KGHM

KGHM International Corporate Social Responsibility Report 2014

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Case Studies

Cover photo: Franke mine, Chile

About Our Report

[G4-18;20;21;23;28;29;30;32;33]

This is KGHM International's (KGHMI) second annual corporate social responsibility (CSR) report. We have produced it in accordance with the core requirements of the Global Reporting Initiative (GRI) G4 Sustainability Reporting and Mining Metals Sector Disclosures Guidelines. This year, we have also expanded how we share our story. To provide stakeholders a more transparent view into our business, this report includes case studies. However, there are no major changes in scope in GRI indicators reported on from last year's report. The boundaries and consolidations will be discussed within each of the GRI aspects.

In 2014, KGHMI developed a sustainability strategy aligned with that of our parent company, KGHM Polska Miedź S.A. The strategy has four pillars:

1) Responsible Business Partner
2) Responsible Employer
3) Environmentally Responsible Company
4) Good Neighbour

In this report, you will find four major sections containing relevant information on our strategic directions and our initiatives related to each of those pillars. The aspects and case studies included in this report are all considered material topics to our business and stakeholders. Our sustainable priorities and key focus areas are listed on page 4 and have been categorized according to our sustainability pillars. They were identified through an engagement effort with senior decision-makers and our parent company. We will look to expand upon this qualitative analysis to better understand specifically where the associated impacts occur. We will review the key areas on an annual basis. These priority areas have been included in the CSR Strategy to help drive short and long term initiatives aligned with overarching strategic directions.

How We Defined the Content of This Report:

This report aims to communicate to our stakeholders our performance today and our objectives looking forward. We also view this as an industry benchmark. In 2014, we did a better job identifying what was material to our business with stronger inputs from:

- Employee survey results
- Senior leader interviews within KGHMI
- Mine-site records of stakeholder concerns
- 2013 report feedback
- Media tracking on key issues
- Internal Subject Matter Expert (SME) consultation

We strongly believe this improved materiality review, along with a better understanding of our impacts as a mining company, contributed to create a stronger report that will offer a better resource for our stakeholders. We also want to continue to improve. Please send us feedback — contact information can be found at the end of the report in the section marked Contact Us.

For more information about our stakeholders and communication, see the Good Neighbour section of this report.

This report has not been externally assured. However, KPMG performed a gap analysis for the CSR Committee focusing on the scope of topics disclosed and use of the GRI G4 Reporting Framework.

About Our Report

[G4-19]

Sustainability Priorities and Key Focus Areas	*Boundary	**Significance
Responsible Employer		
Continue journey to Zero Harm	In/Out	Social and Economic Impacts
Ensure the health and safety framework and principles are implemented at each operation		
Establish and use leading indicators to improve performance		
Perform audit and compliance reviews		
Issue "Rules to Live By"		
Improve CSR awareness and communications within our workforce	In	Emerging Issue
Environmentally Responsible Company		
Develop consistent management and reporting systems	In/Out	Environmental, Social and Economic Impacts
Conduct formal tailings management review at each facility		
Perform energy audits at selected facilities		
Identify investment opportunities in renewable energy sources		
Establish energy and GHG intensity targets at selected facilities		
Responsible mine closure	In/Out	Environmental, Social and Economic Impacts
Improve internal guidance associated with closure planning		
Responsible Business Partner		
Build the position of KGHMI as a responsible company who manages and transparently communicates environmental and social performance according to internationally accepted guidelines and standards	In/Out	Reputational and Economic Impacts
Improve sustainability context in future reports. Data and information reported in the CSR report follows guidelines and has undergone a prescribed review and approval process.		
Design a system to verify if corporate actions are aligned with codes of conduct of suppliers and customers and with KGHM code of ethics		
Communicate expectations for suppliers of KGHMI to align their actions to our corporate values and rules of conduct		
Implement approved 'Know Your Customer' Policy		
Achieve 'Preferred Supplier Status'		
Good Neighbour		
Develop a consistent and strategic approach towards our communities of interest based on the Mining Association of Canada's Towards Sustainable Mining protocol and other internationally accepted guidelines	Out	Social and Reputational Impacts

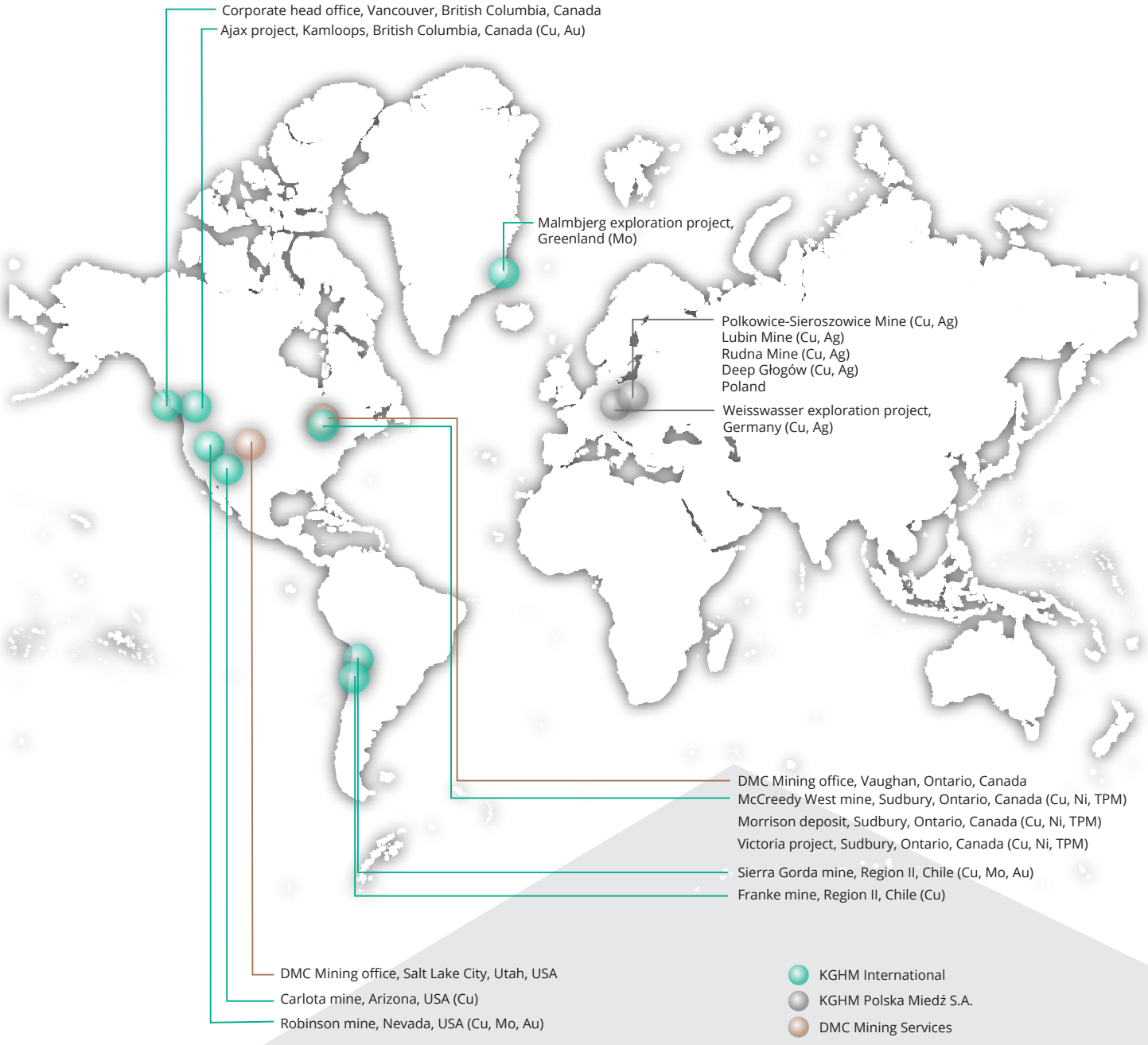
*Boundary denotes where the impacts occurs. The impacts can be within the organization (in) or outside (out) the organization or both.
** Significance denotes at a high level why the topics were selected to be included in the list of sustainable priorities for the company.

Our Company

[G4-5;6]

6 Operations in Canada, USA and Chile

4 Growth Projects in Canada, Chile and Greenland



Our Core Values

What drives us at work

Zero Harm

For common good

Teamwork

Expands knowledge

Results-Driven

Is a good direction

Courageous

Means facing one's weakness

What We Do at a Glance

[G4-4;8]

KGHMI is a global producer of base and precious metals. We mine for copper, molybdenum and polymetallic ore from our six producing mines in North America and South America.

Polymetallic Ore:

- At the Morrison and McCreedy mines in Sudbury, Ontario, we mine massive sulphide ore dominated by the copper mineral chalcopyrite and the nickel minerals pentlandite and millerite. The mined ore is crushed and sold to Vale and Glencore Xstrata for mineral processing. The primary metal product is copper and the secondary metals are nickel, platinum, palladium and gold.
  - Tonnes of ore extracted in 2014: 327,700
  - Tonnes of ore extracted in 2013: 709,508

Copper Cathode:

- The Franke and Carlota operations mine low-grade mineral deposits. The ore compositions vary at each of the sites but their mineralogy allows for the metals to be extracted through a heap-leach operation and solvent-extraction electro-winning (SX/EW) process. At these mines, the product sold to trading companies for delivery in the United States and in countries in Europe and Asia is a sheet of near-pure copper (99.9 percent).
  - Tonnes of copper cathodes produced in 2014: 29,709
  - Tonnes of copper cathodes produced in 2013: 29,604

Concentrates:

- At the Robinson and Sierra Gorda mines, we mine low-grade porphyry deposits. The geology varies at each of the properties, but both operations take the mined ore and grind the material in a process called milling. This crushed material is then concentrated through a flotation process which separates the metallic particles based on their physical and chemical characteristics. We, in turn, are left with these products which are sold to the market for further processing. Robinson sells concentrates to smelters and trading companies located mostly in China and Japan, with limited sales in Korea, India, the Philippines and the United States. The molybdenum concentrates are sold outright to companies that process the material at molybdenum roasters in North America. Sierra Gorda concentrates will also be shipped to China. Eventually the concentrates are reduced to raw metals which are used for various purposes that are part of most of our daily lives.

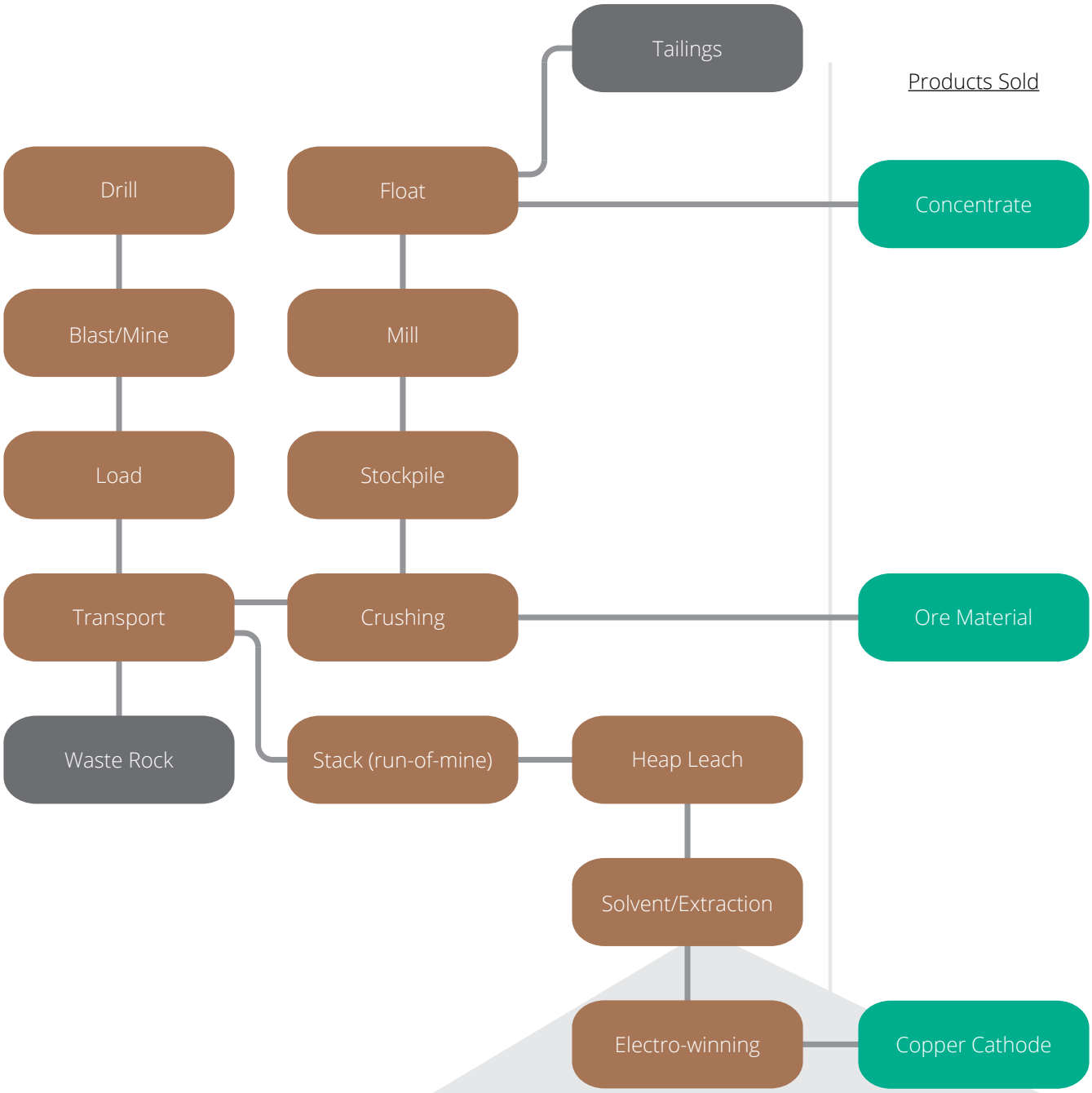
- Copper concentrates:
  - Tonnes produced in 2014: 244,211
  - Tonnes produced in 2013: 229,351

- Molybdenum concentrates:
  - Tonnes produced in 2014: 331
  - Tonnes produced in 2013: 624

- Gold in concentrates at Robinson:
  - Kilo-ounce produced in 2014: 25
  - Kilo-ounce produced in 2013: 45

Copper cathodes - Carlota mine, Arizona, USA

Production Process



Use of Metals in Modern Life:

Copper (Cu):

Copper is one of the three most widely used metals in the world (iron and aluminum being the other two), according to the U.S. Geological Survey (USGS). It is highly malleable and an excellent conductor. These properties allow it to be used in many modern applications. It is frequently used as wire in our homes and cars, to transmit electricity and telecommunication signals, in plumbing, in aircraft and in heavy equipment. It is also used extensively in alloys such as brass and bronze. Increasingly recognized for its antimicrobial properties and resistance to corrosion, copper is becoming more common in door handles and in hospitals.

