location (gross amount) 2014	Average wage for lowest-level employee WOMEN	Relation of wage level of workforce at the lowest level to the minimum wage WOMEN	Average wage for lowest-level employee MEN	Relation of wage level of workforce at the lowest level to the minimum wage MEN
Poland	1 680 zł	3 363 zł	2	3 810 zł	2.27



G4-EC5

G4-LA1

Aspect: Employment

3.34. Total number of newly hired employees, employees who have left the company and variation by age group, gender and region

#	Total number of terminated employee contracts by:	Number of employees	Number of newly employed employees	Percentage of newly hired employees
		2014	2014	2014
1	Women	1 327	34	2.56 per.
2	Men	16 841	406	2.41 per.
	Total	18 168	440	2.42 per.

#	Total number of employees by age group:	Number of newly hired employees in a given group	Percentage of newly hired employees
		2014	2014
1	<30	229	52.05 per.
2	30-50	132	30.00 per.
3	>50	40	9.09 per.

#	Total number of employees contract terminations by:	Number of employees	Number of terminated employee contracts	Percentage of terminated employee contracts
		2014	2014	2014
1	Women	1327	60	4.52 per.
2	Men	16 841	781	4.64 per.
	Total	18 168	841	4.63 per.

#	Total number of terminations by age group:	Number of terminated employee contracts by age group	Percentage of terminated employee contracts
		2014	2014
1	<30	55	6.54 per.
2	30-50	299	35.55 per.
3	>50	448	53.27 per.



3.35. Return to work and retention rate after maternity leave, by gender

G4-LA3

G4-LA9

G4-LA12

#	Return to work and indicator of retention after parental leave, by gender	2014 Women	2014 Men
1	Number of employees entitled to parental leave	48	675
2	Number of employees who used parental leave	34	674
3	Number of employees who returned to work after parental leave	6	672
4	Number of employees who returned to work after maternity/ paternity leave and worked in the organization for the 12 subsequent months after their return.	70.8 percent	99.9 percent

Aspect: Education and trainings

3.36. Average number of training hours in the year per worker by employment structure and gender.

Employment structure	Total number of training hours by employment structure	Total number of employees by employment structure
	2014	2014
Management Board	476	5
Senior management (executive directors, directors of the Divisions)	4 200	50
Remaining senior management	30 024	560
White-collar	130 084	4 096
Blue-collar	389 032	13 457

Aspect: Diversity and equality of opportunities

3.37. Composition of supervisory bodies and employees, divided into categories by gender, age, minority, and other indicators of diversity

#	Employees by the age and diversity category	Percentage of employees in each of the categories in 2014	
		Women	Men
1.	<30 years old	0.5	12.0
2.	30-50 years old	3.7	62.2
3.	>50 years old	3.1	18.5
4.	Foreigners	0.0	0.0
	Total percent	7.3	92.7



G4-11

#	Employees by employment category	Percentage of employees in each of the categories, in 2014	
		Women	Men
1.	Management Board	0.00	0.03
2.	Senior management	0.03	0.24
3.	Other senior management	0.40	2.70
4.	White-collar	6.00	16.55
5.	Blue-collar	0.70	73.35

#	Composition of Supervisory Board, by age and diversity category	Percentage division in each of the categories, in 2014	
		Women	Men
1.	<30 years old	0.0	0.0
2.	30-50 years old	11.0	33.0
3.	>50 years old	0.0	56.0
4.	Foreigners	0.0	0.0
	Total percentage breakdown	11.0	89.0

#	Composition of the Management Board, by age and diversity category	Percentage division in each of the categories, in 2014	
		Women	Men
1.	<30 years old	0.0	0.0
2.	30-50 years old	0.0	60.0
3.	>50 years old	0.0	40.0
4.	Foreigners	0.0	0.0
	Total percentage breakdown	0.0	100.0

3.38. Number of employees covered by the collective bargaining agreement (percentage of total employees)

#	Total number of employees, divided into:	Number of employees
		2014
1	Total number of employees covered by collective bargaining agreements	18 112
2	Total number of employees	18 168
3	Percentage of employees covered by the collective bargaining agreement	99.7

Safety

Safety is the foundation for all of KGHM's activities. In 2014, a uniform health and workplace safety policy was implemented called „Program to improve workplace safety in KGHM Polska Miedź S.A. to the year 2020“. It optimizes the already implemented H&S practices in KGHM and augments the undertaking with locally designed good practices, as well as parameterizes actions at the level of individual initiatives. The document was adopted by the KGHM Polska Miedź S.A. Safety at Work Council, which consists of representatives of the Employers' Union - the signatories of the collective bargaining agreement - as well as social inspectors from individual divisions.

General aims of the program:

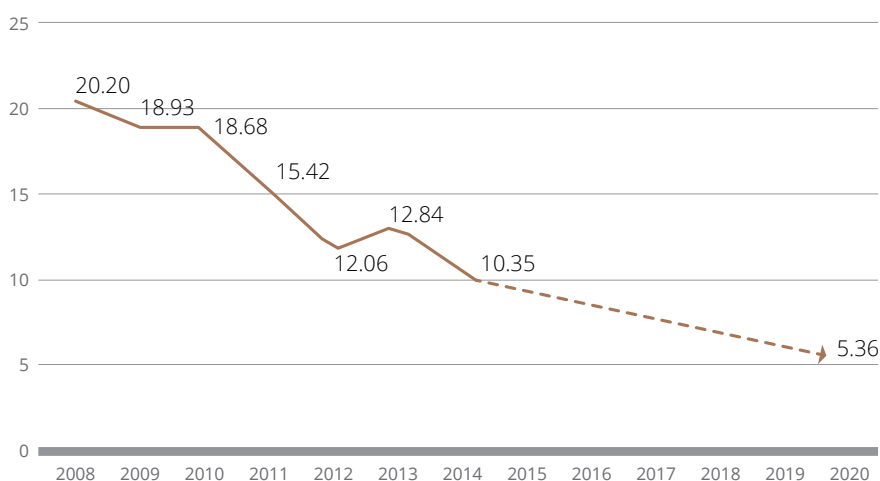
- Improvement of the safety culture, to reach a state in which safety always has a top place.
- Enhance H&S training quality.
- Greater contribution of employees to maintaining safety at work.
- Implementation of a consistent package of incentives motivating safe conduct.
- Implementation of safety philosophy: safety as a value, not a cost.
- Campaign to promote teamwork as a basis for work.
- Focus on prevention – recording of incidents and elimination of potentially dangerous situations at the source.
- Implementation of a consistent program of preventive health care for the employees of KGHM.
- Introduction of new personal protective equipment and minimizing risks in the working environment.

- Optimization of costs for health and safety at work.

One of the greatest threats to the life and health of workers in KGHM's mines are the natural hazards associated with underground mining of copper ore, in particular, the dangers associated with the occurrence of seismic events and their potential effects, in the form of rockbursts and cave-ins. As a result, accidents may happen, with serious or fatal consequences, and damage to underground machinery and equipment / infrastructure, which leads to operational downtimes.

For several years, funds used to protect health and safety in KGHM have been at a constant, high level - to ensure the full financing of specific needs and to meet the highest safety standards existing in the mining industry.

3.39. LTIRF indicator for KGHM Polska Miedź S.A.





G4-LA6

3.40. Expenditures for H&S in KGHM Polska Miedź S.A. in the years 2012-2014 (PLN)

	Performance			Total H&S
	2012	2013	2014	
External services	2 329 371	2 454 834	2 566 134	7 350 339
Training	510 086	509 536	358 769	1 378 391
Meals included as H&S	19 953 497	19 850 465	20 091 472	59 895 434
H&S materials	39 314 881	43 298 065	42 899 638	125 512 584
Compensatory pensions	8 411 461	8 163 545	8 122 035	24 697 041
Health care (excluding medical care package and medical centre at the Head Office)	13 748 204	14 739 432	14 528 082	43 015 718
Total KGHM Polska Miedź S.A.	84 267 499	89 015 877	88 566 131	261 849 507

3.41. Amount of injuries, professional diseases, lost days, and absences at work; and number of fatal accidents connected with work, by region and gender

	2014		2013	
	Women	Men	Women	Men
Total number of accidents (incidents) at work	2	302	6	382
Number of fatal accidents (incidents)	0	3	0	3
Number of serious accidents (incidents)	0	4	0	1
Number of minor accidents (incidents)	2	295	6	378
Total number of persons injured in accidents	304		388	

KGHM conducts systematic seismological observations, using an extensive network of surface and underground seismic stations, spanning all mining regions and fields. Steps are also taken to limit the risk of rock bursts and roof collapses. An example of this are the operating plans, which define the size and shape of the chambers as well as interchamber pillars, the most favourable direction of mine advance, and the optimal order of deposit selection. The Company systematically performs so-called rock mass destressings, applying group blasting and stress relieving blasting techniques.

Each accident in KGHM-owned plants is carefully investigated and analysed by specialists. In post-accident protocols the reason for the accident is indicated, as well as the responsible persons (if applicable) and – just as importantly – recommendations aimed at minimizing the risk of repetition of the accident. The circumstances of the events are presented and discussed with the employees of the Company. An example of this are the actions taken after the fatal accident which took place in September, in the Rudna mine. Analysis of the situation showed that one of the miners - despite the provided training

and repeated warnings - was under an unprotected excavation ceiling, where entry is strictly forbidden. His death was caused by a patch of rock that broke off from the roof. The sole reason for the accident was the violation of the safety regulations by the fatally injured worker.

After the incident, all underground workers were acquainted with the circumstances of the accident. Special attention was paid to the specifics of work and movement underground. Additional training sessions were scheduled, dealing in particular with the prohibition of entering and staying in unsecured areas.

3.42. Accidents indicators

Indicators of accidents frequency (IR, calculated as the total number of persons injured in accidents/ employment x 1000)

2014			2013		
Women	Men	In total	Women	Men	In total
0.109	16.53	16.64	4.42	22.18	20.90

Total number of days of incapacity for work due to accidents at work (LDR, calculated as the total number of lost days to the number of planned working hours of the employees in the reported period *200000)

2014			2013		
Women	Men	In total	Women	Men	In total
0.93	115.46	116.4	1.38	145.94	147.32

Indicator of the seriousness of accidents (calculated as the number of days of incapacity for work due to accident/ number of accidents)

2014			2013		
Women	Men	In total	Women	Men	In total
69	55.78	56.80	18	58.52	57.61

Indicator of identified occupational diseases (ODR, calculated as <the number of cases of occupational diseases / total number of hours worked by all employees during a given period> * 200.000)

2014			2013		
Women	Men	In total	Women	Men	In total
0	0.045	0.045	0	0.106	0.106



G4-LA7

G4-LA8

3.43. Employees with a heightened risk of contacting diseases associated with the workplace

#	Identified risks, by factors harmful and dangerous to health	Information on which types of positions (group of employees) present a heightened risk of contracting certain diseases in connection with professional activities.	The number of employees working in hazardous conditions / at risk.	Information as to why there is a particular vulnerability of occupational diseases.	Description of mitigating actions taken by the organization (including pro-health programs, health and safety programs, etc.)	Percentage of workers exposed to a high risk of occupational disease for which preventive measures were taken - including professional risk assessment
1	Industrial fibrogenic dust	Miners, metallurgists, processing line workers	2 299	Technologies and systems	Personal protective equipment	100 %
2	Carcinogenic chemicals	Metallurgists	1103	Pyrometallurgy process	Ventilation and personal protection	100 %
3	Noise	Miners, metallurgists, processing line workers	6787	Equipment	Personal protection	100 %
4	Vibration	Miners, metallurgists, processing line workers	727	Machinery and equipment	Higher quality of equipment	30 %
5	Hot microclimate	Miners, metallurgists, processing line workers	3650	Depth of the mine	Central air cooling, ventilation	100 %
6	Excessive physical exertion	Miners, metallurgists, processing line workers	2115	Working conditions	Mechanization of operation	60 %

Collective bargaining agreements with the employees include health and safety regulations.

Among the requirements are the providing of personal protective equipment to employees, health

and safety training, and periodic inspections. Employees also have the right to refuse performing work in unsafe conditions, and employee representatives supervise the health and safety audits as well as accident investigations. The Agreement

also involves periodic inspections and establishes a procedure for filing complaints.

Health and safety issues are also included in one of the three agreements that the Company has entered into with the unions.

IN THIS CHAPTER:

Challenges facing the Company

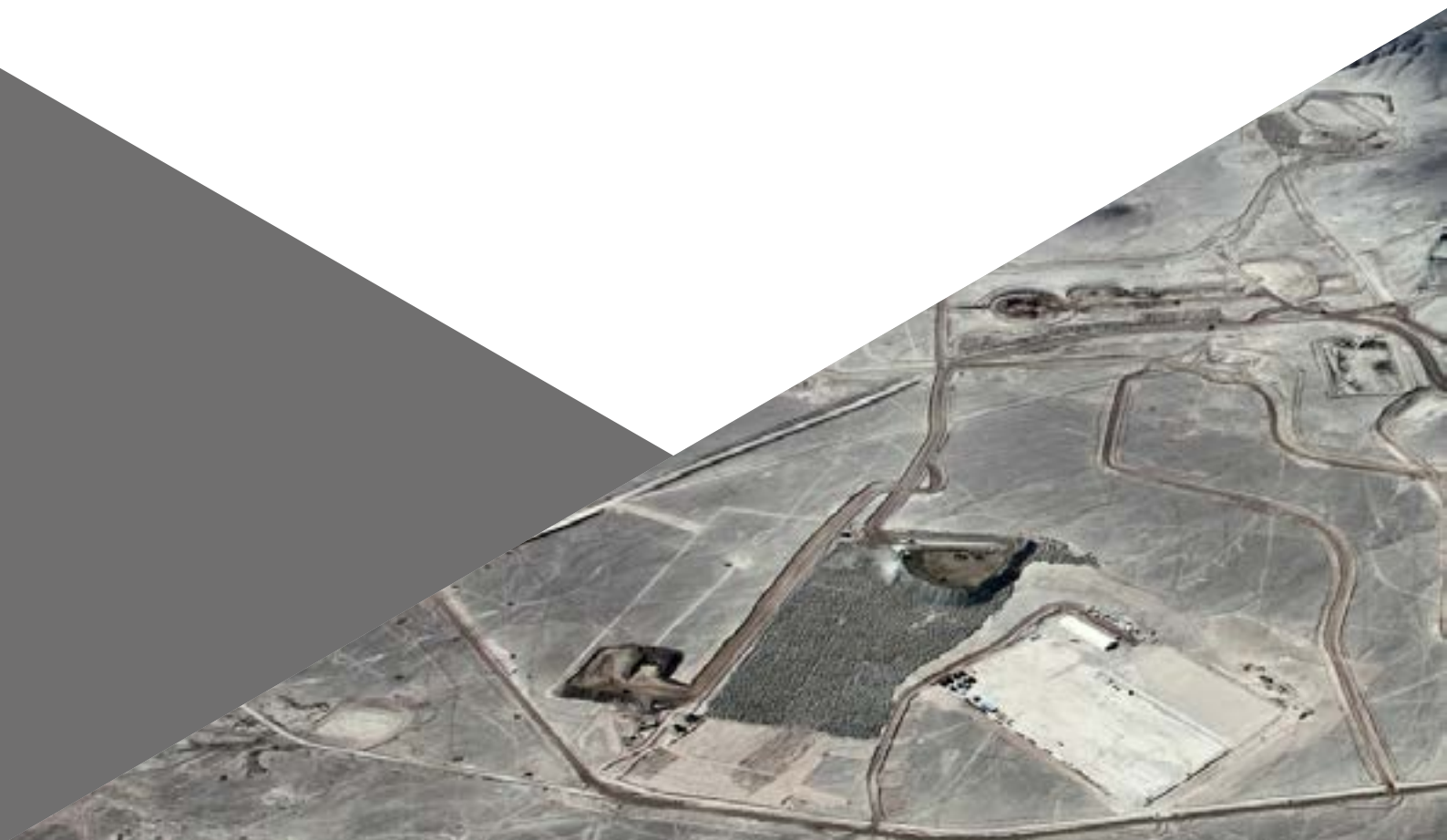
Business Strategy 2015-2020

Pillar I. Development of the resource base

Pillar II. Development of assets

Pillar III. Optimising production

Support Strategies



Chapter IV. Our Strategy and perspectives



Chapter IV.

