

# **Report on the Activities of the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2015**

*(Approved by Resolution No. 42/IX/16 of the Supervisory Board of KGHM Polska Miedź S.A. dated 17  
May 2016)*



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## **This report contains:**

- I Principles and procedures of operations of the Supervisory Board of KGHM Polska Miedź S.A.
- II Information on the composition of the Supervisory Board of KGHM Polska Miedź S.A. in 2015, on Supervisory Board functions served by its members and on meeting independence criteria by the members of the Supervisory Board.
- III Information on the major subjects discussed by the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2015.
- IV Reports by the Committees of the Supervisory Board of KGHM Polska Miedź S.A.
- V Evaluation of the manner in which the Company met its informational obligations as regards the application of corporate governance principles, as set forth in Warsaw Stock Exchange Rules and in regulations regarding current and periodic information published by the issuers of securities.
- VI Evaluation of the rationale of the sponsoring and charitable activities carried out by the Company.

### **I. Principles and procedures of operations of the Supervisory Board of KGHM Polska Miedź S.A.**

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A. in Lubin in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, including members elected by the Company's employees.

The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years.

The Supervisory Board acts on the basis of prevailing law, the Statutes of KGHM Polska Miedź Spółka Akcyjna with its registered head office in Lubin and the Bylaws of the Supervisory Board of KGHM Polska Miedź S.A. with its registered head office in Lubin as well as the code of Best Practice for WSE Listed Companies.

The Supervisory Board continuously supervises the activities of the Company and carries out its tasks based on the special privileges granted to the Supervisory Board of KGHM Polska Miedź S.A. by the Statutes of the Company under Chapter IVB § 20, and in turn by the Bylaws of the Supervisory Board under Chapter III § 8.

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The Supervisory Board performed its functions at Supervisory Board meetings, through voting in writing and by delegating its members to work in the Committees.

## **II. Information on the composition of the Supervisory Board of KGHM Polska Miedź S.A. and on Supervisory Board functions served by its members.**

The composition of the **9th-term** Supervisory Board (the 9th-term Supervisory Board commenced on 23 June 2014) from 1 January 2015 to 31 December 2015 was as follows:

<b>first, last name</b>	<b>function</b>	<b>period when function served in 2015</b>
Marcin Moryń	Chairman	01.01.2015 – 31.12.2015
Tomasz Cyran	Deputy Chairman	01.01.2015 – 31.12.2015
Bogusław Fiedor	Member	01.01.2015 – 31.12.2015
Andrzej Kidyba	Member	01.01.2015 – 31.12.2015
Jacek Poświęta	Member	01.01.2015 – 31.12.2015
Barbara Wertelecka-Kwater	Member	01.01.2015 – 31.12.2015
<i>Members of the Supervisory Board elected by the Company's employees</i>		
Józef Czyczerski	Member	01.01.2015 – 31.12.2015
Leszek Hajdacki	Member	01.01.2015 – 31.12.2015
Bogusław Szarek	Secretary	01.01.2015 – 31.12.2015

In accordance with declarations submitted by members of the Supervisory Board, 4 of the Board's members – Tomasz Cyran, Bogusław Fiedor, Andrzej Kidyba and Jacek Poświęta – met the criteria for independence.

## **III. Information on the major subjects discussed by the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2015.**

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During the reporting period the Supervisory Board of KGHM Polska Miedź S.A. held 9 protocolled meetings and adopted 70 resolutions, including 2 in writing.

Attendance at the meetings was as follows:

- |                     |   |
|---------------------|---|
| 1. 26 January 2015  | - absent: Jacek Poświęta,<br>absence justified before the<br>Supervisory Board, |
| 2. 16 March 2015    | - absent: Bogusław Szarek<br>absence justified before the<br>Supervisory Board  |
| 3. 23 April 2015    | - all Board members present   |
| 4. 18 May 2015      | - all Board members present   |
| 5. 29 June 2015     | - absent: Andrzej Kidyba,<br>absence justified before the<br>Supervisory Board  |
| 6. 4 September 2015 | - all Board members present   |
| 7. 23 October 2015  | - all Board members present   |
| 8. 7 December 2015  | - all Board members present   |
| 9. 18 December 2015 | - all Board members present   |

The quorum necessary for taking decisions was present at every meeting.

The activities of the Supervisory Board in 2015 were documented in the minutes of the meetings and in Supervisory Board resolutions representing appendices to the minutes. Resolutions adopted in writing are documented in separate protocols.

The Supervisory Board maintained on-going control over the work of the Management Board and the Company's activities, reviewing at each meeting:

- information from the Management Board on the financial results of the KGHM Polska Miedź S.A. Group for individual months of 2015,
- reports on the condition of investments approved in the Company's Budget for 2015, including reports from monitoring the schedule of progress of the Sierra Gorda and Afton Ajax projects, and
- Management Board resolutions.