Molybdenum (Mo):

Molybdenum is a silvery metal that has a very high melting point. Its current uses are in alloys to increase strength, hardness, electrical conductivity and resistance to corrosion and wear. A 2013 report by USGS indicates that the supply of molybdenum is adequate to meet world needs for the foreseeable future. That said, the expansion of its application for other uses is a current area of research by many. It is believed by some that it will be a critical metal to 21st-century technology needs, including advanced alloys for transportation, aerospace, renewable energy and sustainable infrastructure.

Nickel (Ni):

Nickel, like molybdenum, is mostly used as an alloy in steel. The USGS reports that approximately 60 percent of nickel in the Western world is used to make stainless steel. This alloy is found in electrical equipment, household appliances and vehicles of all sorts. It is also used by the chemical industry because of its ability to withstand harsh environments. The USGS reports that the aerospace industry is the leading consumer of nickel-based superalloys, which are used in jet engine parts and turbine blades. And through its use in rechargeable batteries, nickel is essential to renewable energy technology.

Gold (Au):

Gold is a relatively soft metal that has a low melting point. As many know, it is recognized for its yellow colour and its impressive metallic lustre. It is used in jewelry, electronics, scientific instruments, electroplating, gold leaf and dental appliances and for investment purposes in the form of bars and coins.

Platinum (Pt)/Palladium (Pd):

Platinum and palladium are part of a group of six metallic elements that share similar physical and chemical characteristics and are commonly called platinum-group metals (PGMs). They are malleable and ductile metals which are resistant to corrosion, have a superior hardness and have a melting point of 1,755 degrees Celsius. These unique properties make these metals desirable for use such as catalysts in the chemical industry, dentistry, surgical instruments, jewelry and electrical equipment. Despite these many uses, the leading demand for this metal is for the technology that controls the exhaust and emission from vehicles (both light- and heavy-duty).

CEO Statement

KGHMI believes in and promotes sustainability, accountability and positively contributing to our communities where we live, work and play. KGHMI is a wholly owned subsidiary of KGHM Polska Miedź S.A. — a globally diverse mining company based in Lubin, Poland, which strives to adhere to the highest standards of social responsibility and is proud to be included in the prestigious RESPECT index on the Warsaw stock exchange. Corporate social responsibility is a vital part of our business and is incorporated into our strategy and corporate governance.

In 2014, KGHMI released its first corporate social responsibility report under the framework of the Global Reporting Initiative (GRI). GRI reporting provides KGHMI with a baseline from which to measure and drive performance improvement, against ourselves, and against others in our industry and to report transparently. In 2014 KGHM undertook a number of improvement initiatives — many of which are highlighted in this report – and which included the development of a corporate social responsibility strategy. This strategy is based on four key aspirations for the kind of company we want to be, namely, a **Responsible Employer**, an **Environmentally Responsible Company**, a **Responsible Business Partner**, and a **Good Neighbour**. These aspirations align with those of our parent company while providing guidance for how we will pursue our future together.

In everything we do, we are guided by our values. This includes a belief in the power of teamwork, and a shared ethic of being individually and collectively accountable towards achieving our goals. We extend that value to the way we engage with stakeholders and communities. We work closely with the communities where we operate to understand their priorities and concerns. We offer more than just employment opportunities by lending our time, skills and knowledge as volunteers or board members with our local communities. We believe that a responsible company is one that listens to its stakeholders and responds with honesty to their concerns. We make sure our communities are informed by hosting regular open houses where we can interact face-to-face, in transparent and respectful environments.

Our employees continue to work with safety as their top priority, with a strong commitment and dedication to **Zero Harm** — our most important core value. Tragically, in 2014 we were shocked by the fatality of a well-respected employee at the Sierra Gorda project, located in Chile. All of our employees were deeply saddened by this incident. We have carefully reviewed our practices and are using the learnings to prevent another incident of the nature from happening again.

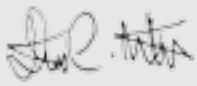
Our collective commitment to sustainability and enhanced reporting this past year was set against a backdrop of significant progress in our business plans. The Sierra Gorda mine located in Region II, Chile, commenced production in 2014, marking an important milestone for the company as one of the largest copper and molybdenum mines in the world. We continue to actively advance the Victoria project, in Sudbury, Ontario, Canada, the Sierra Gorda Oxide project in Chile and the Ajax project in Kamloops, British Columbia, Canada delivering a geographically and geologically diverse set of projects contributing to over 23 years of mine life.

Derek White speaking to a group of students at Laurentian University, Sudbury, Ontario, Canada

We are committed to solid corporate governance and adhere to international standards and best practices. In 2015 we will continue to develop our corporate social responsibility strategy, with a better defined set of policies, new systems and rigor in respect to goal setting and reporting. I look forward to sharing our continued progress.

In this report, we have made some enhancements. You will see case studies throughout the report that tell our story with more detailed reporting on our activity and a new view into our sustainability strategy looking forward. A great deal of work went into this report, and I would like to thank all of our employees for their contribution and dedication to these important socially responsible initiatives.

Derek White, President and CEO KGHM International



Operational Structure and Governance

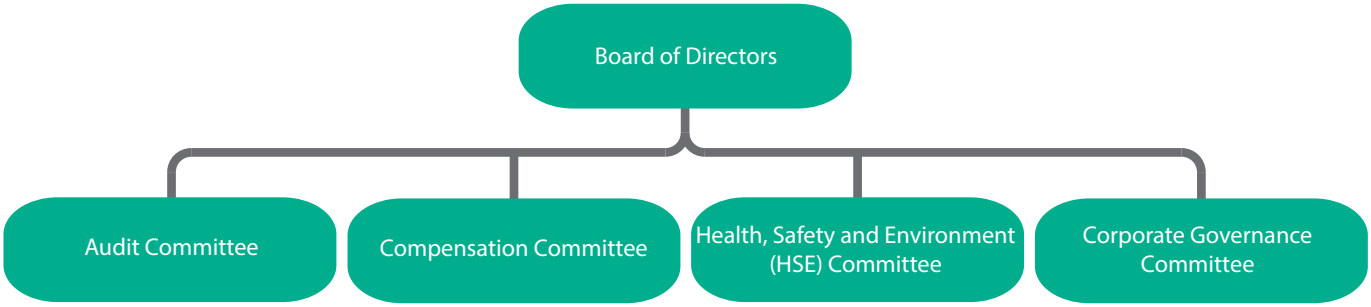
[G4-9;34]

KGHM International Ltd. (KGHMI) is a wholly owned subsidiary of KGHM Polska Miedź S.A. (KGHM), a global company that employs 34,000 people around the world and is based in Lubin, Poland [G4-9]. KGHM is a publicly listed company traded on the Warsaw Stock Exchange. Currently the Polish Ministry of State Treasury holds 31.79% (or 63,589,900) KGHM shares. The remaining stock making up the 'float' is held by both Polish and foreign shareholders, individual and institutional. All of the Company shares are of equal value and no shareholder is granted any preferential rights.

KGHMI has six operating mines in Canada, Chile and the United States. Primarily, KGHMI focuses on mining of copper, polymetallic ore and molybdenum. Additionally, KGHMI provides mining services under the wholly owned DMC Mining Services.

KGHMI, as a fairly new subsidiary of KGHM, is working to align with the global guidance of its parent company. For example, KGHM aims to become one of the largest global copper producers, with an output of approximately 1,000,000 tonnes of copper equivalent by 2020, while respecting business ethics, environmental protection and corporate social responsibility. In 2014, KGHMI worked diligently to align corporate goals and strategies across all functional departments with KGHM This is an innovative and ongoing process we are proud to undertake.

The governing body of KGHMI is its board of directors (the "board"), the members of which are appointed by the company's sole shareholder. The board has appointed certain committees of directors with mandates to provide assistance to them in particular functional areas. These committees consist of an audit committee; a compensation committee; a health, safety and environment (HSE) committee; and a corporate governance committee. Both the board and board committees deliberate upon economic, environmental and social impacts associated with the company's operations. The board, through the assistance of the corporate governance committee, has adopted certain environmental and social policies to guide the company's operations [G4-34].



Changes in 2014

[G4-13]

KGHMI experienced quite a bit of change in 2014 but most important is our work in Sierra Gorda. Through 2014 we hit a number of key milestones at the Sierra Gorda project. By the end of the first quarter, our prestripping activities were completed. We had removed a total of 192 million tonnes of material in preparation for production. In March, the construction of a 142-kilometre pipeline was completed. This pipeline delivers sea water from a cooling system at a thermal power plant on the coast at Mejillones to the Sierra Gorda mine plant site. In July, the mine started feeding production, and one month later official production of the grinding circuit began, with the first 6,000-tonne order of concentrate shipping by month's end. By the end of September, Sierra Gorda project construction was substantially complete. The project is now in ramp-up phase. By the close of 2014, Sierra Gorda milled 5.3 million tonnes of ore. "This mine will help feed the demand for copper and molybdenum around the world and will provide jobs and employment for years to come," said Maciej Ściążko, general manager of the Sierra Gorda project. He says Sierra Gorda will take a prominent position in the world of mining by helping to fill the global demand for copper and molybdenum. The construction of the molybdenum-processing plant was substantially completed by the end of the year, and the commissioning and first production of molybdenum concentrate is expected in the first quarter of 2015.

The Carlota mine completed mining from the pit during the last quarter of 2014. The subsurface leaching program started in the second half of the year and is anticipated to significantly extend the leach pad life. The Management Discussion and Analysis for the year is available on our website and will provide additional detail on this subject and other activities that took place in 2014 at other sites.

Sierra Gorda's inauguration ceremony, October 1, 2014

Market Presence

Despite the observed drop in commodity prices in the last quarter of 2014, KGHM is well positioned to deliver its forecasts in 2015 and to continue to execute its strategy in the short and long-term horizons. With the start up of operations at Sierra Gorda, the total average production cost within the KGHM Group will gradually decrease. Most of KGHM's operations are located in Poland, Chile and Canada, currently allowing lower commodity prices to be offset by a stronger US dollar and its exchange rate to local currencies. KGHM will announce an updated corporate strategy in early 2015. Until 2020, approximately 9 billion dollars will be dedicated to the development of projects, 45 percent of those investments are planned in the Americas. Developing these projects will drive an increase in the production of copper and other metals and will create new jobs at existing and new sites.


October 1, 2014 - Sierra Gorda, Chile

Responsible Employer

KGHMI strives to be an employer that values diversity in the workplace and is committed to the health, safety and continuous development of our employees.

This past year at our Sierra Gorda mine in Chile, one of our senior employees made a strong statement during an all-staff meeting that all of our older tires had been replaced, which was significant due to some issues we had experienced with them. A lone hand went up in the crowd; a truck driver said, "That's not true. I still have one of the old tires on my truck." There was a moment of silence, as it is not normal in Chilean culture to challenge a senior manager in a public forum. The leader of the meeting confirmed with his managers that the truck driver was correct in her statement. The general manager then turned to the truck driver and thanked her for her courage. He explained to the room that speaking up is a good thing and it is important for the company to encourage this approach because it makes the whole company better.

> *"At KGHMI our employees are accustomed to talking about safety: It's a strong part of our culture no matter where you are or what you are working on. It's a source of pride for employees.*

At KGHMI, we believe that employees should speak freely and that both the company and the individual benefit from this type of professional exchange. As one of KGHMI's Values, employees are taught to be courageous while completing their function to protect the company and its employees. Through our commitment to providing orientation, on-the-job training and community outreach programs, a Zero Harm environment pervades all parts of our business and employee life. The commitment to Zero Harm is demonstrated in many ways, from "safety shares" to managers and employees living it every day. A commitment to keeping our people safe is not just limited to the work environment; when you care for people, the commitment does not stop at the end of a shift. At our Carlota mine, attendees were reminded at one kick-off meeting to knock their boots together every morning to make sure there weren't any scorpions in them, a reality in Arizona.

Haul truck, Sierra Gorda, Chile

At KGHMI our employees are accustomed to talking about safety. It's a strong part of our culture no matter where you are or what you are working on. It's a source of pride for employees.

David Smith, Senior Vice President, Human Resources

Our Employees

[G4-9;14]

KGHMI employs approximately 3,500 people in North and South America. The implementation of a development strategy is supported by continuous improvement of skills and organizational capabilities, and also by building value-based corporate culture. The key element of this process is the best use of the creative potential of our employees.