Our Strategy and perspectives



G4-2

Business Strategy 2015-2020

Continuous development as well as the early accomplishment of key projects under the existing strategy led to a situation where, in January 2015, the new 2015-2020 Strategy was approved, with an outlook to 2040. International expansion to date has enabled the Company to join the global community of copper producers and to reach an output of copper equivalent of 661 thousand tonnes per year. Further development of technology and optimal asset management will create an opportunity for KGHM to take its place amongst the top seven global copper producers. By the same token KGHM will consistently improve its value for its shareholders.



GLOBAL

- Global competition for resources
- Cost competition
- Access to qualified and mobile personnel
- Socio-political situation in countries involved in the global copper trade
- Situation on the foreign exchange market and in metal markets

DOMESTIC

- Legislative efforts (e.g. concerned with taxation on useful minerals)

- Development of implementation plan for the 2015-2020 Strategy
- Attempts at gaining competitive advantage – mainly intensification of R&D efforts (Intelligent Mine)
- Improvement of H&S Key Performance Indicators
- Efforts to consolidate finances
- Value Creation Programme (VCP) (including, but not limited to, costs reduction)
- Integration process within global company (including knowledge sharing between the personnel)
- Innovative projects (mechanical mining of deposits)
- Modernisation of mining and metallurgical engineering (main directions and areas)

The main objective of the Strategy is to achieve total annual production capacity above **1 million tonnes of copper equivalent** as well as the continuous improvement of operational mining efficiency. To achieve this goal, KGHM will carry out **the largest ever investment plan in the Company's**

history and the largest ever exploratory campaign in Poland.

The Company will also become a global leader in the area of mining safety and innovations, through implementation of the Intelligent Mine Project.

The new Strategy is based on three main pillars.

STRATEGIC OBJECTIVES

- To exceed the output of 1 million tonnes of copper equivalent
- Reduction of C1 mining costs by 10%
- An increase in the Company's EBITDA by 70%
- A copper replacement ratio of 3:1
- Execution of the investment plan worth PLN 27 billion
- Maintenance of Net Debt – EBITDA ratio at a level of between 1-2

4.1. KGHM Polska Miedź S.A. Strategy Pillars for the years 2015-2020



1. Replacement of each tonne of mined copper with three tonnes of documented resources of this metal.

Pillar I. Development of the resource base

Access to geological resources is for KGHM a major driving force for developing a competitive edge. It also determines the overall longevity of the Company. Following market standards, as part of its Strategy, KGHM plans to replace each tonne of mined copper with three tonnes of copper ore resources. The above copper replacement rate will enable KGHM to have long-term operational prospects.

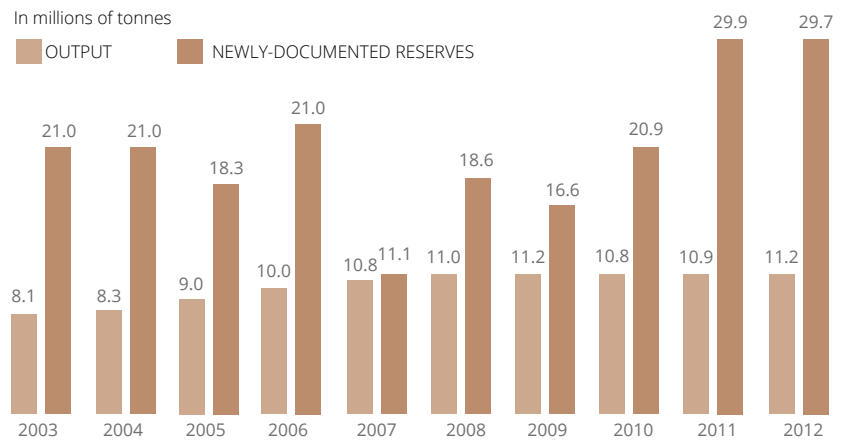
Our sustainable strategy for acquiring new resources foresees:

- **acquiring** new resources by taking over mining companies with economically attractive mineral resources, and
- **exploration** in areas in the immediate vicinity of existing operations in order to extend their operational life.

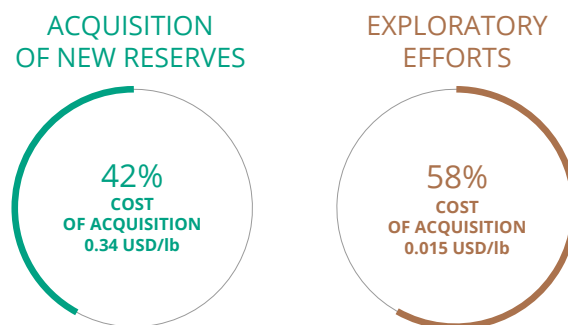
KGHM's exploratory activities are focused on the Company's existing operations as well as on jurisdictions which are **geopolitically stable** and mining friendly. The Company tries to acquire mining projects that are situated in the lower half of the global cost curve, which will allow the Company to enhance its competitive edge, thanks to the declining average weighted cost of acquiring copper. The restrictive criteria used to evaluate potential resource projects remain unchanged. In addition to geopolitical security, other important factors include production costs and the operational life of a project. The Company wants to ensure that it will only be involved in projects of high economic value.

By developing our resource base, our operations will be permanently **diversified**, both geographically and in terms of the mining and production of minerals other than copper and silver.

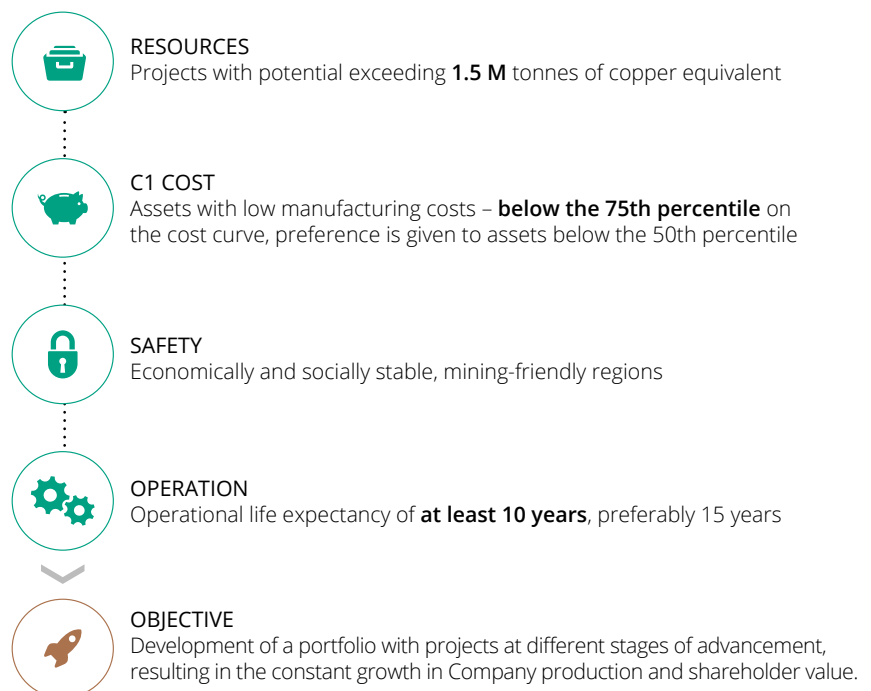
4.2. Production and newly-documented reserves of the top 22 copper mining companies



4.3. Acquisition of resources by the Top 22 copper mining companies



4.4. New resource project evaluation criteria





Pillar II. Development of assets

In Pillar II of the new Strategy a pivotal role is played by the investment project management process and the execution of projects within their set timeframe and budget.

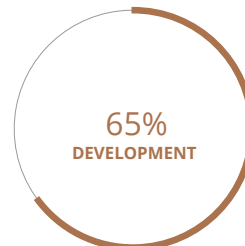
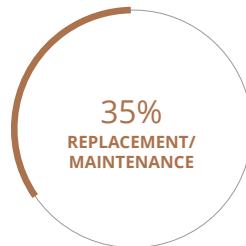
Development of the asset base primarily involves bringing development projects both at home and abroad to **the production phase, and modernisation** of the core business.

In Poland, the major development project involves gaining access to the copper ore in the **Deep Głogów** concession, which will result in maintaining output from our Polish mines at the current level over the next several decades.

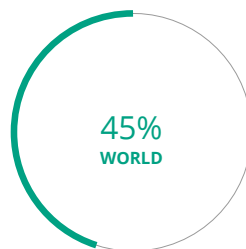
Abroad, the investment program will be advanced in Canada and in Chile. In Canada, an underground mine providing copper, nickel, and platinum will be built (Victoria). Funds will be also allocated to develop Ajax, an open-pit copper and gold mine. Meanwhile in Chile,

4.5. Investment Program Characteristics

TYPE OF INVESTMENT PROJECT



THE INVESTMENT PROJECTS, BY GEOGRAPHICAL REGIONS

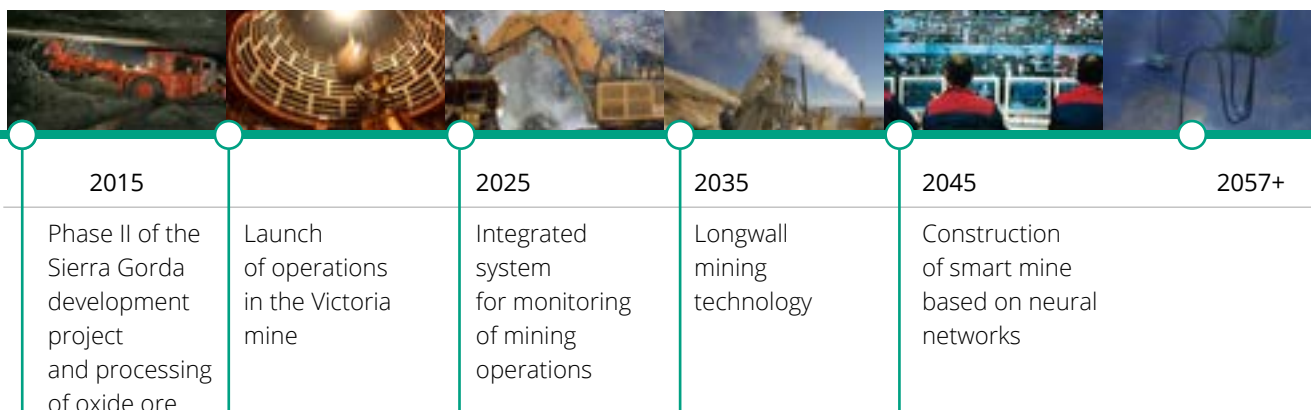


in the Sierra Gorda mine, Phase II will be launched, along with the oxide ore processing project. Modernization of the core business will include the completion of projects involving **mechanical mining, modernization of metallurgy and waste management.**

PLN 27 BILLION

Over the next six years KGHM plans to spend this amount to develop its assets. This will be the largest investment program in the history of KGHM. More than half of the total amount will be spent in Poland.

4.6. Planned development of new technologies



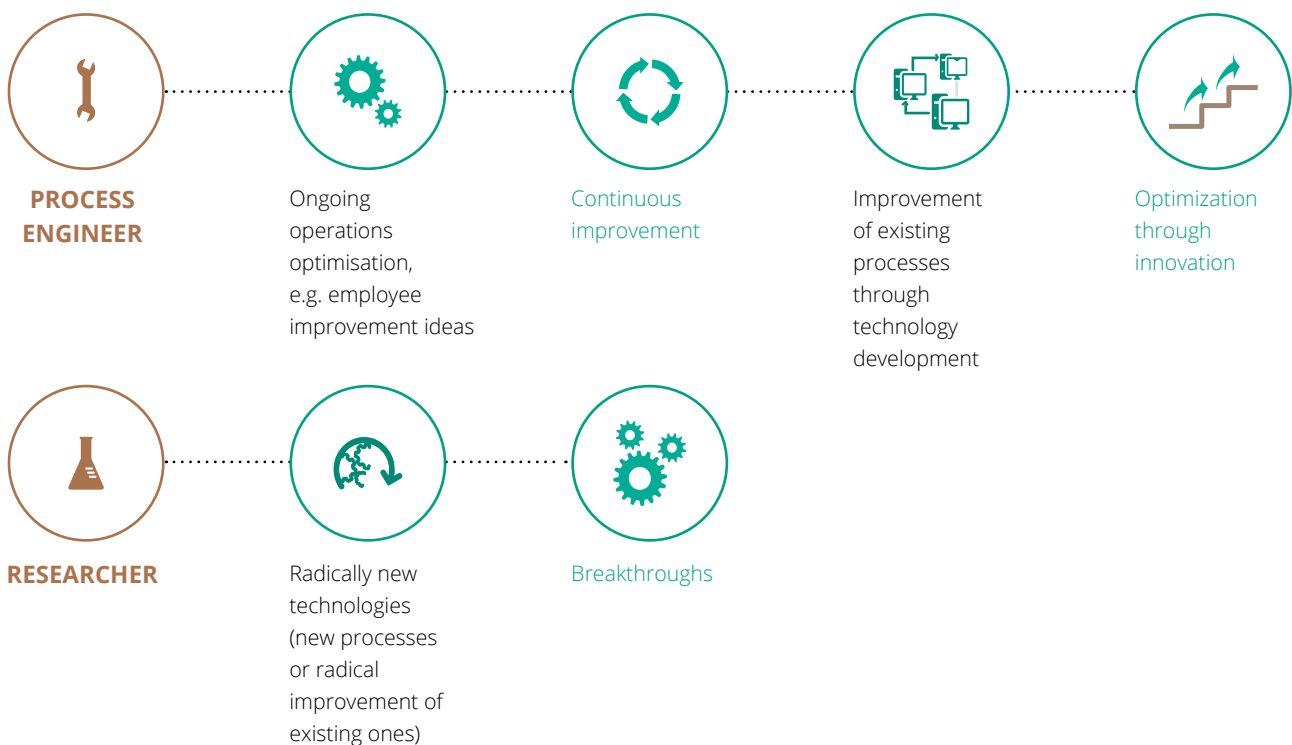
4.7. KGHM's Approach to Innovation



Source: Developed by KGHM based on the article "Innovation Triggers – Editorial Debate", Harvard Business Review Polska, February 2012

The execution of investment, research and development (R&D), and organisational projects will be standardized. Thanks to the construction of a **Global Competence Centre** the same standards will be applied in Poland and abroad. The development of new technologies and breakthrough innovations and the transfer of this knowledge into production processes will be more efficient and effective thanks to the development of a **Global Knowledge Centre** and the implementation of a global model for the management of innovation, knowledge, and intellectual property. KGHM aspires to put in place a "Process Engineer" innovation model, focused on optimization and continuous improvement through innovation. The Company wants to become an innovation leader in the industry in which it operates.