On a cyclical basis, in accordance with agreements between the Supervisory Board and the Management Board as well as with the work schedule adopted by the Supervisory Board, the Supervisory Board reviewed the following reports and information from the Management Board:

- on progress in reorganising the Group – once every quarter,
- reports on donations granted, sponsoring, representation, marketing and advertising in KGHM Polska Miedź S.A. and in the Group, as well as the report on the realisation of consulting, advisory and analytical services performed by external entities on behalf of the Company and the KGHM Polska Miedź S.A. Group. The Supervisory Board also reviewed reports on expenditures incurred on inventions, research and implementation work – every half-year,
- on the current composition of the management boards of companies of the KGHM Polska Miedź S.A. Group, and of the current composition of Executive Directors in the Divisions of the Company – every half-year,

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- on significant court proceedings and arbitrations in progress in which companies of the KGHM Group and of KGHM International were involved – every half-year,
- on the state of the hydrogen sulphide threat in the mines and on actions taken to mitigate this threat – every half-year,
- on the level of, and mechanisms for hedging against, changes in metals prices and exchange rates, quarterly information – once every quarter,
- on the implementation of actions recommended following the audit of corporate governance in the Company and in the Group's companies – once every quarter,
- information on the strategic review of the markets, in terms of the sectors and markets in which KGHM conducts its operations – once every quarter.

On a cyclical basis, at least once a quarter, the Supervisory Board reviewed the reports on the meetings of the Board of Directors of KGHM International Ltd., submitted to the Supervisory Board by a delegated member of the Supervisory Board.

In order to improve communication between the Management Board and Supervisory Board, the practice was continued of providing information to the Management Board in the form of a letter to the Management Board, on all of the decisions taken by the Supervisory Board during the meeting.

## **Other major subjects discussed by the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2015.**

### **1. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 26 January 2015 in Lubin**

The Supervisory Board adopted a schedule and the planned subjects of the meetings of the Supervisory Board of KGHM Polska Miedź S.A. in the first half of 2015.

The Supervisory Board, with regard to the recommendation of the Remuneration Committee, adopted bonus measures for the Management Board of KGHM Polska Miedź SA for 2015.

After reviewing the requests of the Management Board, the Supervisory Board made the following decisions:

- to assign the Vice President of the Management Board (Production) of KGHM Polska Miedź S.A. a specified scope of duties,
- expressing its consent to acquiring shares in the increased share capital of KGHM CUPRUM sp. z o.o.,
- expressing its consent to acquiring shares in the increased share capital of CUPRUM Nieruchomości sp. z o.o.

The Supervisory Board summarised the work submitted by the Management Board in October of the prior year regarding the draft Strategy of KGHM Polska Miedź S.A. In accordance with the recommendation of the Strategy Committee, the Supervisory Board decided to approve the „Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040”.

### **2. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 16 March 2015 in Lubin**

After reviewing the Auditor's report on its audit of the annual financial statements of the Company for 2014 and as a result of a discussion with the participation of the Auditor

and the Management Board regarding this matter, with regard to the recommendations of the Audit Committee, the Supervisory Board positively evaluated:

- the Financial Statements of KGHM Polska Miedź S.A. for financial year 2014,
- the Report on the activities of KGHM Polska Miedź S.A. in financial year 2014,
- the Consolidated Financial Statements of the KGHM Polska Miedź S.A. Group for financial year 2014, and
- the Report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2014.

After reviewing the recommendations of the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A., the Supervisory Board made the following decisions:

- to adopt and submit to the Ordinary General Meeting a report on the results of the evaluation of the Management Board's report on the activities of KGHM Polska Miedź S.A. in financial year 2014 and the results of the evaluation of the financial statements of KGHM Polska Miedź S.A. for financial year 2014;
- to adopt and submit to the Ordinary General Meeting a report on the results of the evaluation of the Management Board's report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2014 and the results of the evaluation of the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2014;
- to adopt and submit to the Ordinary General Meeting a concise assessment of KGHM Polska Miedź S.A.'s standing in financial year 2014;
- to adopt the annual report on the activities of the Supervisory Board of KGHM Polska Miedź S.A. for financial year 2014;

The Supervisory Board reviewed the requests of the Management Board and adopted decisions regarding evaluation of the proposal of the Management Board of KGHM Polska Miedź S.A. regarding the appropriation of profit for financial year 2014. and regarding issuing an opinion on the proposal of the Management Board of KGHM Polska Miedź S.A. directed to the Ordinary General Meeting of KGHM Polska Miedź S.A. on setting a dividend date and dividend payment dates for financial year 2014.

