



CORPORATE SOCIAL RESPONSIBILITY REPORT 2010–2011

KGHM POLSKA MIEDŹ S.A.



Therefore good reputation let each man serve.
As best he can, and the common good preserve.*



Quote from the „Song XIX” by Jan Kochanowski

Jan Kochanowski (1530–1584) – poet and playwright of the Renaissance period, graduate of the Kraków Academy and the Universities of Königsberg and Padua, secretary to King Zygmunt II August of Poland. Considered one of the most outstanding authors of the Renaissance in Europe and the most eminent Slav poet who contributed to the development of the Polish literary language.

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1.1. LETTER FROM THE PRESIDENT

LADIES AND GENTLEMEN

The raw materials that are produced by KGHM Polska Miedź S.A. are the basis for modern and safe technologies which are of key importance for today and mark the future of our development. Due to its exceptional qualities, copper is used virtually everywhere. It is used in the electric and technical industry and in the electric power generation industry. In fact, it is difficult to imagine IT and telecommunication equipment without it. At the same time, we are aware of the fact that the production of copper and silver is not without impact on the social and natural environment.



As a global player on the copper and silver production market, we want to build our future in a predictable and responsible manner. We wish to maintain a balance between the needs of enterprise development and the expectations of our stakeholders, as well as the need to protect the natural environment. Therefore, in 2011, we embarked on the task to create a social responsibility strategy. This strategy supports the performance of the Company's business goals, is based on the ISO 26000 guidelines and is in line with the goals of "Europe 2020 – strategy for intelligent and sustainable development supporting social inclusion".

Our first CSR Report developed in line with the GRI (Global Reporting Initiative) methodology is addressed to our stakeholders. In it we present our achievements in the field of corporate social responsibility in the period 2010–2011 and invite dialogue and cooperation. As a responsible company, we want to meet the expectations of our stakeholders – employees, clients, suppliers, local community, as well as environmental protection requirements. We are committed to building trust in our company and minimizing all risks, as well as the social and environmental risks.

I would like to express my gratitude to the team of people who engage, with a view to the good interests of the Company and our common good, in various activities in the area of corporate social responsibility and sustainable development in KGHM Polska Miedź S.A.

I invite you to become acquainted with this Report.

Herbert Wirth

President of the Management Board

For 50 years, KGHM Polska Miedź S.A. has created jobs and positively impacted local development. At the same time, inhabitants in the copper mining region are exposed to onerous aspects of industrial activities. Therefore, from the outset of the copper industry, the Company has embarked upon several ambitious social projects which are credible proof of our social responsibility. For three years, our CSR efforts have been appreciated by the market, which was expressed, inter alia, by the presence of KGHM S.A. in the prestigious Respect Index on the Warsaw Stock Exchange.

The main reason for this Report is the wish to gather information on the Company's social responsibility and to share it with our stakeholders. We are proud that KGHM, as the first firm in the mining industry in Poland, has prepared a CSR Report.

1.2. INTRODUCTION

This Report is the first CSR report of KGHM Polska Miedź S.A. and the first such report in the mining industry in Poland. The data in this Report is related to KGHM Polska Miedź S.A.

This Report concerns the Company's activities in the scope of CSR in 2010 and 2011. The Report is consistent with the guidelines of the Global Reporting Initiative version G 3.1 (Application Level C) and takes into account ISO 26 000 guidance on social responsibility.

This Report consists of five chapters. Chapters I and II contain basic information about the Company, its profile and range of operation; Chapter III presents KGHM's business strategy and CSR strategy. Chapter IV is related

to management strategy in the Company: corporate governance, fair market practices, customer relations and human rights. Chapter V deals with KGHM's social responsibility in respect of the Copper Belt: labour relations and environmental protection, as well as social involvement and development. Chapters IV and V cover all CSR areas indicated in ISO 26000.



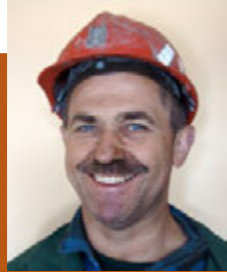
Ilona Antoniszyn-Klik
Undersecretary in the Ministry of the Economy

Today, building the image of a reliable business partner is increasingly becoming a more appreciated element in building the competitive edge of enterprises. It is also very important in view of the challenges the economy is currently having to face. In accordance with the Europe 2020 EU strategy, the aim of the economy is to create an intelligent and sustainable development respecting at the same time social and environmental needs.

In pursuing Poland's economic policy, the Ministry of the Economy enters into a dialogue with a wide range of stakeholders on the challenges of sustainable growth and the role of business in the process. Under the works coordinated by the Corporate Social Responsibility Team in the Ministry of the Economy we wish to strengthen the market cooperation systems based on trust and transparency. We attribute a special role to business leaders who are to become the authors of change and who initiate new solutions based on social and environmental responsibility principles.

As member of the Polska Miedź Foundation, I all the more appreciate the efforts of your Company as, despite the difficult economic conditions that have prevailed in recent years, you effectively meet business challenges and guarantee high quality management and responsibility for your impact on the community and the environment. This determines an over-average level of social and economic commitment which should be treated as an example.

1.3. KGHM AS SEEN BY ITS EMPLOYEES



Jan Lis
Blasting specialist,
Lubin mine

My work involves controlling headings after blasting, preparing for drilling. As I am a passionate geologist, I remember how once, after blasting, I saw an open cavern with sulphides. I like everything about KGHM; I do not want to change anything.



Sławomir Bartkowicz
Non-ferrous metals refiner, Division of P-24 Anode Furnaces,
Głogów smelter

I carry out copper refining in anode furnaces on a daily basis. In my work, I handle reverberatory and stationary anode furnaces. This involves conducting the process of charging, melting, refining and casting copper from the anode furnaces. I am proud that at the age of 39 I could start studying at the AGH University of Science and Technology. At my studies, I meet people from all around Poland and compare their conditions of work and pay with ours, and I believe that we should be proud of being employed at KGHM. Nevertheless, I would like to see the contents of harmful substances in the air of the workshop continue to diminish.



Czesław Zieliński
Miner, bolting machinery operator, GL/CL Training Division,
Lubin mine

I teach future operators of bolting machinery. Looking back, I remember well the day in which I came to the training division from the mining division, as I was able to share my knowledge and experience with my younger colleagues, and I am proud of it.



Krzysztof Tęcza
Minerals miller,
Ore Enrichment Plants

My daily work involves handling machines and equipment which take part in the process of milling, classification and floatation, and maintaining appropriate parameters in line with the technological instructions. I also ensure safety during all these activities. I am proud that the company for which I work is the world leader in the production of copper and silver. In my view, the work which I perform requires systematic improvement of the work conditions, as well as modernization of the equipment with which I work.



Andrzej Nicki
Casting and pouring cranes operator, foreman, P-22 Flash Furnace Division,
Głogów smelter

What am I most proud of? Mainly of my new-born grandson. But also – and here I think similarly to my colleagues – of working for a company which ensures stability and safety of employment. Because I only work on the first shift as a ladle cleaning foreman, I start my working day by talking to employees from the third shift about the performance of instructions, and the state of the equipment, mainly pouring and scooping cranes. Next, I check reports from previous shifts and examine the equipment, slag dumps, W-3 slag revert grates. Only then, I start working on the pouring and scooping cranes during the ladle cleaning and slag processing. My daily duties also include ordering key technological materials used in the division, daily inspections of the technical state of the ladles, making entries in the instruction log for the next shifts and organising matters related to technical reviews of the equipment.



Jan Pancerz
Pouring crane dispatcher, P-22 Flash Furnace Division,
Głogów smelter

I think that working in a company which ensures employment safety nowadays is something to be proud of. Many issues have improved in respect of work conditions, compared with the beginnings of the smelter. Nevertheless, I would like to see the levels of dust emissions and noise further reduced. My work involves mainly the ladle cleaning service. During my shift, I prepare milk of lime solutions used in coating the interiors of the ladles. Next, I start cleaning the ladles, during which I must couple and remove the metallic and slag residue from the ladles. Then, I prepare solid materials for sending to the metallurgical hall for smelting in convertors. My daily duties also include maintaining order at the ladles cleaning station, and in the case of work in the metallurgical hall, I am responsible for order in the hall in the region of the flash furnace division. I also ensure that the passageway between the ladles cleaning station and the fragmented slag warehouse stays clear.

In my work, the most memorable event was the electric furnace bottom “departure” operation in 1996.



2. ABOUT KGHM POLSKA MIEDŹ S.A.

2.1. KGHM – ALL ABOUT COPPER

KGHM Polska Miedź S.A. was established in 1961 as an industrial complex Kombinat Górniczo-Hutniczy Miedzi with its mission to explore the largest deposit of copper ore in Europe (spread over an area of 470 km²), which had been discovered in Lower Silesia four years earlier. At the end of 2011, inter alia, after investing in Canada, the Company was ranked the eighth largest producer of electrolytic copper and the largest producer of metallic silver worldwide. Due to subsequent acquisitions in 2012, the Company's position in global rankings will be even higher.

KGHM is a modern, innovative enterprise which emphasises stability, responsibility and development of its employees and the organization. The State Treasury is the largest shareholder of the Company, holding 63 589 900 shares, which represents 31.79% of its share capital. The cutting-edge methodology of excavating and processing copper ore applied by KGHM Polska Miedź S.A., as well as its modern organization and management systems allow to produce copper and silver and other raw materials without which the development of modern technologies would have been impossible, in an environmentally-friendly manner. In accordance with the corporate slogan, **KGHM Polska Miedź S.A. creates the future by producing traditional raw materials for today.**

The discovery of a rich deposit of copper ore in the very heart of Europe – the largest single deposit on the entire continent, made on 23 March 1957 by Ph.D. Eng. Jan Wyżykowski, was one of the greatest geological sensations



of the second half of the 20th century. It changed the image of the entire region, which was turned into one of the most important and most modern industrial regions in Poland.

The biggest shareholder in the Company is the State Treasury holding over **31%** of the Company shares



Shareholding structure of KGHM Polska Miedź S.A.



KGHM Polska Miedź S.A. has a fully integrated process in which the end-product of one stage is the half-finished product used in the next stage. Currently, excavated deposits are at the depth from 600 to 1300 meters, but KGHM is already constructing shafts which will make it possible to exploit deposits at the depth of 1 400 meters. If we assume that for the coming 15–20 years the mining production will remain at the current level, the viability of the mining plants owned by the Company is estimated for the following 40–50 years.

Copper ore is transported from the mines to processing plants for enrichment. As a result, copper concentrate is produced. Ore Enrichment Plants manufacture approximately 2 million tonnes of the concentrate annually, containing approximately 24% of copper, which is delivered to smelters in which it is smelted and fire refined into copper anodes. This is subsequently subjected to electrolytic refinement into copper cathodes. From these cathodes, wire rod and round billets are produced. KGHM mines extract approximately 30 million tonnes of copper ore annually, containing 1.64% of the “red gold” and considerable amounts of silver. And from above the deposits of copper ore, rock-salt is excavated.

ACTIVITIES AND STRUCTURE OF KGHM

The main activities of KGHM Polska Miedź S.A. comprise mining of copper ore, production of copper, precious metals and other non-ferrous metals. Three divisions are involved in the excavation of copper ores: the Lubin, Rudna and Polkowice-Sieroszowice mining plants, the processing of the ores is carried out by Ore Enrichment Plants, and the production of electrolytic copper, silver and other copper products is performed by smelters in Głogów and Legnica, as well as Cedynia rolling mills.

Apart from the basic technological line, the Company's structure comprises supporting departments. The Tailings Plant manages waste from the extraction and enrichment of ores; the Emergency Rescue Services Unit provides help to the employees of the technological line in the event of accidents, threats or mining disasters; the IT Project Centre ensures modern IT services, and the Accounting Services Centre provides financial and accounting services for all units of the Company.

KGHM mines extract approximately **30** million tonnes of copper ore, containing **1.64%** of the “red gold” and considerable amounts of silver.

COMPANY PROFILE (as at 31.12.2011)



Members of the Supervisory Board who were Chairmen of the Supervisory Board in the period 2010–2011 did not have any other positions in the Company. In accordance with the Articles of Association of KGHM Polska Miedź S.A., the Supervisory Board consists of seven to 10 members.

In 2010–2011, the statutory independence of this Company's body was ensured (i.e., at least two members who meet the criterion of independence).

The composition of the Board in specific periods, in numbers, was as follows:



The Supervisory Board comprises three members elected by the Company's employees, which facilitates communication of the employees with the supervisory body.

In 2010–2011, the Supervisory Board reviewed and considered all the correspondence it received (including correspondence from shareholders).

As at 1 January 2010, the composition of the Management Board and the segregation of duties between Members of the Management Board were as follows:

- ✦ Herbert Wirth – President of the Management Board
- ✦ Maciej Tybura – 1st Vice President of the Management Board for Finance
- ✦ Ryszard Janeczek – Vice President of the Management Board for Production

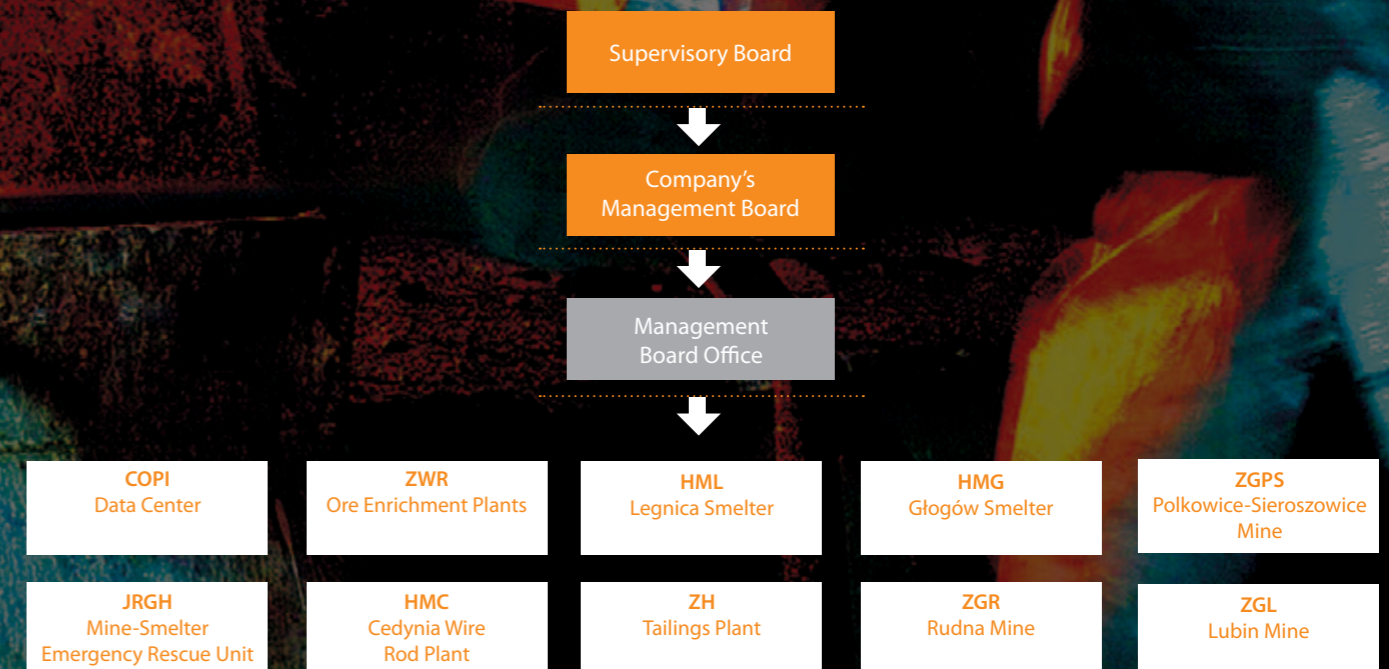
On 19 November 2010 the Supervisory Board appointed Mr Wojciech Kędzia Vice President of the Management Board.

Until 31 December 2011 the composition of the Management Board and the segregation of duties between Members of the Management Board were as follows:

- ✦ Herbert Wirth – President of the Management Board
- ✦ Maciej Tybura – 1st Vice President of the Management Board for Finance
- ✦ Wojciech Kędzia – Vice President of the Management Board for Production



ORGANIZATIONAL STRUCTURE OF KGHM POLSKA MIEDŹ S.A.

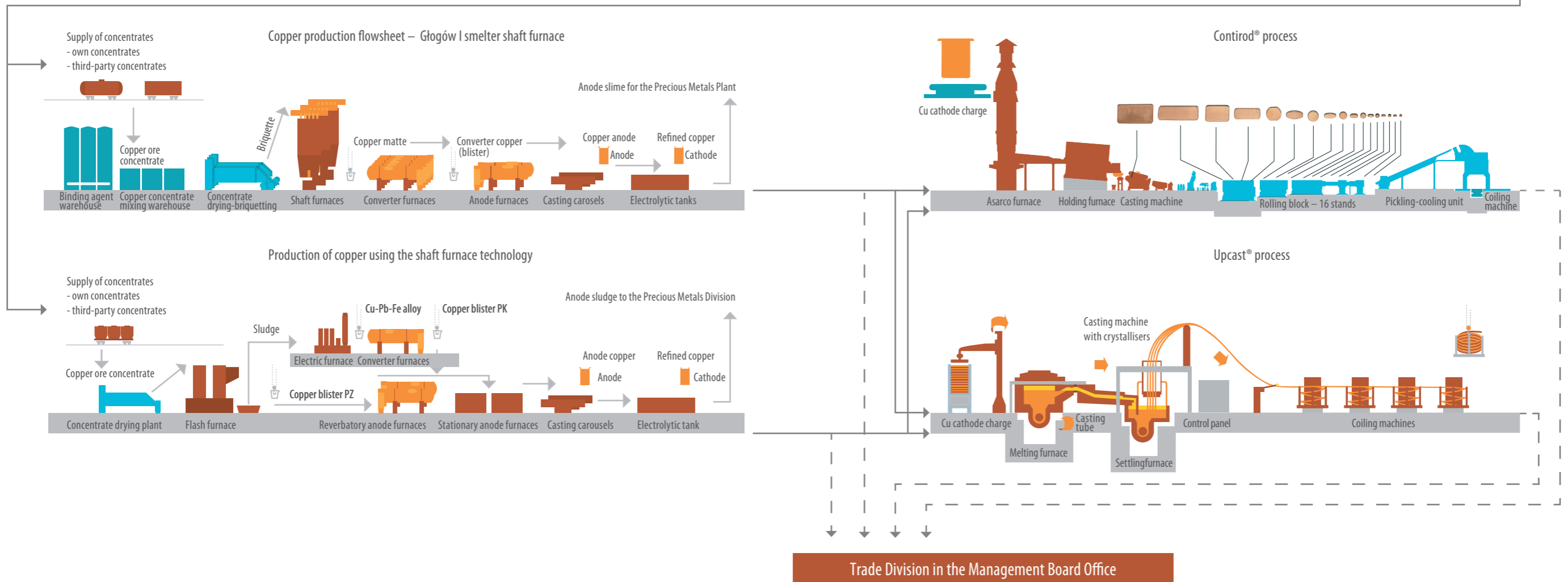
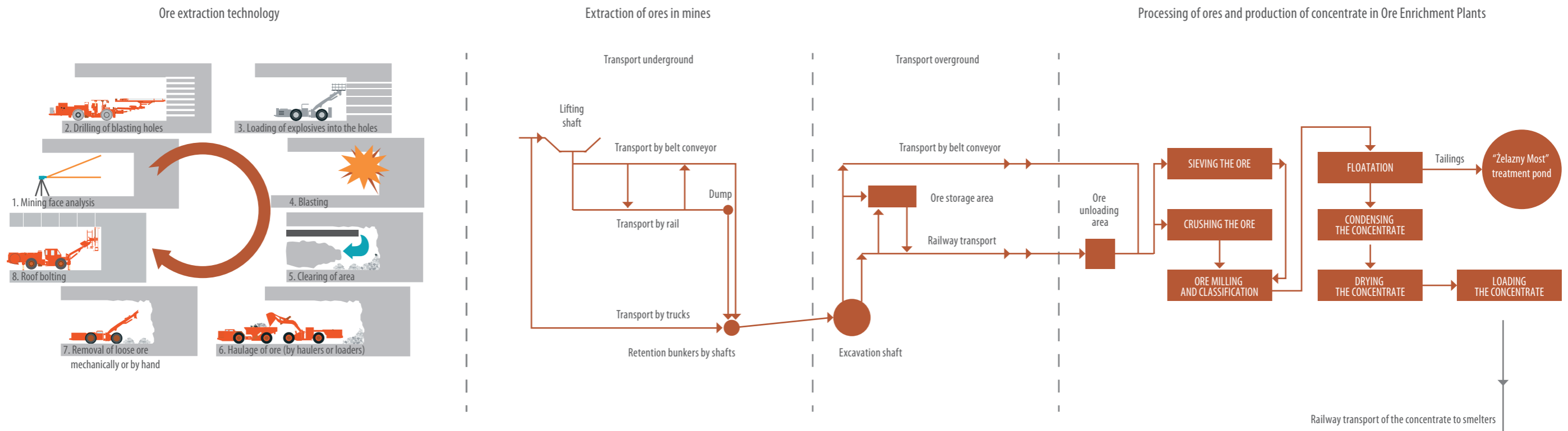


HISTORY BY DATES – FROM REACTIVATION OF OLD COPPER MINES

At the beginning of September 2011, KGHM officially celebrated its 50th anniversary. Due to the existence of Kombinat Górniczo-Hutniczy Miedzi, the communes of Głogów and Legnica found themselves among the richest regions. This was related to the rapid process of industrialization, as a result of which an industrial area was established (for more about the impact of development of KGHM Polska Miedź S.A. on its region, please see Chapter V).

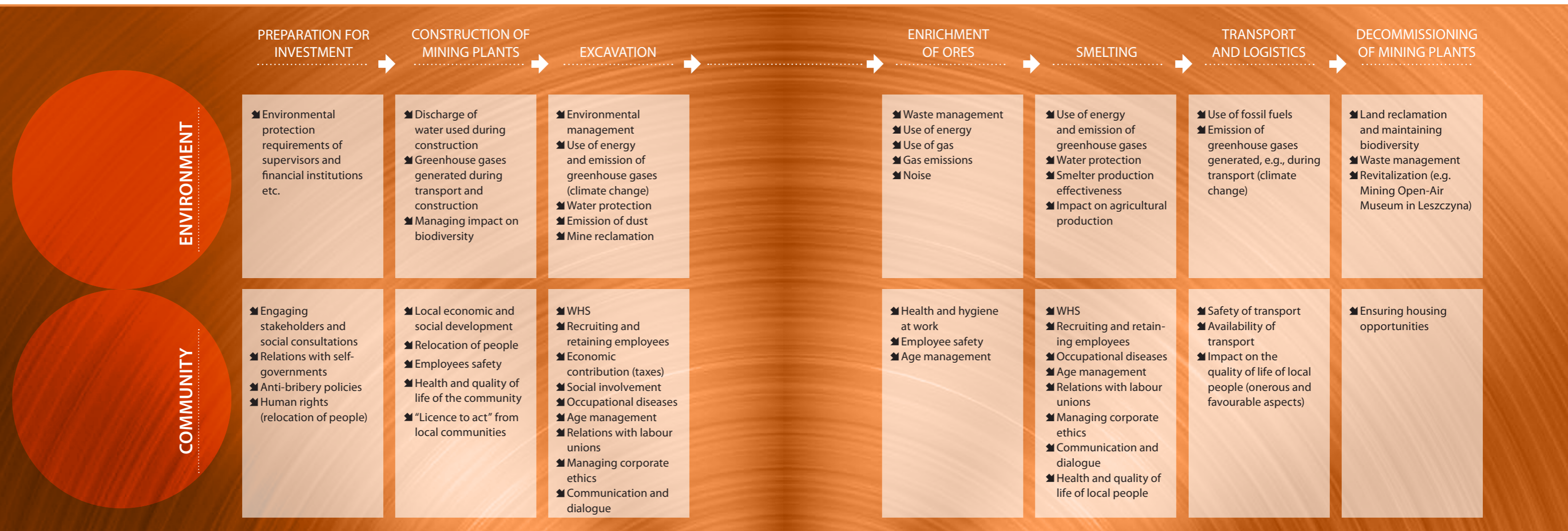


COPPER PRODUCTION PROCESS



KEY CSR ISSUES IN KGHM'S VALUE CHAIN

The sustainable development of KGHM requires focusing on the entire value chain: from preparation for investment, building mining plants, through excavation, processing, transport and logistics, to the moment of decommissioning mining plants. Each of these elements is related to other challenges which should be properly addressed in the Company's operations. The chart below presents the key CSR issues which have significant impact on the Company's sustainable development throughout the entire value chain.



KGHM GROUP

The entire KGHM Polska Miedź S.A. Group comprises approximately 50 companies. The majority of them were established as a result of the process of restructuring KGHM and they are still connected with its main technological process. The Company has also invested capital in enterprises which are to diversify its revenue: in healthcare (Miedziowe

Centrum Zdrowia S.A. – 100 % of shares); tourism (Interferie S.A. – 100% of shares) and also currently planned energy undertakings. The Company would also like to participate – with external partners – in shale gas exploration in Poland.

Other members of the Group offer products and services connected with the main activities of KGHM Polska Miedź S.A. (inter alia, exploration and exploitation of copper ores and ores of other metals, mine construction,

production of electric and heat energy, mining machines and equipment, research and development work), as well as services not related to handling the technological processes of KGHM Polska Miedź S.A., for example, tourist, transport, medical and investment services (KGHM TFI).

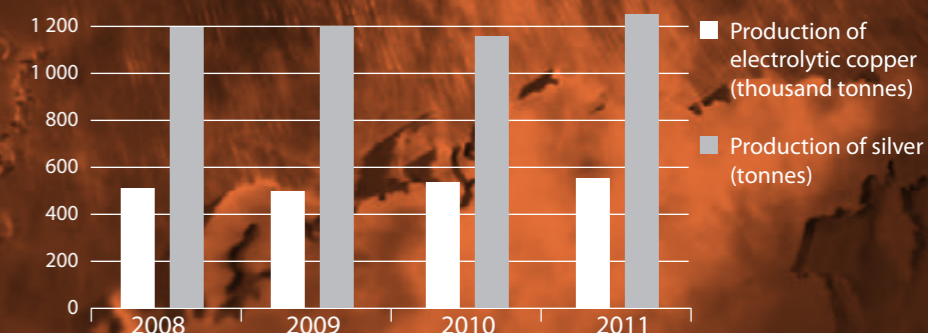
The entire KGHM Polska Miedź S.A. Group comprises approximately **50** companies.

2.2. KGHM – A LEADER ON THE COPPER MARKET

KGHM PRODUCTS

The main products of KGHM are copper and silver. In recent years, the annual output of copper stabilized at the level of 500–550 thousand tonnes. Copper is offered to clients mainly as refined (cathode) copper, wire rods (for production of cables and wires), and round billets as well as oxygen-free copper wire. In 2011, KGHM Polska Miedź S.A. was the eighth largest manufacturer of electrolytic copper worldwide (Copper Survey 2012). In 2011, the volume of sales of copper and copper products on the domestic market accounted for 21.4% of total sales thereof, and export sales accounted for 78.6% of total sales of these goods. In this period, the largest foreign recipients of copper manufactured by the Company were: Germany, China, Italy and the Czech Republic.

Manufacturing activities of KGHM



The Company also manufactures more than 1 200 tonnes of refined silver annually. It is sold as pigs (slabs) and granulate. Silver is used not only in jewellery, but also in the electronics and electric industry, as well as in photography. It is traded on several forward markets globally – inter alia, London Bullion Market Associations. In 2011, KGHM was the largest manufacturer of refined silver worldwide (Silver Survey 2012). In 2011, sales to the domestic market accounted for 2.7% of total sales of silver, and exports – 97.3%. The largest foreign recipients of this metal were: the United Kingdom, USA and Belgium.

Halite, or rock-salt, is a non-standard product of copper mines, and has been extracted in the Polkowice-Sieroszowice mine since September 1991. It is used in the chemical, foodstuffs, heating, dyeing and tannery industries, for food processing purposes, for production of animal feed and for maintenance of roads in winter. The Company extracts 457 171 tonnes of salt annually. Its offer also includes other industrial and precious metals: very rare rhenium (annual output of 5 tonnes ranks the Company as the fifth worldwide), raw and refined lead (output of approximately 25 thousand tonnes annually), nickel (0.6 thousand tonnes), gold (23 thousand ounces), platinum and palladium (3 thousand ounces), as well as selenium (85 tonnes). The Company also manufactures more than 630 thousand tonnes of sulphuric acid annually.