The achievements and the position of the company in the market depend on the knowledge, creativity, teamwork, diversity, engagement and honesty of our employees. In order to create an optimal working environment, the company invests in continuous professional development and is committed to maintaining a good atmosphere at work. KGHMI applies the best available practices to minimize risks to the health and safety of employees.

Training and Leadership

[G4-56; LA10; HR2]

One aspect to being a responsible employer means staying up-to-date on the latest business strategies, safety and technological advancements and employee engagement trends. We then translate what we learn into training programs that continually grow our employee skill base. We have several types of training and development programs to strengthen our workforce today and meet the challenges of tomorrow. Examples include:

- **Global Talent Management:** As our organization becomes more globally aligned, focus has been on the development of our biggest asset — our people. Our global Human Resources team has developed a training program to identify and develop leaders who are challenge-ready and who can sustainably support the business strategy. The Global Talent Management program is integrated into the CSR strategy and considers development with a long-term vision and goals. Participating KGHMI employees gain both functional knowledge and leadership skills to grow within the company. The program prepares participants for opportunities across the KGHM global network and creates a stronger functional alignment and leadership profile for the future.
- **Employee seminars:** Knowledge sharing is part of our culture, and our senior management supports this informal information exchange. In 2014, we held three separate seminars which brought together employees in one physical location to discuss, present and share information on material topics to our organization. These seminars assembled people from different educational backgrounds and areas of expertise to encourage information sharing and team building. On a smaller scale, our Lunch and Learn sessions happen more regularly and allow the opportunity for employees to share their functions with their peers.
- **Ethics:** All new employees are required to review and understand our Code of Ethics. As with any policy, periodic updates are needed. In 2014, we dedicated time to review and update our Code of Ethics to be sure it accurately reflects our intent in writing and in practice. Once this updated Code is rolled out, all employees will be required to review and sign off that they understand the requirements and expectations.
- **Online development:** In 2014, a pilot program was created to enhance employee business acumen. A small set of employees was given access to an online learning tool that shared webinars including essentials of finance, leadership and team building, basic communications, global teams management and performance management. In 2015, we will conduct an evaluation of the program for next steps.
- **Mandatory training:** To reach the goals of our Zero Harm core value, we must properly train our employees. Health, safety and environmental-awareness training courses are mandatory and must be completed annually by all employees and any other person working on our properties. KGHMI impresses upon all of our employees, in every department on all sites, that health, safety and environmental stewardship are their priorities.
- **Personal development:** As part of a companywide incentive program, each employee makes individual development commitments jointly decided with their supervisor. In these plans, the employee and his or her supervisor identify training opportunities specific to their current job requirements and future objectives.

Geologist examins minerals in a core sample - Ajax project , Kamloops, British Columbia, Canada

Our Safety Culture

[G4-14]

The Precautionary Principle is one of the key drivers of our Core Value of Zero Harm. KGHMI is committed to Zero Harm for our employees, our communities and the environment. We believe that the best mines are the safest mines. One of the ways that we ensure this is to use risk management to guide our environmental and safety decisions from the mine site to the corporate office.

In order to ensure our operations adequately address our pre-operational and operational risks of causing harm to people or the environment, the Health, Safety and Environmental (HSE) Policies which govern our HSE Management System (HSEMS) require each business unit to:

- Establish and maintain procedures to proactively identify and assess the significant health and safety hazards and environmental aspects that can cause significant loss or have potentially catastrophic consequences to an operation or a project.
- Assess tasks and areas that affect all people in the workplace, including routine and nonroutine activities, products and services for planned and current operations.
- Ensure that front-line employees conduct a field-level or worker-level risk assessment for moment-in-time conditions and/or decisions.

In 2015, an audit program will be rolled out to assess the level of implementation of the HSEMS at each of the operations.

McCreedy West mine - Sudbury, Ontario, Canada

Tracking Zero Harm

[G4-LA5;LA6]

It is with great sadness and regret that KGHMI must report a fatality that occurred at the Sierra Gorda processing plant during the year. It is a tragic loss of a staff employee who has had a significant impact on our organization. We have thoroughly investigated the incident and have shared what we learned with employees across all of our operations to help prevent future incidents of this nature from occurring.

When a moment like this happens, it is hard to shift to tracking statistics. However, our core value of Zero Harm is best upheld when we track data often and can identify any breach of safety trends early. A few of the statistics we use to track progress are listed here:

	2014	2013
Total recordable Injury Rate (TRIR)	0.8	0.8
Lost Time Injury Rate (LTIR)	0.2	0.2
Severity Rate (SR)	59.4	8.5
Fatalities	1	0

The TRIR is calculated by multiplying the number of reportable injuries (those resulting in fatalities, lost time, restricted work or medical treatment) by 200,000, then dividing by the total number of hours worked. KGHMI applies the International Council on Mining Metals health and safety performance indicator definitions for recording and reporting accident statistics. The SR is calculated by multiplying the number of days lost due to lost time and restricted work duties by 200,000, and then dividing by total hours worked [LA-6].These statistics include both KGHMI employees and contractors.

In addition to the above statistics, KGHMI also tracks and measures “Zero Harm Days” and will be tracking and reporting other leading indicators. A Zero Harm Day is a day which resulted in no employee, contractor, vendor, delivery person or visitor having to receive medical attention administered due to an occupational (work-related) illness or injury.

In 2014, KGHMI achieved 225 Zero Harm Days. In 2013, there were 210. We are proud of these numbers, but will focus on continuous improvement to better these numbers with the ultimate goal of preventing harm.

In 2014 a guidance document on the minimum requirements against each leading indicator was developed. KGHMI will continue to track lagging indicator statistics (such as TRIR and SR) but will shift the focus to what we and others in the industry call “leading indicators.” Each site and project started implementing the framework by year’s end. The purpose is to strengthen leadership, visible and felt, in management’s commitment to establish and maintain a workplace that is safe and that minimizes negative impacts to the natural environment.

Measuring leading indicators emphasizes the value placed on avoiding an incident rather than simply tracking the incident (or failure) itself. The 2015 leading indicators with targets are:

- Management's commitment – This is a quantitative measure with an established minimum number of safety meetings and workplace inspections. Expectations are set for various levels of management within the company.
- Corrective action and response – As a follow-up to mandatory inspections, supervisors are also responsible for diligently documenting positive findings, deficiencies and progress on corrective actions. The documentation and follow-up is aimed to reinforce the importance of maintaining high standards.
- 5x5 Field Level Risk Assessment (FLRA) discussions – This assessment is designed to encourage workers and supervisors to take the time to properly jointly review the potential hazards and define a clear plan. A list of criteria has been established to improve the quality, frequency and documentation of these discussions.

We look forward to sharing more information on this new initiative and its cultural impact in the 2015 report.

Joint health and safety committees (JHSC) formally represent our Canadian and Chilean workforce on operations and projects. JHSCs account for approximately 65 percent of our total workforce in these two countries. The JHSCs are composed of workers and management representatives who are committed to improving the health and safety in the workplace. It is their responsibility to make recommendations to management and to regularly inspect work areas. Under the JHSC framework, employees have the right to participate in identifying and resolving health and safety concerns, the right to know about any hazards that they may be exposed to and the right to refuse work they believe is dangerous. The HSE Committee elected to remove the requirement for joint committees from our principles. This means that only operations required by legislation to have such committees will do so. Our operations in the United States do not follow the same structure of JHSCs but have developed similar effective systems to minimize the risk of harm. All KGHMI employees are educated in their rights and their duties in this regard.

Control room - Sierra Gorda mine, Chile

Adherence to Standards

[G4-11;LA-16;SO6;SO8;MM4]

Mining is a closely regulated industry. Our work is regularly reviewed by a wide range of authorities varying by locality. We take our role in engaging with governing bodies seriously and work to adhere or exceed the standards. We track both the monetary and nonmonetary fines closely. In 2014, KGHMI incurred one fine greater than $10,000 USD, with all fines totaling slightly over $18,000, a reduction of more than 75 percent from 2013. Fines varied widely in scope, ranging from poor housekeeping noted in one inspection to key safety improvements in another. Each issue raised by these fines was resolved by end of year.

In 2014 there were no labour strikes. A workforce labour contract was successfully negotiated during the reporting period at the Sierra Gorda mine. Approximately 22 percent of the workforce at KGHMI is covered under collective bargaining agreements.

KGHMI does not have any specific strategic focus or policy around political engagement. In fact, as an organization, we have made few political contributions. In 2014, only our Ajax site purchased tickets to local political events. In total, Ajax spent less than $14,000 over the course of the year.

Ajax project - Kamloops, British Columbia, Canada

Case Study

Safety Training for Zero Harm

At KGHMI we have a core value of Zero Harm. Zero Harm is achieved through a truly diligent and collaborative effort from all of our employees and contractors. This commitment starts at the top and exists at all levels of the organization. KGHMI's Health and Safety Policy is the foundation of our existing safety framework. Success of this Zero Harm policy is driven by safety professionals and committees and reinforced with the tenet that it is everyone's responsibility to achieve this goal.

In 2013, a cross-functional KGHMI team brought the value of Zero Harm to life by developing the Health, Safety and Environmental Management System (HSEMS) Principles. This framework became the base for each operation and project to build Zero Harm programs. With strong leadership, competency training, operational controls, performance measurements adapted to specific site risks and a progressive organizational culture, our people and the surrounding environments are better protected. In 2014, our teams worked with each mine to execute the HSEMS Principles. In 2015, an internal audit will take place to verify adherence to these principles.

HSEMS Principle No. 3 emphasizes competence, training and awareness. Sierra Gorda moved this principle into action when we introduced the 5x5S. Our innovative teams created this program by combining our internal KGHMI 5x5 program with the Lean Six Sigma methodology. The combination is intended to be a personalized and stronger effort aimed at efficiency by removing waste and distractions in KGHMI systems while being conscious of behaviours. In short, the program considers both internal and external conditions. This is used as a vehicle to reach operational excellence and, in turn, Zero Harm. Every employee is trained on the five components, which have been identified as:

- **Separate:** Organize items by type
- **Sort:** Keep only necessary items in a workplace to complete tasks related to the area
- **Set in order:** Arrange items to promote efficient workflow
- **Standardize:** Set standards for consistency
- **Sustain:** Ensure that systems are maintained and ownership is assigned

In addition to implementing this program at Sierra Gorda, 5x5S program leaders have created a week-long training program to which other mines and projects are invited. Positive program results have led to a new phased approach for implementation at other properties. Robinson mine has implemented the 5x5S at the lab, warehouse and maintenance-shop facilities and is currently evaluating a plan to roll out across all employees.

Maintenance shop - Sierra Gorda mine, Chile

Case Study

Carlota's Retention Plan

A mine experiences natural life stages, and KGHMI prides itself on being engaged and clear with our employees from the beginning — and through the very end. At the Carlota mine in Arizona, where we have been slowly ramping down mining activities since 2011, we have maintained honest, direct and continuous communication with our employees about what lies ahead. Our transparency as an employer, our structured retention plans and our education programs have kept employee retention strong even as we prepare for future closure.

For the past three years, Carlota has carried out formal quarterly crew-communication sessions with all employees. They are aware of every change to our projected plan, whether small or large in impact. This timely knowledge defuses rumours and builds commitment. And starting last November, we have been working with our Carlota employees individually to help them prepare for their future beyond the company. Every manager met one-on-one with their employees to share specific details regarding the estimated date of separation, severance payouts, milestone bonuses and employment support Carlota will be providing to help them make this difficult transition as easy as possible. We have encouraged these employees to take part in some of our new career-skills workshops, which will help them with such processes as résumé writing and interviewing.

In 2012, Carlota initiated a structured retention plan which included a bonus payout at the end of 2012 and 2013 to all employees, milestone bonus achievements to be paid out through to 2019 dependent on successful (safety, schedule, cost) facility-closure completion, and an individual severance payout upon the date of separation. All employees are eligible equally across the site, including new hires. Most, however, are waiting for their date of separation or have transferred within the company. Since 2011, 30 employees have successfully transferred to our sister mine RNMC in Ely, Nevada. Additionally, we have placed some employees internally within other KGHMI operations throughout the Americas. Other employees have chosen retirement because we adopted a retirement policy matched to our project schedule.

A few employees have chosen to leave us during this period of time for extraordinary employment opportunities beyond KGHMI. We are thrilled to see these employees expand their careers after building a strong foundation at Carlota. "I feel proud that we've helped develop our employees so that they earned those opportunities," says Dave Cook, Carlota's general manager.

Employees at mine look out - Carlota mine, Arizona, USA

Environmentally Responsible Company

Using Zero Harm as our guide, KGHMI will mitigate or significantly reduce impacts to the environment throughout the mining life cycle.

For the past two years, our KGHMI team at Ajax in Kamloops, British Columbia, has been working to design and permit a copper- and gold-mining project. On the environmental end, we have collected environmental baseline data, performed studies and collaborated with scientific teams to fully assess our impact and how to mitigate it as we progress through our future mine's life cycle. The team has also spent countless hours working with local stakeholders to provide information and solicit feedback on the proposed mining project. Information received from our stakeholders has been used to adjust the project footprint and relocate facilities.

> *These proactive actions exemplify our employees' dedication to live and work by the Zero Harm code—to do the right things to protect and improve our environment.*

The project location has historically seen mining development. Remnants in the area consist of backfilled open pits, reclaimed mine rock storage facilities and a partially reclaimed historic tailings storage facility. Along the way, our local leadership group flagged some concerns over the historic tailings storage facility (tailings storage facilities store waste from mineral processing). The facility's historic stormwater controls were not well designed or maintained, and posed a potential threat to the facility and downstream waterways. In addition, the facility had the potential to be a source of dust as it continued to dry during the transition to final reclamation activities.