The Supervisory Board adopted resolutions regarding requests to the Ordinary General Meeting to grant approval of the performance of duties of the members of the Management Board of KGHM Polska Miedź S.A. in financial year 2014.

The Supervisory Board appointed the 9th-term Management Board of KGHM Polska Miedź S.A. with the following composition:

Herbert Wirth – President of the Management Board,  
Jarosław Romanowski – 1st Vice President of the Management Board,  
Marcin Chmielewski – Vice President of the Management Board,  
Jacek Kardela – Vice President of the Management Board,  
Mirosław Laskowski – Vice President of the Management Board.

### **3. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 23 April 2015 in Warsaw**

Following the recommendation of the Remuneration Committee, the Supervisory Board approved changes in the labour contracts and adopted model labour contracts for the members of the Management Board of KGHM Polska Miedź S.A.

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The Supervisory Board positively reviewed the request of the Management Board on assigning the members of the Management Board of KGHM Polska Miedź S.A. specific scopes of duties.

The Supervisory Board decided to call for elections for the employee-elected member of the Management Board of KGHM Polska Miedź S.A. with its registered head office in Lubin.

#### **4. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 18 May 2015 in Lubin**

As a result of discussions, and following the recommendation of the Remuneration Committee, the Supervisory Board of KGHM Polska Miedź S.A. adopted decisions regarding the amount of variable remuneration and regarding the amount of additional remuneration for the members of the Management Board of KGHM Polska Miedź S.A. in 2015.

Management Board requests regarding:

- changes in the wording of a resolution of the Supervisory Board dated 29 July 2014, regarding expressing consent to enter into a Shareholders Agreement and to acquire shares in the company PGE EJ1,
- expressing consent for a Vice President of the Management Board of KGHM Polska Miedź S.A. to hold the function of member of the Supervisory Board of the company PGE EJ 1 sp. z o.o.

were positively reviewed by the Supervisory Board.

#### **5. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 29 June 2015 in Lubin**

The Supervisory Board positively reviewed the following requests submitted by the Management Board:

- regarding adopting a new contractual model for the use of company cars by Members of the Management Board of KGHM Polska Miedź S.A.,
- regarding expressing consent to acquire shares of subsidiaries related to the dividing of POL-MIEDŹ TRANS sp. z o.o.

The Supervisory Board reviewed information from the Management Board on the process of electing an employee-elected member of the Management Board of KGHM Polska Miedź S.A.

The Supervisory Board adopted a schedule and the planned subjects of the meetings of the Supervisory Board of KGHM Polska Miedź S.A. in the first half of 2015.

**6. 8 July 2015, voting in writing,** regarding ending the process of electing an employee-elected member of the Management Board of KGHM Polska Miedź S.A. as a result of the inability to appoint an Electoral Committee among the employees of KGHM Polska Miedź S.A. – aimed at holding elections for an employee-elected member of the Management Board of KGHM Polska Miedź S.A. with its registered head office in Lubin.

**7. 16 July 2015, voting in writing**, regarding expressing consent to found special purpose companies comprising a tax group of KGHM Polska Miedź S.A. and to acquire 100% of their shares.

**8. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 4 September 2015 in Warsaw**

The Supervisory Board positively reviewed the following requests submitted by the Management Board regarding:

- the founding by KGHM Polska Miedź S.A. of the Foundation „Poland, Go Global!”,
- the disposal of perpetual usufruct rights to plots of land together with ownership of buildings representing separate real estate and of interests in perpetual usufruct rights to plots of land located within 5-Kościuszki, city of Głogów, by the Głogów smelter/refinery division of KGHM Polska Miedź S.A. in Głogów.

During a meeting with the participation of the Auditor, the Supervisory Board reviewed the results of the review of the financial statements of the Company for the first half of 2015 and discussed key issues with the Auditor.

The Supervisory Board reviewed information from the Management Board regarding:

- the Plan to Implement the Strategy of KGHM Polska Miedź SA for the years 2015-2020,
- advancement of the Źelazny Most Development project.

The Supervisory Board reviewed information from the Audit Committee regarding decisions taken during the meetings on 6 August and 4 September 2015.

**9. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 4 September 2015 in Cieplice.**

The Supervisory Board reviewed the assumptions to the Company's Budget for 2016 as submitted by the Management Board.

After reviewing the requests of the Management Board, the Supervisory Board expressed its consent to the following:

- the acquisition of ownership rights to plots nos. 103/1, 104/1 and 104/2 with a total surface area of 1.0143 ha, located within Żuków, gmina (municipality) of Polkowice, by the Rudna Mine Division of KGHM Polska Miedź S.A. in Polkowice;
- the acquisition of ownership rights to plot no. 53/1 with a surface area of 0.6000 ha, located within Żuków, gmina (municipality) of Polkowice, by the Rudna mine division of KGHM Polska Miedź S.A. in Polkowice,
- the acquisition of shares of KGHM CUPRUM sp. z o.o. through combination of the companies KGHM CUPRUM sp. z o.o. – CBR and CBJ sp. z o.o.,
- the acquisition of shares in the increased share capital of KGHM CUPRUM sp. z o.o. – CBR.