4.8. KGHM's Innovation Model



Pillar III. Production

The third pillar of the 2015-2020 Strategy aims to secure stable production through:

- an increase in production capacity
- cost reduction
- implementation of modern technologies
- improvement of workplace health and safety (H&S)

An increase in production capacity is envisaged both under- and above-ground, at home and abroad.

In Poland, an increase in mining intensity should lead to the attainment and maintenance of 32 million tonnes of dry weight ore output per annum. The Żelazny Most tailings storage facility will be expanded by a Southern Quarter. Additionally, the metallurgical plants will launch a new product range, corresponding to market needs.

Abroad, an increase in production capacity will be achieved first and foremost by the achievement of full phase I design capacity of the Sierra Gorda Project. In the second half of 2015, the mine is expected to reach the designed ore processing capacity of 110 thousand tonnes per day. Under the new Strategy, the Company plans to start Phase II of the project (reaching ore processing capacity of at least 190 thousand tonnes per day) and to commence the processing of oxide ore at the mine. These activities will enhance operational efficiency and boost the copper output of the mine.

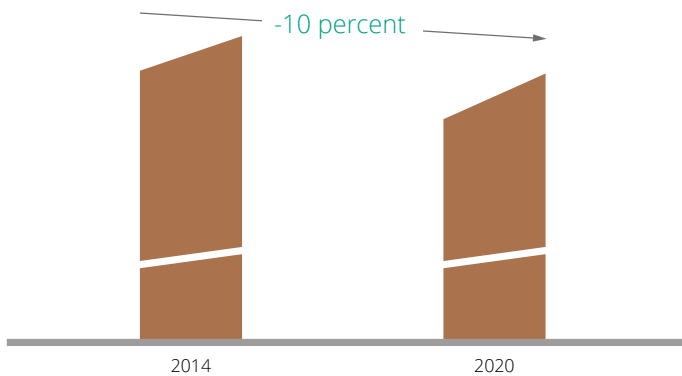
Thanks to the Sierra Gorda mine, KGHM will also become one of the leading global producers of molybdenum. The expected output should exceed 11 thousand tonnes per year.

Molybdenum was discovered in the 18th century and has many uses. When combined with steel the resulting alloy becomes stronger, has a higher melting temperature and offers corrosive protection. Molybdenum alloys are used in aviation, in the petrochemical sector, in transport and in pipeline construction. Molybdenum is also used in the chemical sector as an additive to lubricants, fireproof material, or as pigment added to paints. The metal is also used in multivitamins, mainly as a daily supplement – the human body contains approximately 0.07 milligrams of molybdenum per kilogram of body mass.

4.9. Milestones to the year 2020



4.10. Costs in the KGHM Group



Cost optimisation

The new Strategy aims to reduce manufacturing costs in the KGHM Group. These costs are expected to be reduced by around 10 percent by 2020.

Lower costs and higher efficiency will come as a result of a number of planned strategic actions, with the major ones including:

- optimisation of the management of machines used in the mines, and **reduction of their number**
- **optimisation** of maintenance management through the implementation of IT tools to track wear and tear of machinery and equipment, including their maintenance costs
- **automation** of manufacturing lines
- **production** of high quality concentrate in parallel to copper and associated metal recovery maximisation
- the energy **saving** program in the KGHM Group.

H&S IMPROVEMENT PROGRAM

Employee safety has always been a paramount value at KGHM. It is one of the key elements associated with mining, and the 2015-2020 Strategy sets forth a number of standards aimed at enhancement of workplace health and safety at the Group's operations. By 2020, KGHM plans to reduce the accident rate per million hours worked, from the current level of 10.35 to 5.4. The long-term objective of KGHM is to reach the level of 0 in the Lost Time Injury Frequency Rate (LTIFR).

SMART MINE

Employee H&S as well as output efficiency will also improve thanks to the latest technologies. A pivotal role here will be played by the automation and robotization of processes, which will reduce human involvement in the most hazardous phases of the production process in the mines. One of these projects is the development of a "Smart Mine". Once the project has been completed – scheduled for 2045 – dangerous tasks will be performed by a machine, controlled by an operator from a safe place. Work on this and other innovative solutions is currently underway. This work is partially financed by the National Centre for Research and Development.

Support Strategies

The three pillars of the new KGHM Strategy are based on four supporting strategies. These consist of the following:

- a strategy for global organisation and skills development
- a financial strategy
- a Corporate Social Responsibility (CSR) strategy
- an energy strategy



GLOBAL ORGANISATION AND SKILLS DEVELOPMENT

The strategy aims to provide an optimal model for the management and supervision of business processes. To achieve this, the Group's structure will be optimised and a Corporate Centre will be established for the Group. The Shared Knowledge Centre will be implemented and access to it will be provided for competent personnel through appropriate human resource management.



FINANCIAL STABILITY

The financial strategy aims at improving the stability of financing KGHM Group operations and at enhancing the Group's ability to cope with difficult macroeconomic environments. Among the elements to be optimised are the borrowing structure and terms. Our good financial standing will be maintained to ensure the accomplishment of key projects and to maintain our creditworthiness. To minimize the impact of market risks on financial performance, the 2015-2020 Strategy provides among others for the implementation of unified Group-wide market risk management standards. Measurement of the impact of such risks on the Group's performance and liquidity will also be integrated.



CORPORATE SOCIAL RESPONSIBILITY (CSR)

The CSR strategy aims at strengthening KGHM's position as a stable, developing, and professional global leader, caring for the common good and sustainable resource management. KGHM will continue to pursue its policy aimed at enhancing its image and creating value for local communities by on-going monitoring of KGHM's impact on the social environment, continuing to engage in dialogue with stakeholders and enhancing resource utilisation and waste management efficiency.



ENERGY SECURITY

The aim of the energy security strategy is to secure long-term prices and stable energy supplies for the companies of the KGHM Group. It has been assumed that energy will be purchased below market prices thanks to the centralisation and globalisation of energy purchases, while savings at the level of PLN **100 million** by 2030 will be achieved using energy efficiency improvement initiatives, **100 percent** securing of energy prices for production purposes, and the generation of green energy (30 percent of energy coming from renewable energy sources).



IN THIS CHAPTER:

Pillars of Corporate Governance

Shareholder Structure and Role of Shareholders

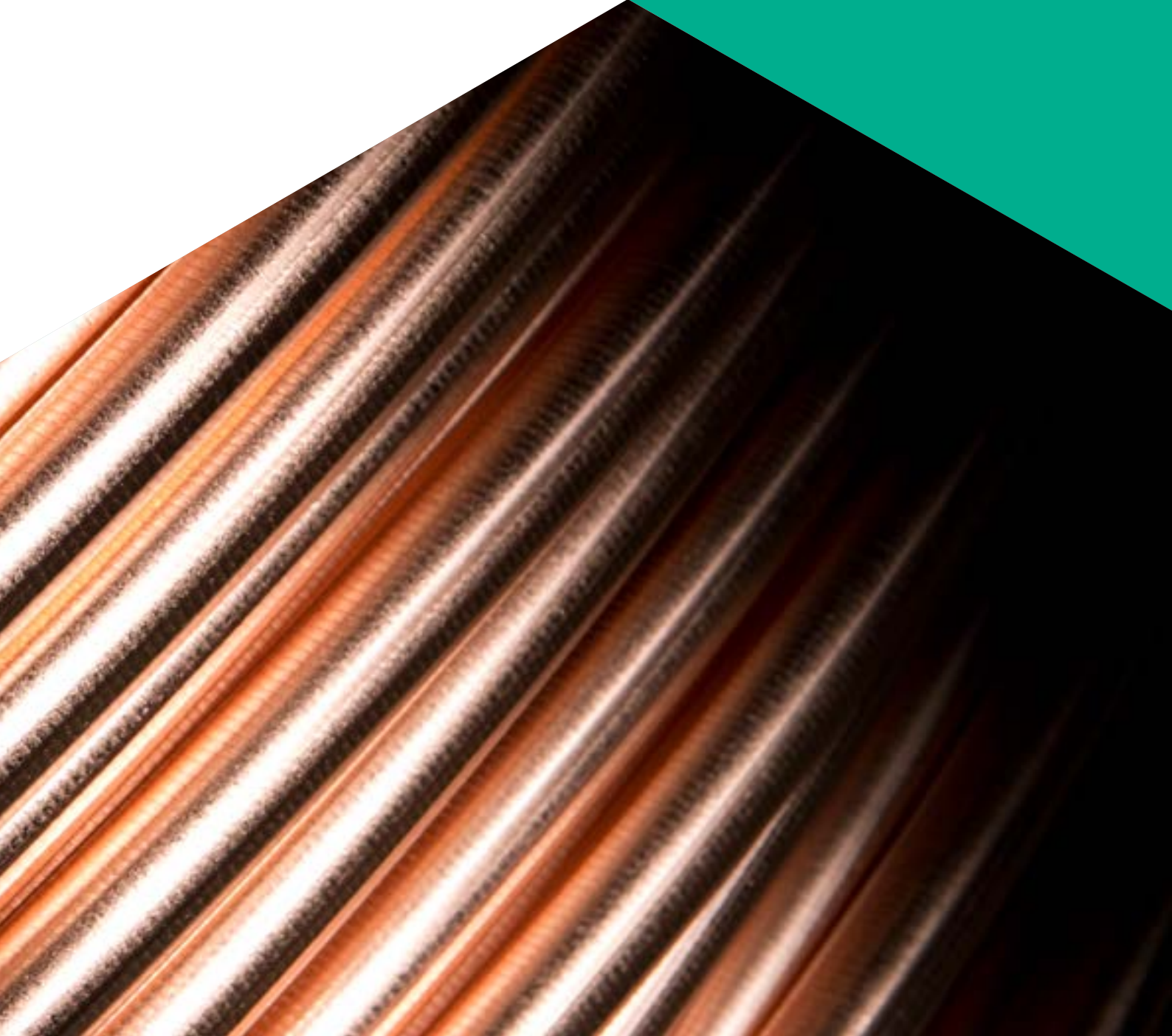
Ethics in the Company

RESPECT Index

KGHM Organisational Membership



Chapter V.
Corporate Governance



Corporate Governance



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Introduction

The framework of KGHM's corporate governance is set by the provisions of Polish law, the Company's Statutes and the Regulations of the Warsaw Stock Exchange where the company is listed and traded. The management of the Company is very much committed to best practice in corporate governance and in recent years has developed effective ways of organising KGHM's governance system. Particular attention was paid during this process to ensuring that the long-term interests of the company and its shareholders are properly aligned.

Corporate Governance consists of the following pillars:

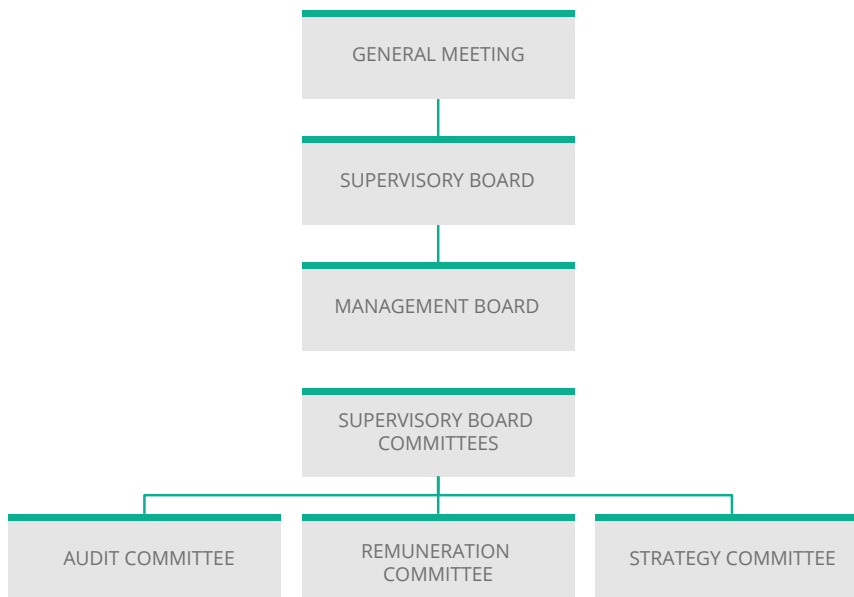
- The General Meeting of Shareholders
- The Supervisory Board and its committees
- The Company's Management Board

KGHM applies the highest corporate governance standards, which allow it to protect the Company's stakeholders. This approach also includes elements of risk management and business ethics.

General Meeting of Shareholders

The General Meeting of Shareholders of KGHM Polska Miedź S.A. is the Company's highest authority, representing a platform for presenting KGHM's activities and achievements to its shareholders. It may be convened by the Company's Management Board, Supervisory Board, and shareholders.

5.1. KGHM's Corporate Governance structure



The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene the General Meeting of Shareholders. The Bylaws of the General Meeting of KGHM Polska Miedź S.A. are made public on the Company's website at: www.kghm.com.

The complete list of General Meeting rights and duties is presented, among others, in the publically available Management Board Report on the activities of the Group in 2014. General Meetings are always planned and organised in such a way as to allow the Company to meet its obligations to shareholders and to

enable them to exercise their rights.

In 2014 a single General Meeting was held. During the proceedings, the following resolutions were adopted:

- approval of the Management Board's Reports on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2013
- approval of the Financial Statements of KGHM Polska Miedź S.A. and of the consolidated Financial Statements of the KGHM Polska Miedź S.A. Group in 2013
- on the appropriation of profit for financial year 2013
- on approval of the performance of duties of members of the Management and Supervisory Boards



Supervisory Board of KGHM Polska Miedź S.A., from the left: Leszek Hajdacki, Józef Czyczerski, Bogusław Szarek, Jacek Poświata, Marcin Moryń, Andrzej Kidyba, Bogusław Fiedor, Barbara Wertelecka-Kwater, Tomasz Cyran.

Supervisory Board

MARCIN MORYŃ

Chairman

TOMASZ CYRAN

Deputy Chairman

ANDRZEJ KIDYBA Member

JACEK POŚWIATA Member

BOGUSŁAW FIEDOR Member

BARBARA WERTELECKA-KWATER

As well as the following persons elected by the employees of the Company:

BOGUSŁAW SZAREK Secretary

LESZEK HAJDACKI Member

JÓZEF CZYCZERSKI Member

The Supervisory Board is the permanent supervisory body of KGHM in all of the Company's functional areas. At present, the Supervisory Board has 9 members appointed by the General Meeting, 3 of whom were elected by the company's employees. Based on declarations submitted by the members of the Supervisory Board at the time of their appointment, four of the members of the Supervisory Board meet the criteria of independence defined in Section

III point 6 of the „Code of Best Practice for WSE Listed Companies”. Supervisory Board members are appointed for a three-year mandate.