The Company's main products (electrolytic copper and refined silver) are characterized by very high quality which has been confirmed by international certificates (for more information, please see Chapter IV). Since the start of the production process, the Company has put on the market more than 16 million tonnes of copper and 20 thousand tonnes of silver.

Many of these products are derived in connection with waste management. Once gold is recovered, small amounts of rich platinum and palladium concentrate remain which are delivered to other refining plants. In the production of ammonium perrhenate, sewage water arising from gases treated during the production of copper is used. Ammonium perrhenate contains approximately 69.4% of pure rhenium.

In the production of refined lead the materials generated in the initial phases of copper melting are used. Sulphuric acid is produced from recycled gases containing sulphur dioxide, generated in the process remelting copper concentrates in the fluidization process and in melting copper from copper matte. In turn, copper sulphate and nickel sulphate are recovered from the used electrolyte derived from the

process of electrorefining copper. Road building materials are manufactured from smelter slag generated in the process of melting copper in shaft furnaces. In addition to economic benefits, the economic utilization of wastes from copper production is of key importance for environmental protection.

Annual output

Product	Production output in 2011
Copper cathodes	571 041 Mg
Cu-ETP wire rods	226 235 Mg
Cu-OFE wire	15 225 Mg
CuAg wire	1 198 Mg
Copper billets	20 320 Mg
Refined silver (granules and billets)	1 259 566 kg
Technical sulphuric acid	636 248 Mg
Salt	457 172 Mg
Granulated copper	2 260 Mg
Copper sulphide	5 533 Mg
Nickel sulphide	2 481 Mg
Technical selenium	84 674 kg
Metallic gold	703.767 kg
Raw lead	30 010 Mg
Refined lead	25 234 Mg

Raw materials / materials used – weight and volume

Total use of materials, together with materials purchased from external suppliers and obtained internally (production for internal purposes, extraction, etc.)

	2010	2011
Extraction of copper ores:	30 805 183 Mg	31 240 837 Mg

COPPER FOR THE FUTURE

Copper, due to its exceptional properties: durability, resistance to corrosion, electrical and heat conductivity, ductility and forgeability, and timeless sheen, has found broad use virtually everywhere.

Raw materials that are manufactured by the Company are the basis for modern and safe technologies which are of key importance for today and mark the future for our development. At the same time, copper was the first metal encountered in human history, and the ability to extract and process it is one of humanity's most momentous discoveries. Thank to this, humans left the Stone Age to begin the growth of civilisation. Copper, due to its exceptional properties: durability, resistance to corrosion, electrical and heat conductivity, ductility and forgeability, and timeless sheen, has found broad use virtually everywhere. It is used in the electric and technical industry and in the electric power generation industry; it is difficult to imagine IT and telecommunication equipment without it. Due to its durability, it is used in construction and in sanitary installations, and has been utilized in

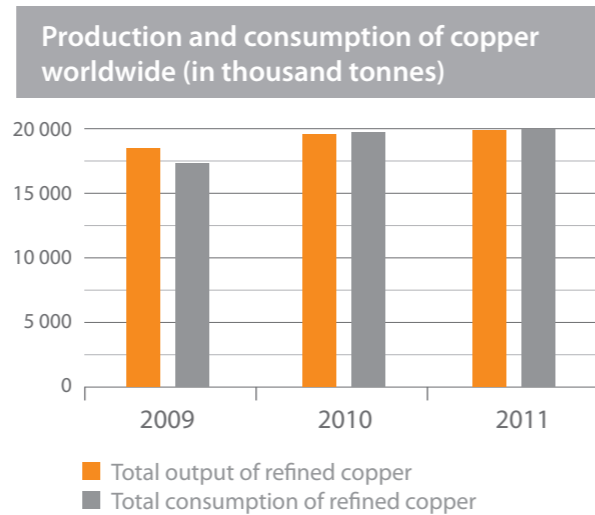
biomedical sciences, as well as by manufacturers of traditional brass instruments.

In 1825, William Sturgeon coiled isolated copper wire around a metal slab and created the **first electromagnet**. Next came Michael Faraday, who discovered induction and built an **electric motor**. Today, electric motors power the entire world. In millions of motors current flows through coils of thin copper wire. It will flow even more intensively along with the development of technologies which, inter alia, are used to power electric cars.

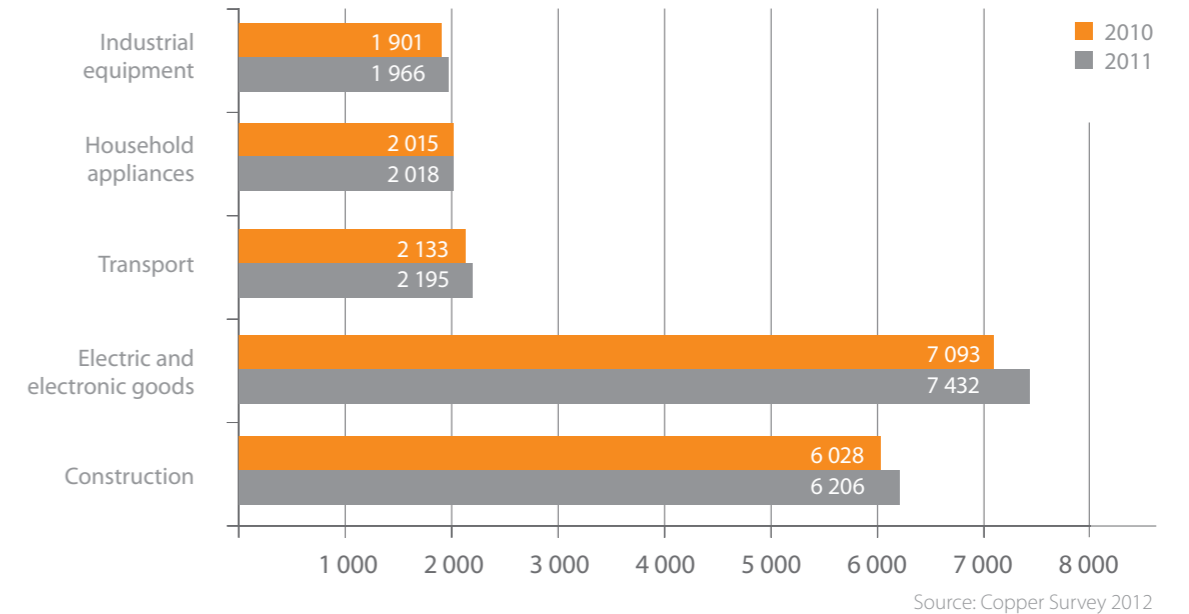
In the production of all kinds of electric devices, and also cables and conductors, approximately 35% of the world's output of copper is used, and if we include electronics – 38%, because almost each electronic device utilizes the excellent properties of this metal. This is of key importance to the development of modern technology, IT systems, and data transmission.

Copper is also increasingly used in healthcare and medicine. According to the three-year clinical trials conducted in intensive care wards in the USA, the **application of copper as an antibacterial surface reduces the risk of hospital infections by 40%**. Opportunities for applying copper and its alloys in order to terminate the chain of infections arise in all places in which there are many people on the move, i.e., on handrails in trams, trains and buses, doorknobs in offices, schools, at railway stations etc. Such solutions have already been used in the world, for example, in the underground in Chile. Due to its antibacterial properties, this metal is excellent for air conditioning systems and heat exchangers.

The market has been developing more and more new applications for copper. According to the report of the Copper Technology Roadmap (CTR), this metal will be useful, e.g., in developing the sector of **renewable energy generation** (e.g., in wind farms, copper is used in windings of



Consumption of copper worldwide (in thousand tonnes)

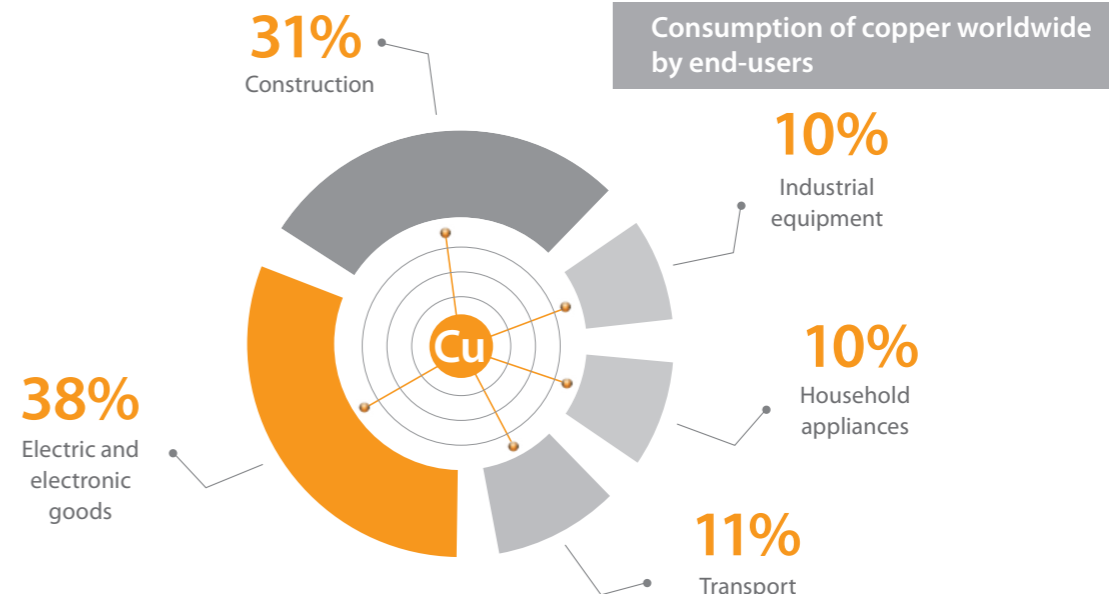


stators and rotors in power generators, high voltage cables and transformer winding). As the report of the Frost and Sullivan agency for the European Copper Institute (ECI) indicates, a wind turbine with the power of 2MW requires approximately 15–20 tonnes of copper.

It is also anticipated that more and more copper will be used in **sea farms**. Plastic cages for breeding sea animals were often covered with algae, and those with copper not only do not grow algae, but also due to the fact that they are clean, create a much healthier environment for fish or crustaceans. Alloys of copper and plastics, due to their durability and flexibility, can also be applied in

construction of reinforced buildings resistant to seismic shocks. The copper industry is still seeking new, future applications of this metal or ways of extending those which are already used.

Copper has also one more advantage which locates it among strategic raw materials for sustainable development – it is estimated that **approximately 80% of copper which was extracted has also been reused in the economic way**. In this respect, this metal is second place to iron and aluminium.



KGHM POLSKA MIEDŹ S.A. ON WORLD MARKETS

In 2011 KGHM Polska Miedź S.A. was ranked

8 on the list

of the largest global producers of mined copper.

The years 2010 and 2011 were very good for the copper industry. In 2011, the average price of copper reached the level of USD

8 811/tonne, which was 17% more than in the previous year. There was also a new quotation record – on 14 February 2011, for one tonne of copper one had to pay as much as USD 10 148. After the collapse of Lehman Brothers in 2009, which triggered off the crisis which was also reflected in the quotations of raw materials, the average annual price dropped to USD 5 164/tonne. The rapid growth resulted from the world economy recovering from the crisis, and the growing demand for copper in China.

As a result, the perspectives of copper manufacturers – despite seasonal fluctuations of prices and attempts at speculative use of this raw material – are very promising, the more so that the global production of copper concentrate grew in 2011 by only 0.1% to 15.95 million tonnes. This was the second consecutive year in which the growth was around 1%. Nevertheless, world consumption grew by 3%.

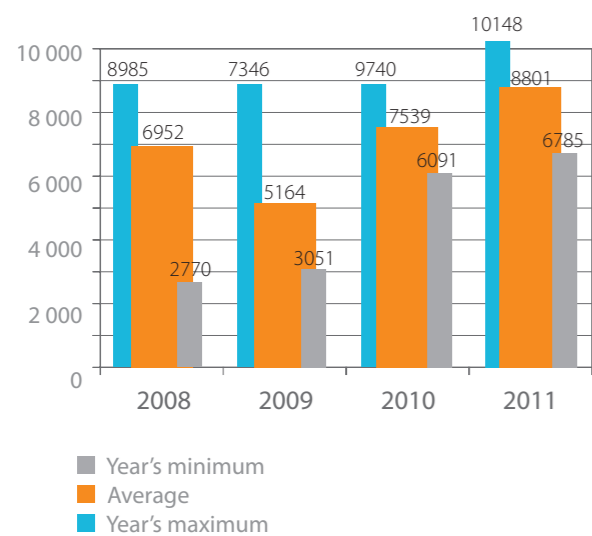
According to the Copper Survey 2012, in 2011 KGHM Polska Miedź S.A. was ranked eighth on the list of the largest global producers of mined copper. Following the acquisition of the Canadian mining company, Quadra FXN, in 2012, the enterprise could rise even higher in the global ranking of producers.

Top 10 copper manufacturers in the world in 2010 (mining)

Rank	Company		Production output [thousand tonnes]	
	2010	2011	2010	2011
1	1	Codelco	1 760	1 796
2	2	Freeport-McMoRan	1 508	1 416
3	3	BHP Billiton	1 132	1 058
4	4	Xstrata plc	899	899
6	5	Anglo American	626	599
7	6	Southern Copper Corp.	479	588
5	7	Rio Tinto	701	536
8	8	KGHM Polska Miedź S.A.	425	427
10	9	Antofagasta	336	420
9	10	Norilsk Nickel	379	374

Source: Copper Survey, Thomson Reuters 2012

Prices of copper (USD/tonne)



Source: Copper Survey, Thomson Reuters 2012



KGHM POLSKA MIEDŹ S.A. IN FOREIGN AND DOMESTIC ORGANIZATIONS

The Company is a member of 10 domestic and eight international industry associations, also the ones which promote copper and its applications. The metal from Polish smelters is sold on the key world markets, inter alia, via the commodity exchanges in London and Shanghai, and meets the highest quality standards which is confirmed with respective certificates (for more see Chapter IV).



2.3. COMPANY'S RESULTS

		2010 PLN million	2011 PLN million		
Income	Net sales and sales equivalents, including to related entities	Net sales of finished goods	15 830	19 977	
		Change in finished goods (increase – positive value, decrease – negative value)	170	321	
		Cost of finished goods for internal consumption	91	155	
	Other operating income	Net sales of goods for resale and materials	115	120	
		Gains on disposal of non-financial non-current assets	0	0	
		Subsidies	0	2	
		Other operating income	33	31	
TOTAL		16 239	20 606		
Operating expenses	Operating expenses	Amortization and depreciation	615	672	
		Materials and energy used	4 778	5 911	
		External services	1 029	1 256	
		Other costs by type	3 020	3 263	
	Other operating expenses	Cost of goods for resale and materials sold	107	107	
		Loss on disposal of non-financial non-current assets	18	11	
		Impairment of non-financial assets	0	0	
		Other operating expenses	46	53	
		Financial costs	Interest, including to related entities	1	1
			Losses on disposal of investments	130	0
Losses on remeasurement of investments	1 360		478		
Other	62		33		
Wages, salaries and employee benefits	Total cash expenditure on salaries, wages and employee benefits (current payments without any commitments for the future)		1 933	2 012	
	Social insurance and similar charges		728	843	
Payments to investors	Dividends paid to all shareholders		600	2 980	
	Payment of interest to loan providers		0	0	
	Interest on all forms of loans and borrowings (not only long-term) and overdue dividends due to holders of shares/preferential stocks		0	0	
Payments to the State	Taxes	Income tax (this amount should not include deferred taxes)	1 249	2 204	
		Taxes and fees, including excise duty	300	318	
Investments in community	Voluntary contributions and investing funds in the broadly understood community (including donations)		12 503	15 113	
TOTAL		28 479	35 255		
Retained economic value	Directly generated economic value minus Distributed economic value (A-B)		263	464	

2010

- ✦ Gazeta Giełdy "Parkiet" Award – the statue of the Bull and Bear in the category of the best investment in a WIG20 company;
- ✦ Company's Annual Report – 1st place in the competition for The Best Annual Report 2009;
- ✦ KGHM Polska Miedź S.A. as the 2010 Charity Leader in the category of companies which donated the largest amounts for social purposes;
- ✦ Member of the RESPECT Index – high standards of corporate responsibility management;
- ✦ Golden Webpage of Listed Companies – a distinction for corporate Webpage www.kghm.pl at the 2nd stage of the competition;
- ✦ Ideal Employer – 3rd place in the 2nd issue of the "Ideal Employer" Uniwersum ranking;
- ✦ The Listed Company of the Year 2010 – KGHM Polska Miedź S.A. was awarded the "Listed Company of the year 2010" distinction by investors and readers of the Inwestycje.pl Web portal. In May 2011, the Inwestycje.pl portal, in cooperation with the National Securities Depository (KCPW) and Association of Individual Investors, carried out a poll among readers of the portal to choose the Listed Company of the year 2010. Four financial indicators were taken into account: the company's net profit for 2010, profit for 2009, return on equity (ROE), and profitability of sales. Next, the transparency of the company was taken into account, as well as the perspectives of development of the industry in which the company operated;
- ✦ Pillars of the Polish Economy 2010 – an award granted by "Puls Biznesu" daily;
- ✦ Regional Forbes CSR Awards – 1st place in the Dolnośląskie (Lower Silesia) Province;
- ✦ White list – silver certificate of credibility and reliability – a certificate awarded by Wrocław Business Chamber;
- ✦ "Well Perceived" company – an award granted by the Business Centre Club for the best image in the context of corporate social responsibility in the Dolnośląskie (Lower Silesia) Province.

2011

- ✦ Gazeta Giełdy "Parkiet" Award – the statue of the Bull and Bear in the category of the best investment in a WIG20 company;
- ✦ Listed Company of the Year 2010 – distinction awarded by investors and readers of the Inwestycje.pl Web portal;
- ✦ Member of the RESPECT Index – high standards of corporate responsibility management;
- ✦ Index of Success – special distinction for the most effective company in Central and Eastern Europe awarded by the "Rzeczpospolita" daily and Deloitte;
- ✦ The Best Annual Report for 2010 – special award above the general ranking – The Best of The Best;
- ✦ Fray International Sustainability Award – an award for significant contribution to initiating, implementing and developing sustainable and environmentally friendly solutions in mining and processing industries;
- ✦ KGHM Polska Miedź S.A. – a Pearl of the Polish Economy – an award for consistent implementation of the policy and strategy of the enterprise, and the leading position among the most dynamic and most effective enterprises in Poland;
- ✦ The most valuable company in Poland 2011 according to Newsweek ranking – the Polish issue of the international Newsweek magazine for the 10th time elected the most valuable companies in Poland. KGHM Polska Miedź S.A. was first in the ranking of the top 100 most valuable companies in Poland in 2011 in the mining industry, and first in the ranking of the top 100 most valuable companies in Poland in general classification;
- ✦ The ideal employer according to professionals – 2nd place in the category of engineering, 7th place in the category of business, awarded by Universum Professional Survey;
- ✦ Pillars of the Polish Economy – 1st place in the Pillars of the Polish Economy 2011 ranking and 1st place in the Pillars of the Polish Economy 2011 ranking in the Dolnośląskie (Lower Silesia) Province;
- ✦ Golden card of the leader of safe work – awarded by the Central Institute for Labour Protection – National Research Institute – in recognition of the results obtained in respect of the improvement of working conditions, safety and protection of people in the work environment.



3. STRATEGIC AIMS OF KGHM POLSKA MIEDŹ S.A.

3.1. A COMPANY WITH A STRATEGY

MISSION AND VISION OF KGHM

KGHM Polska Miedź S.A.'s mission is the "Effective processing of natural resources as a way to increase the Company's goodwill". The Company's vision is to join the group of large global copper manufacturers by increasing the production of this metal to approximately 700 thousand tonnes annually.



STRATEGIC GOALS

KGHM Polska Miedź S.A.'s strategy for 2009–2018 was approved by the Supervisory Board on 23 February 2009. It includes activities grouped into five main areas.

1. Enhancing effectiveness – stopping the growth of unit production costs

Key activities in this area assume:

- investments in new technologies, inter alia, mechanical extraction of ores, automation of the process of ore enrichment and construction of a new flash furnace in the Głogów I smelter;
- modernisation of the existing infrastructure, inter alia, replacement of mining machinery and modernisation of the Głogów II smelter;
- optimisation of processes and production organization, including, inter alia, centralization of purchases, development and implementation of an IT system for managing exploitation of the deposit, and also intensifying preparatory work underground.

2. Development of the resource base so as to enable an increase of the production of copper concentrate up to approximately 700 thousand tonnes annually

KGHM Polska Miedź S.A. takes several actions aimed at increasing access to the raw material resources in Poland and worldwide, in particular:

- development of the system of mining deep ores which comprises further work on management of the Głogów Głęboki – Przemysłowy deposit, and also developing a system for mining ores more than 1 200 m deep;
- foreign investments in mining assets, inter alia, projects in Canada (Ajax-Afton);
- exploration of new deposits in the region, including in the area of Radwanice-Gaworzyce in Poland and Weisswasser in Germany, and also exploration work on areas next to the Company's deposits;
- intensifying the processing of scrap.

3. Diversification of sources of revenue and gradually gaining independence from changes in energy prices

As a target, KGHM Polska Miedź S.A. wants to increase the share of sources of revenue other than the core activities to approximately 30%, inter alia, by investing in the power generation industry. This involves, for example, construction of gas-steam blocks in Powerplants in Głogów and Polkowice, which are to satisfy 25% of the Company's demand for electric power, cooperation with industry partners in the construction of a coal power plant, and tackling the issue of wind power. The Company would like to achieve a 3% share in the energy market in Poland. Other sources of income are to become tourist and healthcare services. A subsidiary, KGHM TFI, in 2011 established the Polish resort group: Polska Grupa Uzdrawisk – KGHM TFI. It owns, inter alia, the following resorts and spas: Zespół Uzdrawisk Kłodzkich, Uzdrawisko Świeradów-Czerniawa, Uzdrawisko Połczyn and Uzdrawisko Cieplice. The Fund plans to participate in the privatisation of subsequent Polish resorts.

4. Support for the region

KGHM Polska Miedź S.A. wants to continue its active involvement in the regional community by:

- creating workplaces and developing regional entrepreneurship, inter alia, using the infrastructure of KGHM Letia S.A.;
- protecting the environment, providing healthcare for employees and local people, supporting sports, development of culture and science in the region.

5. Development of organizational skills and effectiveness

The purpose of the changes is introducing the mechanism of managing through targets, staff development programmes and creating a transparent holding structure.

According to the assumptions of the Company, investment outlays on the implementation of strategic projects in 2009–2018 will amount to approximately PLN 19.8 billion. Implementation of the strategy will improve the cost competitiveness of the Company in the short term. As a result of the implementation of the strategy, KGHM Polska Miedź S.A. will become an international copper holding with diversified sources of income, which will make the Company independent of the fluctuation of copper prices.

3.2. GLOBAL EXPANSION OF KGHM

KGHM Polska Miedź S.A. is a mining and smelting company which has reached a high level of expertise in the mining and metallurgical technology and in the sale of copper and silver. It is obvious that the resources of copper ores in its basic area of operation are limited and the base of resources in this region will systematically shrink over time. Developing new resources of copper ore from the Głogów Głęboki-Przemysłowy deposit, which is located next to the deposits currently exploited, will allow the Company to maintain the current level of production, however reaching for ores located deeper (from 1 100 to 1 350 m) has a considerable impact on an increase in the costs of mining (higher pressure of the rock mass, higher temperatures, etc.) which affects KGHM's competitive position.



Therefore, in the Company's strategy for 2010–2018, one of the primary strategic goals is to obtain new resource assets. The following means will be used to this end:

1. Exploration of new deposits in the region (inter alia, a concession for exploring deposits in Germany, i.e., the Weisswasser Project);
2. Acquisitions in the mining sector.

All projects relating to acquisitions in the mining sector must meet the basic profitability criteria at an acceptable risk level. KGHM prefers projects in countries which are politically and economically stable, with legislation which is friendly for foreign investments and mining. Such countries include members of NAFTA (North American Free Trade Agreement) and stable Latin American countries (Chile and Peru), countries of South Africa (Republic of South Africa, Namibia, Botswana, Morocco) and European countries.

In order to attain the strategic goals set out in 2010, KGHM Polska Miedź S.A. signed an agreement on accession to a joint venture with Abacus Mining & Exploration Corporation, Vancouver, Canada, under the name **KGHM Ajax Mining Inc.** The new company in which the Polish Company has an 80% shareholding, will implement a project of exploitation of copper and gold ores from the Afton-Ajax deposit in Western Canada, in

the South-central part of British Columbia, approximately 5 km South-West of Kamloops. This is the first such considerable investment of the Company on western markets.

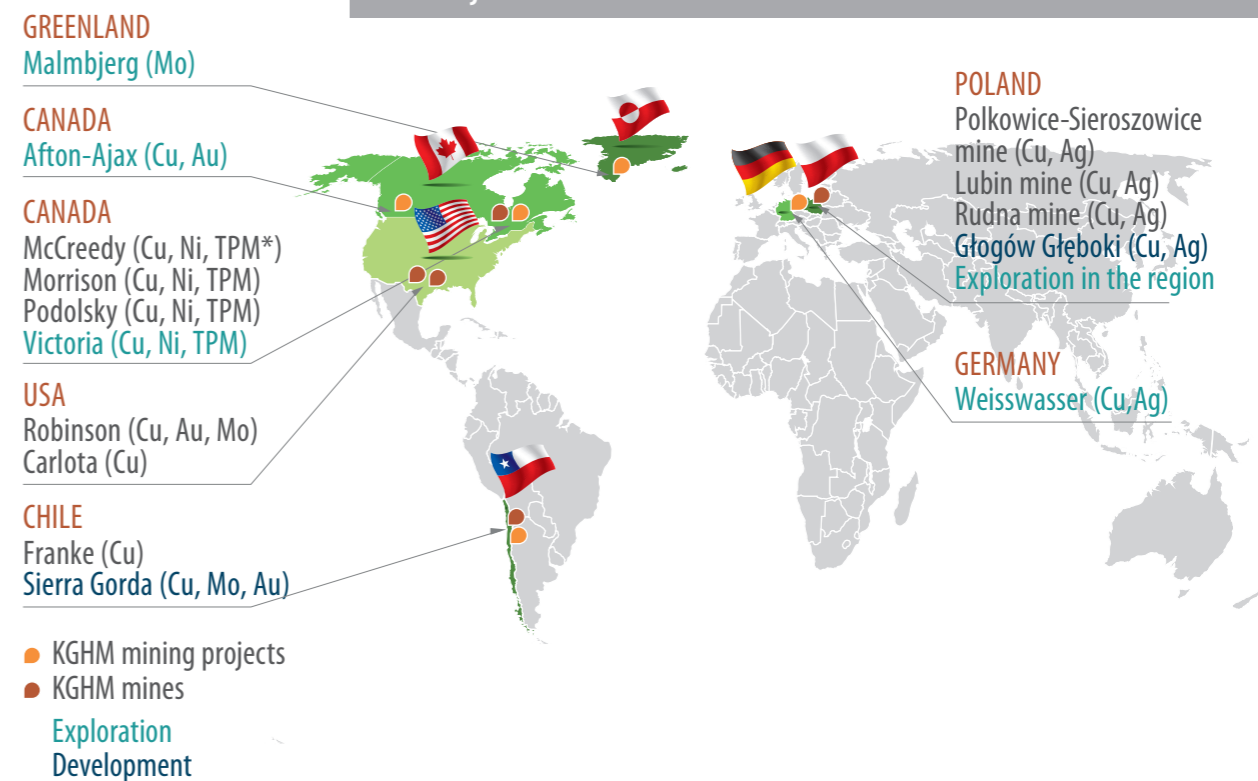
The planned undertaking will be an open pit mine with an anticipated life-time of approximately 23 years. Thanks to the deposits in Canada, a country which is both economically and politically stable, KGHM Polska Miedź S.A. intends to increase the production of copper concentrate by 40 thousand tonnes annually and gold by nearly three tonnes.

The participation of KGHM Ajax Mining Inc. in the manufacturing process will enable KGHM to increase its annual copper production by **40** thousand tonnes, and gold by **3** tonnes.