Following the recommendation of the Remuneration Committee, the Supervisory Board made a decision to change resolution No. 1 /IX/15 of the Supervisory Board of KGHM Polska Miedź S.A. dated 26 January 2015 by approving new bonus measures for the Members of the Management Board: the President of the Management Board and Vice President of the Management Board (Development) of KGHM Polska Miedź S.A. for 2015.



#### **10. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 7 December 2015 in Warsaw.**

The Supervisory Board commenced the process of reviewing the request of the Management Board on confirming the Budget for 2016. The Supervisory Board reviewed the recommendations of the Audit and Strategy Committees in this regard, adopted during meetings of the Committees on 23 and 26 November 2015.

The Supervisory Board reviewed the requests of the Management Board and expressed its consent to the following:

- the acquisition of shares in the increased share capital of Legnicka Specjalna Strefa Ekonomiczna S.A. to be covered by a non-cash contribution in the form of shares of the company Legnicki Park Technologiczny LETIA S.A.,
- the acquisition of shares in the increased share capital of KGHM ZANAM S.A. to be covered by a cash contribution in the amount of PLN 7 985 000.00,
- the acquisition of ownership rights to real estate located within 14 – Żukowice, municipality of Żukowice, by the Głogów smelter/refinery division of KGHM Polska Miedź S.A. in Głogów,
- the acquisition of perpetual usufruct rights to plots of land together with ownership of buildings and structures, representing separate real estate located within Koźlice, municipality of Rudna, by the Lubin mine division of KGHM Polska Miedź S.A. in Lubin from the company Metraco S.A. with its registered head office in Legnica.

#### **11. Meeting of the Supervisory Board of KGHM Polska Miedź S.A. on 18 December 2015 in Warsaw.**

The Supervisory Board continued discussions regarding the request of the Management Board to confirm the Budget of KGHM Polska Miedź S.A. for 2016.

### **IV. Reports by the Committees of the Supervisory Board of KGHM Polska Miedź S.A.**

Under the auspices of the Supervisory Board are permanent Committees: the Audit Committee, the Remuneration Committee and the Strategy Committee.

These committees assist the Supervisory Board with respect to preparing evaluations, opinions and recommendations, in matters requiring the decision of the Supervisory Board.

All Supervisory Board members are entitled to participate in the meetings of individual committees. The rights, scope of activities and procedures of operation are described by the Committees' Bylaws, approved by the Supervisory Board.

The Reports on the activities of the aforementioned Committees comprise appendices to this report on the activities of the Supervisory Board of KGHM Polska Miedź S.A. for financial year 2015.

## **V. Evaluation of the manner in which the Company met its informational obligations as regards the application of corporate governance principles, as set forth in Warsaw Stock Exchange Rules and in regulations regarding current and periodic information published by the issuers of securities.**

In the opinion of the Supervisory Board, the Company endeavoured at each stage of its operations to carry out all of the recommendations and principles respecting "Best Practice" for listed companies.

The report of the Management Board on the activities of KGHM Polska Miedź S.A. in 2015 contains a statement on the Company's application of corporate governance principles in 2015.

These corporate governance principles, as well as the „Corporate governance statement for 2015" and „Information on the application by KGHM Polska Miedź S.A. of best practice principles and recommendations of WSE listed companies" are available on the Company's website at <http://kghm.com/en/investors/corporate-governance/governance-compliance>.

KGHM Polska Miedź S.A. also properly applied the principle of „apply or explain". In 2015, the Company refrained from application of the recommendation set forth in Section I point 12 of „Best Practice..." („A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means") and in Section IV point 10 („A company should enable its shareholders to participate in a General Meeting using electronic communication means through: 1) real-life broadcast of General Meetings, 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting."), publishing appropriate explanations for these exceptions.

Taking into consideration the aforementioned actions, the Supervisory Board of KGHM Polska Miedź S.A. positively evaluates the manner in which the Company met its informational obligations regarding the application of the corporate governance principles as set forth in Warsaw Stock Exchange Rules and in regulations regarding current and periodic information published by the issuers of securities.

## **VI. Evaluation of the rationale of the sponsoring and charitable activities carried out by the Company.**

Since 2013, the Company, in its Integrated Annual Report, and previously in its Reports on Corporate Social Responsibility, has published detailed information on the results of its activities regarding regional support, including data on its sponsoring and charitable activities.