The team came up with a plan to repair the stormwater control systems and worked with the government agencies to get approval for the project. After six months of design/permitting work, the channel was repaired for a cost of $1.2 million. In addition, exposed tailings beaches were treated with a vegetable polymer product to control the dust.

Supporting advancement in reclamation research is important to the project. Ajax partnered with the local Thompson Rivers University to begin a pilot land-reclamation research program located at the historic tailings storage facility. The land rehabilitation will prevent dust generation and also promote wildlife use.

The Ajax project team has also been involved in improving infrastructure that had the potential to harm the environment in the area. A light vehicle crossing over Peterson Creek used by local ranchers, project staff and other industrial parties was deteriorating. Ajax upgraded the crossing to protect the creek and provide safe access. In addition, a dam on Edith Lake, a local stocked lake and popular fishing location, required significant repairs. In partnership with a local rancher who owned water rights on the dam, KGHMI funded a portion of the rebuild.

These proactive actions exemplify our employees' dedication to live and work by the Zero Harm code — to do the right things to protect and improve our environment.

Dan Ferriter, Vice President, Environment & Social Responsibility

Land and Biodiversity

[G4-EN11;EN12:EN14;MM1]

Each year, KGHMI closely tracks how we manage and develop our land with respect to the environment. In 2014, there were approximately 350 hectares (ha) of land newly developed under KGHMI's protection. Table 1 and Table 2 provide a summary of this information. We collect and report information by type of mine. KGHMI holds two types of mines: surface properties (commonly referred to as open pit) and underground properties. In 2014, our land development was primarily at the surface mines. The bulk of our physical labour took place around our Sierra Gorda mine. The other locations which expanded their footprint in 2014 in preparation for future mining activities were the Robinson, Franke and Victoria properties. KGHMI develops land only where necessary for business. In fact, in 2014, a vast majority of our land packages remained fundamentally untouched.

Table 1

Surface properties - amount of land disturbed or rehabilitated (ha)	2014
Total land package	48,977
Total area disturbed before 2014	6,808
Total area disturbed in 2014	332
Total area rehabilitated	49
Total area undisturbed within land packages	41,805

Figure 1: Surface properties

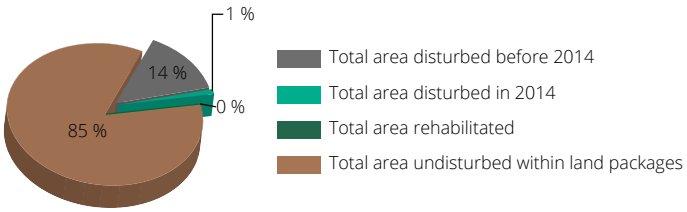
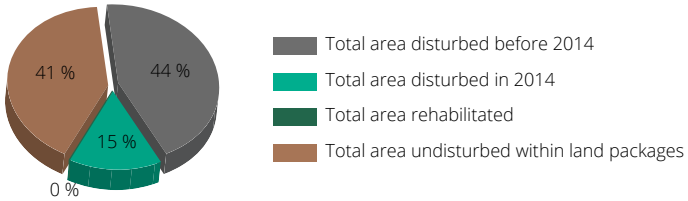


Table 2

Underground properties - amount of land disturbed or rehabilitated (ha)	2014
Total land package	132
Total area disturbed before 2014	60
Total area disturbed in 2014	21
Total area rehabilitated	0
Total area undisturbed within land packages	57

Figure 2: Underground properties



In 2014, we rehabilitated nine hectares at the Ajax property, contributing to the total area rehabilitated at all KGHMI properties (49 hectares) since 2013. One example from our Ajax property included resurfacing the land to blend into the existing natural topography. From there, the team added a seed mixture that would grow vegetation that is favored for grazing and ranching. The Podolsky Waste Rock Management case study explains other activities performed in 2014 as an initial step of the rehabilitation process.

Ajax project - Kamloops, British Columbia, Canada

Leveraging the benefits of land by mining it naturally leads to an interruption in the vegetation and surrounding wildlife. We are committed to preventing and minimizing impacts to the environment and abiding by any existing guidelines that protect species and their habitats. Table 3 summarizes the number of species by level of extinction risk with habitats in areas that have the potential to be affected by our operations. You will note an increase between 2014 and 2013. We have conducted a more thorough assessment to include additional plant species. Our 2014 table includes all KGHMI properties and reports each property's identified species from the International Union for Conservation of Nature (IUCN) as well as other national conservation lists such as the Committee on the Status of Endangered Wildlife in Canada (COSEWIC).

Table 3

Level of Extinction Risk	2014	2013
Critically endangered	3	3
Endangered	12	5
Vulnerable	11	6
Near Threatened	21	6

There are three species identified as "critically endangered" by COSEWIC and the British Columbia (BC) List of Species at Risk within the Ajax property boundary: namely, the Lewis' woodpecker, the peregrine falcon and the badger. This boundary is partially set in Kamloops, BC, on a semi-arid mountainous terrain with characteristic alpine tundra and sagebrush. The boundary sits in close proximity to the grassland habitat that is home to a number of endemic species not found anywhere else in the province of BC. The area attracts ranching, forestry, mining and recreation. Across all the activity performed within this area, there were no significant disturbances to the critical habitat observed in 2014. KGHMI exploration activities were suspended in areas where known sensitive species are active.

Ajax's project boundary is also adjacent to the westernmost portion of a critical deer winter range. The BC Ministry of Forests is actively managing this habitat range, and we are sensitive to the work they are conducting. KGHMI future mining operations and exploration activities will not have a direct impact on the deer living on the winter range.

All of our projects go through formal Environmental Assessment at key points in the mining life cycle. Each assessment takes a comprehensive look at the planned project and provides an alert to any issues that could potentially impact the natural environment or species in the area. KGHMI then works with local teams to identify ways that issues can be addressed. Ajax is currently undergoing a formal Environmental Assessment Permit Application and identifying issues and solutions throughout the process.

While our properties in Sudbury are not in or adjacent to legislatively protected areas, KGHMI continues its commitment to being proactive in both minimizing our impacts and working with our communities to find solutions. The whip-poor-will case study (page 24) provides an example of our contribution. In 2014, the IUCN shifted the whip-poor-will from the vulnerable category to the least concern level.

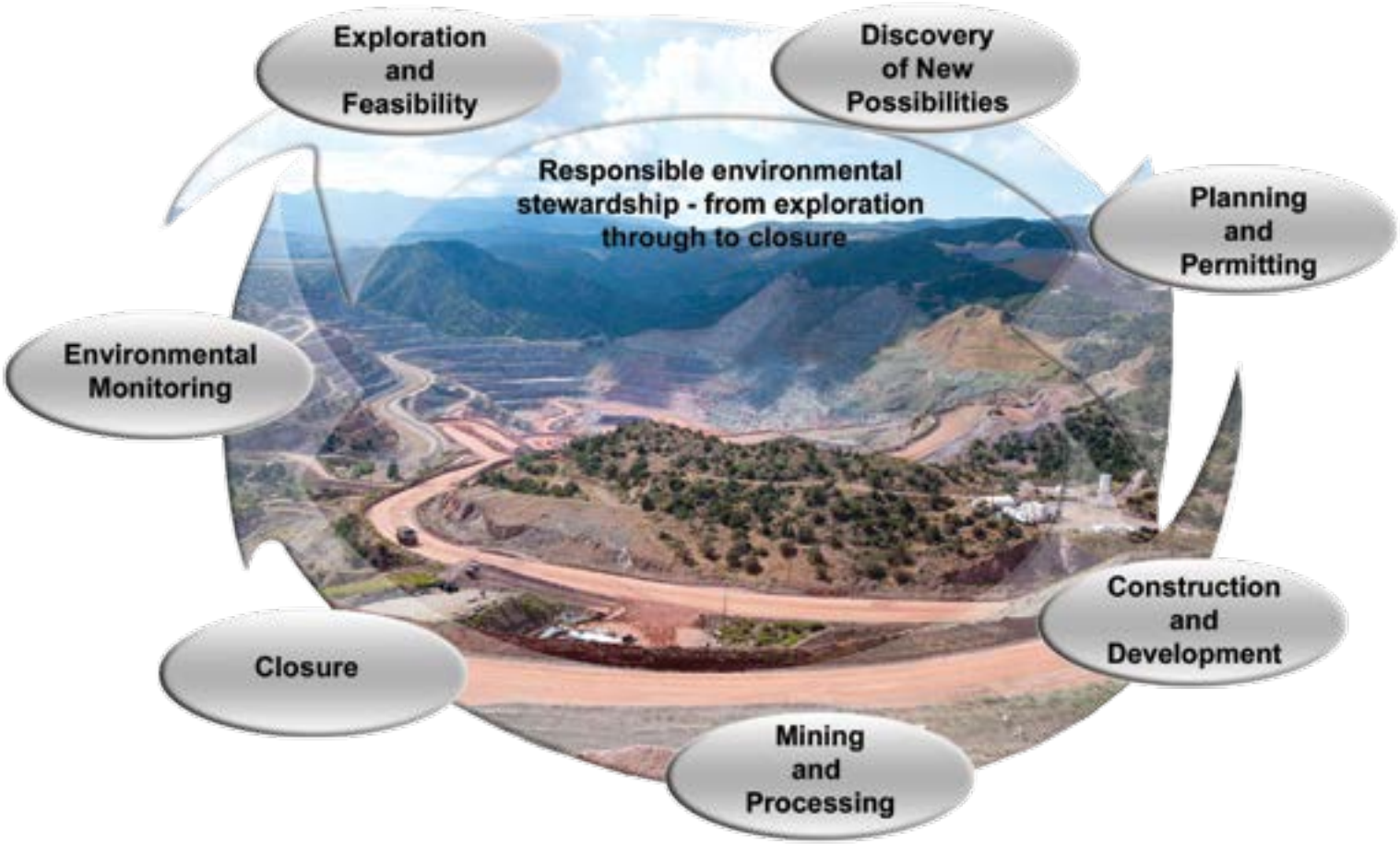
The assessment conducted at the Sierra Gorda property identified one endangered species, the Peruvian tern, and two vulnerable gull species with a range that extends within our potential zone of impact. Monitoring of nesting is ongoing and was at the forefront during the construction. In 2014, no impacts were identified and zero specimens were found.

Ajax project - Kamloops, British Columbia, Canada.

Mine Closure and life cycle

[G4-MM10]

KGHMI sees mine closure as a part of the mine life that must be considered and planned for at the onset. One hundred percent of our mines have closure plans in place and financial provisions set aside which amount to $160 million USD. Added governance and sharing knowledge among our operations has allowed us to make improvements in this area in 2014. Annually, each site plan is reviewed and assessed to identify areas where facility closure or reclamation can begin.



Case Study

Whip-poor-will

The eastern whip-poor-will is a rarely seen nocturnal bird. Yet every employee at KGHMI's Victoria project in Sudbury, Ontario, can readily describe its physical appearance, natural environment and breeding habits. Victoria employees know that whip-poor-wills lay their eggs in phase with the lunar cycle, so that they hatch on average 10 days before a full moon. The full moon allows the adults to more easily capture food (flying insects) for their young. They know this bird requires a mixed canopy of trees for nesting. And they are all well aware that if they come across a whip-poor-will at the site, they should immediately report their sighting to security.

We first identified this endangered bird on our site in 2010, when we did an environmental assessment of Existing Natural Features (Ecological, Terrestrial, Wetland, Breeding Birds and Species of Conservation Interest). The survey work that year determined that they were breeding within the Victoria property boundary. Since then, we have worked in accordance with our permit issued under the Endangered Species Act (ESA) to support conditions that will provide an overall benefit to the species.

The ESA permit conditions have been exciting and educational for us to fulfill. Here are just a few ways KGHMI is protecting the whip-poor-will on our property:

- We train every employee who comes onto our site to be aware of the whip-poor-will's existence and protection measures. We teach them reporting procedures and how to protect injured or sick birds from further harm.
- We do not clear trees or shrubs during the bird's breeding season to avoid disturbance during the most critical life cycle periods.
- We hold public events that help the surrounding community better understand the bird and our efforts to benefit the species.
- We have placed educational signage around our property so that visitors will be aware of their presence and learn more about the whip-poor-will.
- When the time comes, we will rehabilitate our site so that the whip-poor-will may continue to use the land as its habitat.

Our whip-poor-will maintenance and educational efforts over the past few years have brought KGHMI closer to the community as we have worked to engage them in whip-poor-will conservation brainstorming. For instance, we invited a professor from Laurentian University to speak to the Fairbanks Cottagers Association about the whip-poor-will. This is one subject that the cottagers have been pleased to learn more about.

We have also developed a partnership with the Ontario Region of Nature Conservancy Canada (NCC). In 2012, we provided funds to NCC to purchase land in Eastern Ontario which is key habitat for whip-poor-will as well as several other at-risk species. This allowed NCC to acquire an additional 115 hectares of biologically diverse land to be protected for the long term.

By combining local, regional and provincial efforts and sharing information across industry and agency, we hope to minimize impacts to the whip-poor-will and other at-risk species, and better understand the reasons for population decline.

Mining and Processing Waste

[G4-MM3]

Ore is contained within a host rock. The host rock is the noneconomic portion usually referred to as waste rock. The ores must be separated and then processed to remove the metals out of the minerals. The remaining material, depending on which process it undergoes, is called leached waste or tailings.

Waste materials generated at KGHMI operations in 2014 are identified and quantified in Table 4 against 2013 values. There was a total of 226 million tonnes of generated waste material, a reduction from 2013. The material-storage facilities for the waste material at all KGHMI operations are permitted, engineered facilities which operate under industry best management practices (BMPs) and are closely monitored to ensure they are operating to plan. You can find examples to support this in the case studies that follow.