Another step to implement the strategy was the completion of a friendly take-over of the Canadian mining company **Quadra FNX** at the beginning of 2012. The value of the transaction amounted to CAD 2.9 billion, i.e., PLN 9.1 billion. KGHM Polska Miedź S.A. financed this transaction from its own funds. In this way, the Company became

a global player on the non-ferrous metals market. The Company owns mines in Canada, USA and Chile. KGHM is also a co-owner of the Sierra Gorda deposit in Chile. This guarantees to the Company the safety of raw materials supply in the global economy and places it fourth in the world in terms of copper resources.

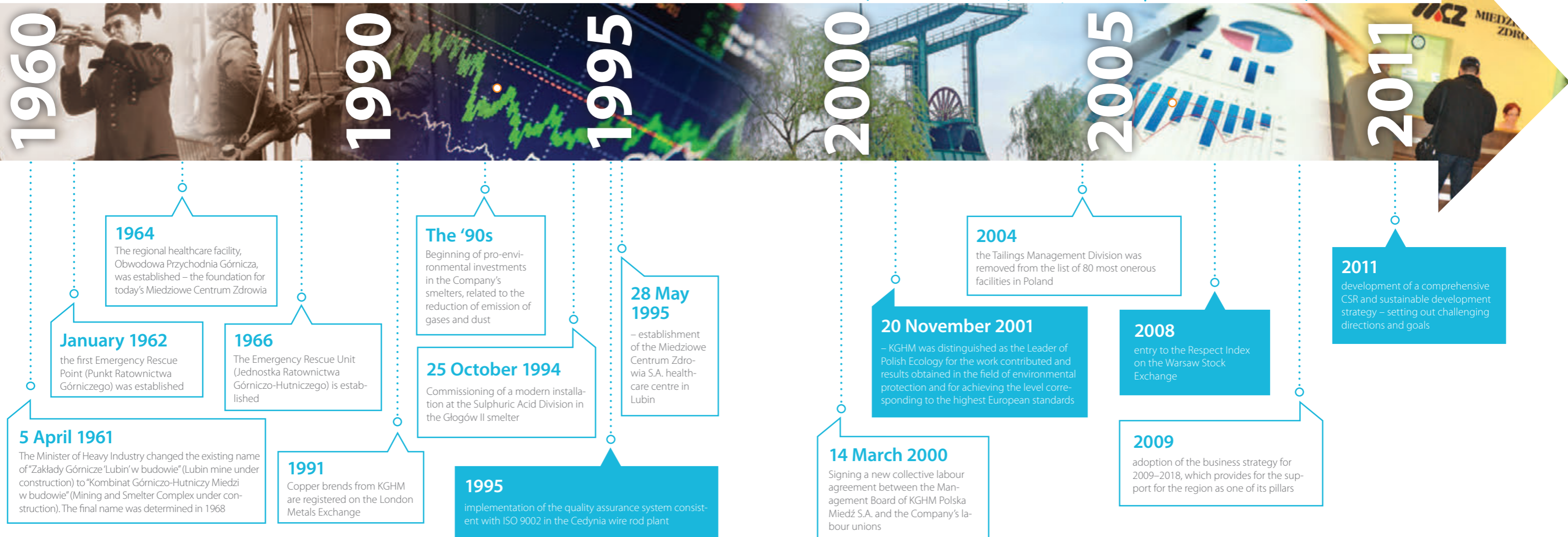
KGHM has a diversified portfolio of mining assets in safe jurisdictions



3.3. TOWARDS A SOCIAL RESPONSIBILITY STRATEGY

The issues of sustainable development and corporate responsibility are of top priority in the context of the implementation of the Company's strategy for 2009–2018. Its success depends on the quality of relations and cooperation with local administration, attitudes and involvement of employees and employee organizations, as well as on the Company's reputation among people living in the Copper Belt. In order to unify the existing activities and render them a new, more comprehensive dimension in 2011, the Company decided to draw up its first corporate social responsibility and sustainable development strategy. During the work, the CSR issues were combined with business strategy pillars and the requirements of the ISO 26000 standard.

TIMELINE FOR KGHM'S SOCIAL RESPONSIBILITY



PATH THROUGH ISO 26000

KGHM Polska Miedź S.A.'s mission is to optimally utilize natural resources as a path to increasing the Company's goodwill.

The Company would like to implement it using the **ISO 26000 "Guidance on social responsibility"** which was adopted in 2010. ISO 26000 organizes knowledge about

broadly understood corporate social responsibility. It is not intended as a form of certification or mandatory regulation, but it is to serve as a practical guide around CSR concepts by defining the CSR framework and presenting respective values and ideas. Due to the prestige and global range of the International Standardization Organization, the ISO 26000 standard may become the most universal interpretation of CSR globally.



Mirella Panek-Owsiańska
Chairwoman of the Responsible Business Forum

ISO 26000 is not a breakthrough, but due to the process which accompanied its development, it takes into account the full spectrum of an organization's responsibility. It can become the basis for building a company's CSR strategy, and due to its comprehensive nature, the company can be sure that no areas or groups of stakeholders are omitted. In the following years, ISO 26000 may become the most important responsibility standard, a benchmark to which both companies and NGOs or public administration will refer.



Bogusław Graboń
Director General for Governance and Sustainable Growth

We have based our social responsibility strategy on the ISO 26000 standard. We believe that implementation of the international CSR standards will enable us to effectively address the Company's challenges in the economic, ecological and social areas.

KGHM accepts responsibility for its impact on the social and natural environment. The Company wants to listen and respond to its stakeholders' expectations. Therefore, we have based our social responsibility strategy on creating innovative solutions, which minimize our impact on the natural environment, building the "good neighbour" and reliable investor position, ethics and transparency in managing relations with the stakeholders and caring for our staff.

I hope that this strategy will help us build the Company's stable position in the long term.

This project defines CSR as "an organization's responsibility for the impacts of its decisions and activities (products, services, processes) on society and the environment, through transparent, ethical behaviour which contributes to sustainable development, including the health and well-being of society; takes into account the expectations of stakeholders; complies with laws in force and is compatible with international standards of behaviour; and is integrated throughout the organization and implemented in its relations".

The standard also defines the main areas of social responsibility, such as: corporate governance, human rights, environmental protection, behaviour towards the staff, business reliability and credibility, consumer issues (care for customers), and social involvement and development of local communities.

To ensure that CSR activities are properly allocated, in September 2011, the **CSR and Sustainable Development Department** was established. The Department is managed by the director responsible for coordinating efforts in respect of CSR and sustainable development, and supervising the implementation of the CSR strategy.



Krzysztof Kułacz
Acting Director of the CSR and Sustainable Development Department

Corporate Social Responsibility (CSR) is of great importance to KGHM Polska Miedź S.A. both from the perspective of the industry- its organization and the corporation- and of the community. Several of the tasks performed by my Department, which was established in October 2011, result on the one hand from long years of experience and the Firm's activity in many areas of CSR, carried out through sponsoring, the Polska Miedź Foundation or other organizational units of KGHM, and on the other from innovative and radical projects with respect to the widely-understood sustainable development, conducted during the past few years of the Firm's operations.

It is worth emphasizing that, in becoming global, KGHM has begun to be more interested in perceiving CSR within the context of international economic order, structured, among other things, according to the principles of sustainable social development, the natural environment, human rights and democracy. We aim not only to rationalize all those actions pursued under CSR and to develop the management system, but above all to make our social involvement credible.

We are approaching an important stage of training and implementing responsible business principles, which we will be pursuing, among other things, through international, universally acknowledged and applied standards of corporate responsibility, the established CSR strategy for KGHM for the years 2012-2018, and based on the best practices and inspirations for our industry sector as well as through improving the level of education and awareness of our staff and stakeholders.

Key stakeholders of KGHM

- Local community
- Administration at local government level
- Regulators (supervisory and controlling bodies, e.g. the State Mining Authority)
- Clients, counterparties
- Employees



Source: PwC

TIME FOR STRATEGY

In 2011, KGHM Polska Miedź S.A. commenced work on its corporate social responsibility (CSR) strategy. In order to prepare itself for this task, the Company reviewed international trends, standards and CSR practices in the mining industry, and identified its key stakeholders and CSR issues arising in the Company. Another stage of this process was to carry out interviews with the management and evaluate CSR activities conducted by the enterprise hitherto.

The Company's **CSR** vision is to achieve by 2018 the position of a constantly developing, professional, global leader which cares for the common good and sustainable management of resources.

To this end, the strategy is based on four directions of activities related to the business strategy pillars.

KGHM'S SOCIAL RESPONSIBILITY STRATEGY:

1 AN INNOVATOR FRIENDLY FOR THE ENVIRONMENT

1

KGHM Polska Miedź S.A. stakes out the highest environmental protection standards and seeks innovative, effective and low-emission operating solutions.

Goals:

- Implement solutions which minimise the Company's impact on the natural environment.
- Set the highest standards in respect of waste management.
- Build the image of KGHM Polska Miedź S.A. as a company which embarks on innovative actions for the sake of the natural environment.

2 GOOD NEIGHBOUR AND TRUSTED INVESTOR

2

KGHM Polska Miedź S.A. is a trusted leader of good neighbour relations, engaged in the dialogue and partnership cooperation with its neighbourhood based on the strategy, scale and quality of its social involvement.

Goals:

- Build a lasting framework for dialogue and cooperation with self-governments and other entities in the Copper Belt.
- Build a long-term strategy of social involvement in respect of supporting the region and reinforcing the Company's image.
- Achieve the position of the "investor of choice" through respecting human rights and taking into account the expectations of local communities.

3 EFFECTIVELY MANAGED BUSINESS PARTNER

3

KGHM Polska Miedź S.A. is managed in accordance with the rules of corporate governance and ethics.

Goals:

- Build the Company's position as a transparent enterprise which is managed in accordance with the best practices of corporate governance.
- Build an organizational culture based on ethical values.
- Reinforce the Company's position as a reliable and ethical business partner.
- Stake out the highest standards in respect of product responsibility and care for customers.

4 RESPONSIBLE EMPLOYER

4

KGHM Polska Miedź S.A. pursues a transparent HR policy which is compliant with the highest WHS standards and is based on dialogue.

Goals:

- Achieve perfection in respect of the development and full utilization of creative potential of employees.
- Minimize threats to the health and safety of employees.

The CSR strategy's element is developing the first Corporate Social Responsibility Report for 2010–2011, in accordance with the methodology of the Global Reporting Initiative, which presents the Company's achievements and invites dialogue.

3.4. R&D'S CONTRIBUTION TO THE STRATEGY

In the mining and copper smelting industry, the key factor decisive for competitiveness of enterprises is the unit cost of the production of copper, and resources of raw materials held. The research and development (R&D) work in this sector is therefore focused mainly on exploring and identifying geological and mining assets, optimising the production process, and reducing the costs of operating activities. The basic directions of actions performed in the Company do not differ significantly from those undertaken by other entities in the industry.

The relations between the copper industry and the R&D sector are very strong and result from the constant efforts of the Company to optimise its business processes and introduce innovation in its industrial practice. KGHM Polska Miedź S.A., from its outset, pays considerable attention to development, including R&D activities. Global companies involved in copper mining allocate approximately from 0.01% to 1% of their revenue to R&D activities. The level of outlays on R&D efforts ranks the Company in the lower range of this bracket, but it has been growing for several years. The intensity of outlays on R&D activities in KGHM is at the level of 0.11%–0.17%

of its income. In 2011, R&D expenditure amounted to approximately PLN 35 million.

In 2006–2011, the Company's outlays on external R&D work and scientific expert opinions exceeded PLN 118 million. A considerable part of these expenses (almost 48%) is either directly or indirectly related to the responsibility for the business conducted and its impact on its broadly understood environment. KGHM's R&D activities are mainly financed from the Company's own funds, and some undertakings are subsidized by the Polish Agency for Enterprise Development (Polska Agencja Rozwoju i Przedsiębiorczości), the National Research and Development Centre (Narodowe Centrum Badań i Rozwoju) and funds coming directly from the EU in case of engagement in framework programmes of the European Union.

Independently or with partners

KGHM conducts research and development work with its external partners. It also has dedicated daughter-companies which act within the group. One of the main entities which perform R&D tasks is the R&D centre, **KGHM Cuprum sp. z o.o. Centrum Badawczo-Rozwojowe**. It was established in 1994, following the restructuring of Zakłady Badawcze i Projektowe Miedzi "Cuprum". It was a dedicated unit, established in 1968, which acted within the structure of the then-existing mining and smelter complex, Kombinat Górniczo-Hutniczy Miedzi. In 2002, by a decision of the Minister of Science, Cuprum obtained the status of a research and development unit, and in 2007, Cuprum CBR was entrusted by the Ministry of Science and Higher Education with the function of the Industry Contact Point for Sustainable Development of Copper and Lignite Mining Industry in South-Western Poland (Branżowy Punkt Kontaktowy Zrównoważonego Rozwoju Przemysłu Wydobywczego Miedzi i Węgla Brunatnego

The intensity of outlays on R&D activities in KGHM is at the level of 0.11%–0.17% of its income. In 2011, R&D expenditure amounted to approximately **PLN 35 million.**

Polski Południowo-Zachodniej). The enterprise carries out analytic, R&D and design work in areas such as mining, geology and hydro-geology, ore enrichment, environmental protection, tailings storage and new power technologies.

The analytic and R&D work related to managing by-products of the production of copper and silver, and wastes generated by this process is performed by **KGHM Eco-ren sp. z o.o.** The Raw Materials Recovery Division of KGHM Eco-ren conducts R&D work and provides technological services related to hydrometallurgical processes and enrichment of ores of non-ferrous metals. Inova Centrum Innowacji Technicznych sp. z o.o. is an entity specialising in R&D services in respect of electro-technics, automation and communication systems as well as certification and attestation of machines and equipment.

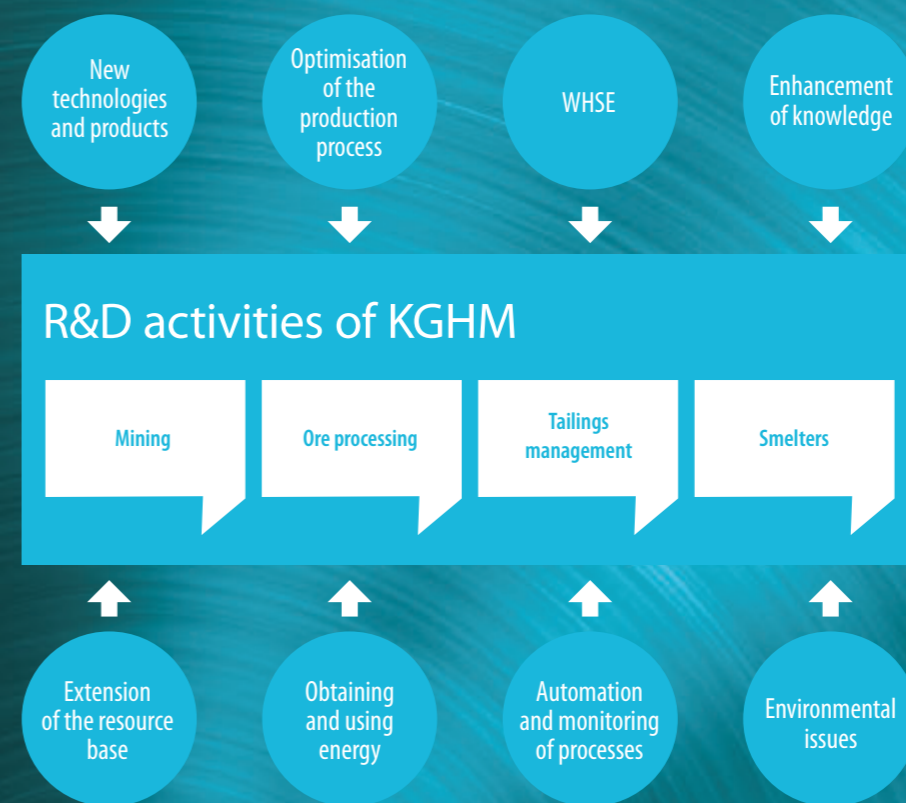
The KGHM Polska Miedź S.A. Group also has a specialist analytic laboratory, Centrum Badań Jakości sp. z o.o., and a design entity, **Bipromet S.A.** Also, other members of the KGHM Polska Miedź S.A. Group, such as Przedsiębiorstwo Budowy Kopalń Pebeka sp. z o.o., which builds shafts and galleries, and Dolnośląska Fabryka Maszyn Zanam Legmet sp. z o.o., a manufacturer of mining machines and equipment, participate in research projects.

The Company's strategy for 2009–2018 assumes improvement of the effectiveness of the production process (investments in new technologies, modernization of

infrastructure), as well as the development of resources. The effectiveness of these activities depends, inter alia, on the comprehensive nature and quality of research work and ability to apply them in practice. In 2009, the Company signed with the Polish Agency for Enterprise Development an agreement on a subsidy from the European Regional Development Fund for a research and development project entitled: "Development of KGHM extraction technology with the use of the ACT complex". The total amount of subsidy granted is PLN 38.2 million, which represents 25.4% of the outlays planned for this undertaking. The research part is expected to be completed in 2013, and the implementation will take place in 2014–2015. The next stage of the project "Technology of hydro-metallurgical processing of semi-products and concentrates of copper in the Ore Enrichment Division Lubin region" has been completed by the Chemistry Faculty of Wrocław University of Technology. In this project, KGHM Polska Miedź S.A. plays the role of an industrial partner and end-user of the proposed solutions.

Another commenced project which is carried out in cooperation with AGH University of Science and Technology, Tauron and ZGH

Directions and areas of the Company's R&D activities



Bolesław, is the **Critical Metals Centre** which will carry out a stock count of resources of critical elements (of key importance for the EU economy), production, processing, and sale of these elements and their compounds. This project also involves research work aimed at innovative use of the elements obtained, e.g., for construction of prototypical solar panels using new technologies based on CIS (copper indium selenide). An understanding to this effect was signed in October 2011.

KGHM has also declared its accession to a project subsidised from the funds of the **National Research and Development Centre (NCBR)** aimed at determining the possibility of implementing in Polish industry an innovative concept of a high-temperature reactor of the 4th generation (HTR) characterized by the high level of safety of use and operation. In this way, the Company wants to extend its expertise in power generation, including nuclear power, and also verify whether the HTR technology could be used in industrial conditions, as well as verify to what extent the enterprise's power needs could be satisfied with nuclear energy. An agreement on the scientific and industrial consortium for the purposes of

filing an application with the NCBR was signed in December 2011.

The Company actively engages in national and international R&D projects in its sector. These are, for example, the "Geocentrum Polska" project of a Polish platform associating key research entities and enterprises in the geological sector, the EFRB (Explosive Rock Breakage Initiative), a forum dedicated to seeking alternative solutions for non-explosive methods of excavating hard rocks, or the Scandinavian initiative SMIFU (Smart Mine of the Future), i.e., a projection of a model "intelligent" mine of the future.

In its research and development activities, KGHM Polska Miedź S.A. cooperates not only with members of its own group, but also with the Non-Ferrous Metals Institute in Gliwice, AGH University of Science and Technology in Kraków, the Central Mining Institute in Katowice, Silesian University of Technology in Gliwice and Wrocław University of Technology, Wrocław University of Environmental and Life Sciences, Wrocław Medical University and the National Geological Institute in Warsaw. Foreign cooperation comprises, *inter alia*, Outotec in Finland, LULEA Technical University (LTU) in Sweden, CANMET Research Centre in Canada, BRGM Research Centre in France, and also design companies and industrial partners, *inter alia*, De Nora in Italy, Chematur Engineering in Sweden, Electrometals Technology in Australia and Dynatec in Canada (smelting), as well as SGS Lakefield or Metso Minerals (processing of ores) and Caterpillar and Sandvik (mining).

Activities performed

Activities which involve corporate social responsibility issues include an undertaking related to the protection of the surface of the land, with an analysis, preventing and minimising effects of seismic activity (preventing mine tremors and crumps, effects of ground deformation resulting from excavation of ores underground, or analysis of minimizing the impact of excavation on water relations in the environment). Examples of activities include:

- ▶ "Developing a method of evaluating stresses in the rock mass based on an analysis of acoustic activity";
- ▶ "Carrying out analyses and examination for the development of guidelines in respect of the evaluation of resistance of buildings to para-seismic impact, based on the Mining Intensity Scale GSI-2004";
- ▶ "Evaluation of seismic threats based on evolution of the location of seismic phenomena";
- ▶ "Numerical 3D hydro-geological model (regional) including the area of the impact of copper ore mining of LGOM (Legnica-Głogów Copper Belt)";
- ▶ "Developing regional and local forecasts of deformation of the ground surface".

KGHM Polska Miedź S.A. conducts various research related to the protection of the natural environment and increasing safety of excavation in its industrial facilities. It focuses in particular on the "Żelazny Most" mining tailings treatment pond (*for more details please see Chapter V*). The research work has been conducted for many years in order to manage tailings waste generated by the production process in the most effective way. In the case of tailings, they are primarily related to recovery of useful metals which are contained therein in residual amounts, and economic utilization of waste which accounts for approximately 94% of the ore processed in the enrichment plants. Currently, the waste is used to fill the post-mining voids in mining plants, which not only reduces the amount of recycled wastes on the surface, but also should reduce the impact of mining activities on the ground surface, improve safety of work in the mines and have a positive impact on the excavation technology. The Company also seeks methods of broader utilization of wastes in the construction and road-building sectors.

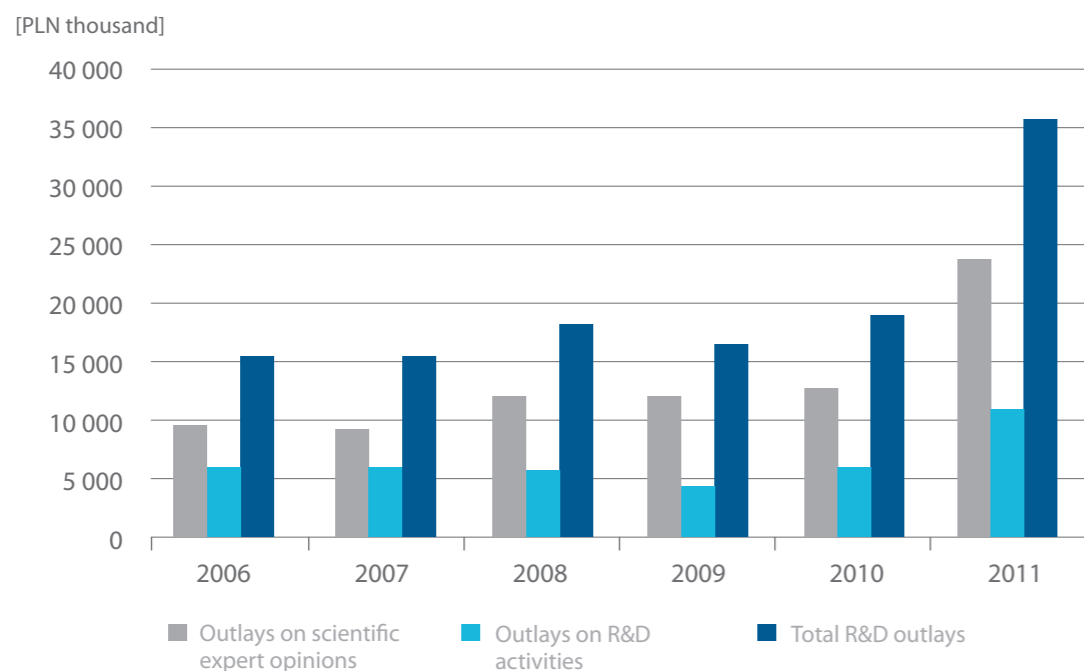
KGHM Polska Miedź S.A. has already demonstrated achievements in respect of **economic use of industrial waste**. As a result of long-term research and development work, *inter alia*, solutions for using tailings for hydrotechnical purposes were implemented, i.e., for artificially raising the ground level by depositing suspended solids carried by water), shaft furnace slug in the production of road-building materials, smelter slug as material for land reclamation and levelling ground, granulated slug as a material for the production of abrasives used in high-pressure cleaning, or slug from Doerschel's furnace as an additive which improves the parameters of smelter processes.



The Company also conducts various R&D work related to **monitoring and limiting the impact of the copper industry on the environment, energy savings** (the project "Implementation of solutions which enable energy savings in a technological process" or "Hydrogeochemical evolution of water environment in areas affected by mining activities of KGHM Polska Miedź S.A. in the view of the EU Framework Water Directive. Stages I, II and III. Stage I, database of hydrodynamic and hydrochemical data"). An important direction of research is also the work on sequestration, i.e., storage of carbon dioxide in order to reduce its emission to the atmosphere.

An important element of R&D expenses are costs incurred on the control and management of safety of work of the Company's employees, its contractors working within the Company's premises, and people living in the Copper Belt. The following projects are, *inter alia*, dedicated to these issues: "Evaluation of potential health implications related to the emission and imission of chemical substances from ventilation shafts of the mining plants of KGHM Polska Miedź S.A.", "Development and implementation of effective technical measures for protecting employees working

Level of financing the R&D activities



in environmentally-challenging conditions” and “Developing the rules for employing people in environmentally-challenging conditions in underground mining plants”.

The Company also allocates a considerable part of its expenses to tasks related to the effective use of its resource base, *inter alia*, for projects related to more precise examination of the deposit and natural threats in mining activities, and also adaptation of the excavation technology to the conditions of mining work at considerable depths.

The Company also plans projects in the area of **Mine-to-Metal optimisation**, such as “Evaluation of the effectiveness of LGOM deposits taking into account the ability to enrich them, and the output of copper and silver in the Ore Enrichment Plants” and the “Impact of new excavation systems on the mining and smelter process of production of copper and other metals”. This work is aimed at the optimum use of the resource base of KGHM Polska Miedź S.A. and the implementation of

the Company’s policy of extending the operation of copper mines in the Legnica-Głogów region, and thereby contributes to the perception of the region and reinforcement of its position.

Other examples of social responsibility of the Company for using the national resources of raw materials accompanying copper and critical elements are the projects entitled: “Developing the technological concept of production of magnesium oxide of solutions of magnesium sulphate in the Szklary installation for leaching nickel ore”, “Research on the presence of critical elements in KGHM”, “Managing rock-salt in LGOM”, “Utilizing salt headings for storage of waste”, and “Analysis of sustainable management of lignite deposits using the best available technologies”.

KGHM Polska Miedź S.A. also conducts research work related to monitoring self-propelled mining machines and equipment, and also localizing machines and people. This work is aimed at enhancing work safety, implementing early warning systems in case of emergency situations, better utilization of means of production from the perspective of lower use of fuel and materials, as well as environmental protection.

Employees-inventors



The Company carries out various activities in the form of campaigns or systematic efforts aimed at involving employees in the process of technological and organizational changes. Some examples of campaigns are the “Effectiveness Programme” and participation in the R&D project “Lean Mining”, which provides for establishing employee innovation groups for exploring the opportunities for more effectiveness in the mining production process. The activities are conducted systematically in accordance with the “Innovation Rules and Regulations” applicable in the Company. In this case, the Company makes it possible for employees to demonstrate additional professional activity related to organizational and technical innovation. Employees can submit projects of improvements (rationalizations or inventions), and if the projects are accepted for use, the employees are remunerated in accordance with the “Innovation Rules and Regulations”.

In 2006, an additional tool was added to the “Innovation Rules and Regulations” to engage employees of KGHM Polska Miedź S.A. – the Innovation Exchange which is organized once a year by a department in the Management Office which is responsible for innovations. The Exchange, due to the mechanism of additional motivating remuneration, and also due to shorter lead time of the project verification, is supposed to encourage employees to look for simple improvements, enhancement of effectiveness and work safety. In 2006–2011, a total of 371 projects were submitted. A considerable part of the proposed solutions have already been applied in practice, undergo tests or are being evaluated by the Company’s experts.

GOOD PRACTICE





4. KGHM POLSKA MIEDŹ S.A.
– THE EFFICIENTLY MANAGED
BUSINESS PARTNER

4.1. CORPORATE GOVERNANCE PRINCIPLES

KGHM Polska Miedź S.A. is managed in accordance with corporate governance principles and business ethics. The Company, which is listed on the Warsaw Stock Exchange, makes every efforts to abide by the principles of corporate governance as specified in the “Code of Best Practice for WSE Listed Companies” document in its everyday operations, and to comply with best practices of listed companies at each stage of its operations, and with the recommendations addressed to management boards, supervisory boards and shareholders.