The Supervisory Board performs its functions at meetings (convened at least once per quarter) and by delegating its members to work on the Supervisory Board committees. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least half of the Supervisory Board members.

The duties and principles of functioning of the Supervisory Board are set forth, among others, in the Company's Statutes and in the Supervisory Board's Bylaws. The documents are publically available on the website, www.kghm.com. The Supervisory Board has three committees that support the Supervisory Board in the preparation

of evaluations, giving opinions, and taking care of other responsibilities, to assist in the decision-making process of the Supervisory Board. The major duties of individual Supervisory Board committees are as follows:

- **The Audit Committee** is responsible for supervision over financial reporting, the internal audit system, risk management and internal and external audits.
- **The Remuneration Committee** is responsible for supervising the performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in the Company and Group, training courses and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.
- **The Strategy Committee** is responsible for supervision over issues related to the Corporate Strategy and to the annual and long-term operational plans of the Company.

5.2. 5.2. Remuneration of KGHM Polska Miedź Supervisory Board members in 2014 (PLN thousands)

Supervisory Board members	Period when function served in 2014	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts ¹	Other benefits ²	Total earnings in 2014
Krzysztof Kaczmarczyk	01.01-23.06	52	-	4	56
Aleksandra Magaczewska	01.01-23.06	59	-	2	61
Jacek Poświęta	01.01-31.12	97	-	2	99
Bogusław Szarek	01.01-31.12	96	213	13	322
Andrzej Kidyba	01.01-31.12	96	338	18	452
Iwona Zatorska-Pańtak	01.01-23.06	48	-	-	48
Marek Panfil	01.01-23.06	48	18	5	71
Tomasz Cyran	23.06-31.12	54	-	10	64
Barbara Wertelecka-Kwater	23.06-31.12	49	-	3	52
Marcin Moryń	23.06-31.12	60	-	3	63
Józef Czyczerski	23.06-31.12	49	74	2	125
Bogusław Stanisław Fiedor	23.06-31.12	49	-	3	52
Leszek Hajdacki	23.06-31.12	49	84	6	139
Total		806	727	71	1 604

1. „Earnings from other contracts” includes remuneration due to labour contracts in the Divisions of KGHM Polska Miedź S.A. and due to serving on the supervisory bodies of Group subsidiaries.

2. “Other benefits” include commuting costs and partial financing of non-cash benefits

The remuneration of Supervisory Board members is determined by the General Meeting of Shareholders. The remuneration paid depends on the function performed and is determined as a multiple of the average gross monthly salary in the enterprise sector. The Company covers or reimburses the costs related to participation in Supervisory Board work.

5.3. Shares of KGHM Polska Miedź S.A. held by the Members of the Company's Supervisory Board as at 31 December 2014 and at the date of signing of this report

Position /Function	Name and surname	No. of shares as at 31 Dec. 2014 and at the date of signing of this report	Nominal value of shares (PLN)
Supervisory Board Member	Józef Czyczerski	10	100
Supervisory Board Member	Leszek Hajdacki	1	10

Upon their appointment, Supervisory Board members issue statements about their activities outside of KGHM with their opinion as to whether they are competitive vis-à-vis the Company's activities. Pursuant to law, Supervisory Board members are required to keep the Company up-to-date on any Company shares held by them and any transactions made involving such shares.

5.4. Supervisory Board members, by gender in recent years

As at	No. of women	No. of men
28 June 2012	1	6
19 June 2013	2	6
27 Nov. 2013	2	5
23 June 2014	1	8
31 Dec. 2014	1	8



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Twice a year Supervisory Board members, in compliance with International Financial Reporting Standards (IFRS), issue statements on transactions carried out with related entities.

In 2014 and at the date of this Report the Company was not in the possession of any information about the occurrence of any potential conflict of interests.

In 2014 the Supervisory Board held eight protocolled meetings and adopted 70 resolutions.

The Supervisory Board monitored the day-to-day activities of the Management Board and the operations of the Company based on Management Board resolutions and information about the financial performance of KGHM for individual months of the year, submitted at each Supervisory Board meeting.

The Supervisory Board also reviewed on a cyclical basis Management Board reports on:

- donations made, sponsorship contracts, representation, marketing and advertising activities by KGHM and the Group
- consulting, advisory and analytical services provided by third parties to the Company and Group
- the performance of research and implementation projects

The Supervisory Board also reviewed the performance of investment projects approved in the budget.

The Supervisory Board also received information on the positions of the trade unions active in KGHM and reviewed the responses of the Company's Management Board to the issues raised. In March 2015, the Supervisory Board approved KGHM Polska Miedź S.A.'s Strategy for 2015-2020 with an outlook to 2040, as approved by the Management Board.



Management Board of KGHM Polska Miedź S.A., from the left: Jacek Kardeła, Jarosław Romanowski, Herbert Wirth, Mirosław Laskowski, Marcin Chmielewski.



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Management Board

HERBERT WIRTH

President of the Management Board.

JAROSŁAW ROMANOWSKI

First Vice President of the Management Board (Finance)

MARCIN CHMIELEWSKI

Vice President of the Management Board (Corporate Affairs)

JACEK KARDELA

Vice President of the Management Board (Development)

WOJCIECH KĘDZIA

Until 31 January 2015

Vice President of the Management Board (Production)

MIROŚLAW LASKOWSKI

Since 1 February 2015

Vice President of the Management Board (Production).

The Management Board's responsibilities cover all aspects of the Company's business practices. A full description of the

Management Board's responsibilities and operational procedures can be found in the Regulations of the Management Board. The Management Board represents the Company. It manages the Company's assets and affairs. The Management Board operates based on generally prevailing law, the Statutes of the company and the Regulations of the Management Board. These documents are publicly available on the website at www.kghm.com.

The Management Board makes decisions in the form of resolutions. For resolutions of the Management Board to be valid, at least two-thirds of the members of the Management Board must be present during a meeting. The Management Board's resolutions are usually approved by a simple majority of the votes cast. A detailed list of the matters requiring a resolution of the Management Board is included in the Regulations of the Management Board, which are available on

the Company's website at www.kghm.com. In 2014 the KGHM Management Board held 42 protocolled meetings and adopted 159 resolutions. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The Management Board of the company does not have the authority to increase the share capital or issue the shares of the company under conditions specified in the Commercial Partnerships and Companies Code. Under Polish law, in KGHM Polska Miedź S.A. the management function (which is assigned to the Management Board) is separate from the supervisory function (which is assigned to the Supervisory Board). The President of the Management Board may not at the same time be Chairman of the Supervisory Board. Presently, the Management Board consists of five persons appointed for a mutual mandate. The mandate of the



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Management Board lasts three years. The number of Management Board members is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and upon his request appoints and dismisses the remaining Management Board members, including those serving as First Vice President and as the Vice Presidents of the Management Board (save for the provisions of the Company Statutes regarding the appointment and dismissal of an employee-elected Management Board member). The result of elections for an employee-elected member of the Management Board, or

the result of voting on his/her dismissal, is binding for the Supervisory Board, if at least 50% of the Company's employees took part in the voting for said election or dismissal. The election and dismissal of an employee-elected Management Board Member requires an absolute majority of the votes cast. Management Board members, including any employee-elected Member of the Management Board, may be dismissed by the Supervisory Board prior to the expiry of their mandate. To avoid a conflict of interests, the Company follows the provisions of the Commercial Partnerships and

Companies Code, the Regulations of the Management Board and the „Code of Best Practices of WSE-Listed Companies“. KGHM's Management Board members are obliged to advise the Supervisory Board on each and every existing or potential conflict of interest related to the function performed. Pursuant to KGHM's values, Management Board members must declare additionally not to abuse their position in the organisation for the purposes of achieving personal benefits, which is reflected in the Company's operational transparency and avoidance of conflict of interests

5.5. KGHM Polska Miedź S.A. shares held by the Company's Management Board members, as at 31 December 2014 and at the date of this Report

Position /function	Name	Shares held as at 31 December 2014	Shares held at the date of signing of this report	Nominal value of shares (PLN)
President	Herbert Wirth	1 900	1 900	(PLN)
First Vice President	Jarosław Romanowski	1 900	1 900	19 000
Vice President	Marcin Chmielewski	1 993	1 993	19 930
Vice President	Jacek Kardela	1 900	1 900	19 000
Vice President	Wojciech Kędzia ¹	1 900	-	19 000

1. Wojciech Kędzia resigned from his function as Vice President of Management Board, effective from 31 January 2015.

5.6. Management Board members, by gender in recent years

As at	No. of women	No. of men
28 June 2012	1	3
1 September 2012	1	4
2 September 2013	0	5
31 December 2013	0	5
31 December 2014	0	5

5.7. Remuneration of the Parent Entity Management Board for 2014 (in PLN thousands)

Management Board Member	Period when function served in 2014	Fixed remuneration	Variable remuneration ²	Severance pay due to termination of employment contracts	Other benefits and earnings ³	Total earnings in 2014
Management Board members performing their functions as at 31 December 2014						
Herbert Wirth	1.01-31.12	1 442	560	-	275	2 277
Jarosław Romanowski	1.01-31.12	1 297	194	-	232	1 723
Wojciech Kędzia	1.01-31.12	1 153	450	-	220	1 823
Jacek Kardela	1.01-31.12	1 153	142	-	207	1 502
Marcin Chmielewski	1.01-31.12	1 154	156	-	212	1 522
Other Management Board members¹						



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Management Board Member	Period when function served in 2014	Fixed remuneration	Variable remuneration ²	Severance pay due to termination of employment contracts	Other benefits and earnings ³	Total earnings in 2014
Włodzimierz Kiciński	-	324	-	561	50	935
Adam Sawicki	-	288	-	378	25	691
Dorota Włoch	-	288	-	346	35	669
Total		7 099	1 502	1 285	1 256	11 142

1. fixed and variable remuneration includes remuneration during the period of employment termination, which in 2014 amounted to PLN 900 thousand (in 2013: PLN 1 144 thousand),

2. variable remuneration includes: settlement of the variable remuneration for 2013 and prepayments on variable remuneration (on a quarterly basis) for 2014,

3. other benefits and earnings include additional monetary benefits, including life insurance, contributions to the Employee Retirement Fund and financing of non-monetary benefits.

The remuneration of Management Board members consists of a basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly remuneration in the industrial sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Central Statistical Office.

Payment of the variable salary is contingent on the fulfilment of criteria (tasks) set by the Supervisory Board, and is contingent upon achievement by the Members of the Management Board of key performance indicators (KPI) and amounts to up to 40% of the annual basic salary.

Additionally, the Supervisory Board, based on the evaluation of Management Board performance, may grant the Management Board members a maximum of 10 percent of annual base pay. The contracts signed with Members of the Management Board forbidding any activities which would represent a conflict of interest with KGHM stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM – regardless of the cause of termination – the Company shall pay the Management Board Member, for each month during this period, compensation in the amount of 40% of the basic salary resulting from the employment contract.

The employment contracts with Management Board members also regulate the following matters:

- Financing the usage of a company-provided car as well as rental of a housing unit for the Management Board member
- Healthcare services
- Life insurance premiums

At KGHM's Head Office there is also an active Business Coordination Council which plays an advisory role. It consists, among others, of Management Board members, Executive Directors, certain presidents of Group companies, and the Director of the Market and Credit Risk Management Department.

The main objective of the Business Coordination Council is to develop and agree on effective methods to achieve the Company's strategic goals and to exchange information about major events as well as planned activities of the Group. In 2014, the Council held six meetings. The impact of the Minerals Extraction Tax on the company and the implementation of the new KGHM logo were discussed, among

other topics. The Council also dealt with the infrastructure development program, the workplace health and safety program, and the issue of accident-related employee compensation. The Council defined guidelines for the KGHM Polska Miedź S.A. 2015-2020 Strategy.

Shareholder Structure and Role of shareholders

As at 31 December 2014, the share capital of KGHM Polska Miedź S.A. totalled PLN 2 000 million and was divided into 200 million shares, series A, having a face value of PLN 10.00 each. All of the Company's shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued any

preference shares. In 2014, there were no changes in the level of share capital, nor in the number of shares. As far as the Management Board is aware, in 2014 there was also no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. during the same period. The only shareholder who as at 1 January 2014 as well as at 31 December 2014 held a number of shares granting the right to 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the Polish State Treasury.

KGHM encourages its shareholders to be highly active. Shareholder consent is required for making key decisions, including but not limited to the examination and

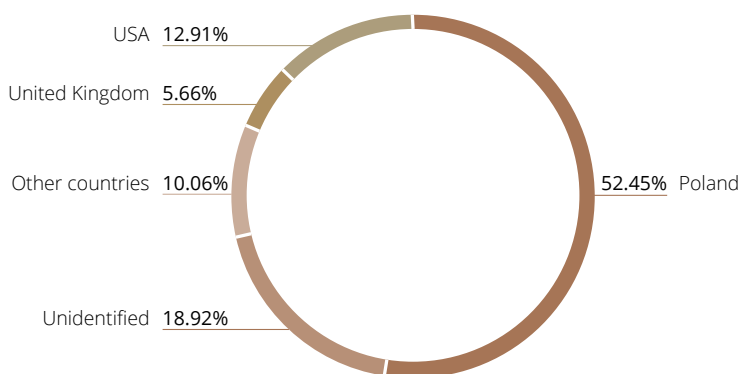
5.8. Shareholder structure as at 31 December 2014 and as at the Reporting Date

Shareholder	Number of shares /votes	% of share capital /total number of votes
State Treasury ¹	63 589 900	31.79 per.
Other shareholders	136 410 100	68.21 per.
Total	200 000 000	100.00 per.

¹ based on an announcement received by the Company dated 12 January 2010.

In 2014, an analysis of the geographical structure of the Company's shareholder structure was carried out. The ownership of 81.08% of the shares issued by the Company was identified. The results were as follows:

5.9. Geographic distribution of shareholder structure of KGHM Polska Miedź S.A.



Source: King Worldwide

approval of financial statements and Management Board reports on the company's activities, appointments and dismissals of Supervisory Board members, making amendments to the Statutes, increasing share capital, issuing convertible bonds, and share redemption.

General Meetings create an opportunity to pose questions – Management Board members are available to answer all questions posed by shareholders. The Ordinary General Meeting is attended by the KGHM external auditor, who is also allowed to answer questions concerning the conduct of the external audit, its preparation and the drawing up of the independent opinion, and the auditor's report.

KGHM also participates in the Civic Shareholding program and is involved in actions to enhance

social awareness and acceptance of free market principles and mechanisms, including those of the capital market. The Civic Shareholding program is a comprehensive educational program run by the Ministry of the State Treasury, based on training courses and workshops held all over Poland, collaboration with universities and e-learning platforms, which can be used both by those intending to start investing in the stock market as well as more advanced individual investors.