Activities in this regard are based on the „Strategy of Corporate Social Responsibility (CSR) of KGHM Polska Miedź SA to the year 2018" adopted by the Company. The sponsoring activities of KGHM Polska Miedź S.A are mainly aimed at promoting the Company and Lower Silesia by the sponsoring of sport and the arts. The charitable activities of the Company are conducted by the Polish Copper Foundation, which since 2003, thanks to its founder and sponsor KGHM Polska Miedź S.A., has supported the

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region and the communities of the Copper Belt.

Twice every financial year the Supervisory Board reviews information from the Management Board regarding expenditures on sponsoring and charitable activities, for the prior year and the current half-year.

Taking into consideration the above, in the opinion of the Supervisory Board, the Company's sponsoring and charitable activities were carried out in compliance with the assumptions of the Management Board.

**The Supervisory Board of KGHM Polska Miedź S.A. hereby submits the above report on the execution of its obligations in financial year 2015.**



## **Report on the activities of the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015**

### **I. Functioning of the Audit Committee.**

During the reporting period the Audit Committee acted on the basis of § 7 point 3 of the Bylaws of the Supervisory Board, as well as the Bylaws of the Audit Committee.

In accordance with the Bylaws of the Supervisory Board of KGHM Polska Miedź S.A., the tasks of the Audit Committee are as follows:

- 1) supervision, on behalf of the Supervisory Board, of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- 2) analysis and/or evaluation of the accounting principles adopted in the Company,
- 3) the review of transactions entered into by the Company, which the Audit Committee deems to be important for the Company,
- 4) the analysis and monitoring of post-control conclusions arising from the risk management process in the Company,
- 5) guidance of the process of selecting independent auditors to audit the financial statements of the Company in order to recommend their acceptance by the Supervisory Board, and participation in commercial negotiations prior to signing a contract with an auditor by the Company,
- 6) on-going cooperation with the independent auditor of the Company during the audit, analysis and formulation of conclusions from the audit and opinion of the auditor respecting the financial statements, the auditor's letter to the Management Board and/or Supervisory Board, and the preparation of draft statements and evaluations required by the by-laws for Company's bodies and other administrative institutions,
- 7) providing an opinion on the internal audit plan of the Company and the internal audit regulations, and of changes of the director of internal audit,
- 8) analysis of the conclusions reached and the recommendations made by an internal audit of the Company, with monitoring of the degree of implementation of these recommendations by the Management Board of the Company,
- 9) the monitoring of the Company's principles as regards accounting, finances and hedging against commercial and financial risks, and of exposure of the Company to serious harm.

The statutory duties of the Audit Committee (under the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision) comprise:

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- monitoring the financial reporting process,
- monitoring the effectiveness of internal control systems, internal auditing and risk management,
- monitoring the execution of financial review, and
- monitoring the independence of the certified auditor and of the entity entitled to audit financial statements.

The Act in addition set the number of members of such a committee – it should comprise at least 3 members, of which at least one member should meet the criteria for independence and hold qualifications in the areas of accounting or financial review.

The Members of the Audit Committee select from amongst their number a Chairman, who directs their work. The Chairman may invite non-Committee Members of the Supervisory Board, members of the Management Board and employees of the Company and other persons cooperating with the Company, to participate at meetings of the Committee. As in the case of the other permanent Committees of the Supervisory Board of KGHM Polska Miedź S.A., non-Committee members of the Supervisory Board may also participate in meetings of the Audit Committee.

## II. Composition of the Audit Committee

The composition of the Audit Committee of the 9<sup>th</sup>-term Supervisory Board, from 1 January 2015 to 31 December 2015, was as follows:

<b>First, last name</b>	<b>Period function served in 2015</b>
Bogusław Fiedor Committee Chairman	01.01.2015 – 31.12.2015
Tomasz Cyran	01.01.2015 – 31.12.2015
Leszek Hajdacki	01.01.2015 – 31.12.2015
Bogusław Szarek	01.01.2015 – 31.12.2015

The Chairman of the Audit Committee, Bogusław Fiedor, and a member of the Committee, Tomasz Cyran, in accordance with declarations submitted, met the criteria for independence.

The composition of the Audit Committee meets the requirements of the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision.

## III. Activities of the Audit Committee .

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In financial year 2015, the Audit Committee held eight meetings.

**1. Meeting of 19 January 2015, organised with the use of a video connection between Wrocław-Lubin-Warsaw**

The meeting of the Committee was held with full attendance, with the participation of the following invited guests: the Director of the Audit and Internal Control Department and the Director of the Corporate Risk Management and Compliance Department.

The Audit Committee positively evaluated the Integrated Audit and Control Plan for the KGHM Polska Miedź S.A. Group for 2015.