BEST PRACTICES

Best practices constitute a set of corporate governance principles and relationships between listed companies and their environment. They are an important instrument aimed at strengthening market competitiveness. These principles, in consultation with issuers and investors, are developed and modified by the Warsaw Stock Exchange; they were published in writing for the first time in 2002. The “Code of Best Practice for WSE Listed Companies” helps improve the transparency of companies listed on the Warsaw exchange, enhance communication between companies and investors, and reinforce protection of the latter’s rights.

An amended corporate governance policy has been in force since 1 January 2012, included in the “Code of Best Practice for WSE Listed Companies”. The Company tries to apply all the recommended policies recognising that they increase shareholder value. To pursue a transparent and effective information policy ensuring that all the stakeholders have fast and safe access to information, the Company – to the widest possible extent – uses both traditional and modern company information transfer technologies (recommendation I.1 of the “Code of Best Practice for WSE Listed Companies”).

In accordance with the best practices recommendations, the Company prepares and publishes current and periodical reports in two language versions on its websites. The following are also available in the service: the calendar of key events (investor’s calendar), information on the dividend policy, financial information, exchange quotations and the current composition of the Management and Supervisory Boards, the Group structure and the currently pursued strategy.

In its information policy, the only information the Company has not as yet decided to publish are direct transmissions from the General Shareholders’ Meetings. However, the Meetings are always registered and published immediately, after the end of the meeting, on the website in two language versions – Polish and English. They are available in the section Investors zone / Transmissions.

INVESTORS ARE CRITICAL

In accordance with the Decree of the Minister of Finance on current and periodical information published by issuers of securities, binding as of 15 March 2009, each year KGHM publishes representations on applying corporate governance, which constitutes a separate part of the Directors’ Report. It is also available in the annual report. In accordance with the rules of corporate governance, the Company gives men and women equal rights to be management and supervisory board members. Despite the open competition process for selecting the Chairman of the Management Board in 2008 and the Production Vice President in November 2010, no applications were submitted by women.

The Company regularly addresses its actions to representatives of international funds, investment banks, analysts and individual investors. KGHM Polska Miedź S.A. presents itself at the Metals and Mining Sector conference and Emerging Markets conference. Representatives of KGHM also participate in conferences organised by international investment banks and brokerage houses during which they conduct direct and group meetings, giving information to representatives of institutional investors.

Publications of quarterly reports are regularly accompanied by meetings of the Management Board with analysts, fund managers and business journalists, which are broadcast live on the Internet.

Key company information is transferred to:



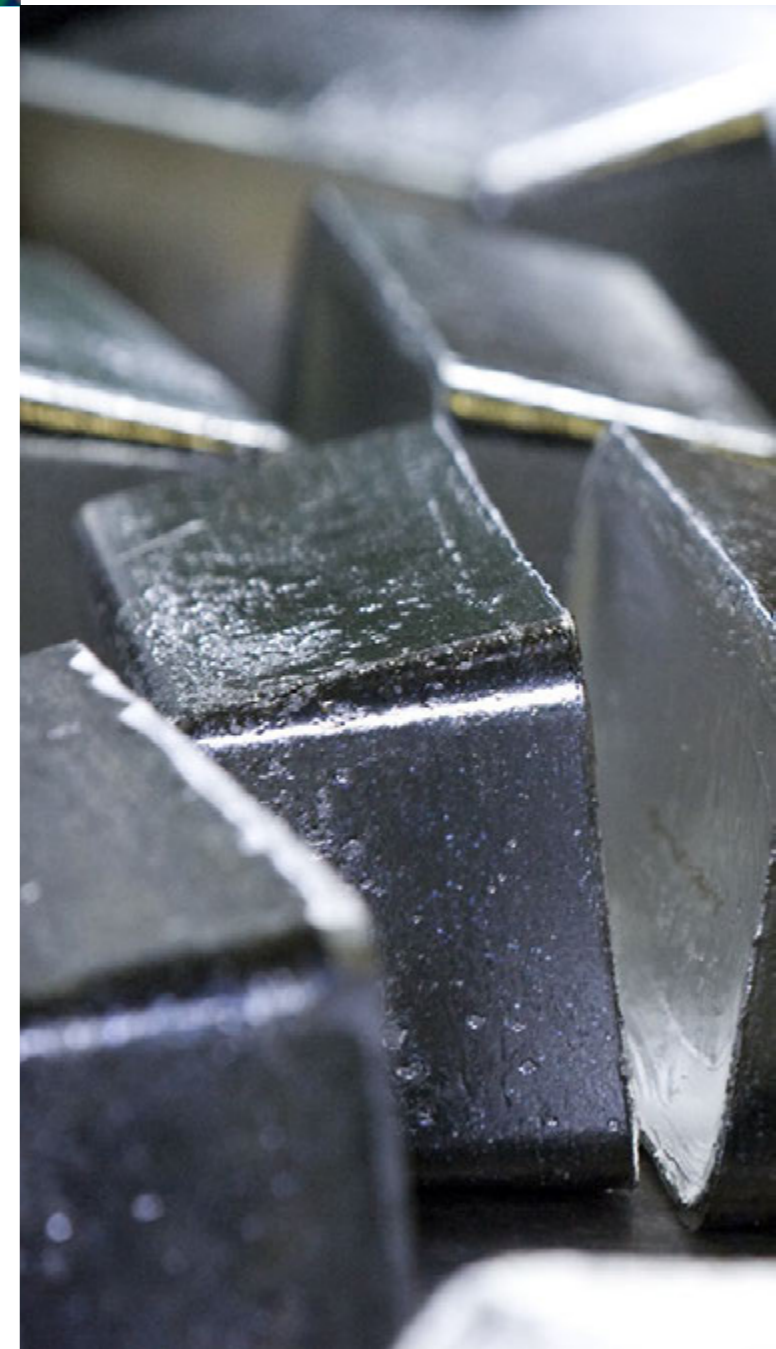
investors and analysts – via the website www.kghm.pl/investor information, maintained in Polish and English;



the media – through conferences and press releases, the press office and the www.kghm.pl website;



the employees – via press magazines, Intranet and corporate TV.



The Investor's Day is a new initiative introduced by KGHM Polska Miedź S.A. It is a project which allows the invited analysts and fund managers to better understand the specific nature of the Company. During the two-day working session, the guests may acquaint themselves with the process line and meet the Management Board of KGHM.

In its work, the Company's investor relationship team uses electronic media. Apart from

Internet transmissions, teleconferences, videoconferences and e-mail channels are also used in contacts with investors. On the website www.kghm.pl, the Investor Zone section includes information on the Company's current position (current and periodic reports), documents related to General Shareholders' Meetings, with Corporate Governance, market forecasts of results, presentations from meetings with the Management Board and video materials. Investors interested in receiving current information may also order the newsletter.

The Company participates in The **Best Annual Report** Competition. The Company has participated in the competition since it was established, i.e. for the last five years, and each year the report prepared by the Company was ranked very highly.



Quality counts

KGHM Polska Miedź S.A. tries to submit transparent and complete information on the Company to its stakeholders. Special emphasis is placed on the quality of the published information and reports, which is appreciated by the market. In 2010, the Annual Report of KGHM Polska Miedź S.A. won "The Best of The Best" title, a prestigious award granted for the first time to the best company which for the last three subsequent years came first in The Best Annual Report competition organised by the Polish Institute of Accounting and Taxes. The competition is organised in the following categories: enterprises, banks and institutions. The idea of the award is to establish acknowledged standards for preparing annual reports according to IFRS/IAS (International Financial Reporting Standards), and thus promote the companies which prepare the best consolidated annual reports from the perspective of their useful value for shareholders and investors. The Company has participated in the competition since it was established, i.e. for the last five years, and each year the report prepared by the Company was ranked very highly (2005 – 3rd place, 2006 – 2nd place, 2007, 2008, 2009 – 1st place). These awards are an example of effectively building the Company's credibility.



GOOD PRACTICE

RESPECT Index

THE RESPECT INDEX SHOWS THE WAY

As a public company, KGHM Polska Miedź S.A. has been quoted in the Respect Index, i.e. the index of public companies that are guided by social responsibility principles, since the time it was established (2009). The purpose of the index is to determine companies which are managed in a responsible and sustainable manner, and to highlight their investing attractiveness characterised, among other things, by the quality of reporting, the level of investor relations and information governance. The Company's presence in consecutive editions of the Respect Index confirms that it is one of the more socially responsible companies on the Warsaw Stock Exchange. Due to the fact that the liquidity parameter of the Respect Index, is one of the qualification parameters, similarly to other market indices, it is a true point of reference for professional investors. Currently 23 companies are quoted in the Warsaw index.

RESPONSIBILITY

- The Company respects its shareholders – with special emphasis on responsible communication with investors and the capital market.
- The Company respects its suppliers – among other things, by creating a Central Register of Businesses and launching a Purchase Support System (unique in Poland) which enabled arranging effective, transparent and responsible relations with the supplier market (more information further in this chapter).
- The Company supports its employees – 100 000 people in the region are employees of the KGHM Polska Miedź S.A. Group and of the collaborating suppliers; therefore, it is the Company's duty to take care of their professional and cultural development, health and quality of life. KGHM implemented several HR actions aimed at professional and occupational development and promotion of employees, giving them with the possibility of participating in valuable cultural and educational experiences and facilitating access to high quality medical services (*more information on the issue is included in Chapter V*).

SUSTAINABILITY

- The Company is predictable, it pursues a strategy stipulating long-term investments related to its basic business in Poland.
- The Company has a policy for geographical diversification – by investing in mining assets outside the Polish Copper Belt (among others, activation of Quadra in Canada) the Company is building a global mining firm.
- The Company invests in maintaining and creating new jobs as an alternative for the copper industry – among other things, development projects in KGHM Polska Miedź S.A. Group companies (such as the LETIA Technological Park). (*more on the topic in Chapter V*).

ENVIRONMENT

- The Company is important – it plays a key role in the environment in which it operates as the largest employer and a company with the largest business potential in Lower Silesia.
- The Company supports local governments – cooperating with the local governments, especially from those municipalities where it conducts operations.
- The Company acts on behalf of business development – by creating an active organisation gathering together employers from the Copper Belt – The Polish Copper Employers Union which has the special entitlements of a "Social Dialogue Partner".

TRANSPARENCY

- The Company acts ethically – applying the provisions of the "Code of Best Practice for WSE Listed Companies" and abiding by the rules of corporate governance;
- The Company engages in dialogue with employees – via internal communication channels – press periodicals, the Internet portal and corporate tv.

RESPECT

IS THE ACRONYM FOR:

RESPONSIBILITY, **E**COLOGY, **S**UNSTAINABILITY, **P**ARTICIPATION, **E**NVIRONMENT, **C**OMMUNITY AND **T**RANS Parency.

WHAT DOES IT MEAN FOR KGHM?

ECOLOGY

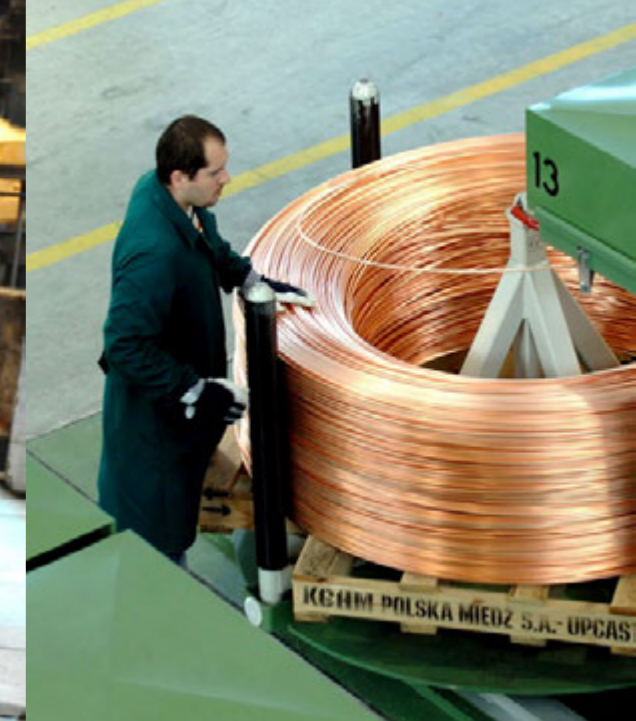
- The Company operates in compliance with the regulations – KGHM Polska Miedź S.A. has integrated permits for production installations.
- The Company wins awards – among others: the title of the Polish Ecology Leader for completion of the program "Protection of the atmosphere as a component of the comprehensive ecological policy system of KGHM Polska Miedź S.A." – Eco-laurels granted by the Polish Chamber of the Environment (Polska Izba Ekologii) in the category "Air protection and protection from noise"; the Company has also implemented unique technologies for the use of waste from the main production line – among other things by producing rhenium (a very rare metal very much sought-after by the aviation industry), lead, nickel sulphate, road aggregates.

PARTICIPATION

- The Company participates in the activities of various organisations – among others, Polish Business-Higher Education Forum (Polskie Forum Akademicko-Gospodarcze), Polish Chamber of the Environment (Polska Izba Ekologii), Polish Chamber of Commerce for High Technology (Polska Izba Gospodarcza Zaawansowanych Technologii), International Copper Association, Western Chamber of Commerce (Zachodnia Izba Gospodarcza).
- The Company cooperates with the academic world – co-financing academic programs, participating in research programs under the Innovative Economy Operational Programme and in conferences and symposia; the Company has also established a platform for technological cooperation with the academic world.
- The Company leaves its marks on the social and cultural life in the region – by acting as partner on various projects, festivals, exhibitions and symposia (*more on the topic in Chapter V*).

COMMUNITY

- The Company supports investments in infrastructure – projects conducted by those municipalities in the area where it conducts its operations.
- The Company builds agreement – cooperating with representatives of over 18 000 Company employees associated in 15 multicompany labour unions.
- The Company acts to promote healthcare – Miedziowe Centrum Zdrowia S.A. provides top quality medical services to both KGHM employees and the region's residents.
- The Company conducts pro-community activities – via the "Polska Miedź" Foundation.
- The Company promotes sports – by sponsoring the sports club, Zagłębie Lubin and supporting the organisation of local sports events. (*more on the topic in Chapter V*).



ETHICS IN KGHM

Ethical principles are of major importance to the Company. The "Code of ethics in the KGHM Polska Miedź S.A. Group", binding for all employees involved in purchase processes, which must be clear and transparent, is in force in the Group. The provisions of the Code describe the principle of ethical cooperation with suppliers. Implementation of the "Ethics Code" encompassing not only purchases,

but all business processes conducted by the Company, is one of the challenges indicated in the strategy for the years 2009–2018.

Abiding by the principles provided for in the binding Code, is key to maintaining the effectiveness of the purchase processes and to ensuring the company's professionalism and integrity to the shareholders, suppliers and other stakeholders. The key values by which the employees have to abide are loyalty, professionalism, integrity and compliance (*more about the ethical principles binding in respect of purchase processes further down in this chapter*).

Public opinion and legal regulations oblige companies to act in consideration of the environmental and economic aspects of the environment in which they operate. The key issue for companies such as KGHM Polska Miedź S.A. is counteracting corruptive practices and behaviours which may have an impact on the Company's reputation and assets. This is supervised by the Internal Control Department, whose task it is to support management in the activities related to managing the enterprise. Internal control focuses on diagnosing and explaining any situations which could be indications of irregularities and fraud. The Department is to prevent them, perform control actions in respective high risk areas, prevent potential losses on the part of the Company and coordinate the recovery of assets lost by the Company. Employees of the Internal Control Department participated in training on business crime, covering such issues

as corruption in control training units and audit of mining companies.

The Internal Control Regulations stipulate the possibility of notifying the President of the Management Board or the Director of Internal Control of actions which are characteristic of irregularities or fraud and specify the operating procedures in the event that such notification is made.

Notifications may be submitted (in any form) by Members of the Management Board, Branch and Management Board's organisational units, Directors and all the Company's employees. Up until the end of 2011 no corrupt events were discovered which would have been a basis for notifying the prosecution authorities.

The key values by which the employees have to abide are loyalty, professionalism, integrity and compliance.



Krzysztof Nitkowski
Director of the Internal Control Department

In such a large organisation as KGHM Polska Miedź S.A. decisions and actions have to be taken to counteract fraud, including mismanagement or corrupt practices. All employed have to learn to be aware of the duty (specified in the Internal Control Regulations) of conducting effective control (in respect of the management) and self-control (in respect of the employees). There are grounds for implementing regulations which require developing ethical behaviours and training sessions aimed at learning methods for preventing fraud, recognizing respective behaviours and methods of behaving and proceeding in the event of the discovery of such negative phenomena in the Company's business processes.

Monetary value of penalties and total number of non-financial sanctions in respect of non-compliance	2010	2011
Total value of monetary penalties imposed	PLN 8.80	PLN 794.63

4.2. PURPOSE: INTEGRATED MANAGEMENT SYSTEM

Being a change pioneer, as early as the beginning of the 1990s the Company began implementing, firstly in its divisions (smelters) and subsidiaries, standardised management systems. Initially this related to a quality management system and resulted from the need to mark its wider presence on external markets (in the case of companies) or meeting trade requirements (the London Metal Exchange in the case of smelters).



These actions proved that the quality of the products and services is a material competitive factor. They can also be important factors creating the Company's image and have an increasing impact on its results. In this respect the leading department was the **Cedynia wire rod plant, which implemented a quality management system as early as in 1995**. Currently, the smelter uses an integrated management system which meets the requirements of the PN-EN ISO 9001, PN-EN ISO 14001 and PN-N-18001 standards. **Management systems with similar scopes have also been implemented and certified in the Legnica and Głogów smelters and in the Ore Enrichment Plants**. A Safety and Hygiene at Work System operates in the Legnica and Głogów copper smelters; it complies with the

requirements of OHSAS 18001 and PN-N-18001, whereas safety and hygiene at work management systems certified in accordance with the Polish PN-N-18001 standard operates in the Mining Plants. A management system compliant with the PN-EN ISO 14001 and PN-N-18001 standards was implemented in the Tailings Plant, an IT services management system in accordance with the ISO/IEC 20000 standard operates in the Data Center, and a safety and hygiene at work system has been certified for compliance with the PN-N-18001 standard in respect of underwater works in underground mining excavations in the Mine-Smelter Emergency Rescue Unit.

Now it is time to take the next step which is necessary for the Company to become the management leader. This will be the development of an **Integrated Management System (IMS)**, by integrating the systems operating in the divisions as quickly as possible, in a rational and in-depth

manner. Such action should ultimately facilitate the pursuit of the firm's strategy in a streamlined and effective manner, as it leads to standardising planning, organisation and control over the actions conducted within the Company, and integrates the information channels and databases. Implementation of IMS enables effective and simultaneous management of many subsystems by establishing and executing a uniform management tool.

Time for action

In September 2011 the Management Board formed a Management Systems Division (Wydział Systemów Zarządzania) within the structures of the Director General for Governance and Sustainable Growth. This meant beginning work on the project for the "Implementation of the Integrated Management System in KGHM Polska Miedź S.A." based on the requirements of international quality, environment, safety and health at work, energy management, IT services and safety of information standards. The key challenge for the new division is the appropriate integration and adaptation of the systems already existing in particular divisions so as to prevent their being at variance with the system being implemented in the Management Board Office.

The Integrated Management System at KGHM Polska Miedź S.A. will be a useful and functional tool which should improve management effectiveness and efficiency and the operating results by ensuring a more streamlined flow of information and consistent (wherever possible and reasonable) methods for proceeding. Another purpose of IMS is also the possibility of the certification of the enterprise as one organisation without detriment to the supervision over the operation of the management systems in the divisions.

The implemented and certified Integrated Management System will contribute to:

- more streamlined and dynamic development of the Company;

- better organisation of work, clearly determining the tasks, competencies and responsibilities of employees and their readiness to meet clients' requirements;
- streamlining and eliminating activities that are duplicated in all areas of the enterprise and reducing internal inconsistencies;
- effective resource management;
- standardising and reducing the number of documents – linking together procedures and processes relating to different systems in a transparent and logical manner;
- facilitating compliance and ensuring quick adaptation to the internal regulations and changes in the binding legal system;
- strengthening the Company's position on the global market;
- building a positive image of the Company in the eyes of clients, counterparties, the community and the regulators;
- increasing the Company's prestige, and confidence in the firm.

Certified management systems also have a marketing value. For the clients, they are proof that the Company conducts its operations in a safe manner both for its partners, its employees and the environment, and therefore good quality products and services can be expected.

Comprehensive risk management

The draft "Risk management policy" is currently being prepared. It will be a document describing the framework system and processes of risk management in KGHM Polska Miedź S.A., which will be strategic for the Company and become an element of the Company's corporate governance.

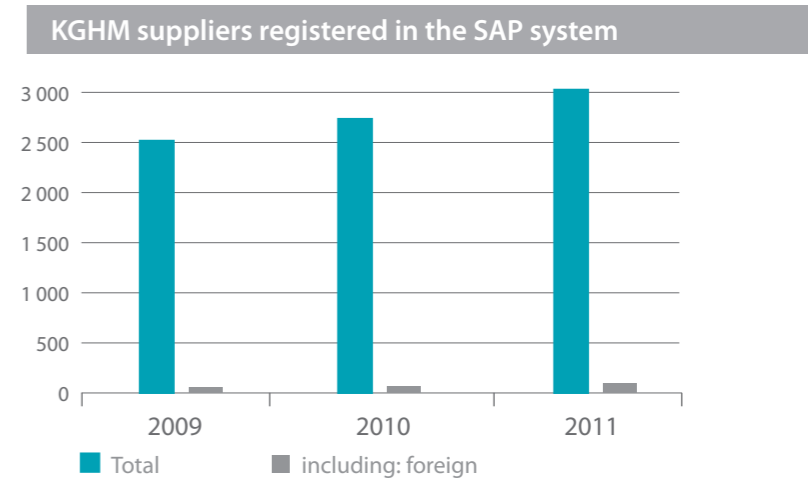


Aldona Stajer
Manager of the Management Systems Department

Implementing the Integrated Management System leads to significant organisational changes within the Company, leading to better control over internal and external processes, better quality information and enhancing the manner in which the Company operates, thus increasing its competitiveness. The integrated management certificate is proof of the Company's responsibility and constitutes a guarantee for potential clients, suppliers, investors and shareholders. An integrated management environment provides clear information on all aspects of the Company's operations, their mutual impact and the related risks. Greater focus on the Company's operations – the use of one system that is related to the strategic goals leads to constant organisational improvement. The use of such system also facilitates implementing new systems in the future.

4.3. RESPONSIBILITY IN BUILDING SUPPLIER RELATIONSHIPS

As a socially responsible company KGHM is directed by fairness and responsibility at each stage of its business contacts. The Company has implemented an organised and transparent procurement process and developed a procurement ethics code. This stipulates the absolute transparency of the rules relating to the selection of suppliers and introduces a total ban on accepting any material benefits, including small gifts, from the participants in tender proceedings, which could put the Company's good reputation into jeopardy. In its relations with suppliers, the Company takes into account CSR issues – one of the elements in the selection process are queries relating to environmental protection and safety and hygiene at work.



Open criteria

The **“Procurement policy”** is binding in the Company which – apart from the rational use of funds and making savings by the divisions and Group companies – is aimed at ensuring the **transparency of the purchase decision process**. This purpose is achieved, among other things, by applying an electronic Procurement Support System aimed at automating the selection of the best offers using clear and indisputable criteria. The use of particular modules of the system allows registering and making information available from the moment of accepting a request, through the tender procedure, to the selection of the most favourable offer and signing the respective contract.

The Auction Platform, which supports the auction and bidding process, automating the selection of the best offer, streamlining relationships with suppliers and reducing purchase costs, is an integral part of the Purchase Support System. Offers are evaluated based on the criteria included in the Terms of Reference (ToR) without the participation of the ordering party.

The employees of the Central Procurement Office and other people involved in the process are obliged to act in accordance with the law and internal KGHM regulations, including the “Principles for selecting providers of work and services, suppliers of goods

and procedures for concluding contracts on behalf of KGHM Polska Miedź S.A.”. Abiding by those rules is necessary to maintain the effectiveness of purchases and also helps assure the shareholders, suppliers and other stakeholders of the professionalism and transparency of the process. In accordance with the “Principles” all suppliers have to be treated in the same way so as not to jeopardise the free competition principle. They also oblige the employees engaged in the procurement process to endeavour to meet the purchaser’s obligations stipulated in the contracts signed, and to demand that the counterparties complete the orders in accordance with the contract terms and conditions. Detailed principles of supplier relations are described in the “Code of ethics in the KGHM Polska Miedź S.A. Group”.

Counterparty scrutiny

In its relations with suppliers, KGHM takes into account issues related to Corporate Social Responsibility – **one of the elements in the selection process are the queries relating to environmental protection and safety and hygiene at work**. In all Terms of Reference standard provisions were introduced obliging suppliers to give their consent to the conduct of an audit of the subject of the order by authorised employees of the KGHM Polska Miedź S.A. Purchase Department, on a mutually agreed date. A questionnaire form was also developed for potential and current counterparties, in which components relating to social responsibility are referred to as one of the criteria for evaluating potential suppliers, specifically from outside the European Union.

These actions are particularly important taking into account the expansion of the supplier market on a global scale,

taking into consideration Asian markets. Although the share of foreign counterparties of KGHM Polska Miedź S.A. is currently relatively small, **in 2011 there were 145 such suppliers, which constitutes 4.5% of all the Company’s counterparties**, it should be noted that as of the moment of launching the Central Procurement Office, the number has doubled. The growth trend in this respect is constant and compliant with the Central Procurement Office’s operating strategy.

Strengthening the position of KGHM Polska Miedź S.A. as a solid and ethical business partner will increase the Company’s recognisability on external markets as a material and ethical purchaser, which will have an impact on the competitiveness of the offers acquired as a result of the tender procedures.

Developing a “Supplier Code of Ethics” is also planned and annual verification of the suppliers in terms of their compliance with KGHM requirements.

Provisions of the Code

In accordance with the provisions of the **“Code of ethics in the KGHM Polska Miedź S.A. Group”** employees should be loyal to their company and aim to enhance its value, and care for its renown. It is their duty to maintain best relations with colleagues, clients and suppliers, and to treat them with respect and politely. As the Company is a responsible company, it cares first and foremost for the compliance of its actions with the law and with internal regulations. In the event of any doubts concerning these issues, the employees should refer them to their direct superior.

In its relations with suppliers, KGHM accounts for issues related to responsible business – one of the elements of their selection are the queries regarding their compliance with environmental protection and safety and hygiene at work policies.

The Code bans establishing any cooperation with companies with which the Company’s employees responsible for procurement are in any manner related. The employees are obliged to notify their superiors of any potential conflicts of interest. Quick disclosure of such situation is necessary in order to maintain supplier confidence. Accepting pecuniary and non-pecuniary benefits in connection with exercising duties in respect of the Company is also forbidden. Such benefits also include the employee’s participation in events or training sessions organised by suppliers which are not specified in the signed contract. Such situation is treated as a gross violation of the basic duties of the employee.

4.4. WE CARE FOR OUR CLIENTS

The Company aims to deliver the best quality goods to its customers. The Company's policy is to ensure timeliness of deliveries, diligence and direct dialogue. The Company always pays on time and delivers the goods on time. It is also competitive in terms of service quality.



The two basic products – copper and silver – are characterised by their extremely stable, high quality. Cathodes contain 99.99% pure Cu at a minimum. Apart from these, KGHM also produces copper wire rod, sprues and wires from anaerobic copper. Cathodes are registered in the highest quality range "A" on Metal Exchanges in London and Shanghai. Silver containing over 99.99% Ag is produced in the form of bars and granulates. The quality is confirmed by global exchange certificates. Silver is registered and has "Good Delivery" certificates issued by exchanges in London (LBMA) and Dubai, and is registered on the New York Nymex exchange.

In respect of product liability, a groundbreaking event for KGHM Polska Miedź S.A. was taking over the trade in copper and

derivative products from foreign trade central offices in 1991 and centralising sales within the Company itself. Thus the building of a long-term strategy started which enabled the Company to enter new sales markets and at the same time to gain experience both in trading and in production and organisation.

In consequence of the high expectations of partners, the Company **expanded its product mix by silver and lead in metallic form, rhenium and anaerobic wire**. The Company was also forced to apply international standards and – as a consequence – to register trademarks for cathode copper (HMGB, HMGS, HML) outside London, also on the Shanghai exchange (the registration on LME took place earlier) and silver (KGHM HG) on international exchanges (LBMA, Dubai and Nymex).