The partners of the Ministry in the program include blue chip companies and capital market players. In 2014 we participated in the program by supporting its educational activities and by encouraging the public to conscientiously invest in the

capital markets. Our participation in the program included such activities as distributing leaflets to KGHM's employees containing information on available training courses conducted, regular updates of program information on our website and publishing information about the campaign in the KGHM Group quarterly magazine „Focus” and in the bi-weekly „Miedziak”. March 2015 saw the conclusion of the fourth edition of the Civic Shareholding program's series of free workshops for private investors. Capital market experts visited 15 cities in which 20 workshops were held on the subject of investing in the stock market. Altogether, 2 260 people took part in these meetings. The workshops held during the year also included three on-line webcasts which were watched by almost 250 people.

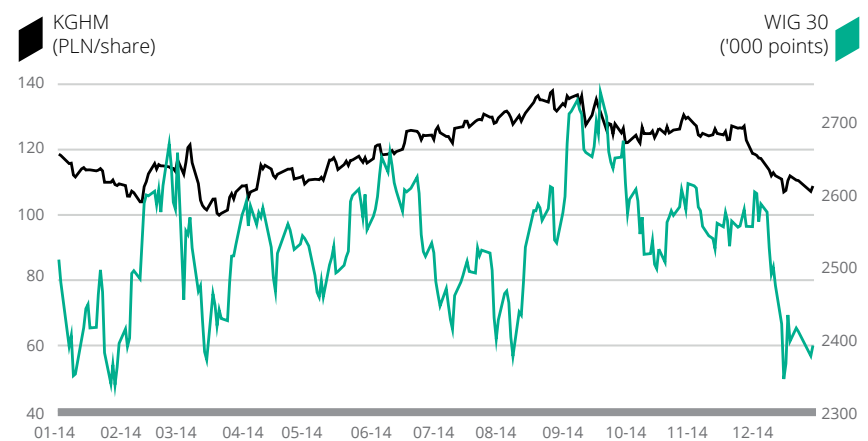
5.10. Key data on the quotations of shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange (WSE)

Symbol: KGHM	ISIN: PLKGHM000017	Unit of measure	2014	2013
Number of shares issued		shares	200 000 000	200 000 000
Closing price on the last trading day in the year		PLN	108.85	118.00
Market capitalization at year's end		bn PLN	21.8	23.6
Change of stock price since the end of previous year		per.	-7.75	-37.89
Highest closing price in the year		PLN	138.00	193.50
Lowest closing price in the year		PLN	99.90	111.00
Average traded volume per session		shares	883 361	950 299

KGHM uses an advanced system of checks and information disclosure procedures. The process of preparing financial statements is described in the corporate governance statement (<http://kgm.com/en/investors/corporate-governance/governance-compliance>). KGHM exercises the utmost care in reporting financial performance. In addition to fully complying with financial reporting regulations, we also engage in on-going and transparent communication with both Polish and foreign investors. This communication with shareholders is of particular importance for us.

In 2014, the Company established a Disclosure Committee. The role of the Disclosure Committee is to supervise the disclosure of information by KGHM, and to make sure that information is disclosed on time, is precise, transparent, complete and presented in line with legal requirements, existing regulations, and applied best practices. The information disclosed also has to reflect the financial standing and operational position of the Company.

5.11. Stock quotations of KGHM Polska Miedź S.A. versus the WIG Index



Dialogue with shareholders

The dialogue with stakeholders, among whom shareholders are of particular significance, is for us a key aspect of our Company's operations. We do our best to maintain regular communication and a transparent dialogue with current and future investors in order to provide objective information about the Company's current operations and strategic goals. We maintain dialogue with shareholders and market participants by means of regulatory and periodic reports published via the official reporting system (ESPI), our website, one-to-one meetings and participation of our representatives in investor conferences, road shows

and meetings with analysts and fund managers. KGHM follows an active investor relations information policy and maintains high standards in its contacts with investors, both institutional and individual. The publication of KGHM's quarterly financial results is followed by a conference accessible to all stakeholders, transmitted online in Polish and English. Video recordings of the conference are available on the Company's website for review at a later date. Apart from these webcasts the company also conducts meetings in the form of conference calls and videoconferences. A summation of our Investor Relations activities may be found in table 5.12.



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5.12. Dialogue with stakeholders in capital markets (investors, analysts, regulators)

Approach and type of commitment of stakeholder group (e.g. questionnaires, customer satisfaction (CSI) surveys, dialogue sessions etc.)

Frequency of commitment by type

Key issues and problems raised by stakeholders

I. Building of an effective system used for dialogue with capital market players, to price shares reliably.			
1	Conferences for investors: 1. Annual BMO Capital Markets Global and Mining Conference, Florida; 2. Polish Capital Market, WSE and PKO BP, London; 3. Wall Street Conference, SII, Karpacz; 4. Annual Global Metals, Mining & Steel Conference, Merrill Lynch, Florida; 5. Global Natural Resources Conference, Morgan Stanley, Barcelona; 6. Annual Emerging Europe Investment Conference; Unicredit, Warsaw; 7. Global Steel and Mining Conference, Credit Suisse, London; 8. Investor Day: Mining Sector, PKO BP Brokerage House, Katowice; 9. dbAccess Metals and Mining Conference, Deutsche Bank, London	9 times per year	Financial aspects of the Company's operations, expected output, capital and replacement expenditures, status of portfolio projects, development projects, potential M&A activity, copper market forecasts, view of molybdenum market, trends in foreign exchange (FX) market, dividend policy, shareholding structure, and minerals extraction tax.
2	One-on-one meetings with funds and analysts, during investor conferences.	140 meetings per year	As above
3	Press conferences to announce financial performance, held in Warsaw.	5 times per year	As above
4	Investor Day (Capital Market Day) in London.	Once per year	As above
5	Face-to-face meetings at Company's registered office.	7 times per year	As above
6	Ad-hoc conference calls/queries from the market players (concerning Company's performance, strategy, finances).	12 times per year	As above
7	E-mail and telephone communication (answers to market questions and queries).	approx. 400 questions and queries per year	As above
8	Official opening of the Sierra Gorda Mine in Chile – site visit of analysts at the Sierra Gorda Mine.	Once per year	Project status, project infrastructure, mine parameters, capex, expected output, costs, and development of projects (SG Oxide).
9	Civic Shareholding program.		Measures supporting educational campaign targeted at individual investors.
10	Live online webcasts of quarterly performance conferences.	4 times per year	Live online webcasts available for investors.
11	Electronic alert on the website.	approx. 600 participants	Information subscription by topic: Market newsletter, press releases, stock exchange reports.
12	New website + interactive shareholder KPI tools		Development of interactive tools in the Investor Relations tab: http://kgm.com/en/investors
13	Individual Investor Day		Widening of individual investors' knowledge about the specific nature of the global natural mineral resources sector, and latest trends in the copper sector; visiting the mines and becoming familiar with the production process; investors have a unique opportunity to meet face-to-face with KGHM management.
II. Regulatory requirements (safeguarding effective and safe fulfilment of disclosure requirements).			
14	Fulfilment of the disclosure requirements: publication of regulatory reports.	33 times per year	
15	Fulfilment of the disclosure requirements: publication of periodic reports.	7 times per year	
16	Introduction of safe information disclosure mechanisms (Disclosure Committee) with the application of the best disclosure standards.		
III. Building of optimal shareholding structure.			
17	Monitoring of the Company's shareholding structure; surveying of the Company's image as seen by capital market players.	Once per year	Analysis of investor base and development of target base.



Ethics in the Company

KGHM's values

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KGHM is currently developing its Code of Ethics. Once it has been approved by the Management Board it will be implemented in 2015. The Code will be the main tool to build a new corporate culture. KGHM's key values are zero harm, teamwork, results-driven, accountability and courage.

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G4-SO8

G4-PR7

The Company's value system is based on compliance with the law, integrity and caring for KGHM's reputation. The Group highly values an atmosphere of mutual trust, and each person is treated with respect.

The KGHM procurement process is characterized by high ethical standards. Operational procedures are set forth in the Code of Ethics, which is an integral part of the Procurement Policy of the KGHM Group. The main purpose of the Code of Ethics is to give assurance to key Company stakeholders about the professionalism of personnel responsible for carrying out procurement procedures. The Code also provides guidelines on counteracting potential conflicts of interest and treating suppliers on an equal footing based on the arm's length principle.

KGHM staff who are responsible for the proper performance of the procurement process are trained systematically on the organization of the procurement process based on the existing internal regulations and requirements, with consideration given to adhering to business ethics.

COMPLIANCE WITH REGULATIONS

In 2014 no legal measures were taken against the Company as there were no identified breaches of free competition principles or monopolistic practices. The Company paid PLN 23 thousand due to environmental fines.

In 2014 no cases were discovered of breaching regulations and voluntary codes regulating marketing communication, including promotional advertising and sponsoring.

COUNTERACTING CORRUPTION

In 2014 the Internal Audit and Control Department did not identify the existence of any corrupt practices in the Company. Corruption risk was analysed in 11 business units (100 percent) by the Internal Audit and Control Department during planned and ad hoc audits and control measures



RESPECT Index

Since 2009 KGHM Polska Miedź S.A. has continuously been in the group of WSE-listed companies that are a part of the prestigious RESPECT Index – the first such index of socially responsible companies in Central and Eastern Europe (CEE). The project aims at the annual identification of companies that not only are managed in a responsible and sustainable manner, but are also characterized by high investment attractiveness, which is confirmed among others by the quality of

their reporting, investor relations and information governance practices.

In adherence to the assumed methodology, following a preliminary classification of companies based on a liquidity criterion, their corporate governance, information governance and investor relations practices are scrutinized, as well as their environmental, social and employee-oriented activities. At present the Respect Index comprises 24 companies.

KGHM membership in organisations

KGHM Polska Miedź S.A. is a member of domestic and international industry and specialist organisations. The Company is also active amongst employer organisations and promotes the idea of corporate social responsibility (CSR) and sustainable development.

Membership in Industry Organisations

- **International Copper Association, ICA** – an organisation dealing with development of the copper market, operating in almost 60 countries. The President of the KGHM Management Board is a member of the ICA Board of Directors.
- **European Copper Institute, ECI** – an organisation representing the copper mining and production sector dealing, among others, with the promotion of technologies with copper applications, environmental and human health activities and with the development of industry standards both at the national and European Union levels. Henryk Karaś, an adviser to the KGHM Management Board on European Relations, is a member of Board of Directors ECI.
- **Copper Promotion Centres** – an international network of 27 offices associated with the CopperAlliance. At present we are cooperating with Polish, Hungarian, German and Chinese branch offices. KGHM representatives are members of the Supervisory Boards of Copper Promotional Centres in these countries.
- **Eurométaux (European Association of Metals)** – an association representing the

European Non-Ferrous Metals Industry, with the aim to create a friendly legal environment in European Union countries.

- **Euromines (European Association of Mining Industries, Metal Ores & Industrial Minerals)** – the mission of the organisation is the promotion of the metals and mineral ore mining industry and to build relations with European Institutions. The Association also keeps in touch with the mining community from all over the world. Henryk Karaś, an adviser to the KGHM Management Board for European Relations, is a member of the EIP Steering Committee.
- **International Copper Study Group, ICSG** – an intergovernmental forum with the aim of enhancing copper market transparency and promoting cooperation and dialogue in the copper sector.
- **International Wrought Copper Council, IWCC** – an international organisation associating copper manufacturers from Europe, Japan, Australia, China, India, Malesia, the Republic of South Africa, South Korea, Taiwan, Thailand and USA.
- **International Precious Metals Institute, IPMI** – the largest and best known organisation associating manufacturers, processors, scientists, financial institutions and merchants dealing with precious metals. The mission of IPMI is to promote the effective and reasonable use of such raw materials.
- **European Precious Metals Federation, EPMF** – a European association whose objective is to enhance the commitment, efficiency and reliability of the precious metal sector.
- **London Bullion Market Association, LBMA** – an international industry association, representing the London gold and silver market, which deals among others with the accreditation of manufacturers of such metals and the development of best industry practices.
- **European Technology Platform on Sustainable Mineral Resources, ETPSMR** – the mission of this organisation includes the modernization of the European oil, gas, metal ores, industrial minerals, gemstones or aggregates mining industries.
- **European Innovation Partnership, EIP** – an organisation set up by the European Commission with the aim of stimulating innovations and improving recycling and processing methods for major raw materials. Herbert Wirth, President of the KGHM Management Board, is a member of the EIP Steering Committee.
- **Minor Metals Trade Association, MMTA** – an association which deals with the minor metals sector and represents approximately 150 companies.

Organisations promoting Corporate Social Responsibility (CSR)

- **Forum Odpowiedzialnego Biznesu (FOB) (Responsible Business Forum)** – KGHM has been a strategic partner of this organisation since 2012. The FOB's mission includes promoting the concept of responsible business as a standard effective in Poland to enhance the competitive edge of companies and social satisfaction as well as to improve



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the condition of the natural environment.

- **“CEOs-Volunteers 2011” Coalition** – an organisation associating business leaders who are socially active. The Association is a platform for the exchange of experience and best practices.
- **CR Coalition** – an initiative of the organisation Employers of the Republic of Poland. The major objective of the project associating major Polish companies is to aid business people in the implementation of Corporate Social Responsibility principles.

Specialist organisations

- **European Sulphuric Acid Association, CEFIC-ESA** – an organisation associating stakeholders dealing with sulphuric acid production, distribution, processing and transport.
- **Central Europe Energy Partners** – an international organisation representing the energy sector in Central Europe (oil, natural gas, coal, power, renewable energy sources, nuclear energy,

interconnectors).

- **The Accountants Association in Poland** – this organisation associates representatives of accounting and finance community. Its mission statement includes the development of standards for the Polish industry.
- **Polish Association of Listed Companies** – an association of companies listed on the Warsaw Stock Exchange which supports the issuers community with its knowledge and advisory services involving stock exchange regulations as well as with the rights and obligations of market participants.
- **Polish Environmental Chamber** – an organisation that associates more than 100 enterprises, design offices and R&D institutes. The main objective of the organisation is to improve the condition of the natural environment in Poland and to enhance the environmental awareness of the Polish people.

Business Organisations

- **Polish Copper Employers Union** – this union, set up by KGHM, associates over 100 entities from Lower Silesia. The organisation deals with monitoring legislation and giving opinions on draft legal acts, running training courses and promoting initiatives to develop entrepreneurial spirit.
- **Western Chamber of Commerce** – self-governing organisation with the aim of supporting, among others, the development of entrepreneurial spirit and promoting a code of ethics in business activities. It associates 300 companies from the region.
- **The Economic Chamber of Non-Ferrous Metals and Recycling** – the Chamber represents Polish enterprises from the non-ferrous metals sectors in contacts with local and national governmental agencies in Poland and with European Union agencies. It promotes recycling.

In 2014 KGHM joined the **Global Compact** initiative. This is the largest global UN initiative promoting corporate social responsibility and supporting sustainable development. Since its launch in 2000 by Kofi Annan, Secretary General of the United Nations, the Initiative has been joined by 12 000 members from 145 countries.

KGHM is also a signatory of the „**Polish Business Declaration for Sustainable Development**“. Company representatives contributed to the preparations of conclusions in the document titled “2050 Sustainable Development Vision for the Polish Business” as an annex to the Declaration.





Chapter VI. Risk management



Chapter VI.