Table 4

Total quantities of waste by category (Mt)	2014	2013
Total mining and processing waste	226	236
Overburden	0	123
Waste rock	200	90
Leached waste	7	8
Tailings	19	15

Levack (Morrison Deposit) waste storage rock piles - Sudbury, Ontario, Canada

Case Study

Podolsky Waste Rock Management

When you excavate a mine, the process naturally leads to a generation of excess rock. KGHMI has found a way to manage this rock in a manner to prevent adverse effects to the surrounding natural environment.

KGHMI began developing the Podolsky mine in Ontario in 2004, and commercial production commenced in January 2008. During this time, it was necessary to create a 760-metre mine shaft and excavate over 550 metres of underground development. In the process, approximately 350,000 tonnes of rock were blasted and brought to the surface, where it needed to be stored properly.

Normally, mines place large piles of blasted rock on the earth's surface and then maintain their physical and chemical integrity and manage runoff to protect public health, safety and the natural environment. Podolsky went one step further in 2006 by constructing an engineered, lined containment pad, approximately one hectare in size, on which to place the rock.

During mine development and operations (2006-2013), the containment pad provided a means to collect all of the precipitation and water runoff from the rock pile and direct it to a lined pond. This water contained heavy metals and salts, which can be toxic to terrestrial and aquatic organisms. KGHMI pumped the water to a water-treatment plant, where it was treated to a provincial standard more stringent than drinking water to protect aquatic life from harm. It was then discharged to a nearby stream that flows through an indigenous community, ensuring that their drinking water and recreational water use were not affected.

When mining operations ceased, all of the rock from the pad was deposited back into the underground workings and the engineered pad liner was removed. The soil beneath the pad liner was so well protected that tests showed no contamination, so the ground could be revegetated without any prior special treatment.

While placing rock on an engineered containment pad is not practical in every circumstance it should be evaluated as a consideration from both an environmental and financial perspective, as there are clear benefits. The Podolsky mine containment pad prevented the contamination of water and soil, and kept the local community happy during both operation and, especially, closure.

Waste rock temporarily stored on liner - Podolsky mine, Sudbury, Ontario, Canada

Case Study

Tailings Management

Tailings are a waste material that is generated by processing ore to extract the usable metals and minerals. Tailings, which include a mixture of ground rock (i.e., sand and clay) and effluents (i.e., water and chemical reagents), are discharged into an engineered containment facility known as a tailings storage facility (TSF). The design depends on the mineralogy of the mined material, the water content, the physical waste characteristics and the surrounding environment.

TSFs are appropriate for use during the active mining phase of a mine's life cycle. For KGHMI, we are managing three — two active and one inactive. Our active TSFs are located at the Robinson and Sierra Gorda mines. Additionally, our Ajax site still holds a historic and nonoperational TSF. Ajax is currently creating plans for a future TSF that will be needed during its mining phase.

These facilities are complex and require specific design criteria. Our TSFs have strong, integrated management systems, as the risk of improper management is great to our business, our communities, the natural environment and our industry as a whole. TSFs are highly regulated and require frequent inspections, annual stability reviews and ongoing maintenance and monitoring. Each of our active TSFs follows these regulations and meets all requirements.

Upon taking ownership of the nonoperational TSF at the Ajax site, KGHMI implemented an operation, maintenance and surveillance (OMS) program, as well as an emergency response and preparedness (ERP) plan. The plan is updated regularly and shared with mine inspectors at the British Columbia Ministry of Energy and Mines, dam safety officers at the British Columbia Ministry of Forests, Lands, and Natural Resources, neighboring mine operations, local engineering and construction firms, and other local emergency response personnel. The ERP is tested annually with the most recent evaluation occurring in November 2014. In addition to the development of an ERP/OMS, KGHMI has taken a number of measures to expedite reclamation and improve dam safety in 2014. These include the installation of a vibrating wire piezometer network, pond dewatering program, and reclamation test trials with a local university.

In 2014, we identified a need for an internal oversight committee. In 2015, the newly formed task force will develop a companywide framework to provide additional assurance that our facilities are being managed in a safe, consistent and responsible manner. Continuous improvement will be a priority as conditions and technological advances change at all stages of our mining life cycles.

Many tools and resources exist to assist in developing these programs. As members of the Mining Association of Canada (MAC), we turn to their protocols and framework for support. We combine and incorporate the requirements developed by the U.S. and Chile to develop a robust global management system that results in world-class design and operation of our tailings facilities.

Tailings storage facility - Sierra Gorda, Chile

Case Study

Remote Monitoring of Heap Leach Pad Dam

Since 2011, the Carlota site management team has pursued, investigated and implemented a number of projects focused on the joint benefit of KGHMI and its community and university stakeholders. One such project, with the University of Arizona, is the Carlota Advanced Monitoring System (CAMS). CAMS combines KGHMI's dedication to developing the profession through students with our efforts to focus on the community.

The purpose of CAMS is to develop and maintain a sustainable monitoring system to remotely sample, analyze and report the geochemical and geophysical health of the site's main heap leach pad (HLP) dam. One of the greatest long-term risks to any mine site is the failure of dams — especially those dams that retain mine-impacted process solutions such as tailings, process ponds or heap-leach pads. A compromise could mean concerns for the environment, community waterways or drinking water. Carlota's main embankment is no exception, as it retains some 45 million tonnes of actively leached copper ore with an estimated million cubic metres of leachate solution.

Carlota currently collects water samples and visually monitors the synthetically lined embankment. We track and report our findings internally to make sure there is no compromise. With the CAMS project, the new advanced monitoring system incorporates this sampling and analysis and adds a centralized pumping and data-acquisition shed that monitors the water downstream of the dam for a variety of indicators, from water level to conductivity. Additionally, the system utilizes special data-collection technology buried along the dam face to monitor the health of the main dam. This advanced system instantly analyzes the dam for a complete assessment of the health and integrity of the dam. One key modernization the CAMS project provides is a remote system that can self-calibrate and immediately report data to a cloud database and connected website. Designed to utilize solar power, the system can be monitored and controlled at site or from a sister site, or even a corporate office. When the mine closes and as the technical resources currently available at the site are reduced, this system allows for continuous sustainable monitoring so that KGHMI may understand and reduce the long-term risk. The system will be commissioned in early 2015.

The data collected helps us understand what is currently happening to the dam and predict what will happen in the future. This unique data-collection and reporting system is a modern answer to our long-standing mission to minimize long-term environmental risk.

Remote sampling station - Carlota mine, Arizona, USA

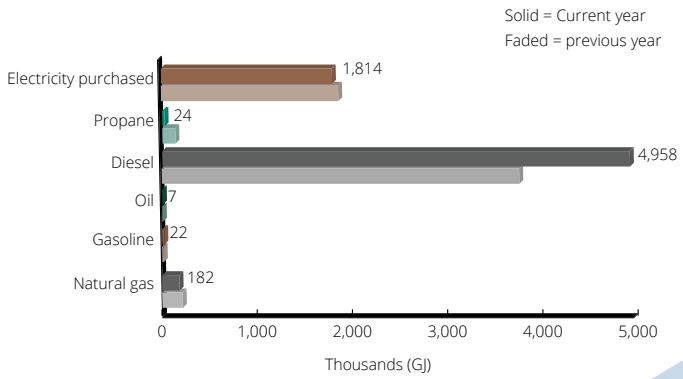
Managing Energy Use and Protecting Air Quality

[G4-EN3; EN5; EN15; EN18; EN21]

Employee survey results compiled in the first half of 2014 indicate that nearly half of respondents agreed that greenhouse gas (GHG) emissions and identifying alternative energy sources should be high priorities for the company. These are also priorities of our parent company and are becoming increasingly important to the public and the industry as a whole. KGHMI has established objectives in 2014 to develop management and reporting systems around energy usage and GHG emissions by 2018. Objectives include minimizing our vulnerability to higher energy costs, reducing emissions and meeting the Towards Sustainable Mining and Consejo Minero requirements that we, as members of the associations, have voluntarily committed ourselves to.

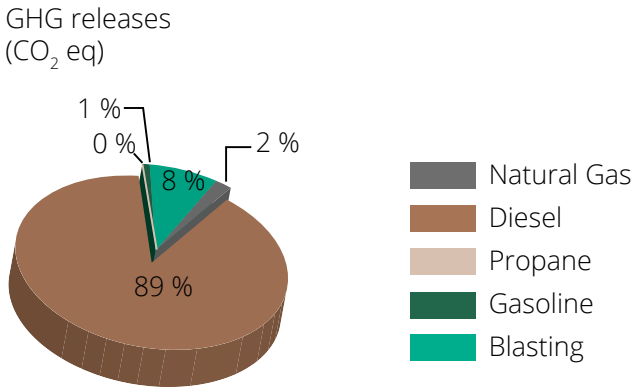
In 2014 KGHMI had a total direct energy consumption of 7.0 million gigajoules (GJ). Figure 3 illustrates the consumption by type of energy. In 2013 we reported consuming 6.1 million GJ. This 15 percent increase is attributable to Sierra Gorda's increased activity and production startup during the reporting year. Results from 2014 also reported on 100 percent, as opposed to the previous 55 percent, of energy usage and emissions at Sierra Gorda (explained in the Consolidation Approach disclosure in this section of the report). Had we reported Sierra Gorda on a 100 percent basis in 2013 the total for KGHMI would have been 6.8 million GJ. Our operations use diesel with low sulphur content, meeting or exceeding the federal requirements where applicable.

Figure 3: Energy Consumption in Thousands of GJ



The gross direct (Scope 1) greenhouse gas emissions in 2014 totaled 432,078 tonnes of CO_2 equivalent. As seen in Figure 4, diesel used to operate our equipment is our largest source of GHG emissions. This is a 35 percent increase since the previous reporting year. Again, Sierra Gorda's startup and the selected consolidation approach have a large impact on this value. The 2013 CO_2 equivalent would have been 374,705 tonnes, as opposed to the reported 320,748 tonnes, if Sierra Gorda was reported on a 100 percent basis.

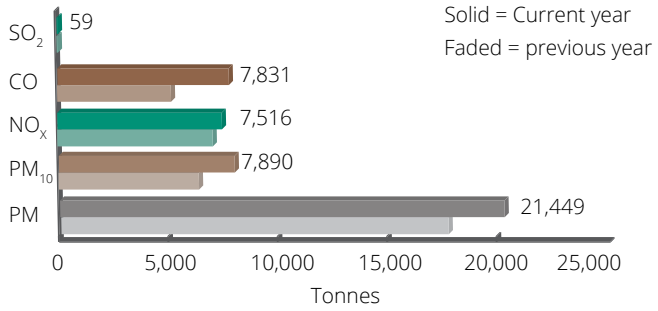
Figure 4



Air monitoring station - Tonto National Forest, Arizona, USA

Figure 5 illustrates other emissions that were calculated using a combination of site-specific data input (such as material processing, meteorological parameters, and percent silt content, to name a few). Default parameters were used where the data was not available. KGHMI discloses the totals with confidence that these emissions have no significant impacts to the health of our employees, our surrounding communities and the environment. We closely monitor the surrounding environment to identify any changes. At the Carlota, Franke and Sierra Gorda mines, we continuously monitor the ambient concentrations of particulate matter less than 10 microns (PM_{10}) in the atmosphere with sophisticated instruments. The results from these field measurements indicate that we operate below levels of impact. See the case study Managing Impacts to Air Quality at Sierra Gorda for more information on what we are doing there.

Figure 5



The energy use and emission intensities are displayed in Table 5. The intensities are shown per unit of ore handled as well as per unit of material moved (ore and waste material). As a growing company, our energy intensity will be a better metric to measure ourselves against. Establishing intensity targets will be part of developing the energy efficiency plans mentioned above.

Table 5

		2014	2013
Energy intensity	GJ/tonne of ore handled	0.142	0.235
Energy intensity	GJ/tonne of material handled	0.027	0.033
CO_2 eq	kg per tonne of ore handled	8.74	12.40
CO_2 eq	kg per tonne of material handled	1.66	1.74

Consolidation Approach: 2013 was the first year KGHMI calculated the energy usage and emissions for the company as a whole. That year, the financial consolidation approach was selected and totals were consistent with our percent ownership (KGHMI owns 55 percent of Sierra Gorda and the balance is owned by Sumitomo Corporation). In 2014, the CSR committee reviewed the consolidation approach and made a decision to report using the operational consolidation approach where 100 percent of the energy usage and emissions are disclosed for the sites where we have operational control. In 2014, KGHMI had operational control of all mine sites and projects indicated.

Aspect Boundaries: All properties in the production stage in 2014 were included in the calculations for the energy use, GHG and other significant emissions. These include Carlota, Morrison, McCreedy, Franke and Sierra Gorda. Though not operational, the wind erosion associated with the historic tailings storage facility (TSF) at Ajax is included in the calculations related to EN21 (NO_x, SO_x and other significant air emissions).

Scope and Calculations: Gases included in the greenhouse gas (GHG) calculation are carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and tetrafluoroethane (HFC-134a). No biogenic CO_2 emissions are associated with any of the KGHMI operations. The emissions were calculated based on actual fuel and material usage for the reporting year and the appropriate emission factor or carbon content mass balance. The emission factors used were provided by Environment Canada. The 100-year global-warming potential (GWP) used was provided by the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report, 2007. The energy consumption values were developed using fuel usage information and the energy conversion factors taken from Energy Statistics Handbook, Appendix A: Conversion Factors, Statistics, Canada, August 2012 http://www.statcan.gc.ca/pub/57-601-x/2012001/appendix-appendice1-eng.htm KGHMI does not currently have a policy in place for contractor energy usage on site. A small percentage of the total emissions may have been associated with contractor work performed on our properties.