High requirements relating to the quality of the products and protection of the natural environment led to

implementing ISO standards in the smelting divisions. Currently the standards operate as an integrated quality management system and cover: product quality, safety at work and natural environment management. One of the goals of the system is to meet client expectations as to the transparency of service behaviours, and maintain a high quality of production and products. The ISO standards provide for client audits directly at the production plants which translates into confidence granted to the Company by its cooperating entities.

KGHM Polska Miedź S.A. pays great attention to building direct relationships with clients. To that end the Company's structure was designed to ensure that all information reaching every employee is quickly transferred to the Company's remaining organisational structures. The motto in dealing with counterparties is:

"We listen, respond immediately and react to needs".

Enabling clients to acquaint themselves with the whole process line from mines to smelters is also of major importance. In this way the Company shows that it approaches the issue of product quality, production volume and modern production solutions in an open and transparent manner. This in turn contributes to counterparty

loyalty and builds awareness that KGHM Polska Miedź S.A. is a socially responsible company.

The Company actively participates in industry meetings of international organisations and in fairs, conferences and seminars, thanks to which it acquires knowledge about the market. International market participants can see the major role played by CSR in trade relations both on the part of clients and competitors.

To maintain good relationships with clients and the business environment, the Company organises **annual meetings with Polish and foreign clients** (including promotional meetings during the London Metal Exchange (LME) Week in London). At the same time, the Company would like to be perceived as a firm which cultivates and cares for the traditions that are related to the region and the industry; therefore, it invites clients to participate in industry celebration events organised by the enterprise, i.e. the Miners' Day and Metallurgist's Day.

All these activities are aimed at building firm relations with the Company's partners and with the market, consolidating the Company's positive image and good, long-term cooperation. They also contribute to strengthening the KGHM Polska Miedź S.A. brand and its products in Poland and globally.

CERTIFICATES

Electrolytic copper in the form of cathodes meets the grade "A" requirements and is registered by:

the London Metal Exchange (LME) under three brands:

- ▶ HMG-S (for cathodes manufactured by the Głogów smelter),
- ▶ HMG-B (for cathodes manufactured by the Głogów smelter),
- ▶ HML (for cathodes manufactured by the Legnica smelter).

Shanghai Futures Exchange (SHFE):

- ▶ HMG-S (for cathodes manufactured by the Głogów smelter),
- ▶ HMG-B (for cathodes manufactured by the Głogów smelter),
- ▶ HML (for cathodes manufactured by the Legnica smelter).

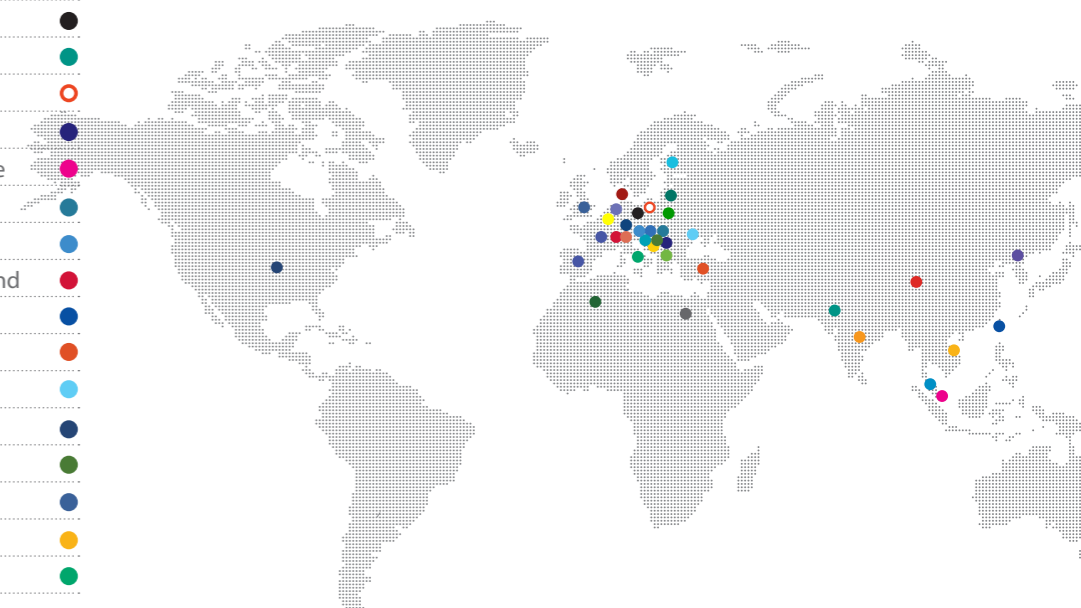
The cathodes manufactured by KGHM were registered for the first time in 1969.

Refined silver in the form of bars is registered under the KGHM HG brand and has two "Good Delivery" certificates issued by the following exchanges: the London Bullion Market Association (certificate awarded in 1995) and Dubai Multi Commodities Centre (awarded in 2006). In February 2009 silver in the form of bars under the KGHM HG brand was also awarded the registration certificate on the NYMEX exchange in New York.



List of countries in which key KGHM products were sold in 2010–2011

Algeria	●	Lithuania	●
Austria	●	Malaysia	●
Belgium	●	Germany	●
Belarus	●	Pakistan	●
Bosnia and Herzegovina	●	Poland	○
Bulgaria	●	Romania	●
China	●	Singapore	●
Croatia	●	Slovakia	●
Czech Republic	●	Slovenia	●
Denmark	●	Switzerland	●
Egypt	●	Taiwan	●
Finland	●	Turkey	●
France	●	Ukraine	●
Spain	●	USA	●
Netherlands	●	Hungary	●
India	●	UK	●
Korea	●	Vietnam	●
		Italy	●

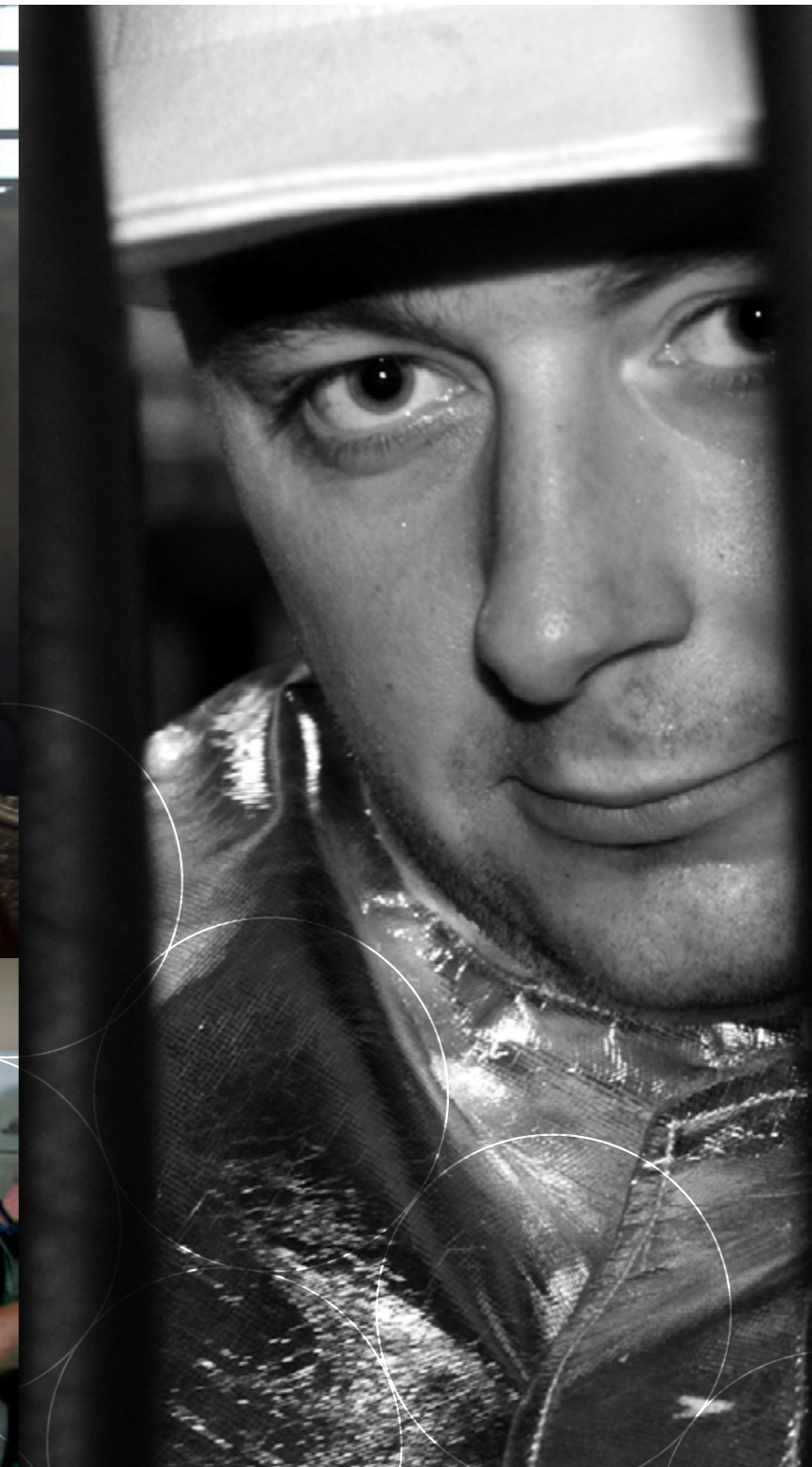


4.5. HUMAN RIGHTS

One of the strategic goals of the CSR strategy of KGHM Polska Miedź S.A. is care for human rights. Today, 100% of the new foreign investments are assessed in terms of human rights-related risks and analysed in terms of their impact on the local communities.

The Company also conducts supplier audits, checking their operations in terms of compliance with human rights regulations (the Central Procurement Office cooperates in this respect with KGHM Shanghai – a subsidiary which is responsible, among other things, for checking the potential suppliers of KGHM Polska Miedź S.A.). Audits of local suppliers are also conducted on an ad hoc basis. Up until the end of 2011 there were no incidents of suppliers violating human rights.

Developing guidelines relating to CSR activities and ensuring the compliance of foreign operations with human rights, and their cooperation with local communities, will be a challenge to the Company's foreign expansion. This will require, among other things, conducting training on compliance with human rights, in connection with an investment process.





5. KGHM POLSKA MIEDŹ S.A. IN THE REGION

5.1. RESPONSIBLE EMPLOYER

KGHM Polska Miedź S.A. belongs to the group of most desired employers in Poland, as it guarantees safety and stability of employment, attractive remuneration and a comprehensive social package. This has been confirmed by the "Ideal Employer" award which the Company received in 2010 in the Universum Professional Survey ranking. In 2011, in the same ranking, in the "Engineering" category, the Company was ranked second.

Since the beginning of its activities, people – experienced management and highly qualified employees – have been one of the most important assets of the Company. The key objective of the Company's activities related to human resource management is ensuring the required number of employees in certain occupation groups and with certain qualifications, as well as that they use their potential in the best way.

Most valuable social capital

In order to properly use the competencies and knowledge of employees, the **Social Potential Management System** has been set up at the Company. Including the education and development system, career planning and competence management, as well as recruitment and adaptation, it supports the implementation of the Company's business strategy.

The Social Potential Management System (SPMS) is aimed at ensuring that each employee:

- is a highly-qualified professional;
- works in an atmosphere of openness, cooperation, politeness and fairness;
- co-participates in setting the organisational standards, values and culture.

For the last 50 years the copper corporation has not only been one of the leaders in the Polish economy and since 1997 – one of the largest companies quoted on the Warsaw Stock Exchange, but also a firm closely bound to its region, focused on local activities, caring for its employees and the environment in which it functions. Its impact on the neighbourhood is significant, as the Company – with over 18.5 thousand employees – is the largest employer in Lower Silesia, and the whole KGHM Polska Miedź S.A. Group employs an additional 12.5 thousand people. KGHM is also the largest taxpayer in the region.

From the beginning of its operations KGHM took actions which today would certainly be considered as resulting from its corporate social responsibility policy. These will be crowned by the CSR strategy (*more information on the strategy is presented in Chapter III*), which comprehensively describes the 50 years of experience and contemporary challenges which modern enterprises have to face.

Number of employees and average remuneration at KGHM

Total number of employees by employment basis, type, employment contract, region and sex	2010	2011	Total number of new hires, resignation and employee rotation ratio by age group, sex and region	2010	2011
a) Total number of employees, of which:	18 639	18 615	a) Total number of employees who left employment during the reporting period, of which:	652	628
Men	17 305	17 283	Men	607	585
Women	1 334	1 332	Women	45	43
b) Employees employed based on an employment contract, of which:	18 639	18 615	b) Percentage of employees who left employment during the reporting period, of which:	3.50%	3.40%
Employees employed on a full-time basis, of which:	18 624	18 600	Men	3.30%	3.10%
Men	17 296	17 275	Women	0.20%	0.20%
Women	1 328	1 325	c) Total number of employees who started work in the entity during the reporting period, of which:	874	602
Employees employed on a time basis other than full-time, of which:	15	15	Men	821	563
Men	9	8	Women	53	39
Women	6	7	d) Percentage of employees who started work during the reporting period, of which:	4.70%	3.20%
Employees employed for an indefinite term, of which:	17 352	17 535	Men	4.40%	3.00%
Men	16 083	16 269	Women	0.30%	0.20%
Women	1 269	1 266			
Employees employed for a definite term, of which:	1 287	1 150			
Men	1 222	1 084			
Women	65	66			
c) Employees employed based on a personal service contract or specific task contract, of which:	72	94			
Men	57	80			
Women	15	14			

	2010	2011
Percentage of employees subject to collective bargaining agreements	99.70%	99.70%
Remuneration of the lowest-level employees vs. the minimum wage on the particular market in key locations of the organisation, by sex:		
Men	PLN 7 893	PLN 8 208
Women	PLN 6 602	PLN 6 798
a) Remuneration of the lowest-level employees vs. the minimum wage on the particular market in key locations of the organisation, by sex:		
Men	5.99 : 1	5.92 : 1
Women	5.01 : 1	4.90 : 1
b) Definition of "key locations"	country	country
c) Is there minimum remuneration of the lowest-level employees or does it vary in key locations of the organisation, by sex	PLN 1 317 monthly	PLN 1 386 monthly



EMPLOYEE SATISFACTION

Are employees satisfied with their work? The answer has been obtained based on the employee satisfaction survey, carried for the last time in 2011; 3 406 employees participated in the survey. The conclusions are satisfactory: general work satisfaction level from the point of view of the whole Company is relatively high. Taking into account employee groups, a higher satisfaction level is demonstrated by white-collar workers and management members, while blue-collar workers occupy the lower one.

Work satisfaction, assessed based on the question "In my opinion, my division is an attractive work place" in the questionnaire, was confirmed by 73% of respondents, while lack of satisfaction – by 21%. Additionally, almost 80% of respondents would recommend work at KGHM Polska Miedź S.A. to their friends. The lowest grades were allocated for "Personnel policy" and "Employee motivation", and therefore it is necessary to improve the incentive system and introduce clear promotion and bonus criteria. In the survey, the highest grades were allocated in the following areas: "Corporate image," "Work organisation," "Safety" and "Interpersonal relationships." Employees in the Emergency Rescue Unit are the most satisfied with their work.

As a part of the Social Potential Management System (SPMS), the Company assessed its white-collar workers, as a result of which reserve management candidates were identified and people who can be involved in projects carried out within the Company. A selected group of 120 people was additionally assessed using the Development Centre method, which allowed to prepare individual development paths for these persons. Experiences gathered in this process would provide the basis for the development and modification of employee assessment at KGHM Polska Miedź S.A., as well as the implementation of a SAP application supporting this assessment.

State-of-the-art support has also been used with respect to the Company hiring new employees. This is related to introducing recruitment principles referred to as "eRekrutacja" ("eRecruitment"). Job offers are published on the website: www.rekrutacja.kghm.pl. The whole process is carried out

electronically and by the Divisional Recruitment Commission. This form of the candidate registration includes jobs reported by all divisions of KGHM Polska Miedź S.A.

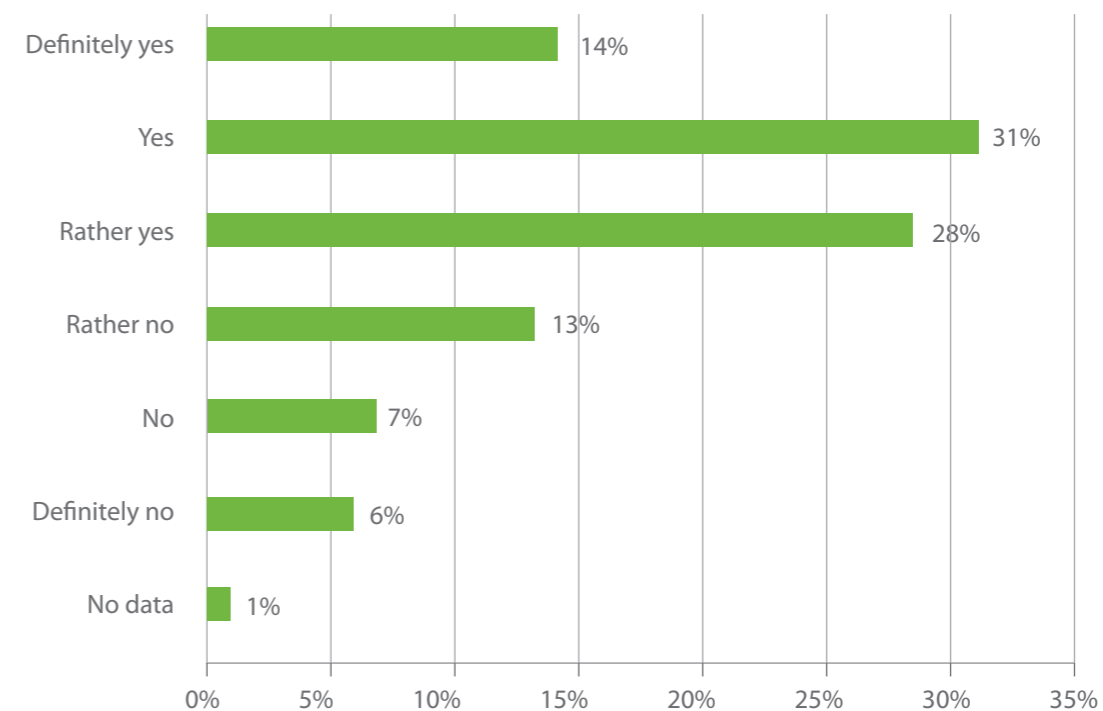
In order to ensure that employees understand processes taking place at mines, smelters and ore enrichment divisions, the "Introduction to key technology processes at KGHM Polska Miedź S.A. for new hires" programme has been introduced. It has been prepared for white-collar workers, identified by division directors.

Clear remuneration criteria

In order to increase employee motivation, the Company has prepared a plan of the new remuneration system, based on a description of the jobs at the Company and their evaluation. The new system assumes a reduction of the components that are not related to productivity, in the remuneration structure (more information can be found in Good practice "In the direction of motivation" below in this chapter). The implementation of the already developed "Code of Conduct" for the whole Company is a challenge for the nearest future. At KGHM, a procurement procedure policy is already in place.

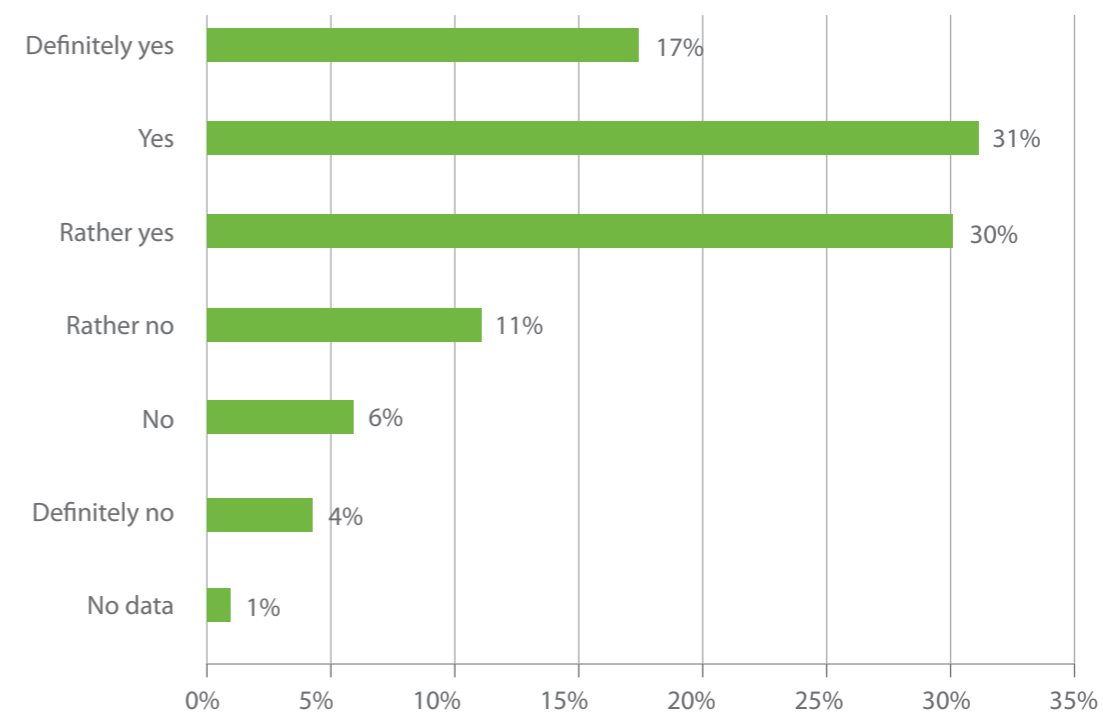
KGHM Polska Miedź S.A. employee satisfaction survey

IN MY OPINION, MY DIVISION IS AN ATTRACTIVE WORK PLACE



Source: Biostat

I WOULD RECOMMEND THE COMPANY TO MY FRIENDS AS A GOOD EMPLOYER



Source: Biostat



In the direction of motivation

The new remuneration system was implemented on the level of the Company's division in 2010. Its objective is primarily increasing remuneration in the group of direct-production employees and extending the incentive function of the system. This is a key activity, since the employee motivation area was one of the areas that obtained the lowest grades during the employee survey in 2011. Objectives of the implementation of the new incentive remuneration system include primarily:

- improvement of remuneration relationships in the group of direct-production employees;
- improving the motivation of employees directly participating in the production process;
- limitation of application of the piece-work system in favour of fixed and task bonuses;
- focusing activities of employees on optimum usage of work time, human and technical potential.

Incentive funds separated as a part of payroll allowed introducing quarterly discretionary bonuses. They are allocated by a direct superior, based on an assessment of the implementation of tasks and fulfilment of his responsibilities by the employee.

There are **15** supra-company trade unions at the Company; as at 31 December 2011, **16 545** employees, i.e., **89%** of all employees, were members of these trade unions.

TRADE UNIONS AT THE COMPANY

There are 15 supra-company trade unions at the Company; as at 31 December 2011, 16 545 employees, i.e., 89% of all employees, were members of these trade unions. Cooperation with trade unions takes place both on the level of the Management Board and the divisions. The Company pays great attention to dialogue and cooperation with trade unions. All topics, important from the point of view of the employer, as well as trade unions, are discussed. In the last period, key areas of the dialogue and cooperation with trade unions included:

- wage increase;
- the Collective Bargaining Agreement;
- the Employee Pension Plan;
- the economic and social position of the Company;
- occupational health and safety conditions;
- health prevention and protection.

In the nearest future, the key challenge with respect to cooperation with trade unions will refer to starting work on amendments to the collective bargaining code at the company.

BONUSES FOR EMPLOYEES

KGHM Polska Miedź S.A. is one of a few companies in Poland that has successfully implemented the Employee Pension Plan (EPP). The basic contribution, financed by the employer is **5% of the employee remuneration**. As at 31 December 2010, more than **85% of staff** declared their intention to join the EPP, which has been operating since 2004. Agreed plan terms provide for the option of offering various saving models to employees, depending on age and investment preferences. Irrespective of the basic contribution, financed by the employer, an employee can pay an additional contribution to the plan, from his own remuneration, while investing it in selected investment funds managed by TFI PZU S.A.

Since 2009, employees can use **healthcare services based on the voucher for medical services in Miedziove Centrum Zdrowia S.A.** (a company from the KGHM Polska Miedź S.A. Group). **Forty-seven percent of employees** declared their will to use this form of medical services. While feeling responsible for the health and life of its employees and people living in the region, the Company intends to establish a network of hospitals in cooperation with Miedziove Centrum Zdrowia S.A. (MCZ).

Employees can also use support under the **Company's Social Benefits Funds**. These Funds are created separately, in each division of the Company. Resources collected therein are used based on regulations laid down by the employer in an agreement with trade unions operating in the particular division. The total average contribution to the social fund (basic and additional, based on

the Collective Bargaining Agreement) per employee was **PLN 5 271** in 2010, and **PLN 5 458** in 2011. This contribution allows meeting the social needs of employees to the degree significantly exceeding standards binding at other companies. The total contributions – statutory and additional in 2010 were PLN 98.8 million, and in 2011 – PLN 101.4 million. **18.6 thousand employees and over 17 thousand employees on old age and disability pension** are entitled to benefits from the Fund. Members of their families also use the benefits. The annual in-kind and cash benefit fund, agreed with company trade unions, provides the basis for using the Fund.

In divisions, **holiday benefits (about PLN 2 200 per employee)** are, inter alia, financed from the Company's Social Benefits Fund. Employees with children learning at day primary or secondary schools, are entitled to an **annual equivalent of about PLN 2 000 for covering school expenses**, but only until the child is 21 years of age. The Company also finances 21-day rest-cure for 440 employees meeting criteria set in the Collective Bargaining Agreement. Additionally, KGHM arranges and co-finances recreation for children and young people. Almost **6 550 children and young people** participate in summer camps, etc. on an annual basis.

Employees on old age and disability pension are entitled to use the resources of the Company's Social Benefits Fund without any limitations. As at the end of 2011, over 17 thousand employees on old age and disability pension, as well as their family members, were entitled to benefits from the Fund. Depending on regulations binding at the Company's divisions, e.g., allowance aids and gift vouchers are financed from the Company's Social Benefits Fund.

Former employees can also receive a loan from the Company's Social Benefits Fund for refurbishment and modernisation of detached houses and residential premises (in divisions that in their regulations for using resources of the Company's Social Benefits Fund provided for such an option). Based on the Collective Bargaining Agreement for Employees of KGHM Polska Miedź S.A., they also receive the cash equivalent for **coal benefit of about PLN 1 800 annually**.

In accordance with a long-term tradition, the Company arranges an annual celebration for Miners' Day. In accordance with arrangements with the Miners' Day Organisational Committee, employees on old age and disability pension are entitled to the Miners' Day benefits and can participate in these events. The KGHM Trek

is also arranged on an annual basis, in which employees on old age and disability pension from divisions of the Company together with their family members participate. Additionally, former employees are entitled to tourist travel or rest-cure once a year.

PROFESSIONAL DEVELOPMENT

Employees of KGHM Polska Miedź S.A. can benefit from various forms of education, additional education and professional development. They include professional courses, specialist training courses, general development courses, English language courses, development of qualifications by university studies, postgraduate courses, Ph.D. or MBA courses. The Company undertakes various activities related to investments in people – it puts emphasis on the development of competencies, the definition of professional career paths, as well as a comprehensive and fair assessment and talent identification. In

In 2010 and in 2011,
28 thousand employees
participated in various forms of personal and professional development.

2010 and in 2011, 28 thousand employees participated in various forms of personal and professional development. The Company pays special attention to OHS training and prevention, as a result of which the number of accidents is gradually decreasing year by year (from 1090 in 1992 to 467 in 2011).

	2010	2011
Coverage of pension liabilities of the entity under defined-benefit plans	PLN 84 524.4 thousand	PLN 86 438.6 thousand

Training is a foundation

Employee training is one of the methods that lead to achieving the objectives of Pillar V of the business strategy (developing organisational know-how and capabilities). These issues are regulated in detail in the **“Training policy of KGHM Polska Miedź S.A.”**, which is to support the management of intellectual capital of the Company, taking into account its mission and business strategy. The policy covers the requirements laid down in regulations and the strategy, participation of employees in regular OHS training, as well as training courses and examinations authorising to take over positions requiring carrying out specialised activities. It also addresses matters related to the development of qualifications in the context of expected organisational and technical changes at the Company.