Risk management

Risk management in KGHM Polska Miedź S.A. Capital Group

The KGHM Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current, future, actual and potential impact of risk on the Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risks.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk Committee approved in 2013, the process of corporate risk management in the KGHM Polska Miedź S.A. Group is consistently performed. Risks in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation.





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Key risks undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risks undergo constant monitoring by the Corporate Risk Management and Conformity Department, and in terms of financial risk by the Market and Credit Risk Management Department, the Treasury Department and the Financial Instruments Control and Reporting Unit.

KGHM's Management and Supervisory Boards are responsible for the effectiveness of the risk management process. On a quarterly basis, the Management Board receives a Corporate Risk Management Report for the KGHM Polska Miedź Group. Then, the Report is handed over to the Audit Committee of the Company's Supervisory Board.

Presented below is the organisational structure of risk management in the Company. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

6.1. Organisational structure of risk management in KGHM Polska Miedź S.A.

SUPERVISORY BOARD (AUDIT COMMITTEE)					
Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risks and ways to address them.					
MANAGEMENT BOARD					
Has ultimate responsibility for the risk management system and supervision of its individual elements.					
1ST LINE OF DEFENSE	2ND LINE OF DEFENSE			3RD LINE OF DEFENSE	
Management Management staff is responsible for identifying, assessing and analysing risk and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded	Risk Committees Support effective risk management and ongoing supervision of key risks.			Internal Audit The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of individual risks and the degree of efficiency with which they are managed. Internal Audit Rules Internal Audit and Control Department Reports to the President of the Management Board	
	Market Risk Committee Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Credit Risk Committee Manages risk of failure of debtors to meet their obligations	Corporate Risk Committee Manages corporate risk and continuously monitors key risks		Management of liquidity risk, understood as the ability to pay financial liabilities on time and to gain resources to finance its activities
	Market Risk Management Policy	Credit Risk Management Policy	Corporate Risk Management Policy		Liquidity Management Policy
	Market and Credit Risk Management Department Reports to the First Vice President of the Management Board (Finance)	Corporate Risk Management and Compliance Department Reports to the President of the Management Board	Treasury Department Reports to the Executive Director, Finance		

A detailed description of risks and mitigation measures is available publicly on-line, at www.kghm.com, in the document titled Consolidated Annual Report (RS) 2014.

Market, credit, and liquidity risks

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and financial results in the short and medium terms and to enhance the Group's value over the long term.

The management of these risks includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures.

In 2014 a „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group” was approved which covers selected mining companies in the Group. Design work also began on the implementation of consistent credit risk management principles in these companies.

Market risk management

Market risk is understood as the possible negative impact on the results of the Group resulting from changes in the market prices of commodities, exchange rates and interest rates, as well as the share prices of listed companies. In 2014, key tasks were centralised in the Parent Entity related to the process of market risk management in the Group (such as coordination

of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivatives transactions, and calculating measurement to fair value).

The Management Board is responsible for market risk management and compliance with policy adopted in this area. The major body involved in performing market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area.

In 2014, the Group was mainly exposed to the risk of the changes in the prices of metals it sells: copper and silver. Foreign exchange risk, including in particular the USD/ PLN exchange rate, played a significant role. In 2014, pursuant to the Market Risk Management Policy, KGHM continuously identified and measured market risk related to changes in metals prices and exchange rates. Monitoring the size of market risk was based on analyses of the impact of market risk factors on the Parent Entity's operations (profit, balance sheet, cash flow), among others using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology. This methodology allows the calculation of net profit reflecting the impact of changes in market prices of copper, silver and the exchange rate in the context of planned budgets.

As at 31 December 2014, KGHM held an open hedged position

on the copper market of 48 thousand tonnes and on the currency market of USD 2 220 million in planned revenues from sales. Detailed activities in this area are described in the 2014 Consolidated Annual Report (RS), available publicly on the website at www.kghm.com.

Credit Risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. The Management Board is responsible for credit risk management and compliance with policies that govern this area. The major body involved in realising credit risk management is the Credit Risk Committee. In 2014, the KGHM Group was exposed to this risk, mainly in four areas:

- **Credit risk connected with trade receivables.** Credit risk exposure related to trade receivables is limited by evaluating and monitoring the financial standing of contractors, setting credit limits, and using debtor security. A receivables insurance contract was also signed – as at 31 December 2014, KGHM had 95 percent of its trade receivables secured.
- **Credit risk related to cash and cash equivalents and bank deposits.** Financial institutions' credit ratings are analysed. The concentration of funds in individual institutions is limited.
- **Credit risk connected to derivative transactions.** The Group is not materially exposed to credit risk as a result of derivative transactions entered into.

- **Credit risk connected with loans granted.**

As at 31 December 2014, the balance of loans granted by the Group totalled PLN 6 231 million, or USD 1 777 million. These are long-term loans based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a joint mining venture in Chile. Credit risk related to the loans granted is dependent on the risk connected with mine project advancement and is considered by the Group to be moderate.

Management of financial liquidity risk and equity

The management of capital and liquidity in the Group aims at providing both relevant funding capabilities for business development and at securing relevant liquidity. In KGHM, this is managed in accordance with the Management Board-

approved „Financial Liquidity Management Policy”, whereas in KGHM International it is managed pursuant to the Investment Policy.

The basic principles are as follows:

- the investment of financial surpluses in safe financial instruments
- limits for individual financial investment categories
- limits for the concentration of resources for financial institutions
- the need to ensure stable and effective financing for the Group's operations

Borrowing by the Group is based on four pillars:

- an unsecured, revolving syndicated credit facility in the amount of USD 2 500 million with a maturity of 11 July 2019 (with an option to extend for another 2 years)

- an investment loan granted by the European Investment Bank in the total amount of PLN 2 000 million with a financing period of 12 years
- bank loans with a total amount exceeding PLN 4 600 million, used to finance working capital and support current liquidity in companies, along with investment loans drawn by the Company to finance investment goals
- the bond issuance program of KGHM International Ltd. to the amount of USD 500 million

These sources of financing fully cover the short, medium and long-term liquidity needs of the Group. In 2014, the Group made use of borrowing which was available from all of the above pillars. As at 31 December 2014, KGHM held liabilities due to short-term bilateral bank loans and an investment loan in the amount PLN of 2 108 million (or USD 601 million).

IN THIS CHAPTER:

Reporting methodology

GRI Index

Glossary of terms



Chapter VII. About the report



About the report

This Report, with the accompanying indicators for 2014, covers the company KGHM Polska Miedź S.A. To ensure the high usefulness of the Report, in various sections qualitative and financial data for the KGHM Group was also reported.



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This Integrated Report for 2014 was prepared in compliance with the guidelines of the **International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI)**. This year a higher version of GRI guidelines was used – the G4 version, core level. The reporting process at KGHM is performed in a yearly cycle. The year 2014 saw no significant changes in the structure, ownership status or value chain at KGHM. The Report contains an adjustment to the G4-EN13 indicator. There was a decrease in direct emissions due to a decrease in the generation of physical and chemical emissions (process

emissions). The Report was not verified externally.

Reporting methodology

The process of defining content specified in the Report was carried out pursuant to the guidelines of the International Integrated Reporting Council (IIRC) and of the Global Reporting Initiative (GRI G4).

The Report was divided into several stages:

- Identification of material sustainable development issues adequate for the Company
- Prioritization of material sustainable development issues

- A validation workshop attended by senior management

The basis for identification of sustainable development issues was a workshop attended by KGHM's senior management. As a result, material issues were identified from the perspective of business and sustainable development objectives.

While working on the 2014 GRI G4-compliant Integrated Report, a key aspect was to learn about stakeholders' expectations towards KGHM in order to prepare a report which is useful for its readers.



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6.1. Key KGHM Polska Miedź S.A stakeholder categories

Key KGHM stakeholder categories

Employees, including trade unions
Local government
Local communities
Regulators – supervisory and inspection authorities
Current and potential customers, contractors
Shareholders and the capital market environment
Research and scientific institutions
Mass media
Suppliers
National government
Non-governmental organisations (NGOs)
European Union (EU) administration
London Stock Exchange (LSE)
Peers
Polish and international industry and professional organisations

The Company was keen to understand the stakeholders' perspective. For this purpose a questionnaire was developed and a survey was carried out. The vast majority of respondents (94 percent) admitted that when making investment decisions or conducting analysis and research projects they pay attention to non-financial information.

More than half of the respondents (53 percent) graded the previous 2013 Integrated Report, published in August 2014, as "good" or "rather good". The respondents also expressed their expectations towards this year's publication.

The Report's topics were selected and validated during the meeting with senior management. During the meeting major items to be put into the Report were discussed and, based on the materiality principle, topics for publication were selected.

The major issues included:

- The level of copper and silver resources and the outlook for the mining operations
- Development of the resource base
- Improvement in production efficiency.
- Investment activities
- Securing financial stability for KGHM

The table below presents a list of the key aspects reported along with the limits of their impact.

6.2. Key reported aspects



G4-19

GRI aspect	Issue defined during dialogue process	GRI index	Affected entity
Economy			
Financial performance	Securing financial stability for the Company	G4-EC1, G4-EC2, G4-EC4	KGHM Polska Miedz S.A.
Market presence	Wages and salaries	G4-EC5	KGHM Polska Miedz S.A.
-	The amount of copper and silver resources, mining operations outlook	-	KGHM Polska Miedz S.A. KGHM International LTD.
-	Development of resource base	-	KGHM Polska Miedz S.A. KGHM International LTD.
-	Improvement in production efficiency	-	KGHM Polska Miedz S.A.
Indirect economic impact	Investment activities	G4-EC7	KGHM Polska Miedz S.A.
-	Securing financial stability for the Company	-	KGHM Polska Miedz S.A.
-	Approach to reducing operating costs (C1 costs)	-	KGHM Polska Miedz S.A.
-	Implementation of new technologies	-	KGHM Polska Miedz S.A.
Natural environment			
Materials	Environmental protection activities	G4-EN1	KGHM Polska Miedz S.A.
Energy	Environmental protection activities	G4-EN3, G4-EN6	KGHM Polska Miedz S.A.
Water	Environmental protection activities	G4-EN8, G4-EN9, G4-EN10	KGHM Polska Miedz S.A.
Biodiversity	Environmental protection activities	G4-EN11, G4-EN12, G4-MM1, G4-MM2	KGHM Polska Miedz S.A.
Emissions	Emissions, waste water/effluents, tailings	G4-EN15, G4-EN16, G4-EN19, G4-EN21	KGHM Polska Miedz S.A.
Waste water/effluents and tailings	Emissions, waste water/effluents, tailings	G4-EN22, G4-EN23	KGHM Polska Miedz S.A.
Compliance with regulations	Compliance with regulations	G4-EN29	KGHM Polska Miedz S.A.
General (environmental expenditures and investments)	Environmental protection activities	G4-EN31	KGHM Polska Miedz S.A.
Complaints	Environmental protection activities	G4-EN34	KGHM Polska Miedz S.A.
Working conditions			
Employment	Quality of human capital, ensuring compliance with human rights	G4-LA1, G4-LA2, G4-LA3, G4-MM4	KGHM Polska Miedz S.A.
Professional Health and Safety (PHS)	Occupational Health and Safety (OH&S)	G4-LA6, G4-LA7, G4-LA8	KGHM Polska Miedz S.A.
Education and training	Quality of human capital	G4-LA9, G4-LA11	KGHM Polska Miedz S.A.
Diversity and equal opportunities	Diversity	G4-LA12	KGHM Polska Miedz S.A.
Social and public aspects			
Local community	Relations with local communities	G4-SO1, G4-MM6, G4-MM7, G4-MM9	KGHM Polska Miedz S.A.
Anti-corruption policy	Anti-corruption policy	G4-SO3, G4-SO5	KGHM Polska Miedz S.A.
Breaching rules of free competition	Risk management	G4-SO7	KGHM Polska Miedz S.A.
Compliance with regulations	Risk management, compliance with regulations	G4-SO8	KGHM Polska Miedz S.A.
Product liability			
Product and service labelling	Building of relations with Customers	G4-PR5	KGHM Polska Miedz S.A.
Marketing communication	Building of relations with Customers	G4-PR7	KGHM Polska Miedz S.A.

6.3. GRI Index

Index Ref. No.	Name of index	Pages	External validation
GENERAL STANDARD DISCLOSURES			
Strategy and analysis			
G4-1	Statement by the senior decision-maker (e.g. Managing Director, CEO or any other person with equivalent position) on the significance of sustainable development for the organisation and its strategy.	7	No
Organisational profile			
G4-2	Description of key impacts, risks and opportunities.	7, 96	No
G4-3	Name of organisation.	7	No
G4-4	Major brands, products and/or services.	25	No
G4-5	Location of the organisation's registered office.	157	No
G4-6	Number of countries where the organisation operates, specification of the country names where the main operations of the organisation are located, or those which are adequate in particular in the context of the Report.	20	No
G4-7	Ownership status and legal structure of organisation.	114	No
G4-8	Markets served with specification of geographical coverage, sectors served, customer/consumer profiles and beneficiaries.	41	No
G4-9	Scale of operations.	12	No
G4-10	Total number of employees by employment type, kind, employment contract and region by gender.	86	No
G4-11	Percentage of personnel covered by collective labour agreements.	89	No
G4-12	Description of supply chain	24	No
G4-13	Significant changes in accounting period concerned with the size, structure, ownership status or value chain.	130	No
G4-14	Explanation as to whether and how the organisation applies the prudence principle.	125	No
G4-15	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	119	No
G4-16	Membership in associations (such as industry associations) and/or in national/international organisations.	119	No
Material aspects and boundaries			
G4-17	Entities included in the organization's consolidated financial statements or equivalent documents.	130	No
G4-18	Report content definition process.	130	No
G4-19	Identified material aspects of social and community impacts.	130	No
G4-20	Materiality of identified social and community impact for individual business entities within the organisation.	130	No
G4-21	Report constraints vis-à-vis material aspects of social and community impact outside the organisation.	130	No
G4-22	Impact of corrections or adjustments of any information provided in previous reports with giving rationale for making them (e.g. M&A, change of base year/period, operational profile, measurement methods).	130	No
G4-23	Significant changes compared to previous report concerning the scope, range or measurement methods used in the report.	130	No

Index Ref. No.	Name of index	Pages	External validation
Stakeholder engagement			
G4-24	List of stakeholder groups engaged by the organisation.	131	No
G4-25	Grounds for identification and selection of stakeholders engaged by the organisation.	131	No
G4-26	Approach to stakeholder engagement including engagement frequency by type and group of stakeholder.	131	No
G4-27	Key issues and concerns raised by stakeholders and the organisation's response, including through its reporting .	131	No
Report profile			
G4-28	Reporting period (e.g. accounting/calendar year).	130	No
G4-29	Previous report publication date (if any).	130	No
G4-30	Reporting cycle (annual, biennial etc.)	130	No
G4-31	Contact person	157	No
G4-32	GRI index	133	No
G4-33	Policy and current practice concerning report external validation	130	No
Governance			
G4-34	The governance structure of the organisation including committees reporting to the highest governance body responsible for strategy, and measures connected with the organisation's impact in economic, social and environmental areas.	108	No
G4-38	Size and gender of the members of the highest governance body and its committees.	111, 113	No
G4-39	Information as to whether the chairman of the highest governance body is also an executive officer (if so, what is her/his function in the management process and why).	112	No
G4-40	Appointment and election criteria for the members of the highest governance body (including its committees).		No
G4-41	Processes for the highest governance body to ensure conflicts of interest are avoided and managed. Information as to whether existing conflicts are disclosed to stakeholders.	111, 113	No
G4-42	Role of the highest governance body in setting the objectives, values and development strategy of the organisation.		No
G4-46	Role of the highest governance body in reviewing the effectiveness of the organization's risk management processes with reference to economic, environmental and social issues.		No
G4-51	Relationship between the level of remunerations of the top supervisory body, top management.	113	No
Ethics and integrity			
G4-56	Organisation's values, principles, standards and norms of behaviour and code of ethics.	118	No