The Audit Committee reviewed information regarding the document „Corporate risk management – an introduction”, in which the process of corporate risk management and its basic tools were presented, as well as with the „Report on corporate risk management in 3Q 2014 in KGHM Polska Miedź S.A. and in KGHM International”, which summarised the work performed under the process of corporate risk management in the KGHM Polska Miedź S.A. Group in the third quarter of 2014.

**2. Meeting of 10 March 2015, organised with the use of a video connection between Lubin-Warsaw**

The meeting of the Committee was held with the absence of one member. The following persons participated in the meeting at the invitation of the Committee Chairman: representatives of the Auditor PwC, the Company's Chief Accountant, the Director of the Financial Reporting Department and the Director of the Audit and Internal Control Department.

The meeting was entirely dedicated to a meeting with the Company's Auditor and to a discussion regarding the separate financial statements of KGHM Polska Miedź S.A. for 2014 and the consolidated financial statements of the KGHM Polska Miedź S.A. Group for 2014.

The Audit Committee approved the recommendation for the Supervisory Board of KGHM Polska Miedź S.A. regarding making a decision as to a positive evaluation of the Company's Financial Statements and of the Consolidated Financial Statements of the Group for 2014.

**3. Meeting of 18 May 2015, in Lubin**

The meeting of the Committee was held with full attendance, with the participation of the following invited guests: the Director of the Audit and Internal Control Department and the Director of the Corporate Risk Management and Compliance Department.

The Audit Committee reviewed the Report on corporate risk management in the fourth quarter of 2014 in the KGHM Polska Miedź S.A. Group.

The Committee positively evaluated the Report on the execution of the Audit and Internal Control Plan of KGHM Polska Miedź S.A. for 2014.

**4. Meeting of 6 August 2015, in Wrocław**

The meeting of the Committee was held with full attendance, with the participation of the following invited guests: representatives of the Auditor PwC, the Director of the

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Audit and Internal Control Department, the Company's Chief Accountant, the Director of the Financial Reporting Department and the Director of the Taxation Department. The meeting was dedicated to a review of the Auditor's letter to the Management Board and Supervisory Board, regarding important questions raised during the audit for financial year 2014 and to discussing the results of the review of the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group for the first half of 2015.

#### **5. Meeting of 4 September 2015, organised with the use of a video connection between Lubin-Warsaw**

The meeting of the Committee was held with full attendance, with the participation of the Director of the Audit and Internal Control Department who was invited.

The meeting of the Committee was dedicated to providing an opinion on the „Report on the execution of the Audit and Internal Control Plan of KGHM Polska Miedź S.A. for the first half of 2015.” The Audit Committee positively evaluated this Report.

#### **6. Meeting of 15 October 2015, organised with the use of a video connection between Wrocław-Lubin- Warsaw.**

The meeting of the Committee was held with full attendance, with the participation of the following invited guests: the Director of the Audit and Internal Control Department and the Director of the Corporate Risk Management and Compliance Department.

The meeting was entirely dedicated to a discussion of problems involving the „Report on corporate risk management in Q1 and Q2 2015 in the KGHM Polska Miedź S.A. Group.”

#### **7. Meeting of 23 November 2015, in Wrocław.**

The meeting of the Committee was held with full attendance, with the participation of the following invited guests: the 1st Vice President of the Management Board (Finance), the Company's Chief Accountant and the Director for Controlling and Economic Analysis. During the meeting the question of the need to start the process of selecting an auditor for the next three years was discussed, due to the approaching end of cooperation with the Company's Auditor PwC.

The meeting was mainly dedicated to a discussion regarding budgetary assumptions for 2016 and preparations to develop a recommendation for the Supervisory Board regarding adoption of the Budget of KGHM Polska Miedź S.A. for 2016.

#### **8. Meeting of 30 December 2015, in Lubin.**

The meeting of the Committee was held with the absence of one member. The following persons participated in the meeting at the invitation of the Committee Chairman: the Director of the Audit and Internal Control Department and the Company's Chief Accountant.

The Audit Committee positively evaluated requests of the Management Board regarding adjustments to the Integrated Audit and Control Plan for KGHM Polska Miedź S.A. for 2015 and the Integrated Audit and Control Plan for KGHM Polska Miedź S.A. for 2016.

The schedule of actions regarding selection of the Company's Auditor was adopted and the wording of the tender (List of Key Tender Conditions) to selected entities providing certified accountant services was positively evaluated.

## **Report on the activities of the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015**

### **I. Functioning of the Remuneration Committee.**

During the reporting period the Remuneration Committee acted on the basis of § 7 point 5 of the Bylaws of the Supervisory Board. The functional principles of the Committee were set forth in the Bylaws of the Remuneration Committee approved by resolution of the Supervisory Board.