Training needs are identified at the Company on an annual basis: training guaranteeing the implementation of the business strategy adopted, obligatory OHS and professional training, as well as training required for the particular position. The identification process also covers the matter of studies aimed at supplementing education or development of qualifications, as well as conferences, symposia, etc. In order to facilitate these processes, in

2011, at the Company premises in Lubin, a workshop was held on the development and modification of the process of identification of training needs. Its objective was to precisely identify the needs of selected professional groups, and as a result it would be possible to connect training with the development of employees in specific positions.

Taking into account the changing legal environment in which KGHM Polska Miedź S.A. functions, in January 2012, the Company appointed the team responsible for the adjustment of internal regulations on training and mining qualifications to changes introduced by the Geological and Mining Law. The task of the team is analysing internal regulations pertaining to the development of skills of employees and developing a new procedure related to training and mining qualifications.

To study

KGHM supports knowledge and qualification development at universities. **244 employees** in 2010 and **202 employees** in 2011 received co-financing for their studies in order to develop competencies in the direction consistent with their position and strategic objectives of the Company. In almost two thirds of instances these were postgraduate courses.

The Company, in cooperation with universities, also prepares studies for larger groups of employees. In 2011, the Training Management Department arranged two tenders resulting in concluding agreements for arranging

postgraduate courses: “Human resource management” and “Production management.” The first course – for 28 members of management in charge of human resource management was arranged by Wrocław University of Economics. The second one – for 28 managers – engineers participating in decision-making processes and carrying out production tasks – was prepared by AGH University of Science and Technology in Kraków.

In the years 2010–2011
446
 employees
 received funds
 to help pay for
 their studies.



Professional practical trainings at KGHM Polska Miedź S.A.	2010	2011
For students	256	198
For pupils	623	443



Looking for leaders

“Leadership study – management competencies” was a project completed in the Polkowice-Sieroszowice mine, in the years 2010–2011. It covered 720 employees from three levels:

- medium-level supervisors – division mine foremen and deputy division mine foremen;
- medium-level supervisors – shift mine foremen;
- high-level supervisor and management.

The purpose of the project was developing management and organisational skills of medium and higher-level employees, changing attitudes, improving productivity and organisational effectiveness of the mining plant. The training was also aimed at diagnosing the potential of production supervision employees. Challenges included

the deficit of management skills in the area of interpersonal communication, in supervisor-subordinate relationships, as well as the issue of cooperation between employees in the mining division, and between the divisions.

The training was divided into three topic modules including the development of “soft” individual skills pertaining to relationships with other people, as well as systemic competencies. The “Leadership Study” programme directly results from the strategy of KGHM Polska Miedź S.A., as the development of organisational know-how and capabilities is one of five key objectives of the Company.

GOOD PRACTICE

Approach to training

What should be done to ensure that training courses offered by the Company are really needed? This was analysed by a special team established by the Company, from June to October 2011. Its members analysed the existing system, while asking managers what their employees should “start doing,” “stop doing” or “do differently.” Representatives of 16 professional groups participated in the research. As a result of these meetings, an innovative training need matrix was developed that provided the basis for drawing up training plans by managers of organisational units of the Company. The results of the team included the recommendation to develop a special IT tool that would apply conclusions from the analysis in practice. This tool is going to be implemented in 2012 and will ensure:

- presentation of training courses and direct access to the training needs matrix (unification of data);
- elimination of mistakes made when inputting the data through paper form and their aggregation;
- reduction of time allocated for preparing the training plan and budget;
- access to on-line information;
- automatic generation of the training data on each level (organisational unit, cost centre, user, division, Company);
- easy monitoring of the training planning process.



KGHM Polska Miedź S.A. building the Talent Mine

In 2011, the Company developed the "Talent Mine" programme, addressed to graduate students and graduates of economics and technology studies. This is the first project of this type in the mining sector. The purpose of the "Talent Mine" is the development of the competencies of a selected group of high-potential students and graduates, improving the Company's position as an employer, attracting and retaining talent, as well as adopting a long-term and comprehensive approach to investments in the development of young people. The Company will offer selected

students and graduates a rotational development programme in three of the Company's areas (including potential practical training abroad), a career path and the regular assessment system, tailor-made training courses for 40 days, as well as a coaching programme. Participants of the "Talent Mine" will join ambitious projects (e.g., integration with newly acquired foreign companies, assessment of the profitability of investment projects).

www.kopalniatalentow.pl



In 2011,
926 employees
took part in specialised
symposia, conferences or
seminars in Poland and
abroad.

Conferences are important too

Knowledge development is not only training. In 2011, **926 employees** took part in specialised symposia, conferences or seminars in Poland and abroad. The Company enables its employees to participate in conferences in order to allow them to become familiar with new technology and organisational solutions, as well as exchange experiences related

to effectiveness, improvement of productivity and innovativeness. Employees of the Company participated, inter alia, in regular conferences, such as the "Winter School of Rock Mechanics and Geoengineering," the "Mining Workshop" and the "School of Underground Exploitation."

Cooperation with schools and universities

As a part of the activities aimed at attracting future employees, the Company cooperates with universities of technology and technical schools. This cooperation enables future graduates to gain an understanding of the potential working environment. The **Professional Adaptation Programme for Graduates of B. Krupiński School Complex no. 1 in Lubin** is a long-term project, starting as early as at secondary school level. Its objective is acquiring future employees for the position of operator of self-propelled mining machines from among pupils graduating from the school in technician mechanics, underground mining technician, electrical technician and electronic technician positions. The programme includes participation in practical trainings financed by Poviats Labour Offices in the copper mining area, as well as in specialised courses. Ultimately, the best participants of the programme will be employed in positions of operators in mining divisions of the Company. As part of the third edition of this programme, KGHM has already hired 40 graduates of School Complex no. 1 in Lubin.

The Company is also a partner of the "Kuznia Kadr IV" project, carried out together with Wrocław University of Economics.

Ratio	2010	2011
Number of training participants	28 704	28 198
Average number of training hours per white-collar employee	33.31	39.05
Average number of training hours per blue-collar employee	33.81	28.85
Average number of training hours per female employee	17.40	24.23
Average number of training hours per male employee	34.61	31.84



Dorota Kwiatkowska-Ciotucha, Ph.D.
Wrocław University of Economics

The benefits enjoyed by Wrocław University of Economics generated by the cooperation with the major employer in the region include better preparation of our students for entering the labour market as a result of participation in seminars or open lectures delivered by employees of the Company and in three-month practical trainings. Such activities give the students considerable practical knowledge, which is very useful at the beginning of their professional careers. Benefits for the region stemming from the cooperation between a large public university and a leading market company include better, more competent staff that may support the growth of competitiveness of Lower Silesia.

It is aimed at preparing highly qualified staff for the regional economy, as well as developing the potential of the university by better adjusting the educational offer to the needs of the labour market and establishing close cooperation with employers. The project is to be carried out from January 2011 to December 2015.

As a part of "Kuznia Kadr IV", KGHM Polska Miedź S.A. has prepared an offer of the university as a part of the "Project Manager" second degree system studies; the Company also helped in updating existing continuous education programmes, by adjusting them to the needs of employers. Students from Wrocław University of Economics also had the opportunity to benefit from one and three months' practical trainings at KGHM. The project involved drawing up a report on the preparation of university graduates for the needs of the labour market, the presentation of which was combined with a discussion panel with the participation of the Company's management. For its commitment to the "Kuznia Kadr IV" project, the Company received the "Best Employer – Practical Training Arranger" award in 2010 and 2011.

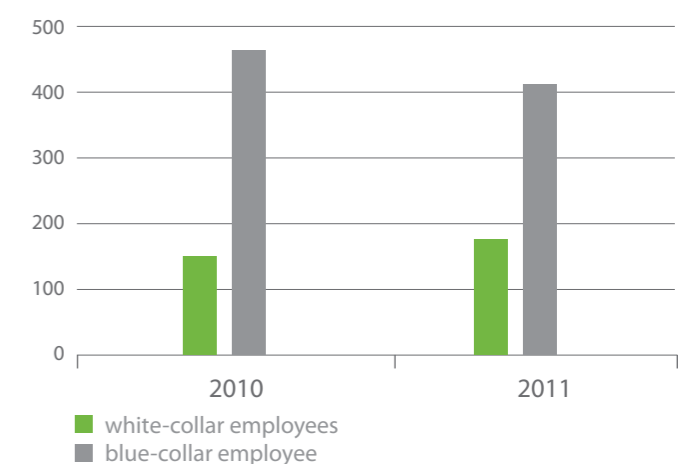
In 2010, KGHM Polska Miedź S.A. also cooperated with the State Higher Vocational School in Głogów, implementing the "Step to success – development of the educational potential of the school" project, co-financed by the European Union. Forty-five persons – students and graduates of the State Higher Vocational School in Legnica and State Higher Vocational School in Głogów – participated in professional trainings.

Theses

As a part of its cooperation with universities, the Company makes materials available for the purposes of drawing up theses. This proposal is addressed primarily to students of faculties of mining, mechanics, electrical engineering,

industrial automatics, economics, as well as pedagogy and psychology. In 2010 and 2011, about **250 students** benefited annually from this option. The **scholarship programme and competition for the award of the President of the Management Board for the best thesis**, announced in fall 2011, are an additional incentive. They are aimed at identifying highly qualified university graduates and obtaining analytical studies of key problems of the Company, prepared by students under the direction of academics and employees of KGHM Polska Miedź S.A. The scholarship programme is also an element of combining the educational process and scientific activities of universities with the needs and problems of a major employer in Lower Silesia voivodeship.

Number of hours of training in KGHM (in thousands)



5.2. KGHM POLSKA MIEDŹ S.A. – FOCUS ON SAFETY

The work safety management system is based on the concept of continuous assessment and verification of functioning procedures (orders, instructions and arrangements), the application of which eliminates or limits risks and reduces the consequences of their materialisation. This refers, inter alia, to the number of accidents at work, occupational diseases, as well as potential accidents and breakdowns.

Each division of the Company has a certified work safety management system and services responsible for OHS (at KGHM Polska Miedź S.A., 44 persons in total are responsible for these matters). OHS issues are regulated by as many as 16 internal procedures. In the nearest future – as a part of the Integrated Management System at KGHM Polska Miedź S.A. – work safety management will also be included in a uniform system, complying with the PN-N 18001/OHSAS 18001 standard.

Having certified systems allows to:

- keep a system of loss evaluation (breakdowns, accidents at work);
- record potential accidents;
- risk analysis;
- develop the system for reporting, recording and responding to OHS-related comments and motions of employees;
- create a job review system;
- implement the continuous staff training process;
- include professional risk management and work safety matters in the regular employee training.

The system of training courses for employees, to which the Company pays special attention, is of key importance in the context of OHS activities. Active courses using multimedia recordings of the whole technology process and individual positions are a recent innovation. 47 095 hours were allocated for regular OHS training courses at KGHM Polska Miedź S.A. Training courses are carried out on a regular basis and their frequency depends on the position and its related risks. Annual plans of work conditions improvement and meetings pertaining to safety at mining plants, with the participation of representatives of the Regional Mining Authority in Wrocław, arranged by divisions, are also aimed at increasing the safety level.

During the last 15 years, the number of accidents was significantly limited and accident ratios considerably improved (accident seriousness index and frequency). Systematic limitation of emission of agents harmful to health, reduction of employment in conditions harmful to health, as well as access to state-of-the-art personal protection equipment introduced after obtaining the approval of division staff and the Occupational Health and Safety Commission resulted in a reduction of occupational disease incidence.

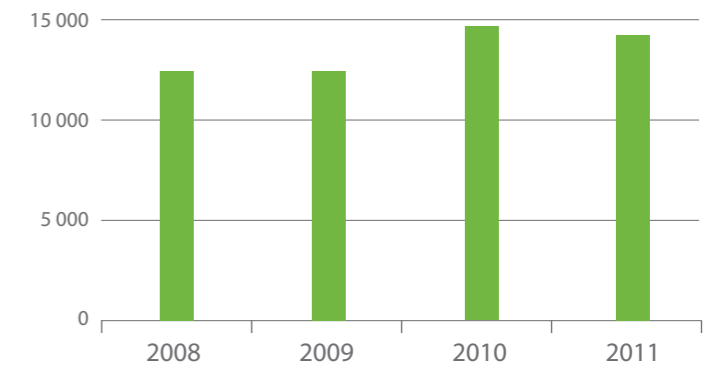
Better quality and an extended scope of preliminary and regular health checks at Miedziowe Centrum Zdrowia S.A. has also had a significant impact on conditions of the health of employees. OHS matters were the subject of the

Employees working in conditions of danger due to harmful factors related to the working environment (2010)	Number of people	Percentage share
noise	5 600	44.8%
industrial dust	2 126	17.2%
vibration	1 746	13.2%
hot microclimate	3 422	27.3%

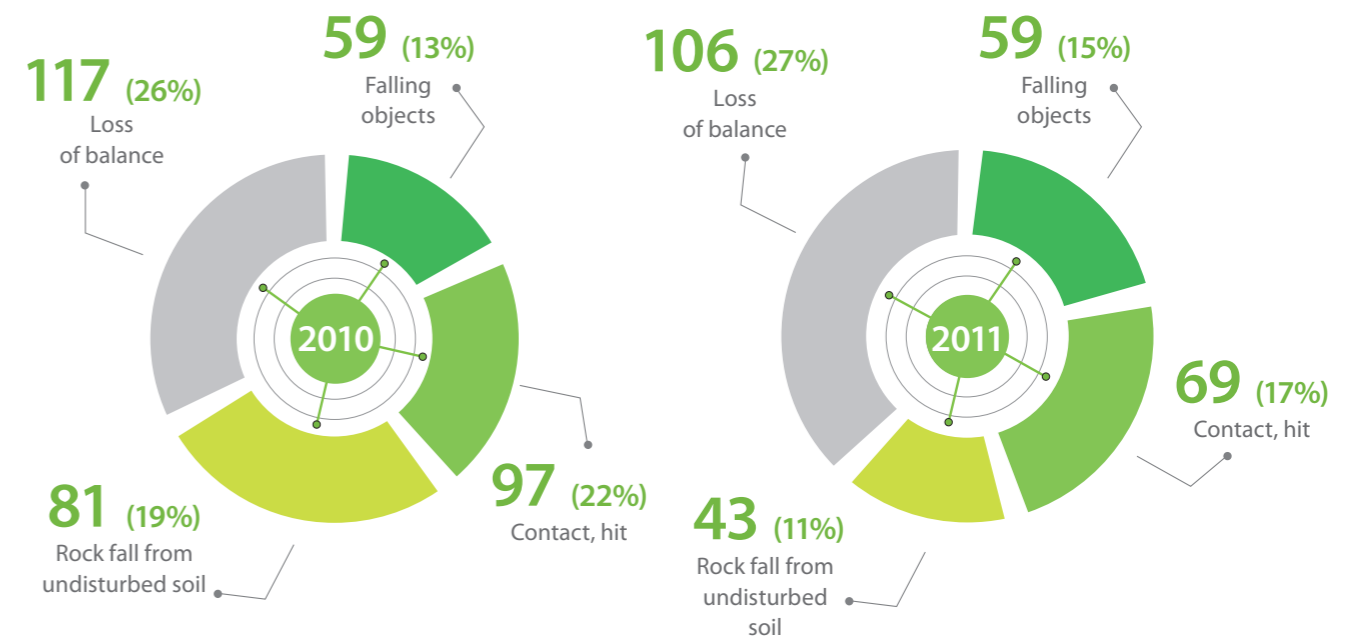
The actions taken under the safety and hygiene at work policy are aimed at reducing the accident ratio by **25%** by 2015.



Total cost of working and protection equipment at mines, in PLN thousand



Main reasons of accidents



special research programme "Reasons of balance disturbances at underground employees at copper mines in the context of the at-work accident ratio" carried out by MCZ. At the same time, in order to identify the impact of difficult conditions in the working environment on employees working at mining plants, since 1996, comprehensive medical checks of miners in actual conditions have been conducted together with measurements of the microclimate in the working environment.

Number of accidents by the accident place	2010	2011
Mining divisions	450	391
Surface divisions	106	76

In 1996, 2002 and 2008, "Analyses of staff attitudes to work safety at the Mining Divisions of KGHM Polska Miedź S.A." were carried out in order to check the level of safety culture among employees, as well as any relationship with the number of accidents at mining plants. These analyses were undertaken by the Central Mining Institute in Katowice. In 2012, this analysis will be repeated.

Number of accidents at KGHM	2010	2011
Total	556	467
Fatal	10	2
Serious	5	4
Number of days lost	28 915	25 667

AIR-CONDITIONING IS A MUST

In order to improve OHS conditions at mining plants, where natural risks dominate, and at smelters, the Company carries out certain projects. They are included in OHS condition improvement plans, on an annual basis. When implementing these investments, the Company cooperates with science and research centres, specialising in work safety. In the process of gradual modernisation of equipment, an increasing number of machines are equipped with additional security systems. At mining divisions at KGHM Polska Miedź S.A. there are 1 289 mining machines in total. Annually, more than 200 new machines are purchased and in the years 2007–2011, the replacement ratio was 17%. 154 machines are already equipped with life-saving capsules protecting the machine operator during potential accidents, i.e., rock bursts, roof and wall slides. Meanwhile, 339 machines have been equipped with life-saving capsules with a hatch, which allows to free the operator during the rescue operation after roof or wall slides. Due to climate conditions at headings, cabins at 320 machines are air-conditioned, which improves operator working comfort, while almost 100 cabins have air blown in. All machines are equipped with a fixed fire extinguishing system, and 862 machines now have an automatic fire extinguishing system. Fifty-five low-profile vehicles are equipped with an automatic fire extinguishing system with a secondary system for extinguishing fire that cannot be put out at the initial stage; cameras facilitating secure movements and operations are also installed at these vehicles.

One of the major challenges related to work safety is climate risk which determines the safety of miners and ability to continue exploration works. The original temperature of rocks, increasing together with the depth of the explored parts of the bed, as well as machines and equipment with increasing power used, result in the growth of air temperature at headings. This requires using devices which protect against this risk, such as:

- **a central air-conditioning system**, allowing air-conditioning at mining divisions, heading works and functional chambers;

- **forehead air-conditioning machines** – cooling the stream of air fed to the place of work during heading works;

- **a position air-conditioning system** – built-in on self-propelled machines, dump points, belt conveyor drives, etc.;

- **a personal air-conditioning system** – to be used by groups of employees at mobile positions, outside mining divisions.

These measures presently allow to maintain required climate conditions at the depth below 1 100 m and continuing works in the most difficult areas, with six-hour shifts. The **“Programme for position air-conditioning systems at Mining Plants at KGHM Polska Miedź S.A. for the years 2010–2015”**, includes subsequent steps aimed at the improvement of OHS at mines. In addition to installing air-conditioned cabins on all self-propelled machines, the installation of individual air-condition stations at dumping points and belt conveyor drives, construction of air-conditioned rest chambers (group air-conditioning), introduction of air-conditioned vehicles for repair squads and transport of staff, as well as increase of personal air-conditioning systems for groups of employees working on mobile positions are also planned.

In 2011, the programme of tests of technical measures of the “Personal Air-Conditioning System” started, the purpose of which is testing measures of protection against thermal risk available on global markets and their adaptation to climate risk conditions at mining plants at KGHM Polska Miedź S.A.

SUCCESSFUL UNIT

The elite Emergency Rescue Unit (ERU) is the pride of the Company. Its members fight the dangers of fire and floods, crumps, falls of roof and complex breakdowns. They often work in extreme conditions – under water and in vertical shafts. Copper rescuers always try to help when human life or health is at risk. Prior to 2011, they had participated in more than 200 operations. The Emergency Rescue Unit employs a permanent staff of **114 people**. In addition, the unit has at its disposal more than **400 rescue personnel** who serve on rescue teams.

The ERU comprises three departments:

- I. The Fire Fighting Unit at Głogów smelter, specialising in fire and chemical rescue operations;
- II. The Fire Fighting Unit at Lubin mine, specialising in fire and technical rescue operations (a branch of this department is located at Legnica smelter)
- III. 1st Mining Emergency Ambulance Service (MEAS) in Sobin.

The Mining Emergency Ambulance Service participates in operations at mining plants of the Company. There are only 23 employees of this service working based on employment contracts, while trained miners, normally working at mines and delegated for eight-hour shifts from their divisions, are the core of rescue teams. Teams on duty include: 15 rescuers, including two paramedics, the head of the team, rescue equipment mechanics, a rescue physician, two drivers of specialised vehicles and the shift manager.

The MEAS also has specialised rescue teams. The **underwater rescue section** was established as early as 1967. The first basic course for divers was held in May in the same year. The first call out took place on 22 February 1967 and related to the repositioning of valves at a flooded chamber in the area of the west shaft at the Polkowice mine. In 2008, the ERU received certificates confirming the introduction and implementation of occupational health and safety management with respect to organisation and performance of underwater works in accordance with the requirements of the PN-N 18001:2004 standard.

The ERU also includes the **height rescue team**, specialising in works in vertical shafts and shafts with a steep incline. It comprises three climbing teams. Rescuers cooperate with experts from TOPR Zakopane, GOPR Wałbrzych and Jelenia Góra, as well as with specialised fire brigade, police and military units.

Fire fighting departments are located at the major industrial facilities of the Company. They have teams trained for the liquidation of fire, chemical, technical, ecological and gas risks. Rescuers from this department participate in operations in case of fire, hazardous substance leaks, environment pollution, as well as technical breakdowns. Firemen also measure toxic gases at the smelter – e.g., the concentration of sulphur oxide, nitrogen, carbon oxide and dioxide are tested several times a day. They are also responsible for fire safety on the surface, at all mining plants at KGHM Polska Miedź S.A., as well as at the Ore Enrichment Plants, Tailings Plant and Cedynia wire rod plant.

In order to prevent industrial risks at KGHM Polska Miedź S.A., fire brigade departments undertake prevention activities, *inter alia*, by offering various training courses on the operation and use of fire fighting equipment. The scope of activities of the ERU also includes checking tank wagons transporting toxic materials and supervising the unloading of hazardous substances. Copper rescuer teams have also participated in various major operations outside KGHM. They helped during the rescue operation after the earthquake in Armenia in December 1988, and in Turkey – in the summer of 1999. The excellent experience, as well as

Until 2011 Mine-Smelter
Emergency Rescue Unit
rescuers took part in over
200 rescue actions.

teamwork skills of all ERU departments was confirmed during the 1997 floods in Poland, which did not omit the Copper Belt. Głogów smelter and Cedynia wire rod plant were especially exposed to the risk posed by high water. The commitment and dedication of the rescue team allowed to protect strategic power facilities against water.

The ERU has been participating in **International Mine Rescue Contests** for many years. The rescue team participated in such a contest for the first time in 1999 in Louisville, Kentucky and KGHM hosted such contest in 2004. **Rescuers from the ERU hold a leading position globally in this field.**

TOGETHER FOR SECURITY

KGHM Polska Miedź S.A. actively participates in the process of safety improvement in the commodity sector. Since 2004, the Company has been a member of the European Copper Institute, which carries out research on the harmful effects of copper, lead and arsenic at working positions and in the natural environment. Representatives of KGHM Polska Miedź S.A. are also members and participate in the works of:

- ✦ The Lower Silesia Mining Commission at the Regional Labour Inspector in Wrocław;
- ✦ The Interministerial Commission for Highest Concentration and Intensity of Agents Harmful to Health in the Working Environment;
- ✦ Commissions at the Central Mining Authority: for Work Safety in the Mining Sector, for Natural Threats in Underground Mining Plants Producing Copper Ore and for Surface Protection.

In addition, the Company participates in the development of legal acts pertaining, inter alia, to safety of works, by drawing up opinions on draft legislation, as well as on the Geological and Mining Law. The Company actively promotes safety issues by participation in large industry events – in 2008, it was a co-organiser of the 21st World Mining Congress, and in 2009, KGHM Polska Miedź S.A. and the Association of Mining Engineers and Technicians, Branch in Lubin, arranged the 1st International Copper Ore Mining Congress in Lubin. The Company also participates in domestic and international fairs related to occupational health and safety, including, inter alia, A+A Düsseldorf and SAWO Poznań.

KNOWLEDGE AND ACTIVITIES AWARDED

The emphasis placed by the Company on occupational health and safety enables it to participate in various competitions promoting positive models in this respect. In the “**Safe Mine**” competition, arranged by the AGH School of Underground Exploitation, the G-61 mining division from the Polkowice-Sieroszowice mine was recognised in 2010, while the G-2 division from Lubin mine – received an award in 2011. In December 2007, the Cedynia wire rod plant was awarded the title of “**Employer – Organiser of Safe Work**” by the Chief Labour Inspector, while in November 2009, a similar award was granted to the Emergency Rescue Unit in Lubin.

In the **National Competition for Improvement of Work Conditions** in 2010, arranged by the Central Institute for Labour Protection, the Głogów smelter was recognised

SUPPORT FOR VICTIMS

The Company ensures special care for persons injured in mining accidents. The medical package includes first psychological or psychiatric aid for employees and their families.

in the “technical and organisational solution applied in practice” category for the project “Minimising noise of anode and silver pig casting at the precious metal division”, while in 2011, the first level award was granted to Polkowice-Sieroszowice for applying the “URB/ZS1 device for rock crashing with remote control” solution. The purpose of the competition is inspiring and popularising scientific and research works, as well as technical and organisational solutions leading to the improvement of work conditions and human protection in the working environment.

Blue-collar workers can share their knowledge of work safety too. The “**OHS Knowledge Leader**” competition, in which blue-collar workers from the Ore Enrichment Plants can participate, is aimed at promoting work safety standards among the staff. In 2011, more than 400 employees participated in this competition. The competition not only awards the best participants, but also checks the knowledge of employees and areas that need further development.

Specialised care covers persons injured in accidents or participating in accidents, participating in potential accidents, or being witnesses of accidents, as well as participating in rescue operations.



5.3. ECO-INNOVATOR

Copper ore exploration and its subsequent processing are inseparably linked with environmental impact. Therefore, the Company does not want to and cannot avoid responsibility for the condition of the environment. Meeting statutory rigorous environmental standards is possible only by systematic modernisation and development of new systems for the protection of the environment.



In the years 2010–2011, the Company spent more than PLN 300 million on eco-investments (PLN 79 million in 2010 and PLN 213.67 million in 2011). A significant growth in investment outlays vs. 2010 is due to the construction of two environment-friendly gas fueled power blocks in Głogów and Polkowice at cost of PLN 170.3 million.

In the years 2010–2011, the Company spent more than **PLN 300 million** on eco-investments.

The production plants of the Company can be proud of the implementation of the ISO 14001 environmental management system. Additionally, the Company carries out an “Effectiveness Programme” which will generate almost PLN 800 million savings per year. This will be supplemented with activities aimed at minimising the environmental impact of the Company.

ECOLOGICAL THINKING

Since the beginning of the copper industry, KGHM Polska Miedź S.A. has implemented measures to reduce negative environmental impacts. Limiting this impact has primarily involved the implementation of a long-term investment programme, aimed at air-tight sealing of technology processes, in such way as to ensure that the environmental impact refers only to areas to which the Company has a legal title. Tasks carried out in the environmental protection area were related not only to administrative requirements, but resulted mainly from systematic development of ecological awareness among the management and other employees, as well as understanding the need for co-existence of the industry and environment.

respecting the principles for limitation of greenhouse gas emission;
 the Company develops current and long-term cooperation with the society and local authorities in order to promote good neighbourhood of the industry and its environment.

The existing ecological policy, as well as strategic assumptions related to environmental protection, is based on the following grounds:

- environmental emissions have to meet all standards set forth by Polish and European Union law;
- all systems with an environmental impact must have a relevant permit granted by public administration authorities;
- devices used for the purposes of environmental protection are fully technically operational;
- the Company continuously monitors ecological techniques and technologies in order to implement them in the technological processes of the Company;
- the Company ensures the development of waste utilisation techniques and a continuous increase in share of waste undergoing recycling in the total waste balance;
- KGHM Polska Miedź S.A. continuously develops environmental management systems, while taking into account

In practice, as early as at the end of the 1990's, the Company implemented European environmental standards, which resulted in granting prestigious awards for eco-activities: “**Leader of Polish Ecology**” (2001), “**Environmentally-Friendly Company**” (2002), “**Ecolau-reate**” (2003), “**Green Apple Awards**” – an award presented in the UK (2003). Additionally, the copper smelters: Głogów, Legnica, and Cedynia, Ore Enrichment Plants and the Tailings Plant implemented and maintain an environmental management system consistent with the ISO 14 001 standard. The operations of the environmental management systems are confirmed with certificates granted by the British Standards Institution, the Polish Centre for Testing and Certification as well as the Polish Certification Centre.