Aspect	Index Ref. No.	Name of index	Pages	External validation
ECONOMIC RATIOS				
Management approach	G4-DMA	Economic performance – approach to aspect management.	43	No
Financial performance	G4-EC1	Direct economic value generated and distributed with consideration given to revenues, operating costs, employee remuneration and benefits, donations and other community investments, retained earnings and economic value distributed to the owners and state institutions.	47	No
Financial performance	G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change.	57	No
Financial performance	G4-EC4	Significant financial support granted by the State.	45	No
Management approach	G4-DMA	Remuneration and benefits/ Presence in the local market – approach to aspect management.	87	No
Market presence	G4-EC5	Wage level of workforce at the lowest level by gender compared to the local minimum wage at the organisation's major operations.	87	No
Management approach	G4-DMA	Indirect economic impact – approach to aspect management.	78	No
Indirect economic impact	G4-EC7	Contribution to infrastructure development and delivery of services to local communities through commercial activities, the transfer of goods and pro-bono activities. Impact of such activities on the general public.	78	No
ENVIRONMENTAL RATIOS				
Management approach	G4-DMA	"Materials" – approach to aspect management.	57	No
Materials	G4-EN1	Materials used by weight and volume.	58	No
Management approach	G4-DMA	"Energy" – approach to aspect management.	57	No
Energy	G4-EN3	Direct and indirect energy consumption by the organisation.	58	
Energy	G4-EN6	Reduction of energy consumption	59	
Management approach	G4-DMA	"Water" – approach to aspect management.	57	No
Water	G4-EN8	Total water intake by source.	59	No
Water	G4-EN9	Water sources significantly affected by water intake.	60	No
Water	G4-EN10	Percentage and total water volume that is subject to recycling and reuse.	60	No
Management approach	G4-DMA	"Biodiversity" – approach to aspect management.	60	No
Biodiversity	G4-EN11	Location and area of owned, leased or managed lands situated in protected areas or areas with high biodiversity value outside protected areas or adjacent to such areas.	60	No
Biodiversity	G4-EN12	Description of material impact of activities, products and services on biodiversity of protected areas and areas with high biodiversity value outside protected areas.	60	No
Biodiversity	G4-MM1	Amount of land (owned or leased, used for manufacturing or mining activities) disturbed or rehabilitated.	60	No
Management approach	G4-DMA	"Waste water/effluents and tailings" – approach to aspect management.	57	No
Emissions	G4-EN15	Total direct greenhouse gases (GHG) emissions by weight.	61	No
Emissions	G4-EN16	Total indirect greenhouse gases (GHG) emissions by weight.	61	No
Emissions	G4-EN19	Reduction of GHG emissions.	61	No

Aspect	Index Ref. No.	Name of index	Pages	External validation
ENVIRONMENTAL RATIOS				
Emisje Emissions	G4-EN21	Emission of NOx, SOx and other material pollutants emitted into air by type and weight.	62	No
Management approach	G4-DMA	"Wastewater/effluents and waste" – approach to aspect management.	57	No
Wastewater/effluents and waste	G4-EN22	Total volume of waste water/effluents discharge by quality and ultimate destination.	62	No
Wastewater/effluents and waste	G4-EN23	Total weight of waste by type and disposal method.	62	No
Management approach	G4-DMA	"Compliance with regulations" – approach to aspect management.	118	No
Compliance with regulations	G4-EN29	Monetary value of fines and total number of non-financial sanctions for breaching environmental laws and regulations.	62	No
Management approach	G4-DMA	Approach to aspect management "General (environmental expenses and capital expenditures)".	57	No
General (environmental expenses and capital expenditures)	G4-EN31	Total environmental expenses and capital expenditures by type.	62	No
Management approach	G4-DMA	Approach to management of the aspect "Environmental complaint handling procedures".	57	No
Complaints	G4-EN34	Number of complaints about environmental impact lodged and handled successfully by means of formal procedures.	63	No
SOCIAL RATIOS: Working conditions				
Management approach	G4-DMA	"Employment" – approach to management.	82	No
Employment	G4-LA1	Total number and rates of new hires and employee turnover by age category, gender and region.	87	No
Employment	G4-LA2	Benefits offered to full-time employees which are not available for temporary or part-time staff, by major organisational unit.	84	No
Employment	G4-LA3	Return to work and retention rates after parental leave by gender.	88	No
Employment	G4-MM4	Number of strikes and lockouts with duration above one week by country.	86	No
Management approach	G4-DMA	"Occupational Health and Safety (OH&S)" – approach to management.	90	No
Occupational Health and Safety (OH&S)	G4-LA6	Injury rate, occupational disease rate, lost day incident rate (LDIR) and absenteeism and number of fatalities at work by region and by gender.	91	No
Occupational Health and Safety (OH&S)	G4-LA7	Workers especially vulnerable to diseases connected with the workplace.	93	No
Occupational Health and Safety (OH&S)	G4-LA8	Health and safety issues considered in formal agreements concluded with the trade unions.	93	No
Management approach	G4-DMA	"Education and training" – approach to management.	82	No
Education and training	G4-LA9	Average number of training hours per year per employee by employment structure and gender.	88	No
Management approach	G4-DMA	"Diversity and equal opportunities" – approach to management.	82	No
Diversity and equal opportunities	G4-LA12	Composition of governance bodies and workforce by employee categories by gender, age, minority group membership and other diversity indices.	88	No

Aspect	Index Ref. No.	Name of index	Pages	External validation
SOCIAL RATIOS: Society				
Management approach	G4-DMA	“Local community” – approach to management.	78	No
Local community	G4-SO1	Percentage of business units with implemented local community engagement, impact assessments, and development programs.	78	No
Local community	G4-MM6	Number and description of material disputes over land use, customary rights of local communities and indigenous population.	78	No
Local community	G4-MM9	Sites where resettlements took place, number of resettled households and how their livelihoods were affected.	78	No
Management approach	G4-DMA	„Anti-corruption policy” – approach to management.	118	No
Anti-corruption policy	G4-SO3	Percentage and total number of business units analysed from the perspective of corruption and the significant risks identified.	118	No
Anti-corruption policy	G4-SO5	Confirmed cases of corruption and actions that were taken.	118	No
Participation in public life	G4-DMA	Participation in public life – approach to management.	118	No
Participation in public life	GR-SO6	Total financial value and value in kind of donations to political parties, politicians and similar institutions by country and recipient/beneficiary.	80	No
Management approach	G4-DMA	“Breaching free competition rules” – approach to management.	118	No
Breaching free competition rules	G4-SO7	Total number of legal actions for anti-competitive behavior, monopolistic practices and their outcomes.	118	No
Management approach	G4-DMA	“Compliance with regulations” – approach to management.	118	No
Compliance with regulations	G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	118	No
Product liability				
Management approach	G4-DMA	“Product and service labelling” - approach to management.	40	No
Product and service labelling	G4-PR5	Customer satisfaction survey findings.	42	No
Management approach	G4-DMA	“Marketing communication” – approach to management.	40	No
Marketing communication	G4-PR7	Total number of cases discovered of breaching regulations and voluntary codes regulating marketing communication including advertising, promotion and sponsoring.	118	No

6.4. Glossary of terms

BAT	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole.
Net Debt	Liabilities due to loans less cash and cash equivalents.
OFE rod	Oxygen-free copper wire rod produced at the Cedyňa wire rod plant using UPCAST technology.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization.
Electrorefining	The process of electrolysing dissoluble anodes which are produced from refineable alloys. During this process, which takes place under specially-designed conditions, refined metal collects on a starter sheet, while other elements remain in the electrolyte in solid or liquid form.
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse.
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
ISO	International Organization for Standardization
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining.
Copper concentrate	The product of enriching or concentrating low-grade copper ore.
Copper equivalent	Total volume of production of all metals translated into copper based on market prices.
Electrolytic copper	The product of electrolytic copper refining.
Converter (blister) copper	A semi-product of the converter process.
Payable copper	Copper to be paid for which is contained in sold products.
Copper from purchased copper-bearing materials	Copper obtained from purchased copper-bearing materials (concentrates, scrap, blister).
Copper from own concentrates	Copper obtained from the company's own mine production.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored.
Refined production	Final product of refining.
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal)
Barren rock	Rock which accompanies the extraction of mineral ore and, due to its lack of minerals in sufficient quantities, is not considered as useful.
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolyte is required to maintain the level of contaminants at an acceptable level, which is a deciding factor in the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw material in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel.

Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldo furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% Ag); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules).
Troy ounce (oz t)	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams.
Muck	Rock removed from a mine face. Contains both ore and barren rock.
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry.
LIFTR	Lost-time injury frequency rate – number of accidents per million worked hours.
Deposit	Natural collection of minerals in the earth, arising as a result of various geological processes.
Open-pit	Open area (hole) left after the excavation of soil, rock and ore from the surface of the earth.

6.5. Abbreviations and units used in this report

kg	kilogram (1000 grams)
t	metric tonne (1000 kilograms)
k	thousand
mn	million
g/t	grams per tonne
SX-EW	Solvent Extraction Electrowinning (technology used to produce copper cathodes)
m a.s.l.	meters above sea level
m	meter
km	kilometer (1000 meters)
m²	square meter
USD	United States dollar
Cu	copper
Au	gold
Ag	silver
Pt	platinum
Pd	palladium
Ni	nickel
Mo	molybdenum
M_oS₂	molybdenum disulfide
lb	pound (unit of weight)
oz t	troy ounce (unit of weight)
CIM	Canadian Institute of Mining, Metallurgy and Petroleum
NI 43-101	Canadian standard NI 43-101
M&I	measured and indicated mineral resources



Chapter VIII.
Selected items
from the standalone
and consolidated
financial statements





Chapter VIII.

Selected items from the standalone and consolidated financial statements

Separate Financial Statements

The condensed financial statements of KGHM Polska Miedź S.A. with its registered office in Lubin were drawn up by the Company's Management Board based on the audited full annual financial statements for 2014, in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union.

To fully understand the Company's assets and financial position and its financial results for the period from 1 January 2014 to 31 December 2014, one has to read the Company's full financial statements along with the Auditor's Opinion and Report on Its Audit of the Financial Statement (the full text of the Statements is provided on the attached CD and is also published on the Company's corporate website at www.kghm.com).

Independent Registered Auditor's Opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have audited the accompanying financial statements of KGHM Polska Miedź S.A. (hereinafter called "the Company"), Marii Skłodowskiej-Curie 48 Street, Lubin, which comprise the statement of financial position as at 31 December 2014, showing total assets and total equity and liabilities of PLN 32.312 million, the statement of profit or loss for the year from 1 January to 31 December 2014, showing a net profit of PLN 2.414 million, the statement of comprehensive income for the year from 1 January to 31 December 2014, showing a total comprehensive income of PLN 1.979 million, the statement of changes in equity, the statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Company's Management Board is responsible for preparing the financial statements and the Management Board's Report on the activities of the Company in accordance with the applicable regulations, and for the correctness of the accounting records. Members of the Management Board and Members of the Supervisory Board of the Company are obliged to ensure that the financial statements and the Management Board's Report on the activities of the Company comply with the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

Our responsibility was to perform an audit of the accompanying financial statements and to express an opinion on whether the financial statements comply in all material respects with the applicable accounting policies and whether they present, in all material respects, a true and clear view of the Company's financial position and its financial results, and whether the accounting records constituting the basis for their preparation are properly maintained.

We conducted our audit in accordance with:

- a. the provisions of Chapter 7 of the Accounting Act;
- b. national standards of auditing issued by the National Council of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

The audit also included assessing the accounting policies applied by the Company and significant estimates made in the preparation of the financial statements, as well as overall assessment of their presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, and in all material respects, the accompanying financial statements:

- a. give a fair and clear view of the Company's financial position as at 31 December 2014 and of the financial results for the year from 1 January to 31 December 2014, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
- b. comply in terms of form and content with the applicable laws and the Company's Memorandum of Association;
- c. have been prepared on the basis of properly maintained books of account, in accordance with the applicable accounting policies.

The information contained in the Management Board's Report on the activities of the Company for the year from 1 January to 31 December 2014 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133) and is consistent with the information presented in the audited financial statements.

The Company presented in note no. 40 of additional information on adopted accounting policies and other explanatory notes to the financial statements the information about each financial statement line item of the statement of financial position and the statement of profit or loss divided into all activities required to be disclosed according with the requirements included in the Article 44 of the Act on energy law of 10 April 1997 (Journal of Laws of 2012, item 1059 as amended).