Case Study

Managing Impacts to Air Quality at Sierra Gorda

Our Sierra Gorda mine in the Antofagasta Region in Northern Chile is located just 3.4 kilometres (2.2 miles) away from 1,500 villagers. Almost every day, the mine blasts approximately 2 million tonnes of material. One single blast on a windy day could result in a blanket of dust being swept into these residents' lives, disrupting their outdoor activities and creating a potential health hazard.

As a company, we understand that we are accountable for the impacts of our decisions and activities on society and the environment; therefore, this issue has been considered from the early designing stages. Several control mechanism have been implemented successfully in the operations, including watering haulage roads, application of dust suppressant to mining roads and surfaces vulnerable to wind erosion, relocation of waste rock dumping activity away from areas that could impact the village based on meteorological forecasting, and dust collectors at points of crushing and transferences of ore. Additionally, training and awareness programs provide information and instruction to our employees, contractors and the community.

We wanted to show our local community that KGHMI is willing to go the extra lengths to ensure their health and well-being. We worked with the residents and assured them that we would operate according to weather conditions, rather than a schedule. We monitor and make our operational decisions using an online, state-of-the-art Meteorology and Air Quality Monitoring Network that allows us to modify our mining activities to reduce dust contributions in the Sierra Gorda village when the wind patterns send dust their way. This network includes a meteorology and air-quality monitoring station connected to the Air Quality National Information System (http://sinca.mma.gob.cl/index.php/redes), where all information is available to the public.

We believe that success comes from working together with employees, local community and stakeholders. Consequently, we have committed to participate actively in the Sierra Gorda Village Air Quality Working Table with other nearby mining companies and the municipality of Sierra Gorda. This is led by the regional undersecretary of the Ministry of Environment, with the goal of preventing dust emissions from exceeding standards.

For KGHMI, we underscored the importance of this new policy with our employees, who have adhered to this promise, as have our regional partners and contractors. Clear two-way communication with our local community has greatly helped to alleviate the concerns presented by the population and to build trust with the local community.

Wind monitoring prior to blast - Sierra Gorda mine, Chile

Managing Water Resources

[G4-EN8; EN22]

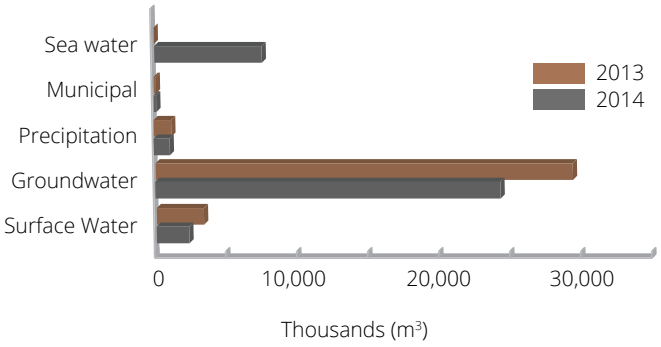
Our organization, like all others within the industry, depends on water at all stages of a mine life. Water is a valuable resource to our company and our stakeholders alike. It is a shared resource and recognized as a basic human right. We take great care in the way we manage water use and discharge to minimize impacts on the natural environment and the communities where we live and operate.

At KGHMI, water is primarily used for mineral processing, dust suppression, wash-down, sanitation and drilling. A large portion of the groundwater that is drawn is to keep the mines operational. It is necessary to pump excess water to prevent active mine areas from flooding.

Water Withdrawal

In 2014, our operations withdrew 35.5 million cubic metres (m^3) of water. This is a 4 percent increase from 2013. This was expected and is attributable to Sierra Gorda going into production in 2014.

Sierra Gorda will use approximately 1,305 litres of water per second during its planned 21 year mine life. Originally, project organizers purchased various surface and groundwater rights in the area to meet this demand. Sea water would create a more long-term and sustainable alternative. This required the construction and operation of a 140-kilometre pipeline from Mejillones to the Sierra Gorda mine plant site (1,700 metres above sea level). Water that will be transported to Sierra Gorda will be derived from wastewater supplies from a cooling system at a thermal power plant located on the coast. This will contribute to reducing the amount of water that would have returned to the receiving ocean ecosystem at a higher-than-ambient temperature and eliminate the need for Sierra Gorda to draw this volume from the groundwater aquifer.



Total water withdrawal by source (m^3)	2014
Surface Water	2,291,390
Groundwater	24,304,196
Precipitation	1,125,085
Municipal	181,689
Seawater	7,567,490
Total	**35,469,851**

Ajax project, Kamloops, British Columbia, Canada

Total Water Discharge

[G4-EN22]

Our Sudbury operations are the only KGHMI mines which discharge water. Sudbury has an abundant supply of fresh water. Sudbury's lakes provide essential services, such as drinking water, and shape the culture of the community. Regrettably, many lakes in the area have been degraded due to the effects of historic mining activities. Fortunately, the implementation of best practices within our industry to handle mine-site wastewater and emissions from smelting are allowing these damaged ecosystems an opportunity to recover. KGHMI's Sudbury operations are actively participating in this process and are part of the solution.

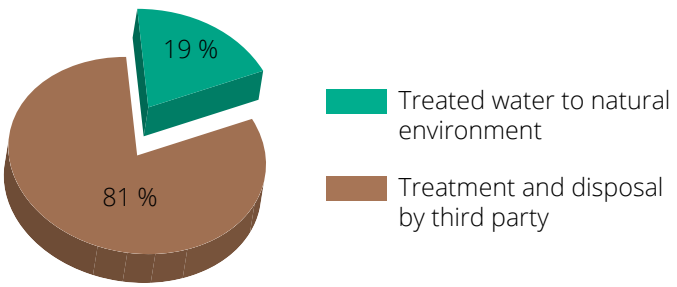
Mine dewatering is regularly performed to prevent flooding of the mine, keeping it operational. The water is drawn for zones where there is mineralized rock and brought to surface. The exposure to the mineralization makes the water quality unfit to be introduced to the natural environment without treatment. The Morrison and McCreedy mines pipe this excess water to a nearby treatment facility operated by a third party. The Podolsky mine property has a water treatment plant on the property that is owned and operated by KGHMI. The plant treats to Provincial Water Quality Objectives by removing metals through chemical precipitation and ion exchange. Similarly, the future Victoria mine is currently obtaining the necessary permits to treat mine water prior to discharge to the receiving environment once operations ramp up.

In 2014, a total 767,707 m^3 of water were treated and subsequently discharged. This is a 15 percent reduction from last year (Table 6). This was expected due to the reduced production at McCreedy and Podolsky mines. Figure 6 illustrates what percentages were treated in-house and by a third party in 2014. The values were calculated using data from invoices from the third party and flow meter data.

Table 6

Total water discharge by destination (m^3)	2014	3013
Total water discharged	767,707	905,356
Treated water to natural environment	148,498	158,092
Treatment and disposal by third party	619,209	747,264

Figure 6: Percent Water Discharge by Destination



Preventing and Managing Spills

[G4-EN24]

During the course of 2014, KGHMI had four significant spills. These significant spills occurred at the Robinson mine. A significant spill is defined as a release of a material that fits at least one of the following categories:

a. Is a threat to the environment or public health
b. Results in a legitimate external complaint
c. Exceeds a reportable limit established by a governing agency

There were two types of materials that we spilled in 2014. In two of the incidents, process solution was the main material. Process solution includes a combination of reclaimed water from the tailings storage facility (TSF), which is returned to the mill for recycling, and slurry material, which is sent from the mill to the TSF. There were also two reportable spills of hydraulic oil resulting from equipment malfunction. In every case, the spill was reported internally and externally, as required. We immediately and sufficiently cleaned up the spills upon discovery.

Process Solution	2014	2013
Number of Spills	2	2
Volume (m^3)	699	1590

Hydraulic Oil	2014	2013
Number of Spills	2	1
Volume (m^3)	1.4	1.8

In a response to our performance in this area, at the end of 2013, the Robinson mine held three sessions with a cross-sectional team of employees to generate ideas to reduce the number of significant spills that occur on the property. The group looked at previous spills to determine their causes and how they could have been prevented. Based on these findings, in 2014 we implemented a tailings-line maintenance program. The Robinson team continues to evaluate improvements to prevent spills from occurring in the future.

Environmental Compliance

[G4-27;EN29;EN34]

KGHMI prides itself on listening to its stakeholders and working within the limits of our permits. While we aim to be preventative, we also listen and respond quickly to any environmental violations and grievances. In 2014, KGHMI had two monetary fines and no nonmonetary sanctions from violations. One was a significant environmental fine, which we have internally defined as anything over $10,000. In October, our Robinson mine received a letter from the State of Nevada regarding an Air Quality Permit violation and an associated fine of $55,000 USD that has since been resolved.

Additionally, we closely follow grievances. In 2014 there were three grievances. Our Ajax project received a letter saying that water overflows were increasing levels in a seepage pond that offered risk to a related dam. KGHMI responded by adding a pump that rerouted water safely to a nearby wetland. Our Robinson mine was alerted by an adjacent property that there was a reduction in production in their well. KGHMI responded with an assessment of water levels and relocated the pump to a deeper level within the well, resolving the issue. Our last grievance was a legal action associated with our Sierra Gorda mine. In January, some citizens of Antofagasta (a city in the Chilean region where Sierra Gorda is located) filed two constitutional legal actions before the Court of Appeals of Antofagasta. They wanted to stop construction of the Sierra Gorda project's warehouse, located at the Antofagasta port. The legal action was seeking to annul the environmental permits granted to KGHMI to transport and store copper concentrate at the port. In February, the Court of Appeals of Antofagasta ruled in favour of the plaintiffs and annulled all permits, requiring Sierra Gorda and other companies to re-enter the environmental evaluation system for all activities. At that time, the warehouse construction was halted by an injunction. An appeal to the Supreme Court was filed by Sierra Gorda and the affected companies as well as the environmental authority who issued the permits. In August, the Supreme Court reversed the February judgment of the Court of Appeals of Antofagasta. Due to the reversals of such annulments, the construction of the warehouse at the port of Antofagasta restarted in late August but the delay caused concentrate shipments to be temporarily transported by truck to other locations including the Arica port approximately 650 kilometers to the north. Construction completion and commissioning of the concentrate storage and loading facilities in Antofagasta are scheduled for the second quarter of 2015. The Antofagasta stakeholders opposed to concentrate shipments through the port continue with actions to eliminate the handling of mineral concentrates. The Government has initiated several actions including a sedimentary dust cleaning program and the formation of a public-private working table to create long term sustainable solutions. Sierra Gorda continues to work with the public port facilities, the community and the Antofagasta authorities.

Feedback comes in many forms and we are happy to work with all types on input including informal alerts, as well as the rules, regulation and law, to be sure we are acting responsibly.

Responsible Business Partner

KGHMI is a responsible company that manages and transparently communicates environmental and social performance according to internationally accepted guidelines and standards. The company provides guidance to employees on conduct and behaviour to ensure ethical and transparent business dealings.

There is a movement within the mining community to be proactive and elevate the industry's involvement in corporate social responsibility. We at KGHMI are part of this movement, and an integral part of our efforts to improve our transparency, safety performance, community engagement and environmental protection is aligning with forward-thinking associations that share, encourage and enforce industrywide standards.

> *"In the meantime, we will continue to work hard to make sure our employees — from senior management to contractors — keep their promises and their communication lines open.*

In 2013, KGHMI joined the Mining Association of Canada (MAC). Collectively, MAC members subscribe to Towards Sustainable Mining, a set of guiding principles in the areas of community, environment, health and safety. These principles were developed to set a minimum standard of actions for the mining industry and to successfully demonstrate that mining companies hold this as a priority. These guidelines also allow for increased transparency, as mining companies can benchmark and report results. Each year, members can continually challenge industry leaders and peers. The impact will positively affect KGHMI, our community stakeholders and the mining industry as a whole.

In 2014, KGHMI also joined Consejo Minero, an association that represents over 80 percent of copper, gold, silver and molybdenum production in Chile, where we focus on water resources, environment, energy and climate change. In accordance with the Chilean Energy Ministry, Consejo Minero members have voluntarily agreed to develop an Energy Efficiency Plan for implementation from 2015 onwards. We are also members of the Ontario and British Columbia Mining Associations with active participation in multiple committees.

An open mind and an open ear, a strong knowledge of our business and a directional view of the industry at large are critical to continuing our trusted involvement. In all industries, but particularly in mining, earning the trust and respect of community stakeholders is critical to success. We at KGHMI are very proud of our business and our genuine efforts to engage the communities where we live and work. We believe we have earned a good reputation and cherish that reputation.

As part of the KGHMI leadership team, we are striving to create a business environment where we are developing the right people with values that align with our community-focused attitude, which is why we are regularly updating and training employees on our Code of Ethics. Vital to this process is our insistence that every contractor and business partner we work with — in every country — comply with the ethical requirements we place on them. In 2014, we revisited our vendor requirements and have formally introduced a new Code that will take effect in 2015.

As we continue to grow as a company, there will very likely be challenges. KGHMI and the mining industry are committed to getting better by challenging ourselves, working together with governments to balance regulations and living up to the high standard of ethics needed for us to be considered trusted business partners. I am confident that KGHMI will be at the forefront of this work, as this is a clear priority.

In the meantime, we will continue to work hard to make sure our employees — from senior management to contractors — keep their promises and their communication lines open.