Works started in 2011 related to the implementation of the **Integrated Management System** on the level of the whole Company also mean the planned implementation of the Integrated Environmental Management

KGHM Polska Miedź S.A. is a company responsible for the environment





Continuous control

Since the 1990's, automatic measurements system, controlling gas and dust emission levels operate continuously in the regions of both copper smelters. Suspended dust content in the proximity of smelters is currently at the level of 20–30 µg/m³, with permissible (EU) standard of 40 µg/m³. The annual average concentrations of sulphur dioxide in the smelter impact areas are a few µg/m³ and, depending on the measurement point, are from two to six times lower than annual average values set by the most recent Polish standard (based on EU standards), amounting to 20 µg/. Other air pollution forms do not exceed permissible standards either.

96%, and of copper, lead and carbon monoxide – by over 99%.

Copper mines in Poland do not result in any changes on the surface, as they do not create earth dumping grounds or waste dumps as, e.g., as in the case of open pits or coal mining. Therefore, environmental problems in copper mining include, first of all, emissions from ventilation shafts of the mines, resulting from ventilation of headings. Substances emitted to the air from these shafts include mainly: carbon dioxide and monoxide, nitrogen oxide and PM10 dust containing trace quantities of metals (Cu, Pb, Zn, As, Cr, Ni, Cd). **From the very beginning of copper mining, pollution levels emitted from shafts remain within the limits set by standards allowing emission of these substances.** Emission of odour-causing compounds to the atmosphere has become an issue, recently. These emissions are recognised as noxious by people living in the proximity of the upcast ventilation of Polkowice-Sieroszowice mine. Currently, the Company is carrying out research works aimed at detailed identification of odour-causing substances, as well as their impact on the environment and local community. Activities aimed at utilisation of these compounds at the place of their generation are also implemented.

TO PROTECT THE ATMOSPHERE

In the first decade of KGHM Polska Miedź S.A.'s operations, emission of gases and dust to the atmosphere from smelters was the major environmental issue in the Legnica-Głogów Copper Belt. Emissions were generated by metallurgical processes in shaft furnaces and converters. Air-tight sealing was impossible at that time and the atypical composition of ore and, later, of concentrates, forced Polish copper smelters to develop own technology solutions, including environmental protection technology.

Gases from shaft furnaces introduced to the atmosphere mainly metal-bearing dust and carbon monoxide, while converters – sulphur dioxide transferred to sulphuric acid plants. At the initial stage, the effectiveness of these plants did not exceed 50%. Activities aimed at increasing this effectiveness by modernising individual installations were carried out continuously, but expected radical improvement was achieved in the 1990's, after erecting new sulphuric acid plants for Legnica smelter and Głogów I smelter, whose current effectiveness is 99%.

The breakthrough stage of activities aimed at limiting emission of shaft and converter gases to the atmosphere was related to the decision on erecting Głogów II smelter based on a new technology involving copper melting in the flash furnace. It allowed stable operations of the sulphuric acid plant with the double conversion process and effectiveness above 90% (in subsequent years it was increased to 99%).

Then KGHM Polska Miedź S.A. equipped with **efficient bag filters** the electrical furnace at Głogów II smelter, the concentrate drying plants at Legnica smelter, as well as new rotary tilting furnaces at the lead plant, replacing less efficient systems used until that time. However, **desulphurisation installations built in the 1990's**, at Legnica and Głogów smelters were a milestone in the atmosphere protection process. The desulphurisation technology at Legnica smelter is based on the SOLINOX process involving selective physical absorption of sulphur dioxide using liquid solvent and reaching effectiveness of 98%. Meanwhile, off gases from the heat and power plant at Głogów I smelter are subject to desulphurisation since 1997 with the application of state-of-the-art spray nozzles with increased **effectiveness (up to 90%)**. **All these activities, carried out since 1980, resulted in reducing the emission of sulphur dioxide by**

Polluting emissions from divisions of KGHM Polska Miedź S.A. (Mg)	1980	1990	2000	2010
Copper	2 968	204	23	10.6
Lead	3 119	124	14	4.9
Sulphur dioxide	154 245	48 719	6 202	4 518
Carbon monoxide	315 774	121 499	2 683	2 040

ON A LEGAL BASIS

The most important formal and legal tasks completed by the Company in 2011 involved drawing up the environmental impact report for ore production in mining areas and filing the application for a decision on environmental conditions for this project. These documents are necessary in the process of obtaining concessions for underground mining of copper ores after 2013.

The Company has also completed works on the environmental impact report for the "Żelazny Most" waste treatment tailings pond and obtained the decision on environmental conditions for these facilities. The production waste management programme was also prepared and approved by Lower Silesia Voivode. All these activities resulted from the Directive on production waste being incorporated into Polish law, which required obtaining the permit for operating the "Żelazny Most" waste treatment tailings pond starting 1 May 2012. Such permit for the facilities was obtained in April 2012.

Additionally, the Company has eight systems operating which requires having an integrated environmental permit in accordance with the Environmental Protection Law Act. They include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology at Głogów smelter;
- "Biechów I" and "Biechów II" industrial waste storage facilities belonging to the Głogów smelter;
- an installation for the production of refined lead at Legnica smelter;
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the "Polkowice," tailings waste facility, a temporary storage facility for lead-bearing concentrates and other installations at Legnica smelter;
- an installation for melting, continuous casting and rolling of copper at the Cedynia wire rod plant;
- an installation: "Żelazny Most" waste treatment tailings pond with the capacity of more than 10 tonnes of waste a day
- an installation for the neutralisation of sulphuric acid waste at the Ore Enrichment Plants.

Other divisions of the Company have sector administrative decisions on using the environment.

In order to implement the provisions of Regulation (EC) No. 1907/2006 of the European Parliament and of the Council concerning the registration, evaluation, authorisation and restriction of chemicals (the so-called REACH Regulation), in November 2010, the Company completed the process of registration of seven end substances: copper, silver, lead (crude, refined and bismuth), copper sulphate, nickel sulphate, end slag (from shaft furnace and granulate), sulphuric acid and 20 indirect substances.

System in accordance with the ISO 14000 standard. This will allow:

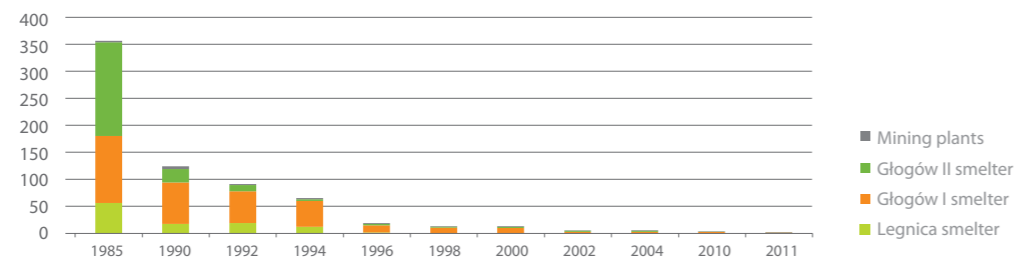
- savings in the consumption of natural resources and fuels;
- reduction of pollution and waste generated, as well as their utilisation costs;
- elimination or limitation of processes and irregularities having negative environmental impact;
- reduction of environmental fees;
- elimination or limitation of violations of legal requirements on the environmental protection;
- easier access to financial support from national and foreign funds for eco-investments;
- insurance rate negotiations;
- improvement of the image of division in the eyes of public administration authorities and other stakeholders.

As a result of previous decisions, the emission of pollution to the air and water decreased to such a degree that achieving much better results with existing technology is impossible. Therefore, in the area of ecology, the Company's attention is currently focused on waste management, formal activities related to meeting the requirements set by the European Union for the industry, as well as improvement of the image and building relationships with local communities. Including copper smelters in the European emission trading scheme in 2013 is a new challenge. KGHM Polska Miedź S.A. has already calculated and verified quantities of CO₂ generated, in view of the participation of the Company in this scheme. Research works related to potential further reduction and disposal of CO₂ generated in production processes have also been started.

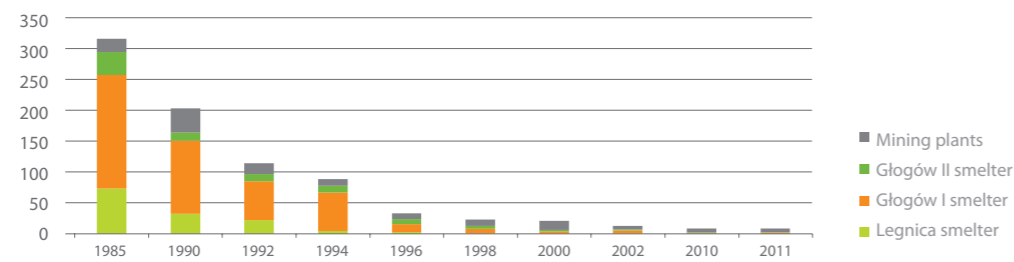
DECREASING FEES

Continuous improvement of the effectiveness of ecological activities is confirmed by decreasing environmental fees paid by the divisions of KGHM Polska Miedź S.A. In 2011, these amounted to PLN 25.478 million, i.e., more than PLN 1 million less than in 2010, despite the annual increase in the fee rates by inflation. In 2011, the largest fees paid by the Company were for sewage discharge: PLN 16.3 million, including PLN 16.26 million for the drain-off of excess water from the "Żelazny Most" waste treatment tailings pond.

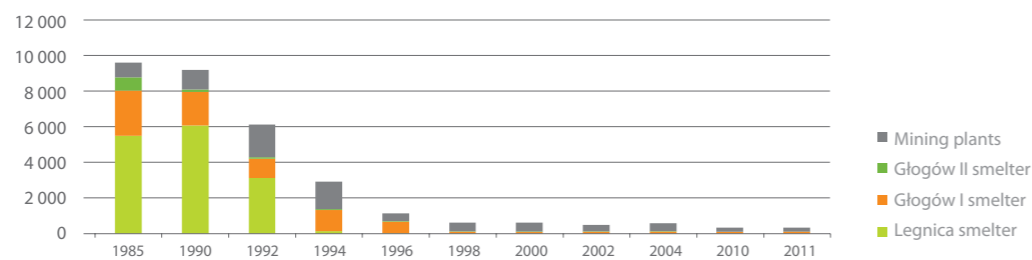
Pb emission from plants of KGHM Polska Miedź S.A. [Mg/year]



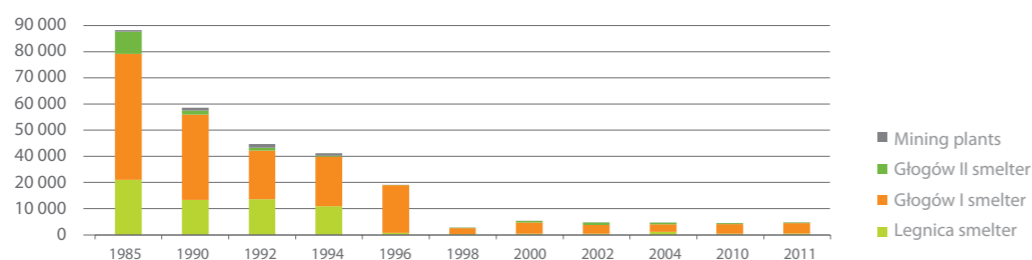
Cu emission from plants of KGHM Polska Miedź S.A. [Mg/year]



Dust emission from plants of KGHM Polska Miedź S.A. [Mg/year]



SO₂ emission from plants of KGHM Polska Miedź S.A. [Mg/year]



WATER ENVIRONMENT PROTECTION

Since the beginning of KGHM Polska Miedź S.A.'s operations, systematic activities were carried out aimed at improvement of underground water and waste water management, as well as protection of natural drinking water resources. Lubin, Polkowice-Sieroszowice and Rudna discharge a few dozen thousand m³

a day of underground water. Underground water and sewage from the shaft sites is used during the flotation process (one of the methods of ore enrichment used to separate very small mineral grains). The flotation process is carried out in water suspension. The central node of the circulation water is the "Żelazny Most" tailings pond, being a facility for the storage of flotation tailings and for retention of technical water

used in all ore processing plants. "Żelazny Most" also discharges properly treated water to the Odra river. In order to protect the condition of the river, the treatment plant for suspension discharge water was erected near Tarnówek pumping station, in the years 1998–2000. It operates periodically and is activated when necessary due to atmospheric conditions.

pollution, is from 40–99%. Suspended solids in treated flows is at the level of a few mg/dm³ and does not exceed 20 mg/dm³, while heavy metals (Cu, Pb, Zn, Ni) are at the level of tenths and hundredths parts mg/dm³.

KGHM Polska Miedź S.A. applies the process of treatment of waste water from metallurgical production divided into stages. **The efficiency of all the waste water treatment plants in the smelters, depending on the type of**

In 2002, the waste water treatment plants of Legnica, Głogów I and Głogów II smelters were separated from the smelters, and a new division of KGHM – Water Management Plants Division – was created. In 2005, all three plants were included in "Energetyka"

Total direct and indirect greenhouse gas emission, by weight	2010	2011
Total greenhouse gas emissions as sums of direct and indirect emissions in CO ₂ tonne equivalents	3 425 233	3 561 180

Total water uptake by source in 2010 (m ³)	Underground water	Surface water	Technology waste water, including rainwater	Supplementary water from waste water	Acid waste water
Rudna mine	472 288	-	453 288	-	-
Polkowice-Sieroszowice mine	239 665	-	767 311	-	-
Lubin mine	104 544	-	305 608	-	-
Data Center	1 548	-	1 548	-	-
Ore Enrichment Plants	228 830	-	340 998	-	-
Mine-Smelter Emergency Rescue Unit	4 263	-	4 263	-	-
Tailings Plant	4 271	-	-	-	-
Głogów smelter	268 692	6 002 017	3 759 687	1 874 732	33 529
Legnica smelter	-	2 061 167	2 025 260	-	-
TOTAL KGHM	1 324 101	8 063 184	7 657 963	1 874 732	33 529

■ water from treated technological sewage – used for technological purposes
 ■ sewage accepted by KGHM establishments

Total water uptake by source in 2011 (m ³)	Underground water	Surface water	Technology waste water, including rainwater	Supplementary water from waste water	Acid waste water
Rudna mine	452 008	-	397 251	-	-
Polkowice-Sieroszowice mine	233 865	-	832 436	-	-
Lubin mine	102 585	-	299 965	-	-
Data Center	966	-	966	-	-
Ore Enrichment Plants	235 366	-	377 779	-	-
Mine-Smelter Emergency Rescue Unit	4 409	-	4 693	-	-
Tailings Plant	7 004	-	-	-	-
Głogów smelter	240 794	6 078 357	4 427 473	1 949 726	34 227
Legnica smelter	-	1 946 814	1 950 817	-	-
TOTAL KGHM	1 276 997	8 025 171	8 291 380	1 949 726	34 227

■ water from treated technological sewage – used for technological purposes
 ■ sewage accepted by KGHM establishments

company in the KGHM Polska Miedź S.A. Group, which is responsible for system maintenance. In the years 2010–2011, modernisation works were carried out at waste water treatment plants in order to adjust waste

water treatment technology to binding provisions of the Environmental Protection Law, as well as meeting the parameters set in the integrated permit, with special consideration of threshold contents of heavy metals, chlorides and suspended matter.

Total water uptake by source (m ³)	2010	2011
	Water consumption for technology purposes 18 919 980	Water consumption for technology purposes 19 543 274
Total water uptake volume in cubic meters per year, by source, of which:		
surface waters: marshes, rivers, lakes	8 063 184	8 025 171
ground water	1 324 101	1 276 997
rainwater directly collected and stored by the reporting entity	-	-
rainwater from other entity	9 532 695	10 241 106
water supply from the municipal network and other water companies	-	-

SECURE WASTE MANAGEMENT

The greatest flow of waste (representing around 94% of mined material) arises in the flotation process. Waste also includes smelter slag, dust and slimes from the gas and waste water treatment facilities, as well as – for the last few years – products of flue gas desulphurisation from the heat and power plant at Głogów I smelter. Some wastes (slag, dust) are reused in the production process and a part is allocated for other purposes, but the waste for which no use has been identified until now (e.g., from the waste water treatment process) is subject to selective storage.

Flotation waste at “Żelazny Most”

“Żelazny Most” waste treatment tailings pond operated currently is an important element of the technology process in the mining activities of KGHM Polska Miedź S.A. It is responsible for utilisation of waste from copper ore flotation and salted waters from mine drainage, supply of process water to Ore Enrichment Plants and sand for stope filling in Lubin and Rudna mines. The Tailings Plant manages the area of about 3 400 hectares of land with industrial buildings and tree-covered land, and the total capacity of tailings is 700 million m³. **“Żelazny Most” is the largest such object in Europe and one of the largest in the world. The**

facility accepts about 28 million tonnes of waste from copper ore flotation per year. By the end of 2010, more than 800 million tones, i.e., 488 million m³ of waste were utilised there. On 20 April 2011, the Tailings Plant obtained the certificates with respect to the Environmental Management System and the Occupational Health and Safety Management System, confirming compliance with the PN-EN ISO 14001:2005 and PN-N 18001:2004 standards.

The facility, taking into account just its size, certainly has an impact on the environment. Therefore, the management of “Żelazny Most” tailings is subordinated to ensuring the safety of operations, environmental protection and human safety. The facility has systems guaranteeing its safety: drainage, fast and emergency pond drainage systems, loading embankments, unloading wells – reducing local high pressure of water in the soil. KGHM Polska Miedź S.A. also prevents dust emission from dry surfaces at the facility, by continuous water and asphalt emulsion spraying on the facility banks, from the ground and from the air.

The functioning of the “Żelazny Most” facility is controlled in the supervision procedure known in geotechnics as the “Observation Method.” It involves monitoring the facility functioning using different methods, by means of fixed measuring devices. **The measurement programme, types of measurement devices, scope and methodology of geotechnical tests and specialised analyses are defined and supervised by an independent international team of experts, and its cooperation with KGHM Polska**

Miedź S.A. is coordinated by the National Geotechnical Expert. This form of control of security of the facility functioning and development is supported by the state supervisory authority responsible for specialised hydrotechnical structures, and helps to build trust in relationships with the local community.

The facility is equipped with an automatic alarm system, signalling events that may potentially result in the risk of disaster. The Company also has an action plan to be followed in the case of the pond breakdown, agreed with the Lower Silesia voivode, which includes the functioning of a system of notification of a breakdown or breakdown risk. The plan covers localities in the expected potential risk area, which are equipped with alarm systems (sirens), have escape and evacuation roads and security platforms installed. Citizens and rescue services participate in regular training and evacuation drills.

During the period of construction and in subsequent years of the functioning of “Żelazny Most” facility, KGHM Polska Miedź S.A. employed all available techniques and systems aimed at limiting its noxiousness to the environment and people living in adjacent areas. The Company is developing cooperation with local governments and communities, by notifying them of activities improving the safety of the facility. In the centre of Rudna town, there is a board continuously notifying of the current level of suspended dust concentration in atmospheric air in the point located near the locality, in the direction of the “Żelazny Most” facility. In 2002 and 2009, health checks were carried out, including on people living in Rudna locality. No threats posed by “Żelazny Most” facility were identified. Such checks will be repeated regularly, every five years.

Recycle everything

KGHM Polska Miedź S.A. endeavours to maximise the recycling of waste generated. Slag from copper melting in shaft furnaces has been used as a road-building

aggregate as early as from the 1970's. However, this process was intensified after 2000, when one of the companies of KGHM Polska Miedź S.A. started to process slag. Road-building aggregates are currently manufactured by KGHM Ecoren, which processes more than 1 million tonnes of shaft slag per year. Aggregate production allows eliminating slag dumps from smelter sites, accumulated from the beginning of metallurgical production in the region. Slag from the electrical furnace of Głogów II smelter, after granulating, is also used as an addition to stope filling material used for backfilling of underground headings resulting from mining operations at copper mines. Due to its hardness and granulation it is also used in the sandblasting of metallic surfaces instead of quartzite sand. Remaining slag from metallurgical processes is recycled to the technological process.

Lead-bearing dust and slime which is collected in the dedusters of all three copper mines is processed into crude lead at the lead division at Głogów I smelter. Construction of the fourth reverberatory-rotary furnace, so-called Doerschl furnace, completed in 2011, was a part of the investment process. This furnace would allow annual production of about 28 thousand tonnes of lead from waste. The cost of the investment was PLN 40 million (see also “Future problems” below).

Waste from flue gas desulphurisation is a dry mixture of calcium sulphite and sulphate, and unprocessed lime. 60–70 thousand Mg of this waste is generated annually, of which half is used as a metallurgical blending agent in the shaft and flash furnaces, and converters, while the remaining part is stored.

Total waste weight by waste type and waste utilisation method (Mg/year)	2010	2011
Total waste weight by waste utilisation method, of which:	28 947 855.65	28 882 256.95
Composting	0.00	0.00
Reuse	0.00	0.00
Recycling	0.00	0.00
Recovery	19 656 949.65	19 756 811.95
Incineration (or using as a fuel)	0.00	0.00
Storage at waste dumps	9 290 906.00	9 125 445.00
Deep well storage	0.00	0.00
On-site storage	0.00	0.00

ENERGY SAVING IS A MUST

Investments carried out at divisions of KGHM Polska Miedź S.A. are to bring energy savings up to 120 MW. Replacement of the power supply systems and feeder driver control systems in the process of excavated material preparation is the way to limit electricity consumption at the Ore Enrichment Plants. The investment involves replacing four-stroke engines with asynchronous engines, and using frequency convertors for controlling their rotational speed. As a result, it will be possible to automate the process of feeding excavated material to hammer crushers, due to which they will operate in an optimum, and thus, low-cost, manner. Activities aimed at

savings at this division also include optimising the rotational speed of rotors of "old" flotation machines, replacement of off gas fans, as well as their rotational speed setting, replacement of lighting, transformers and electrical switchgears.

Energy-saving activities at the Tailings Plant include, inter alia, outdoor and indoor lighting replacement, introduction of 10 kV voltage in the power supply system in newly built facilities, as well as the implementation of gravitational flow of excess process water to the Odra river, instead of using energy-consuming pumping stations. Meanwhile, in mining plants, movement detectors have been installed in lighting circuits in bathrooms and energy-saving engines were used for fans.

Direct energy consumption by primary energy sources (unit J or its multiplication)	2010	2011
Total direct energy consumption	23 207.8	13 512.21
Total direct energy consumption by renewable primary sources	20	0
Biofuels	20	0
Ethanol	N/A	N/A
Hydrogen	N/A	N/A
Other	N/A	N/A
Total direct energy consumption by non-renewable primary sources	23 187.8	13 512.21
Natural gas	4122.7	4210.5
Gasoline	2.7	2.5
Oil	N/A	N/A
Heating oil	14 188.0	4 114.5
Diesel oil	1 147.7	1 164.6
Liquefied gas (LPG)	0.00473	0.00946
Butane	N/A	N/A
Propane	N/A	N/A
Ethane	N/A	N/A
Other	3 726.7	4 020.1

Indirect energy consumption by primary energy sources (unit J or its multiplication)	2010	2011	
Indirect energy consumption for transition energy	8 866 658 772	9 094 623 825	
by indirect non-renewable sources	Electricity, heating and cooling, steam, nuclear energy, other forms of imported energy	8 866 658 752	9 094 623 825
by indirect renewable sources	Solar, wind, geothermal, water, biomass-based transition, hydrogen-based transition energy	20	0
Consumption of primary energy in its generation	N/A	N/A	

Future problems

The primary principles formulated by the Environmental Protection Law include the principle of social participation in administrative proceedings. Society is usually represented by local governments and civic society organisations that, based on the act, can participate in the proceedings as a party, which gives them the right to appeal against environmental decisions issued, as well as the right to lodge appeals to the administrative court.

In 2011, the farmers' ecological self-protection association (Stowarzyszenie Samoobrona Ekologiczna Rolników) "Pronatura" from Głogów appealed against the decision of the Marshal of the Lower Silesia Voivodeship and against the decision of the Minister of Environment which allowed KGHM Polska Miedź S.A. to launch a rocking-rotary furnace to process lead including waste. The appeal lodged by "Pronatura" led to extending the procedure for issuing the decision for 2012.

KGHM Polska Miedź S.A. is open to professional discussions pertaining to the impact of the copper industry on the environment, as it systematically analyses the impact and effects of its operations on all components of the environment. The outcomes of these analyses lead to the positive specialised assessment of the relationships between the copper industry and the environment. However, while understanding the concerns of the society with respect to existence and development of the Company in the context of its impact on the environment, KGHM Polska Miedź S.A. supports and will develop all forms of social dialogue in order to obtain social acceptance for planned investments, in the spirit of sustainable development policy pursued.

In the direction of renewable energy

In accordance with the investment programme, in the years 2012–2014, KGHM Polska Miedź S.A. would like to invest PLN 1 billion in projects related to renewable energy sources. These are going to be implemented by KGHM TFI fund belonging to the Company. These projects are going to be related to water, wind and biogas energy. In 2011, KGHM TFI conducted the first audit of wind farms in Pomerania, with the total power of almost 150 MW, and it is also interested in purchasing share in Zakład Energetyki Wiatrowej Niedzica (Niedzica Water Power Plant).

Starting 2012, as a part of the process of diversification of its activities, KGHM Polska Miedź S.A. will cooperate with PGE, Tau-ron and PGNiG in shale gas exploitation.

Protection of health of citizens

Taking care of people living in the vicinity, the Company endeavours to fulfil its duties as a good neighbour. Therefore, it decided to organise activities undertaken until now with respect to environmental risk prevention, with special emphasis on lead-poisoning prevention among children, by launching the **Health Promotion and Environmental Risk Prevention Programme** in 2011. By 2011, prevention activities and rehabilitation holidays were arranged in the whole Legnica-Głogów Copper Belt by the Foundation for Children from the Copper Mining Area in Legnica. The new programme covers the area of former protective zones set within the boundaries of the smelter impact. As environmental pollution is the problem of the industry and local community, it should be solved together with local governments and authorities in charge of the environmental protection. Local governments from communities in the proximity of metallurgical installations, powiat starost office in Głogów, Occupational Medicine Institute in Łódź, as well as Miedziowe Centrum Zdrowia and Polska Miedź Foundation were invited to cooperation.

Falcons like the smelter

Is the smelter environment-friendly? This can be confirmed by the fact that a family of predatory peregrine falcons found their home at the Głogów smelter. These beautiful protected birds are living on the chimney of the Suspension Furnace Unit. Smelter employees placed a special platform inside 120-meter chimney with a cavity for the falcon nest. A small opening allows entry inside with a stand for landing and takeoff installed outside. Since 2009, new birds have joined the falcon family – in order to watch their moves, employees of the smelter put rings on their legs. Two cameras have been installed on the chimney – one allowing watching the nest and the second one directed to the place for takeoff and landing, which allows to watch the birds on the Internet, at www.kghm.pl website, in Falcons tab. Windhovers, smaller relatives of the peregrine falcon, have their nest nearby, at the Electrical Furnace and Converter Division of Głogów smelter.

The programme puts special emphasis on children, but young people and adults are not excluded. Preventive activities must cover all areas of life – home, work, school, environment, free time and social life. Consequently, the anti-lead programme needs to be supported by relevant educational activities and information campaigns aimed at the development of social awareness of related aspects.

As a part of the programme, in 2011, tests for lead content in blood at 1 200 children were carried out, preventive green school trips for children from rural communities were arranged, as well as whole-year preventive and rehabilitation classes at the swimming pools for children from community schools. In 2011, KGHM Polska Miedź S.A. and Polska Miedź Foundation allocated almost 1.5 million for the implementation of the programme.



5.4. GOOD NEIGHBOUR

KGHM wants to be a good partner for local governments and the inhabitants of the areas in which it operates, therefore it runs several pro-social projects.



KGHM Polska Miedź S.A. supports around

100 000
people in the region.

Yesterday and today

The discovery of copper ore deposits and the development of the Legnica-Głogów Copper Belt (LGOM) caused a huge population influx. Before beginning their exploitation in 1960, Lubin had a population of 3.5 thousand, the population of the ruined Głogów was even smaller, and the population of the whole of today's Legnica-Głogów Copper Belt (LGOM) was 187 thousand. By 1994 the figure had risen to 520 thousand, of which Lubin alone accounted for 85 thousand (in early 2011: 74 thousand), Legnica for 106 thousand (2011: approx. 100 thousand), Głogów, rebuilt after the war, for 74 thousand (in early 2011: approx. 68 thousand), and Polkowice, built almost from scratch, for 22 thousand (2011: approx. 22 thousand, as well). **The majority**

of infrastructure investments (new housing estates, roads, cultural facilities, hospitals and outpatient clinics, sports facilities, holiday resorts in other parts of Poland) were carried out by KGHM, whose number of employees peaked in the 1980s at 43 thousand. Including family members, more than one fifth of the population of the LGOM were associated with the Company.