In accordance with the Bylaws of the Supervisory Board, the tasks of the Remuneration Committee are as follows:

- 1) to carry out the recruitment and employment of members of the Management Board by developing and organising draft documents and processes to be submitted to the Supervisory Board for their acceptance,
- 2) to develop draft agreements and samples of other documents related to the hiring of members of the management board, and supervision over the realisation of the contractual obligations entered into by the parties,
- 3) to supervise realisation of the system of remuneration of the management board, in particular to prepare settlement documents related to variable salary and bonuses, in order to submit a recommendation to the Supervisory Board,
- 4) to monitor and make periodic analyses of the remuneration system of the management staff of the Company and, if necessary, to formulate recommendations to the Supervisory Board, and
- 5) to supervise realisation of additional benefits received by the Management Board arising from labour contracts, such as: insurance, automobiles, housing, etc.

The Members of the Remuneration Committee select from amongst their number a Chairman, who directs their work and supervises its work. The Chairman may invite non-Committee members of the Supervisory Board, members of the Management Board and employees of the Company, certified specialists and other persons cooperating with the Company, to participate at meetings of the Committee.

### **II. Composition of the Remuneration Committee**

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



The composition of the Remuneration Committee of the 9<sup>th</sup>-term Supervisory Board of KGHM Polska Miedź S.A., from 1 January 2015 to 31 December 2015, was as follows:

<b>First, last name</b>	<b>Period function served</b>
Tomasz Cyran – Chairman	01.01.2015 – 31.12.2015
Józef Czyczerski	01.01.2015 – 31.12.2015
Leszek Hajdacki	01.01.2015 – 31.12.2015
Marcin Moryń	01.01.2015 – 31.12.2015
Barbara Wertelecka-Kwater	01.01.2015 – 31.12.2015

### **III. Activities of the Remuneration Committee.**

During the reporting period the Remuneration Committee held 5 protocolled meetings.

#### **1. Meeting of 19 January 2015, organised with the use of a video connection between Warsaw-Lubin.**

The meeting of the Committee was held with full attendance, with the participation of the following invited guests: the Director for Controlling and Economic Analysis and the Director of Human Resources Management.

The meeting was entirely dedicated to analysing proposed bonus-linked tasks for the members of the Management Board of KGHM Polska Miedź S.A. for 2015. Determination was made of the bases for preparing a recommendation to the Supervisory Board regarding confirmation of the bonus measures for the Management Board of KGHM Polska Miedź S.A for 2015.

#### **2. Meeting of 9 April 2015, organised with the use of a video connection between Warsaw-Lubin.**

The meeting of the Committee was held with the absence of one member. At the invitation of the Committee Chairman, the Director of the Legal Department was invited to attend the meeting.

The meeting was entirely dedicated to preparing a recommendation to the Supervisory Board regarding the introduction of changes in the labour contracts with the members of the Management Board of KGHM Polska Miedź S.A.

#### **3. Meeting of 23 April 2015, organised with the use of a video connection between Warsaw -Lubin.**

The meeting of the Committee was held with the absence of one member.

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

During the meeting the Remuneration Committee continued the discussion regarding the introduction of changes in the labour contracts with the members of the Management Board of KGHM Polska Miedź S.A. During this discussion, the Remuneration Committee made decisions in this regard and decided to recommend their adoption by the Supervisory Board.

**4. Meeting of 11 May 2015, organised with the use of a video connection between Warsaw -Lubin; continued on 18 May 2015, in Lubin.**

The meeting of the Committee was held with full attendance, with the participation of the following invited guests: the Director for Controlling and Economic Analysis, the Director of Human Resources Management and the Director of Development Management.

The meeting was entirely dedicated to preparing a recommendation to the Supervisory Board regarding decisions on the amount of variable remuneration to be paid to members of the Management Board of KGHM Polska Miedź S.A. in 2014 and regarding additional remuneration for 2014 for the members of the Company's Management Board.

The Remuneration Committee evaluated the degree of achievement of the bonus measures adopted for 2014 for individual members of the Management Board of KGHM Polska Miedź S.A. and discussed questions related to setting the amount of additional remuneration for 2014. The members of the Committee made decisions regarding the aforementioned issues, and decided to recommend their adoption by the Supervisory Board.

**5. Meeting of 15 October 2015, organised with the use of a video connection between Warsaw-Lubin.**

The meeting of the Committee was held with full attendance.

The meeting was dedicated to reviewing requests of the Management Board regarding the introduction of adjustments to the bonus indicators for the members of the Management Board of KGHM Polska Miedź S.A. for 2015 due to the introduction of changes regarding the duties of members of the Management Board as well as due to an update in the parameters of certain tasks.

As a result of this discussion, the Remuneration Committee adopted recommendations for the Supervisory Board in the aforementioned issues.