Don MacDonald, Chief Financial Officer

Our Company's Financial Strength and Economic Performance

[G4-7;9;17;EC1;EN1]

KGHMI's ownership interest represents the portion directly or indirectly held through various entities and corporate structures. KGHMI's material subsidiaries are represented in the table below:

Subsidiary	Country of incorporation	Ownership interest
Robinson Nevada Mining Company	United States	100%
Carlota Copper Company	United States	100%
Sociedad Contractual Minera Centenario Copper Chile	Chile	100%
FNX Mining Company Inc.	Canada	100%
DMC Mining Services Corporation	United States	100%
Sierra Gorda SCM	Chile	55%

KGHMI's financial reporting information does not include Ajax, as Ajax is a subsidiary of KGHM, but operated by KGHMI. Sierra Gorda is accounted for using equity method. Detailed financial information and a full discussion on the results can be found in our quarterly and annual reports, available on our website.

Table 7

Economic Value Generated & Distributed (EVG&D) (USD — in millions)	2014	2013
Direct economic value generated:		
Gross Revenues	815.8	1,158.3
Economic value distributed		
Operating costs	382.1	570.7
Employee wages and benefits	205.4	241.9
Payments to providers of capital	55.5	47.5
Payments to government (total):	-16.4	18.6
Canada	-2.2	4.0
U.S.	-13.7	13.0
Chile	0.4	0.4
Barbados	-1.1	0.7
Mexico	0.2	0.4
Community investments:		
Donations	0.3	0.4
Sponsorships	0.3	0.5

Table 8

Economic value retained ('Direct economic value generated' – 'economic value distributed')	2014	2013
EVG&D by country (USD - in millions)	188.6	278.7
Canada	93.8	111.1
U.S.	79.6	162.0
Chile	13.6	5.6

Table 9

Breakdowns by country or region of:	2014	2013
Sales and revenues that make >5% of total revenue (USD - in millions)		
Canada	356.7	474.2
U.S.	328.8	536.5
Chile	129.1	145.0
Net sales	815.8	1,158.3
Total Assets (USD - in millions)	4,384.0	3,741.6

Table 10

Total capitalization (USD - in millions)	2014	2013
Shareholders' equity	2,903.3	2,529.1
Debt financing	768.0	498.5
Capital expenditures	238.1	179.2
Non-current assets as at December 31	3,997.4	3,129.6
Segment assets as at December 31	4,384.0	3,741.6

Table 11

Raw materials (Mtonnes)	2014	2013
Total extraction of ore (Mtonnes)	28	26

Working With Our Business Partners

[G4-12;LA14;SO4]

KGHMI works with more than 4,000 site/supplier combinations supporting mines and projects in Canada, Chile and the United States. The mining industry has a concentrated supply chain, and vendors are often local. For years, KGHMI has worked within its site-supply chains to live and propagate our values, encouraging our supplier partners to informally align with our ethics.

In 2014, a voluntary internal audit prompted us to formalize some common supply chain practices. KGHMI has long expected its suppliers to consider their environmental impact and their economic contribution to the communities in which they serve. We have always expected them to pay a fair wage to their workers. However, until now, this philosophy has never been documented. In 2014, we officially published KGHMI's expectations in two documents: the Supply Chain Employee Code of Conduct and the Supplier Code of Conduct. The Supply Chain Employee Code of Conduct sets guidelines for transparency, conflicts of interest and gifts. The Supplier Code of Conduct aims to align suppliers' behaviour with our Core Values: Zero Harm, Success Through Teamwork, Results Driven and Courageous. The Supplier Code of Conduct puts particular emphasis on KGHMI's expectations of its suppliers in safety, environmental stewardship and local economic development. These newly developed codes have been shared internally with teams across the organization, including commercial business units, financial teams, policy experts and the local supply chain teams. The two codes have been adopted and rollout to suppliers will begin in 2015.

Industry and Trade Associations

[G4-15;16]

In addition to the work we do with and for the local communities where we live and work, we are also actively engaged in our professional community. KGHMI looks to organizations that provide guidance that ties our work into larger industry or business initiatives. There are many organizations whose social charters provide leadership in social and environmental sustainability. Specifically, we voluntarily joined two associations whose guidelines and principles we agree to follow, believing our participation will help us become better neighbours in the communities where we live and work.

Towards Sustainable Mining (TSM), managed by the Mining Association of Canada (MAC): As a member of MAC since 2013, we subscribe to the association's TSM Guiding Principles. TSM is a framework that consists of tools and indicators that member companies report their performance against. According to TSM, members must annually assess their management practices against the indicators for six performance areas: safety and health, crisis management, Aboriginal and community outreach, biodiversity, energy and greenhouse gas management, and tailings management. MAC then publicly reports results. This year, 2014, we carried out our first self-assessments against the TSM indicators. We are working to identify how we measure against industry norms and identify an ongoing improvement plan.

Consejo Minero's Sustainable Development Principles: KGHMI became members of Chile's Consejo Minero this past May (2014). We are pleased to follow their Sustainable Development Principles, which outline 10 important ways mining companies can integrate sustainable development, promote and practice healthier ways of business, and protect native inhabitants and habitats. Together, Consejo Minero members discuss water resources, environment, energy and climate change. The companies have voluntarily agreed to develop an Energy Efficiency Plan in accordance to the Chilean Energy Ministry.

KGHMI also demonstrates its dedication to the profession through the number of board and committee positions you will find on the list below. Being part of this professional community allows us to learn from and share experiences with industry experts. Many of these associations work with governments to develop modern and effective policies. Our memberships give us a voice and access to policy expertise and guidance.

TRADE ASSOCIATIONS

Ontario Mining Association (OMA)
A. McFadden, board of directors
I. Horne, Environment/Aboriginal Relations Committees
M. Parent, Safety and Training Committee
J. Keenan, Mining Rules Committee
M. Garbutt, Mine Manager's Committee
D.Titon, Energy Committee
G. Louiseize, Hoisting Committee
The Mining Association of Canada (MAC)
D. Macdonald, board of directors
I. Horne, Environment/Science Committees
V. Maltais, TSM Initiative Leaders Committee
Mining Association of British Columbia (MABC)
M. Mostowy, board of directors
Nevada Mining Association
A. Martin, Environmental Committee and Reclamation subcommittee
B. Heaney, Air subcommittee
Arizona Mining Association
D. Cook, board of directors
M. Smith, Environment Committee
P. Yslas, Safety & Health Committee
Consejo Minero
L. Contreras, Environment/Water Resources/Energy and Climate Change/Social Environment committees
Prospectors and Developers Association of Canada (PDAC)
Class A Corporate Member
Canadian Institute of Mining, Metallurgy and Petroleum (CIM)
Sudbury Branch — N. Milner, treasurer
Vancouver Branch — M. Wypych, technical director
Co-sponsor of 2013 Student Night meeting
Society of Economic Geologists (International)
Premier sponsor of 2014 Keystone Colorado conference
Geological Association of Canada
B. McKinley, council member
Gold sponsor of the annual conference
Society for Mining, Metallurgy & Exploration (SME)
S. Holmes, board of directors
Provide support for annual conferences including scholarship funding

RESEARCH

Mineral Exploration Research Centre (MERC) — Laurentian University
J. Everest, advisory board member
Mineral Deposit Research Unit (MDRU) — University of British Columbia
B. McKinley, board of directors
Canadian Mining Industry Research Organization (CAMIRO)
A. McFadden, board of directors
The University of Arizona, Center for Environmentally Sustainable Mining (CESM)
J. Haynes, board member

Case Study

Vendor Scorecards

If you want to work with great business partners, you must start by being one. Our Robinson mine team recognizes that healthy business relationships with our partners are imperative to our success as company. In 2014, the supply chain group tackled a project to better manage our vendor business dealings. The goal was to gain a 360-degree view by opening the lines of communication between our employees and our vendors. KGHMI hoped to reinforce our vendor expectations, resolve lingering issues, identify inefficiencies and leverage the knowledge of our day-to-day personnel into solutions.

In early 2014 our Robinson supply chain team reviewed all vendors and developed a ranking system. As a result, 38 vendors were identified as priority business partners to participate in our new scorecard program.

Vendors were evaluated in two ways. Employees were given the opportunity to rate the vendor through an online questionnaire about their day-to-day interaction. Each vendor also completed a self-assessment survey. Results were compiled onto a scorecard. Vendors were able to review their scorecard, prompting open, face-to-face conversations to discuss results and to create any needed action plan. Vendor scoring was translated into Gold, Silver and Bronze levels as determined by scores with 95 percent plus, 85 to 95 percent, and below 85 percent, respectively. A Gold-level vendor is one who meets and exceeds contract obligations. Any vendor who is unhappy with their score may request a six-month review by submitting a process-improvement plan within two weeks of the scorecard-review meeting.

In 2014, 38 vendors were scored. The vendors who received a Gold or Silver score were given a certificate of recognition and invited to an award luncheon, held on December 9, to honor their commitment to excellence in service.

Scorecards will continue in 2015 with plans to conduct annual reviews and add vendors that have not yet been scored. Vendors and employees have provided great feedback, driving improvement for Robinson and the vendors. The Robinson supply chain team certainly brought our Core Values to life — driving results and success through teamwork — through this innovative new scorecard system. Their efforts should not go unrecognized. Congratulations!

Team presenting a certificate of recognition to one of their Gold-level vendors - Robinson mine, Nevada, USA

Good Neighbour

KGHMI is committed to open and honest dialogue with our neighbours and communities of interest. As a global company, we are developing a consistent and strategic approach toward these communities based on internationally accepted guidelines. We are also developing the means to measure and manage our impacts on local communities.

In the mining industry, the exploration phase is traditionally the period when a mining company scopes a region for potentially commercial minerals. KGHMI considers exploration also as a time for introductions. As we physically explore the land, we want to become acquainted with the people who live there so that our relations are amicable and mutually beneficial from the start.

"After all, being a good neighbour means being consistent, dependable and fair.

Until this past year, our work with community outreach has been more intuitive than following a written formula. Because KGHM has been in Poland for over half a century, generations of the country's residents have a deep knowledge and understanding of how the company works and how we will dependably consider and support their communities. But in many of our newer, more remote regions around the world, we need to introduce ourselves. In these introductions, there is one tool that has helped us toward success: listening. We engage in objective, open and honest dialogue with our communities and respect cultural knowledge and heritage. We then work together to develop a mutually beneficial plan, one that will respect and contribute to the sustainable development of the community from our exploration phase until long past the mine's eventual closure. In Greenland, we might need to help provide polar bear awareness programs or mining training for government officials. In Sudbury, Ontario, the greater need might be local employment. In Sierra Gorda, Chile, perhaps, the community might be more interested in working with us to build roads and provide materials for their schools.

Community input defines the priority for each mine site. KGHMI considers it standard practice to reach out to the local community early in the exploration phase to introduce itself and share project interests. Perhaps our strongest community partnership skill is the ability to listen to what's concerning each community — and then being able to assess and provide for that need. As our company matures, we have now begun, in 2014, to focus on capturing our intuitive engagement into an established framework so that our business is aligned in our community approach to international standards. After all, being a good neighbour means being consistent, dependable and fair.

Krzysztof Kubacki, Vice President, Exploration and New Business

Our Approach to Communities

[G4-25;26;SO1]

In 2013, KGHMI worked with each project and operating site to develop a plan that identifies relevant stakeholders. Stakeholders are individuals or groups that are critical to our success as a company and are affected directly or indirectly by our decisions.

We look at these plans as the blueprints for our future success. Not only do these plans contain a list of our pertinent stakeholders, but they also outline the method and frequency of engagement with each group and any associated initiatives or actions related to the stakeholder. These plans are updated on a frequency determined by the site, but at a minimum annually. In 2014, each one of the mine sites completed a stakeholder mapping exercise and updated its community development plans.

As stated in the previous report, the current framework that is used for stakeholder mapping and community engagement at KGHMI is based on the tools provided by the International Council on Mining and Metals (ICMM). We are working to integrate the Mining Association of Canada's (MAC) Towards Sustainable Mining (TSM) framework concerning Aboriginal and Community Outreach. This includes developing a formal system for understanding, tracking and responding to our stakeholders' concerns. This will assist us in developing the capacity to monitor and improve performance based on stakeholder expectations and will help us satisfy the requirements of TSM.

Engaging with our Stakeholders

[G4-24;25;26;27;MM5;MM6]

- Employees:
  - » Twice annually, formal meetings are held between each employee and their direct supervisor to review objectives and goals. This is an opportunity for employees to provide feedback to their supervisor on any issue that arises.
  - » Companywide conference calls are held on a quarterly basis to inform all employees of status of company key performance indicators and any other relevant highlights. Following the conference calls is a forum which allows employees to comment and ask questions. In addition to this, employees may submit questions or comments confidentially to an intranet site. Questions and responses are posted for all to see.
  - » Trade unions exist at our Sudbury, Franke and Sierra Gorda mines. Employees provide feedback through formal complaint mechanisms and contract negotiations.
  - » In April 2014, a survey was distributed to employees to gain feedback on areas of concern. This information was also used as part of the materiality assessment for the purpose of this report.
  - » Other examples of employee engagement include regular safety meetings, celebratory events, informal interactions and newsletters.

- Communities: The community-engagement efforts and approach vary greatly by geographic area. We recognize ourselves as members of the community wherever we operate, and our commitments are reflected in our Community Policy. In this section, we share a few specific examples of our local community-engagement efforts. If you would like to learn more about a certain project or mine, please refer to the Contact Us section.