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Marcin Sawicki
Key Registered Auditor
No. 11393

Wrocław, 16 March 2015

STATEMENT OF FINANCIAL POSITION¹

	As at	
	31 Dec. 2014	31 Dec. 2013
ASSETS		
Non-current assets		
Property, plant and equipment	11 562	9 744
Intangible assets	511	273
Shares and investment certificates in subsidiaries	11 760	11 744
Investments in joint ventures	18	33
Deferred tax assets	111	98
Available-for-sale financial assets	931	809
Financial assets for mine closure and restoration of tailing storage facilities	206	178
Derivatives	190	342
Trade and other receivables	2 150	314
	27 439	23 535
Current assets		
Inventories	2 377	2 432
Trade and other receivables	2 142	2 475
Financial assets for mine closure	2	1
Derivatives	267	472
Cash and cash equivalents	85	123
	4 873	5 503
TOTAL ASSETS	32 312	29 038
EQUITY AND LIABILITIES		
Equity		
Share capital	2 000	2 000
Revaluation reserve from measurement of financial instruments	366	512
Actuarial gains/losses on post-employment benefits	(401)	(112)
Retained earnings	22 312	20 898
TOTAL EQUITY	24 277	23 298
LIABILITIES		
Non-current liabilities		
Trade and other payables	185	26
Borrowings	1 052	-
Derivatives	122	17
Employee benefits liabilities	1 842	1 423
Provisions for other liabilities and charges	994	523
	4 195	1 989
Current liabilities		
Trade and other payables	2 537	2 431
Borrowings	1 056	1 123
Current corporate tax liabilities	56	50
Derivatives	36	6
Employee benefits liabilities	114	110
Provisions for other liabilities and charges	41	31
	3 840	3 751
TOTAL LIABILITIES	8 035	5 740
TOTAL EQUITY AND LIABILITIES	32 312	29 038

1. The amounts in the table are expressed in million PLN.

STATEMENT OF PROFIT OR LOSS¹

	For the period	
	from 1 Jan.14 to 31 Dec.14	from 1 Jan.13 to 31 Dec.13
Sales revenue	16 633	18 579
Cost of sales	(12 265)	(13 173)
Gross profit	4 368	5 406
Selling costs	(120)	(126)
Administrative expenses	(735)	(671)
Other operating income	573	460
Other operating costs	(541)	(861)
Operating profit	3 545	4 208
Finance costs	(183)	(12)
Profit before income tax	3 362	4 196
Income tax expense	(948)	(1 138)
Profit for the period	2 414	3 058
Earnings per share for the annual period (expressed in PLN per share)		
- basic	12,07	15,29
- diluted	12,07	15,29

1. The amounts in the table are expressed in million PLN.

STATEMENT OF COMPREHENSIVE INCOME¹

	For the period	
	from 1 Jan.14 to 31 Dec.14	from 1 Jan.13 to 31 Dec.13
Profit for the period	2 414	3 058
Other comprehensive income:		
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:		
Other comprehensive income from the measurement of financial instruments		
Available-for-sale financial assets	124	16
Income tax related to available-for-sale financial assets	(23)	(3)
Cash flow hedging instruments	(304)	263
Income tax related to cash flow hedging instruments	57	(50)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	(146)	226
Other comprehensive income, which will not be reclassified to profit or loss:		
Actuarial (losses)/gains	(357)	63
Income tax related to actuarial gains and losses	68	(12)
Total other comprehensive income, which will not be reclassified to profit or loss	(289)	51
Other comprehensive net income for the reporting period	(435)	277
TOTAL COMPREHENSIVE INCOME	1 979	3 335

1. The amounts in the table are expressed in million PLN.

STATEMENT OF CASH FLOWS¹

	For the period	
	from 1 Jan.14 to 31 Dec.14	from 1 Jan.13 to 31 Dec.13
Cash flow from operating activities		
Profit for the period	2 414	3 058
Total adjustments to profit for the period:	2 439	2 107
Income tax recognised in profit or loss	948	1 138
Amortisation/Depreciation	818	768
Losses on sale of property, plant, equipment and intangible assets	8	34
Impairment loss recognised	32	95
Interest and share in profits (dividends)	(63)	(40)
Foreign exchange gains	(31)	3
Change in provisions	76	(14)
Change in assets/liabilities due to derivatives	736	791
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(531)	(450)
Other adjustments	(1)	(44)
Changes in working capital:	447	(174)
Inventories	55	560
Trade and other receivables	268	(777)
Trade and other payables	124	43
Income tax paid	(853)	(1 375)
Net cash generated from operating activities	4 000	3 790
Cash flow from investing activities		
Purchase of shares and investment certificates in subsidiaries	(27)	(129)
Purchase of property, plant and equipment and intangible assets	(2 203)	(2 174)
Advances granted for purchase of property, plant and equipment and intangible assets	(31)	(84)
Proceeds from sale of property, plant and equipment and intangible assets	13	33
Purchase of financial assets from mine closure fund and tailing storage facilities restoration fund	(29)	(38)
Loans granted	(1 597)	(239)
Repayments of loans granted	5	13
Interest received	2	2
Dividend received	45	36
Other investment (expenses)/proceeds	(6)	33
Net cash used in investing activities	(3 828)	(2 547)
Cash flow from financing activities		
Proceeds from bank and other loans	1 974	1 546
Repayments of bank and other loans	(1 135)	(1 409)
Interest paid	(21)	-
Dividends paid	(1 000)	(1 960)
Other financial expenses	(40)	(1)
Net cash used in financing activities	(222)	(1 824)
Total net cash flow	(50)	(581)
Exchange gains/(losses) on cash and cash equivalents	12	(3)
Movements in cash and cash equivalents	(38)	(584)
Cash and cash equivalents at beginning of the period	123	707
Cash and cash equivalents at end of the period	85	123

1. The amounts in the table are expressed in million PLN.

Consolidated Financial Statements

The condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group, with its registered office in Lubin, was drawn up by the Company's Management Board, based on the audited full annual consolidated financial statement for 2014, drawn up pursuant to the International Financial Reporting Standards (IFRS), adopted by the European Union.

To fully understand the KGHM Polska Miedź S.A. Group's assets and financial positions and its financial results for the period from 1 January 2014 to 31 December 2014, one has to read the Company's full consolidated financial statements of the Group along with the Auditor's Opinion and Report on Its Audit of the Consolidated Financial Statements (the full text of the Statements is provided on the attached CD and is also published on the website at www.kghm.com).

Independent Registered Auditor's Opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have audited the accompanying consolidated financial statements of the KGHM Polska Miedź Spółka Akcyjna Group (hereinafter called "the Group"), having KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej- Curie 48 Street, Lubin, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2014, showing total assets and total equity and liabilities of PLN 40.374 million, the consolidated statement of profit and loss for the year from 1 January to 31 December 2014, showing a net profit of PLN 2.451 million, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2014, showing a total comprehensive income of PLN 3.448 million; the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Parent Company's Management Board is responsible for preparing the consolidated financial statements and the Management Board's Report on the activities of the Group in accordance with the applicable regulations, and for the correctness of the accounting records. Members of the Management Board and Members of the Supervisory Board of the Parent Company are obliged to ensure that the consolidated financial statements and the Management Board's Report on the activities of the Group comply with the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether the consolidated financial statements comply, in all material respects, with the applicable accounting policies and whether they present, in all material respects, a true and clear view of the Group's financial position and results.

We conducted our audit in accordance with:

- a. the provisions of Chapter 7 of the Accounting Act;
- b. national standards of auditing issued by the National Council of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the Group's accounting policies and significant estimates made during the preparation of the consolidated financial statements, as well as evaluating the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements, in all material respects:

- a. give a fair and clear view of the Group's financial position as at 31 December 2014 and of the results of its operations for the year from 1 January to 31 December 2014, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
- b. comply in terms of form and content with the applicable laws;
- c. have been prepared on the basis of properly maintained consolidation documentation.

The information contained in the Management Board's Report on the activities of the Group for the year from 1 January to 31 December 2014 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws of 2014, item 133) and is consistent with the information presented in the audited consolidated financial statements.

Person conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Marcin Sawicki
Key Registered Auditor
No. 11393

Wrocław, 16 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION¹

	As at	
	31 Dec. 2014	31 Dec. 2013
ASSETS		
Non-current assets		
Property, plant and equipment	17 621	15 128
Intangible assets	2 918	2 175
Investment property	60	65
Investments accounted for using the equity method	4 363	3 720
Deferred tax assets	535	451
Available-for-sale financial assets	931	810
Financial assets for mine closure and restoration of tailing storage facilities	358	323
Derivatives	214	357
Trade and other receivables	6 569	3 459
	33 569	26 488
Current assets		
Inventories	3 362	3 397
Trade and other receivables	2 537	3 119
Current corporate tax receivables	87	54
Available-for-sale financial assets	57	58
Financial assets for mine closure	2	1
Derivatives	277	476
Cash and cash equivalents	475	864
Non-current assets held for sale	8	8
	6 805	7 977
TOTAL ASSETS	40 374	34 465
EQUITY AND LIABILITIES		
Equity attributable to shareholders of the Parent Entity		
Share capital	2 000	2 000
Revaluation reserve from measurement of financial instruments	377	522
Exchange differences from the translation of foreign operations statements	1 171	(267)
Actuarial gains/losses on post-employment benefits	(430)	(132)
Retained earnings	22 184	20 718
	25 302	22 841
Non-controlling interest	228	223
TOTAL EQUITY	25 530	23 064
LIABILITIES		
Non-current liabilities		
Trade and other payables	1 002	774
Borrowings, debt securities and finance lease liabilities	2 997	1 714
Derivatives	123	17
Deferred tax liabilities	1 676	1 726
Employee benefits liabilities	2 011	1 563
Provisions for other liabilities and charges	1 483	920
	9 292	6 714

Current liabilities		
Trade and other payables	3 236	3 094
Borrowings, debt instruments and finance lease liabilities	1 813	1 215
Current corporate tax liabilities	164	128
Derivatives	37	7
Employee benefits liabilities	135	131
Provisions for other liabilities and charges	167	112
	5 552	4 687
TOTAL LIABILITIES	14 844	11 401
TOTAL EQUITY AND LIABILITIES	40 374	34 465

1. The amounts in the table are expressed in million PLN, unless otherwise stated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS¹

	For the period	
	from 1 Jan.14 to 31 Dec.14	from 1 Jan.13 to 31 Dec.13
Continued operations		
Sales revenue	20 492	24 110
Cost of sales	(15 751)	(18 101)
Gross profit	4 741	6 009
Selling costs	(390)	(426)
Administrative expenses	(998)	(989)
Other operating income	922	847
Other operating costs	(599)	(1 069)
Operating profit (EBIT)	3 676	4 372
Finance costs	(326)	(137)
Share in losses of investments accounted for using the equity method	(252)	-
Profit before income tax	3 098	4 235
Income tax expense	(647)	(1 202)
Profit for the period	2 451	3 033
(Loss)/Profit for the period attributable to:		
Shareholders of the Parent Entity	2 450	3 035
Non-controlling interest	1	(2)
Earnings per share attributable to the shareholders of the Parent Entity for the period (in PLN per share)		
- basic	12,25	15,18
- diluted	12,25	15,18

1. The amounts in the table are expressed in million PLN.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME¹

	For the period	
	from 1 Jan.14 to 31 Dec.14	from 1 Jan.13 to 31 Dec.13
Profit for the period	2 451	3 033
Other comprehensive income:		
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:		
Available-for-sale financial assets	124	79
Income tax related to available-for-sale financial assets	(23)	(5)
Cash flow hedging instruments	(304)	263
Income tax related to cash flow hedging instruments	58	(50)
Total other comprehensive income from the measurement of financial instruments	(145)	287
Exchange differences from the translation of foreign operations statements	1 444	(293)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	1 299	(6)
Actuarial gains/(losses)	(372)	68
Income tax related to actuarial gains/losses	70	(13)
Total other comprehensive income which will not be reclassified to profit or loss	(302)	55
Other comprehensive net income for the financial period	997	49
TOTAL COMPREHENSIVE INCOME	3 448	3 082
Total comprehensive income attributable to:		
Shareholders of the Parent Entity	3 441	3 091
Non-controlling interest	7	(9)

1. The amounts in the table are expressed in million PLN.

CONSOLIDATED STATEMENT OF CASH FLOWS¹

	For the period	
	from 1 Jan.14 to 31 Dec.14	from 1 Jan.13 to 31 Dec.13
Cash flow from operating activities		
Profit for the period	2 451	3 033
Adjustments to profit for the period:	3 266	3 347
Income tax recognised in profit or loss	647	1 202
Amortisation/Depreciation	1 635	1 580
Impairment losses on goodwill	25	27
Losses on the sale of property, plant and equipment and intangible assets	14	46
Gains on the sale of available-for-sale financial assets	-	(24)
Impairment loss on property, plant and equipment, intangible assets, investments accounted for using the equity method and available-for-sale financial assets	61	444
Reversal of impairment loss on property, plant and equipment, intangible assets and available-for-sale financial assets	(5)	(36)
Share in losses of investments accounted for using the equity method	252	-
Interest and share in profits (dividends)	(175)	(116)
Foreign exchange (gains)/losses	(27)	4
Change in provisions	98	(19)
Change in assets/liabilities due to derivatives	723	774
Reclassification of other comprehensive income to profit or loss as a result of the realisation of hedging derivatives	(531)	(450)
Exchange differences between investment activities and financing activities in the statement of cash flows	(73)	(8)
Other adjustments	26	29
Changes in working capital:	596	(106)
Inventories	118	357
Trade and other receivables	408	(242)
Trade and other payables	70	(221)
Income tax paid	(868)	(1 456)
Net cash generated from operating activities	4 849	4 924

Cash flow from investing activities		
Purchase of subsidiaries, less acquired cash and cash equivalents	-	(1)
Acquisition of newly issued shares in the increased share capital of investments accounted for using the equity method	(502)	(9)
Purchase of property, plant and equipment and intangible assets	(3 434)	(3 189)
Advances granted for purchase of property, plant and equipment and intangible assets	(24)	(84)
Proceeds from the sale of property, plant and equipment and intangible assets	22	56
Purchase of available-for-sale financial assets	-	(42)
Proceeds from the sale of available-for-sale financial assets	1	139
Purchase of financial assets from the mine closure fund and tailing storage facilities restoration fund	(32)	(63)
Proceeds from the sale of financial assets purchased from the mine closure fund	17	197
Termination of deposits	7	40
Loans granted	(1 628)	(1 798)
Dividends received	35	37
Other investment expenses	(6)	(13)
Net cash used in investing activities	(5 544)	(4 730)
Cash flow from financing activities		
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest	20	29
Acquisition of shares from holders of non-controlling interest	(15)	(30)
Proceeds from bank and other loans	2 641	1 597
Repayments of bank and other loans	(1 222)	(1 446)
Payments of liabilities due to finance leases	(18)	(16)
Interest paid	(136)	(144)
Dividends paid to shareholders of the Parent Entity	(1 000)	(1 960)
Donations received	17	10
Other financial expenses	(39)	(1)
Net cash used in financing activities	248	(1 961)
Total net cash flow	(447)	(1 767)
Exchange gains on cash and cash equivalents and on translation of foreign operations statements	58	2
Movements in cash and cash equivalents	(389)	(1 765)
Cash and cash equivalents at beginning of the period	864	2 629
Cash and cash equivalents at end of the period	475	864
Including restricted cash and cash equivalents	27	108

1. The amounts in the table are expressed in million PLN.

Contact

Please direct all correspondence to the Company's Head Office at:

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Agata.Pelc@kghm.com

Questions related to Investor Relations should be directed to:

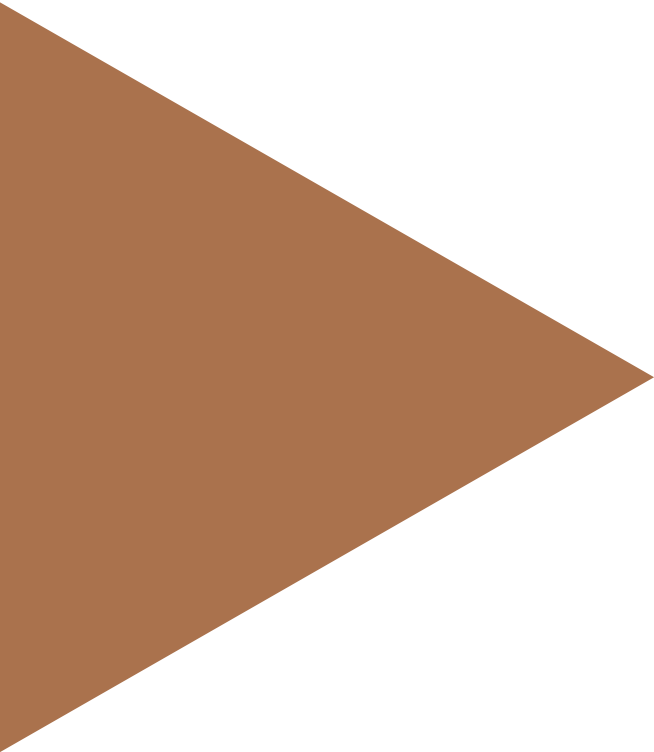
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