## **Report on the activities of the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2015**

### **I. Functioning of the Strategy Committee**

During the reporting period the Strategy Committee acted on the basis of § 7 point 7 of the Bylaws of the Supervisory Board. The functional principles of the Committee were set forth in the Bylaws of the Strategy Committee approved by resolution of the Supervisory Board.

In accordance with the Bylaws of the Supervisory Board the duties of the Strategy Committee are as follows:

- 1) The performance of tasks on behalf of the Supervisory Board of the Company respecting the supervision of matters related to Company strategy and the Company's annual and multi-year operating plans,
- 2) Monitoring the realisation by the Management Board of the Company of the Company's strategy, and evaluating to what extent the existing strategy is appropriate in dealing with changes in the actual situation,
- 3) Monitoring achievement by the Management Board of the Company's annual and multi-year operating plans, and evaluating whether they require modification,
- 4) Evaluating the uniformity of the Company's annual and multi-year operating plans with achievement by the Management Board of the Company's strategy, and presenting proposed changes to any of these Company's documents, and
- 5) Submitting to the Supervisory Board of the Company its opinions in respect of the draft strategy of the Company presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and multi-year operating plans.

### **II. Composition of the Strategy Committee**

The composition of the Strategy Committee of the 9<sup>th</sup>-term Supervisory Board, from 1 January 2015 to 31 December 2015, was as follows:

<b>First, last name</b>	<b>Period function served in 2015</b>
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*Translation from the original Polish version. In the event of differences resulting from the translation, reference should be made to the official Polish version.*

Barbara Wertelecka-Kwater Committee Chairwoman	01.01.2015 – 31.12.2015
Józef Czyczerski	01.01.2015 – 31.12.2015
Leszek Hajdacki	01.01.2015 – 31.12.2015
Andrzej Kidyba	01.01.2015 – 31.12.2015
Marcin Moryń	01.01.2015 – 31.12.2015
Jacek Poświata	01.01.2015 – 31.12.2015
Bogusław Szarek	01.01.2015 – 31.12.2015

### III. Activities of the Strategy Committee

In 2015 the Strategy Committee held 4 meetings:

#### **1. Meeting of 9 April 2015, organised with the use of a video connection between Warsaw-Lubin.**

The meeting was held with full attendance, with the participation of the member of the Management Board of KGHM Polska Miedź S.A. (Corporate Affairs), the Executive Director for Controlling and Economic Analysis, the Executive Director of the Head Office and the Director of Development Management.

The meeting was dedicated to reviewing reports of the Management Board on expenditures in 2014 for advisory services, for advertising, representation, sponsoring and subsidies, for research work, expertise and analysis and for inventions and implementation projects in the KGHM Polska Miedź S.A. Group. The Strategy Committee received information from the Management Board regarding the employment structure and the number of persons employed in the companies of the KGHM Polska Miedź S.A. Group, and also regarding progress on the implementation of corporate governance in the KGHM Polska Miedź S.A. Group.

#### **2. Meeting of 11 May 2015, organised with the use of a video connection between Warsaw-Lubin.**

During the meeting a discussion was continued following the analysis of reports on expenditures for advisory services, advertising, representation, sponsoring and subsidies considered by the Committee for the next meeting.

The Strategy Committee adopted a recommendation for the Supervisory Board regarding expenditures by the Company on advisory services, advertising, representation, sponsoring and subsidies.

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The meeting was held with full attendance.

**3. Meeting of 15 October 2015, organised with the use of a video connection between Warsaw-Lubin.**

The meeting was held with full attendance, with the participation of the Executive Director of Development Management.

The meeting of the Committee was entirely dedicated to reviewing the Report of the Management Board on progress regarding the Strategy Implementation Plan of KGHM Polska Miedź S.A.

**4. Meeting of 26 November 2015, organised with the use of a video connection between Warsaw-Lubin.**

The meeting of the Committee was held with the absence of one member. The Executive Director for Controlling and Analysis and the Executive Director of the Head Office were invited to attend the Committee meeting.

The meeting of the Committee was entirely dedicated to preparing a recommendation to the Supervisory Board regarding adoption of the Budget of KGHM Polska Miedź S.A for 2016.

**IV. Conclusions for the Supervisory Board of KGHM Polska Miedź S.A.**

Summarising its activities in financial year 2015, the Strategy Committee requests that the Supervisory Board:

- continuously monitor the activities of KGHM International Ltd., in particular the realisation of the Sierra Gorda and Victoria projects and the realisation of the Afton-Ajax project, as well as monitor the process of integration of KGHM International Ltd. with KGHM Polska Miedź S.A.;
- monitor the process of reorganisation of the KGHM Polska Miedź S.A. Group which is being carried out by the Management Board; and
- continue work on the plan to decrease operating costs and improve the efficiency of the KGHM Polska Miedź S.A. Group.