- Indigenous communities: KGHMI recognizes the rights of indigenous and Aboriginal communities. We engage early on in the process and work in a manner that reflects the particular interests of the communities to establish mutually beneficial relationships. Below are the communities which we are committed to working with. As we explore new horizons, the identification of affected groups will be a priority of ours. In 2014, there were no significant disputes.

a. Ajax project:

  i. Tk'emlups te Secwepemc Indian Band: Capacity funding agreement in place for engagement and consultation framework on the Ajax project
  ii. Skeetchestn Indian Band: Capacity funding agreement in place for engagement and consultation framework on the Ajax project
  iii. Ashcroft Indian Band: Consultation and benefits agreement is in place
  iv. Lower Nicola Indian Band: There is no formal agreement in place; however, frequent communications take place following a formal response mechanism.
  v. Whispering Pines/Clinton Indian Band: There is no formal agreement established; however, frequent communications take place following a formal response mechanism.

b. Sudbury: See case study First Nations in Sudbury

c. MEK: See case study MEK and Caspana Community

- Trade associations and regulating government and non-government agencies: Our relationship with governing bodies is imperative to our success. We engage with the agencies as required and maintain their trust by meeting or exceeding our obligations. Our trade associations allow us to promote our industry, benchmark ourselves against our peers and be a part of innovative solutions for the creation of modern, effective and stable public policies.

- Commercial business partners: We value our relationships with our contractors, suppliers and purchasers. Please see the business partner section of this report to better understand our approach in this area.

Economic Impacts

[G4-EC7;8;SO2]

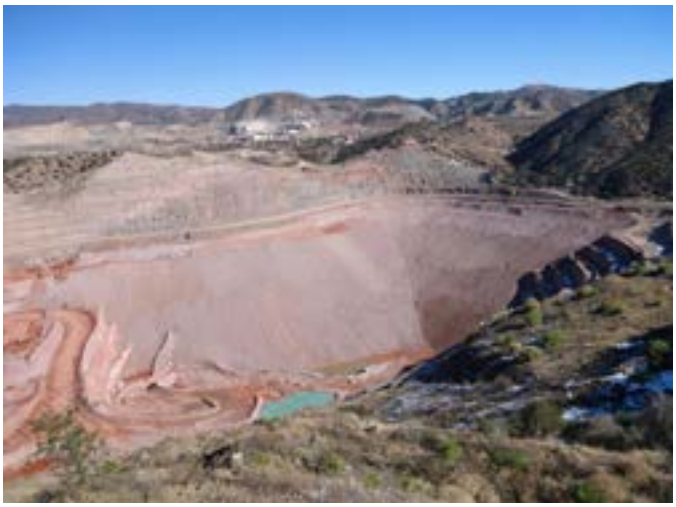
KGHMI invested in a number of projects in 2014 that bettered our business and benefited our neighbours.

We hold our work with surrounding communities as a high priority, from exploration through all life stages of mining. We invest in a strong infrastructure that will support a successful mine as well as the people, environment and community that surround it. For example, at our Sierra Gorda site, KGHMI made a $2.7 million investment to build a wastewater-treatment plant for the Sierra Gorda village that serves the community of 1,500 people. In collaboration with the municipality of Sierra Gorda and other corporate partners, further improvements include extension of the landfill, improvements to the local theatre and school upgrades. And when the area experienced an earthquake, our team pitched in $100,000 USD toward the local Red Cross and the Sierra Gorda Cultural Institution's efforts to help those affected get back on their feet.

At Carlota, Pinto Creek used to run through the valley where the Cactus Pit currently sits. Prior to mine construction, the Pinto Creek Diversion Channel (PCDC) was built in 2009 to divert and transport runoff water from the upstream catchment to downstream of the open pit. State and federal permit requirements of the mine require the channel to convey fresh water around the pit and maintain its long-term integrity. Partially backfilling the PCDC side of the pit as mining approaches completion would address this requirement. KGHMI has since designed a buttress configuration that assures this channel can survive a one-in-10,000-year storm event. Construction of the buttress began in 2013, continued through 2014 and is expected to be completed in the first half of 2015. The project made quite an impact both physically and in economic contribution to Arizona. Nearly 10 million tonnes of nonmineralized waste rock material were used to construct the re-enforcement. Additionally, it has been estimated that for this project alone, approximately one million dollars were spent on contracting and consulting work in the Arizona copper corridor. All of this work ended with good results. This carefully designed and constructed final diversion channel will prevent any downstream impacts now and beyond the life cycle of the mine.

The KGHMI work ethic and culture naturally lend themselves to improving business by lifting up the surrounding community. From educating the next generation of miners to the more formal benefit agreements with First Nation communities, KGHMI is committed to contributing to economic and social improvements in its communities.

KGHMI actively contributes to research benefiting the overall mining community. As you will see from our professional engagement, supporting research projects and engaging with our local universities, KGHMI is interested in contributing to continuous learning, research and the improvement of our trade. We invest in the next generation of miners by opening our doors for university students to learn and by encouraging our leaders to share their expertise as teachers. These all add up to a considerable investment in projects that help us, our trade and our community.



Buttress supporting the Pinto Creek Diversion Channel - Carlota mine, Arizona, USA

Case Study

MEK and Caspana Community

In the craggy hills of Northern Chile lies a swath of rocky land marked by tufts of green vegetation and the occasional stone wall or pottery shard. This land is rich with copper, molybdenum and gold, as our Sierra Gorda mine can attest. But for its approximately 300 native inhabitants, the Caspana, this land's fertility is weighted more by their cultural heritage than its mineral deposits.

Previously, the Caspana village has opposed potential mineral developments in the area, resulting in project failures. KGHMI's South American exploration and business development branch, known as MEK, understands and acknowledges the importance of the Caspana village and has worked with village leaders to learn from them and to share each step of the project as KGHMI explores new mineral deposits of economic value for this region. In 2014, MEK made it a priority to engage the Caspana village president and other key members of this community. Building a mutually trusting relationship with Caspana leaders and community is crucial to success in this region.

Although there is no mandate, formal request or obligation to do so, MEK has made it a good practice to communicate all findings with the Caspana. As MEK has met with archeologists and vegetation specialists, the team has provided the local community with geological records and survey reports of cultural heritage and flora. All MEK project plans have been shared, including our legal aspects, exploration rights and any environmental and social assessments that we have conducted. When it came time for site excavation, MEK was sure to share all plans more than a month in advance, and provided a recap within a short time following. This great two-way communication has resulted in excellent feedback, including some course corrections. For example, when one hill was identified for exploration, the Caspana shared the significance of the area as a ceremonial spot for their ancestors. The MEK teams quickly and successfully altered plans.

The mutual respect that has been earned and that continues to grow is certainly a benefit to the local community as well. In December 2013, teams at MEK donated 100 textbooks (including an encyclopedia and mathematics, Spanish and science books) and school supplies for the 12 children and three professors of the Caspana school. We also donated a community fuel tank with 5,000 litres of fuel to Caspana. In spirit of the agreement to work together, MEK held a meeting on July 25 to share company history and values with Caspana Committee members and CONADI (national authority for the indigenous communities) attendees, reinforcing the importance KGHMI places on Zero Harm. The Caspana president thanked us for our transparency and wished us luck in the future.

KGHMI has demonstrated with the Caspana community and other indigenous and First Nation communities that we are willing to gain trust and to transparently share — and even mold accordingly — our plans with the community. Our philosophy means early outreach leading to two-way open, honest and transparent dialogue. We value this and all our community-collaboration efforts, and we promise the Caspana that we will continue to earn their trust and address problems as they arise.

Member of the Caspana community looking over exploration site - Chile

Case Study

First Nations in Sudbury

In Canada, as in many other countries, resource-development companies wishing to develop projects within an indigenous community's traditional territories must consult with the community as part of their effort to prevent, mitigate or compensate for impacts. KGHMI operates two mines and a mine-development project in Sudbury, Ontario, which has been an active mining community for over 100 years. These properties fall within the traditional territories of one or more of the First Nations Wahnapitae, Atikameksheng Anishnawbek and Sagamok Anishnawbek.

In October, our Victoria advanced-exploration project signed agreements with both Atikameksheng Anishnawbek and Sagamok Anishnawbek to cover the development of the Victoria project into a producing mine. There are provisions for employment, contracting environmental protection and financial support. Committees have been established to ensure that the agreements are implemented to the satisfaction of both parties. "This agreement is the first of its kind between a mining company and our community," said Atikameksheng Chief Steve Miller at the official signing ceremony on November 7. "It represents an important and significant step forward in our relations between the mining industry and the Atikameksheng. We applaud KGHMI's leadership in working collaboratively with us to ensure our people will benefit from the Victoria Project Advanced Exploration Agreement."

During the initial development of our Podolsky mine, which is also in Sudbury, KGHMI first began a relationship with Wahnapitae First Nation in 2004. We created a Memorandum of Understanding and followed up on this with regular and ongoing consultation on the potential impacts of the Podolsky mine on the land, water and air. Negotiations led to the signing of an Impacts and Benefits Agreement in 2008 which included provisions for employment, contracting, environmental protection and support for educational and cultural activities. Several community members have worked at the mine, including the team leader for the wastewater treatment plant. Under contract, Wahnapitae has conducted monthly environmental monitoring in the receiving environment since 2006. Regular meetings continue to be held to share and discuss the monitoring results.

The success of our consultations with indigenous communities can be directly attributed to building a respectful relationship — and this takes time. The agreements that come from building this relationship cannot be viewed as a simple list of commercial terms and conditions. They are more like a nuptial agreement that helps to guide the affiliation throughout the life of the project and beyond. "Our relationship with this community (the Atikameksheng Anishnawbek) is important to us," explained Adrian McFadden, vice president of underground operations for KGHMI. "This important agreement demonstrates both groups' commitment to each other and is a positive step for the Victoria project. I look forward to our ongoing relationship."

Chief Steve Miller of Atikameksheng Anishnawbek and Adrian McFadden, Vice President, Underground Operations, KGHMI at official signing ceremony of the Advanced Exploration Agreement - Victoria project, Sudbury, Ontario, Canada

Case Study

Community Engagement at Ajax

As its name suggests, the British Columbian city of Kamloops (translated from the aboriginal word "Tk'əmlúps," meaning "meeting of the waters") is a gorgeous convergence of rivers ringed by pristine mountains and flowery meadows. This land's inhabitants — of the approximately 100,000 residents, about 9 percent are First Nation — are proud of its splendour and fiercely protective of it. Despite a steep history of mining in this region, these people would like the natural beauty of the area to remain a high priority.

Over the past two years, as we have carefully crafted a plan to develop an open-pit copper-gold mine on the historic Ajax-Afton mine site near and partly within the city limits of Kamloops, we have put just as much care into communication with the residents as we have with our blueprints. We have shared with them our ongoing studies and research that will ensure our mining efforts create Zero Harm to the environment, its employees, its contractors and to this community. We have worked with the local university to engage its students in mining science and technology. And from day one, we have taken steps to prevent and mitigate any problems as they arise. A crucial step in this process is clearly conveying our plans with the community and asking them for their input. We have held regular town hall forums and face-to-face small group sessions, and we have provided a place for feedback on our Ajax website.

As concerns came in, we listened. As a direct result, KGHM has made some key changes this past year at our Ajax site. Community leaders were not happy with our proposed storage facility and crusher locations, which were all originally scheduled to be built closer to a neighbouring community. We have now relocated the tailings storage facility to more than five kilometres southeast. The north rock-storage facility, mine processing plant and ore stockpiles will now be two kilometres south of their proposed location. And the primary crusher will move south of the pit three and a half kilometres from the closest city neighbourhood. These moves will cluster mine activities to the south and east of the pit. By bringing key facilities closer together, they will reduce emissions and dust — a central anxiety in the community.

This shift means that our EPA-rated diesel haul trucks will now drive less distance, and we will need fewer of them in the fleet, further diminishing the Ajax project's impact on the environment. And by moving the mine's major industrial structures further away from major city and local roads, Kamloops' unspoiled views will be protected. The land that was initially slotted for these structures is now open. KGHM has donated approximately $25,000 USD over the next three years to help the Kamloops Bike Trail Initiative maintain and create an intricate network of bike trails in this area.

The citizens of Kamloops have been positive about these changes. We thank them for their feedback — and ask them to keep the conversation going.

New mine plan presented to stakeholders on a tour of the property - Ajax project, Kamloops, British Columbia, Canada

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Glossary

buttress: a structure built to support or strengthen a wall
copper cathode: primary raw material input for the production of copper wire and rod.
chalcopyrite: a copper iron sulphide mineral
containment pad: an engineered impermeable liner
diversion channel: a waterway used to divert water from its natural course
electro-winning: a technique that uses electric current to deposit metals that have been put in solution via a process commonly referred to as leaching
heap-leach: a process to extract metals from their ore by placing them on a containment pad and adding a leaching solvent via drip system over the heap. This process dissolves the metals and they collect at the bottom of the pad.
housekeeping: a term commonly used in the mining industry referring to keeping a work area tidy, orderly and clean.
leachate: a liquid that, in the course of passing through matter, extracts soluble or suspended solids, or any other component of the material through which it has passed.
millerite: a nickel sulphide mineral
molybdenum: a naturally occurring chemical element with the symbol Mo and atomic number 42.
overburden: the soil and rock that lies above the ore body which must be removed prior to mining
palladium: a naturally occurring chemical element with the symbol Pd and atomic number 46
pentlandite: an iron-nickel sulphide mineral
polymetallic ore: an ore that is the source of more than one metal suitable for recovery
porphyry: a textural term for an igneous (formed through cooling of magma) rock consisting of large-grained crystals dispersed in a fine-grained matrix.
revegetation: the process of replanting and rebuilding the soil of disturbed land.
runoff water: water from rain or snow that flows over the surface of the ground into streams
slurry: a byproduct of mineral processing composed of minerals, water and other substances
solvent-extraction: a method to separate compounds based on their relative s solubility
tailings: the materials left over after the process of separating the valuable fraction from the uneconomic fraction of an ore.

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