In the 1980s, Kombinat Górniczo-Hutniczy Miedzi also developed education in the region, establishing mining, smelting, economic and medical schools. The following became part of KGHM: the Mining School Complex in Lubin and three technical secondary schools: a mining secondary school in Lubin and smelting secondary schools in Głogów and Legnica. Witelon University of Applied Sciences in Legnica and some faculties at the Legnica Regional Branch of the Wrocław University of Technology were established thanks to the Company. In 2002, the Copper Belt Technical College in Lubin and

the Lower Silesian College of Enterprise and Technology in Polkowice welcomed their first students. KGHM Polska Miedź S.A., as transformed into a joint-stock company 100 per cent owned by the Treasury in September 1991, supports around **100 thousand people in the region**, including those employed by the Company, its subsidiaries and business partners.

In 2003, the Company established the Polska Miedź Foundation (*more details can be found further on in this chapter*) to fulfil its corporate social responsibility objectives in a more professional and effective way. In order to promote sports among young people and the general population of the Copper Belt, the Company **sponsors the Zagłębie Lubin football club** and several handball clubs: MKS Zagłębie Lubin, SPR Chrobry Głogów, and MSPR Siódemka Legnica (*more details can be found further on in this chapter*). The Company also promotes job creation and competence development in the region by working together with local job centres, running adaptation programmes for secondary school graduates, working together with universities and technical schools or providing internships (*more details can be found in Section 1 of*

this chapter). By sponsoring many important cultural, scientific or sports projects, KGHM Polska Miedź S.A. meets the community's expectations. The Company also maintains an active dialogue with local governments, e.g. on the expansion of mines. The Legnica and Głogów region owes its position on Poland's business map in many respects to KGHM Polska Miedź S.A. **Real property tax revenues of the gminas alone were PLN 131m and PLN 133.6m in 2010 and 2011, respectively.** Local governments also receive a share of CIT (in 2011, the Company paid PLN 2.2 billion in corporate income taxes) and PIT remittances (in 2011, the Company's employees paid PLN 236m in personal income taxes). As a consequence, some of the richest Polish gminas are located in the Copper Belt (Rudna, Polkowice). Salaries are the highest here, education, culture and sport are thriving. Many aspect of living in the region are steadily improving thanks to direct or indirect support from KGHM Polska Miedź S.A.

ACT GLOBALLY, THINK LOCALLY

The immediate neighbourhood of KGHM Polska Miedź S.A. is the Copper Belt and – from a slightly wider perspective – Lower Silesia. However – due to the Company's international expansion – its neighbourhood is expanding as well. Since May 2010, it has also included local communities in Canada. In pursuit of the key objective of its strategy for the years 2009 to 2018, which is to expand the resource base and mining production, the Company, together with Abacus Mining & Exploration Corporation, its Canadian business partner, established a joint venture with a majority KGHM Polska Miedź S.A. interest. The joint venture is intended to mine copper and gold from the Afton-Ajax deposit located in British Columbia. With the acquisition of Quadra FNX, a Canadian mining company, the concept of "good neighbourhood" was extended even further with KGHM becoming the owner of mines in Canada, the US, and Chile.



Taxes paid by KGHM Polska Miedź S.A., in PLN thousand	2010	2011
Corporate income tax	1 267 287.26	2 204 067.70
Corporate income tax on dividend paid	34 162.02	174 412.16
Dividend paid to the Treasury	190 769.70	947 489.51
Social security (ZUS), of which:	710 473.50	752 620.12
ZUS premiums payable by the employer	344 337.98	365 387.37
ZUS premiums payable by the employee	366 135.52	387 232.71
Personal income tax	223 001.42	236 051.25
Excise duty	51 633.60	53 102.31
Real property tax	131 978.52	133 687.02
Minerals extraction tax	67 986.65	72 935.82
Waste storage fee	3 468.84	3 711.69
Environmental fee	23 236.74	21 767.06
Fee for perpetual usufruct of land	7 211.81	7 720.22
PFRON (Found For the Disabled)	14 504.36	15 808.46
Irrecoverable VAT	1 924.86	9 660.43
Other fees	793.63	2 696.51
Total	2 728 433.97	635 730.32

ENTERPRISE PROMOTION

KGHM Polska Miedź S.A. is very important for the development of the region and the other way round – one of the pillars of the Company's business strategy is that the Company intends to actively work for the regional community by:

- creating jobs and promoting enterprise in the region, first of all by using the infrastructure of KGHM Letia S.A. (the ultimate goal of the company is to create 750 jobs);
- stepping up efforts to protect the environment, care for the health of employees and local communities, promoting sports, culture and science in the region.

In order to respond to these challenges, the Company has established KGHM Letia S.A. – **Legnica Technology Park**. The key objectives of KGHM Letia S.A. are to attract innovative projects, promote enterprise and provide support to investors in the region, and create jobs. The Park provides businesses with developed plots of land and offices to let; the Technology Transfer Centre established in 2009 is also of assistance.

Centrum Telemarketingowe Avista Media (Telemarketing Centre) (with a headcount of more than 140), Elsur, which manufactures, among other things, plastic gas pipes, Laritech – Nowoczesne Technologie (Advanced Technologies), an innovative design and production office, Lag Serwis, Miratrans, and Remak are already operational at the Legnica Technology Park.

The next step will be the opening of the modern **Letia Business Centre (office building) in Legnica** in 2012, a PLN 36.5m project. This is a flagship investment project of KGHM Letia S.A. The glazed ceiling building will have more than 8 000 sq. m. of office and conference space. The building will also house an exhibition foyer, a computer room and a hotel with catering facilities. Ultimately, 480 people will be working here. Guided by the good neighbourhood principle, KGHM Letia S.A. has committed itself to financing the major part of the cost of refurbishment of the facades of the two adjacent old, pre-war buildings in connection with the investment project.

Contributing to the development of the labour market, KGHM Polska Miedź S.A. is working together with local job centres

on recruiting the unemployed, sponsors two secondary schools whose curricula are adapted to the Company's HR needs, provides internships and competitions for university undergraduates and graduates in order to attract valuable and well-educated employees to the region (more details can be found in the Responsible employer section earlier in this chapter). Promotion of education and the local labour market is the most desirable quality in a good neighbour as mentioned by the inhabitants of the region (*a more detailed discussion of the polls on the perceptions of KGHM activities in respect of its immediate environment can be found in this chapter*).

TOWARDS BETTER COLLABORATION

KGHM Polska Miedź S.A. is doing its best to be the best neighbour for the inhabitants of the region and local governments alike. To boost its collaboration with them, in April 2011 the Company signed an agreement with the Lower Silesian Foundation for Regional Development. The joint project's objective was to carry out a study on **Potential for the collaboration between the local governments of the Copper Belt and KGHM Polska Miedź S.A.** During the study, Foundation officials gave presentations on the Company's Management Board's proposals for the local governments. Preliminary research made it possible to shortlist potential areas of collaboration – including transportation projects: the construction of the Legnica-Lubin-Polkowice-Glogów railway together with the necessary infrastructure or collaboration on the creation of a multimodal transportation system (urban, railway and bus transportation combined to serve the inhabitants and businesses in the Copper Belt, as well as the Company itself). The short list also included joint planning, programming and carrying out investments in respect of the local road network and efforts to make use of the River Oder for transportation purposes (Phase 1: tourist cruises). The local governments would also like to take advantage of the Company's size to negotiate group purchases of electric power from energy companies, waste management activities, primarily investments in technologies making it possible to use waste as fuels, as well as to promote and develop renewable sources of energy. Local government officials would also gladly have KGHM Polska Miedź S.A. as an investor in utility companies, which would make it possible to establish a robust water supply or sewage/waste collection businesses. That would make it possible, on the one hand, to cut down their operating costs and prices for the general public, and on the other hand, enable them to expand outside the Copper Belt.

The Company believes that such joint efforts are possible and desirable and a broad Coalition for the Development of the European Copper Region should take responsibility for setting the major goals and their coordination, including, in addition to the local governments and the



Tadeusz Krzakowski
Mayor of Legnica

Relations between KGHM Polska Miedź S.A., the largest employer in the Copper Belt, and the local government of Legnica, the largest city in the sub-region, have been characterised by high levels of trust, understanding and agreeability for years now. There have been many examples of our friendly collaboration which is beneficial for the local communities. This proves that the big business, as represented by KGHM Polska Miedź S.A. and the Polska Miedź Foundation, has a strong sense of shared responsibility for the sustainable social and economic development of the cities and gminas in the regions.

As Mayor of Legnica, I strongly appreciate the social mission of support for the various aspects of life in our city as pursued by our partners. The many sports clubs and public benefit organisations owe their fast growth and broadening of activities to that. At the same time, KGHM is a patron of art and culture, and it demonstrates its social sensitivity by supporting children from our orphanages, to give just one example.

KGHM Polska Miedź S.A. is a pillar of growth and modernisation not only for the Legnica area but also for the entire region. It is a reliable partner for the Legnica local government in any and all activities undertaken for the benefit of the inhabitants. This provides a solid foundation for further, long-term collaboration and consolidation of our relationship.

Company, inclusive of its subsidiaries, other businesses, support institutions, universities, non-government organisations and prominent regional personalities.

A joint seminar of the Company's Management Board and local government leaders in June 2011 was the first step in that direction, as well as the **Copper Belt Forum in November 2011** on major regional development issues. Forum participants expressed their intention to establish a **Coalition for the Development of the European Copper Region**, to boost economic, social development and the development of civilisation in the region. The Coalition is intended to shape the image and identity of the Copper Belt as the European Copper Region. The Steering Committee of that unprecedented initiative is composed of the

mayors of the following poviats: Legnica, Lubin, Polkowice, Bolesławiec, Głogów and Góra, mayors of the following cities and towns: Legnica, Lubin, Bolesławiec, Głogów and Polkowice, KGHM Polska Miedź S.A. officers, including the Chairman of the Management Board, Chief Investment Officer, and the Management Board's Adviser for Local Government, a member of the Management of Lower Silesia for regional development, an official of the Lower Silesian Foundation for Regional Development, and project coordinators.

The Coalition objectives, as indicated in the Development Strategy of the European Copper Region, are similar to those indicated during a poll of the local governments' expectations. They include, for instance, the construction of several hospitals, improvement in the transport and recreation infrastructure, education and energy matters, the creation of a copper environment business cluster, and the development of a joint policy in the following areas:

- image and identity;
- investments and investment marketing;
- infrastructure construction, in the first instance in the areas of transportation, utilities and industrial production;
- health care, medical treatment, physical medicine and rehabilitation, and recreation.

In 2011, on the initiative of KGHM and the local governments of the Copper Belt, a Coalition for the Development of the European Copper Region (Koalicja na rzecz Rozwoju Europejskiego Regionu Miedziowego) was established.



Know the opinion of your local communities

Collaboration with local governments is the official way becoming involved in joint activities for the benefit of the region. But what do the local communities think about the Company's social activities? As the Company is eager to get to know their opinion, in 2010, surveys were conducted with the participation of PwC, a consulting firm, to find out what the local communities expect from a company like KGHM Polska Miedź S.A.

The respondents were generally pleased with the fact that they lived in the Copper Belt (67%). They believe that **KGHM has a favourable influence on many aspects of their life, first of all on the regional labour market (92% agree), the economic growth of the region (88%), and the quality of life of its inhabitants (81%)**. On the other hand, it has an adverse impact on the natural environment – this opinion was shared by 45% of the respondents. What that means is that the Company needs to put more emphasis on communicating its environment-friendly initiatives, involving the mitigation of the Company's adverse impact on the inhabitants and the environment.

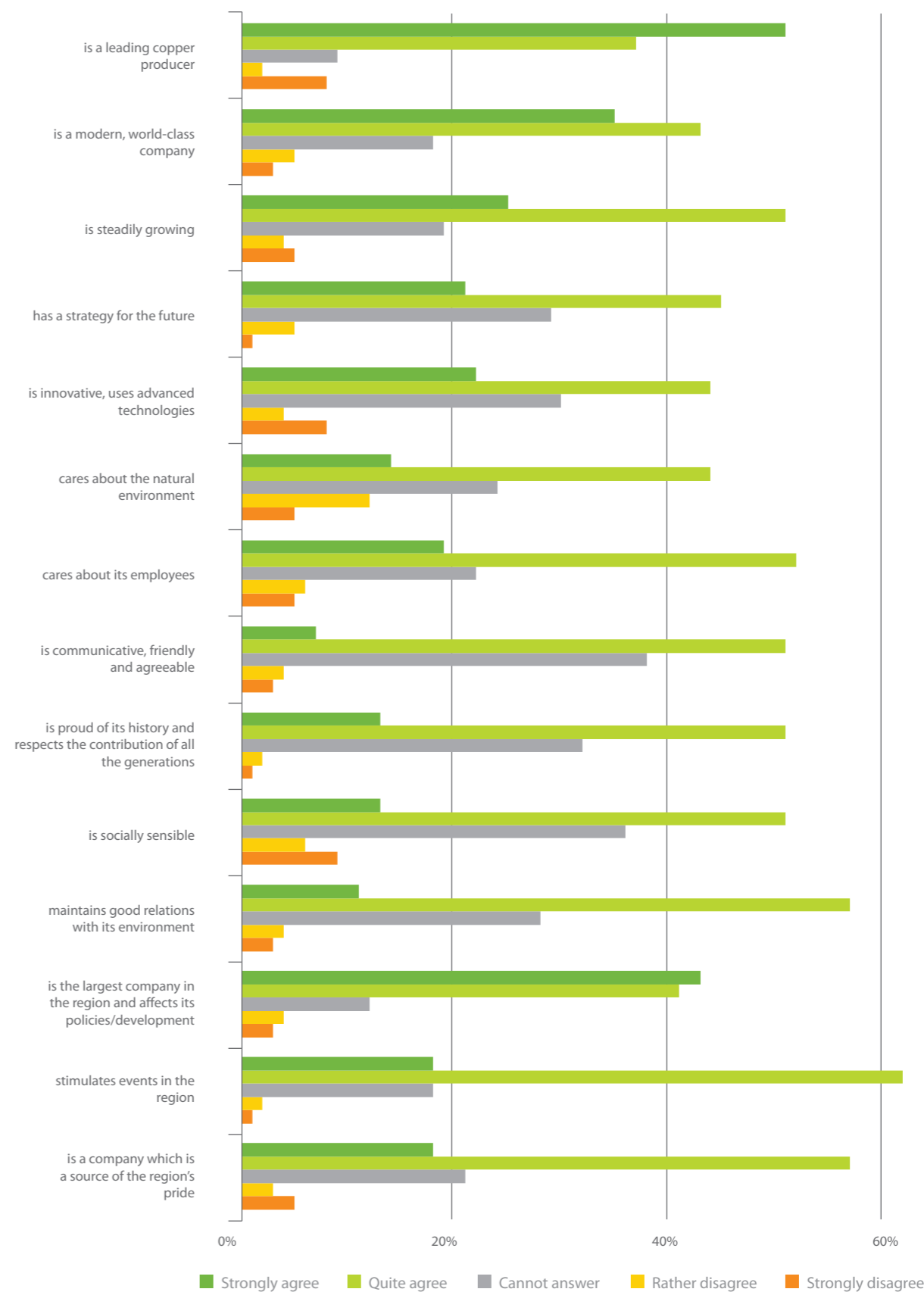
The favourable perception of the Company's influence on the various aspects of life shows that the inhabitants of the region understand and appreciate the Company's key role in the creation of the inhabitants' well-being. Without KGHM Polska Miedź S.A. it would be hard for them to get a job and achieve a satisfactory living standard. Therefore, the Company plays a huge role in the life of the local communities. **What is important is that 68 per cent of the respondents believe that the Company maintains good relations with its immediate environment, whereas it is socially sensitive in the opinion of 58 per cent of the respondents.**

The respondents suggested that the Company should focus on promoting education and environment-friendly activities in its sponsorship activities. The Company should develop a policy for supporting these areas to create good conditions for the region's long-term development.

The survey results are the basis for KGHM's efforts pertaining to the sponsoring and social activities of the Polska Miedź Foundation.

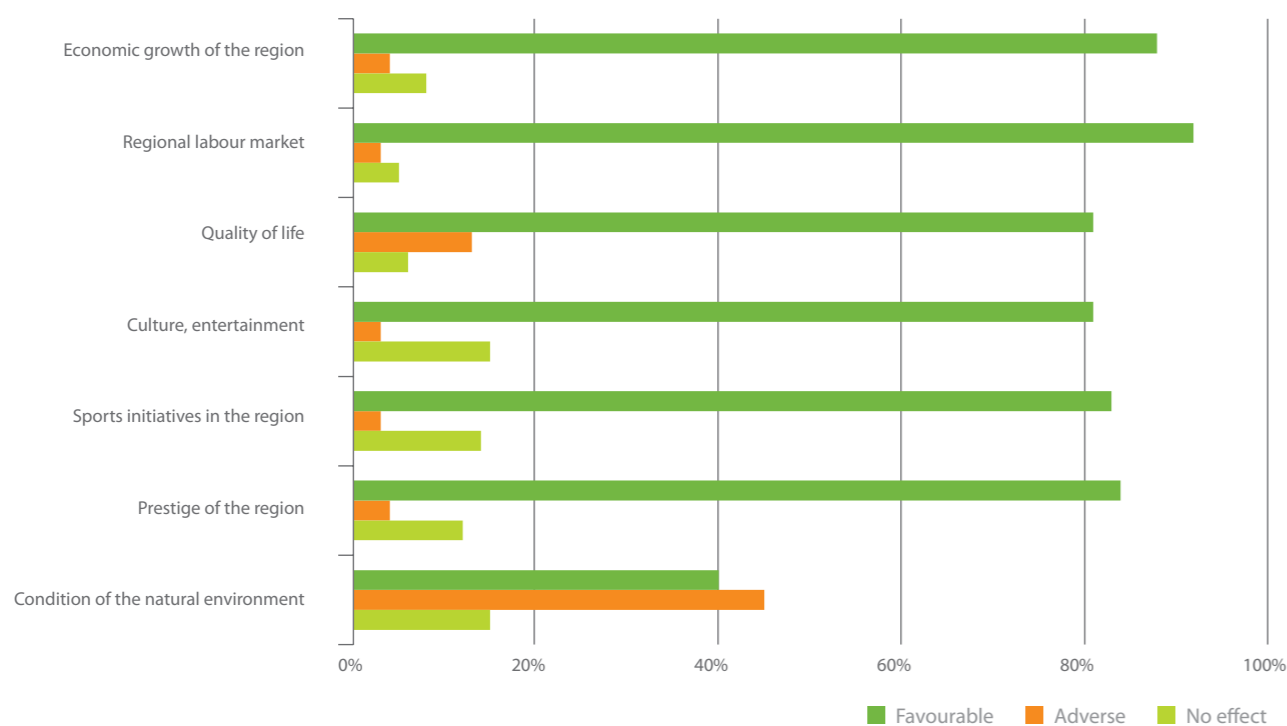
GOOD PRACTICE

Opinions on KGHM (N=400)



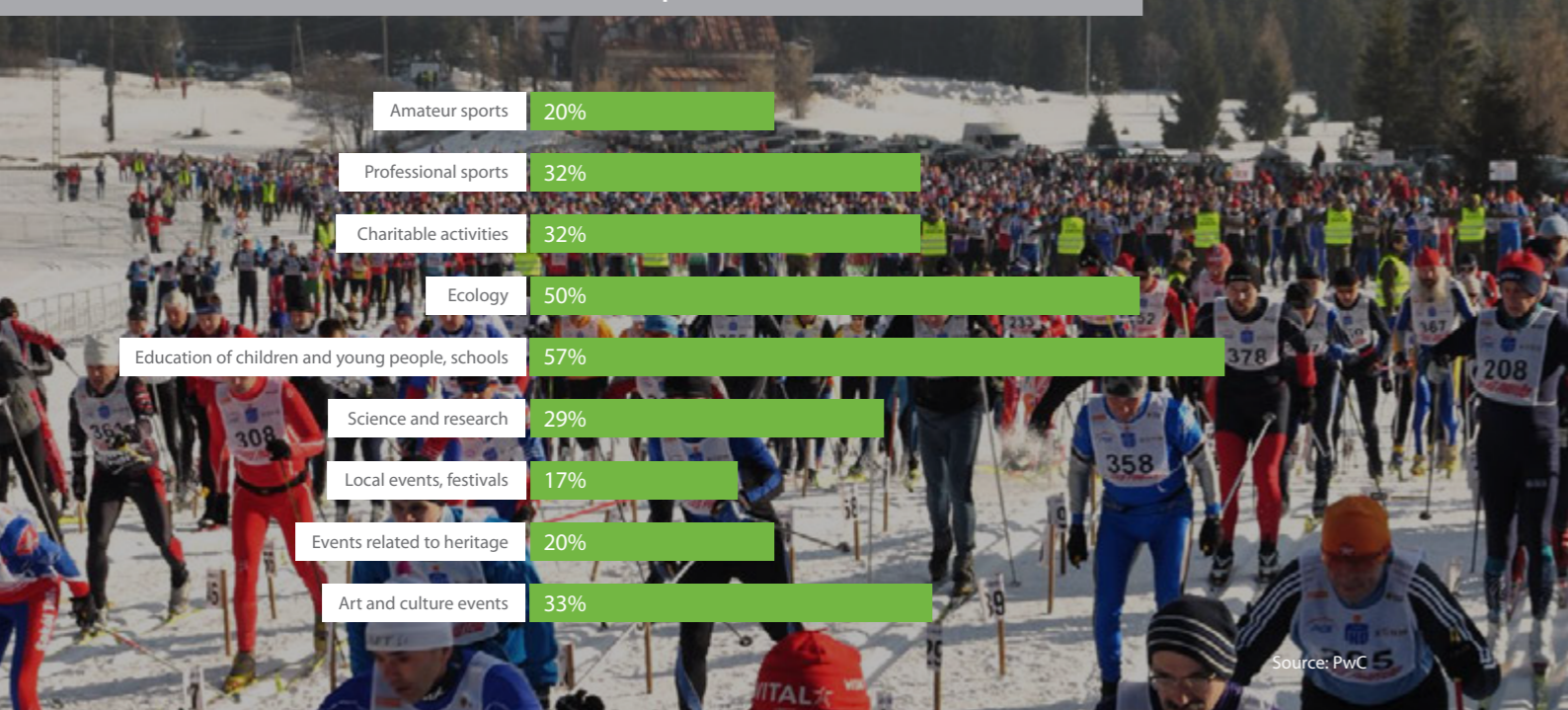
Source: PwC

Respondents' opinion on the impact of KGHM Polska Miedź S.A. on the environment (n=400)



Source: PwC

What should KGHM Polska Miedź S.A. sponsor (N = 400)



Source: PwC

KGHM POLSKA MIEDŹ S.A. REPAIRS MINING DAMAGE

Although copper ore mining is undertaken in compliance with the applicable laws, it can cause various kinds of mining damage, both to properties on the ground, on the mines' premises, and to the infrastructure. There is scope for potential conflict in this area and, at the same time, this is a major burden for inhabitants of areas that are at risk of mining damage, therefore the Company ensures that any mining damage is minimised and the cost of any existing damage refunded.

Mining damage takes the following forms in the LGOM:

- damage to buildings due to ground deformation, mining tremors and developments taking place in groundwater (flooding);
- soil and green area transformation due to hydrological transformation caused by

ground deformation (interrupted surface water flows and resulting water accumulation and flooding).

Damage to buildings caused by high energy seismic tremors and mining area flooding, which require costly drainage work, are the biggest problem due to the scale and cost involved.

Annually, KGHM Polska Miedź S.A. branches receive more than 500 mining damage repair requests and requests for the safeguarding of newly-erected buildings from the LGOM area. Two-thirds of these are granted. In order to facilitate communication with the inhabitants, there is a mining damage committee at each mine. The mining damage repair procedure is initiated at the written request of the person who has suffered the damage. In 2010 and 2011, the Company spent PLN 13m on mining damage repair and preventive measures (reinforcement of foundations of buildings located in the area

Expenditure incurred on mining damage prevention and repair by KGHM Polska Miedź S.A. branches.	2010	2011
Lubin mine	1 039 500	1 932 200
Polkowice-Sieroszowice mine	2 471 000	3 511 000
Rudna mine	2 149 600	1 965 500
TOTAL	5 660 100	7 408 700

Number of mining damage repair requests and preventive reinforcement requests received by KGHM Polska Miedź S.A. branches.	2010	2011
Lubin mine	188	234
Polkowice-Sieroszowice mine	187	195
Rudna mine	168	135
TOTAL	543	564

Number of settlements in respect of mining damage and preventive reinforcements reached by KGHM Polska Miedź S.A. branches	2010	2011
Lubin mine	83	162
Polkowice-Sieroszowice mine	174	180
Rudna mine	33	82
TOTAL	290	424

in which such building can be adversely affected by the Company's mines).

As KGHM Polska Miedź S.A. wants to shed its image of a company that is a burden to local communities, for instance as a result of mining damage or adverse impact on the environment, the Company has been working on redeveloping the Obora sand excavation pit since 2010. The preliminary feasibility study envisages that the revitalisation of the mining area for recreation and medical purposes using renewable energy and brine from the Company's mines will

be an innovative project as well as an attractive proposal for a region in which there are presently no such facilities. The sand excavation pit revitalisation procedure is a far better alternative to the traditional methods of closing down open-pit mines. The process will be completed after the sand excavation pit is decommissioned, i.e. in 2025, however its redevelopment is scheduled to commence as early as in 2016.

NEIGHBOURS ALSO ABROAD

The Company which is well known in the Copper Belt, with many years of experience in social activities and partnerships with the local communities to boast of, now has to face unknown partners. Talks with the local community and the so-called First Nations (the native inhabitants) as part of the process for obtaining a construction permit for the Afton-Ajax deposit mine in British Columbia, Canada, and the process of acquiring Quadra FNX, were the first major task for the managers working abroad.

In order for the Polish investor to build a favourable image, the Canadian company formed to carry out the Afton-Ajax project has been conducting various sponsorship activities in Kamloops, where the project is located - including supporting the local hockey team, the seniors club or similar initiatives which contribute to the local inhabitants' favourable perception of the Company. KGHM Polska Miedź S.A. also intends to talk to the new neighbours about its investment project. The project website provides answers to the most frequently asked questions about the project (e.g. about new jobs, 750 of which are to be created during construction of the mine and, after the start-up phase of its operation, 490). In that way, the Company achieves one of its strategic objectives, i.e. job creation. Additional questions may be asked using

a dedicated form. Talks are also under way about the consequences of our future operations in the native areas inhabited by the First Nations and their effect on their cultural heritage.

The Company will gain new experiences from negotiations with Canadian Indians living around Sudbury, in the areas in which Quadra FNX, acquired by KGHM Polska Miedź S.A. in 2012, has (Podolsky, McCreedy West and Craig/Morrison mines) and will have mining operations in the future (Victoria project). Under the treaty of 1850, the Indians who signed it and their descendants may derive profits from the exploitation of the areas which used to be theirs. Even before the acquisition, Quadra executed memorandums of understanding with two Indian tribes; the talks will have to be finalized by KGHM. This is a great challenge but also a necessary experience for the Polish company which owns ore deposits in various parts of the world (Canada, the US, Chile, Greenland) and will have to win the trust of the local communities.

POLSKA MIEDŹ FOUNDATION NOT ONLY FOR THE REGION

KGHM Polska Miedź S.A. conducts its pro-social activities through its corporate **Polska Miedź Foundation**¹ established in 2003. On 17 January 2006, the Wrocław-Fabryczna District Court in Wrocław, 9th Commercial Department of the National Court Register decided to grant the Polska Miedź Foundation the status of a public benefit organisation².

Since 2008, the Polska Miedź Foundation has taken over the duties of the Charitable

Committee³ existing at the Management Board of KGHM. **In 2003 to 2011, the Polska Miedź Foundation and the Charitable Committee have donated nearly PLN 90m to institutions and individuals for social purposes.**

The establishment of the Foundation was the continuation of the Company's pro-social activities as, from the very outset of the copper industry in Lower Silesia, various regional and national projects were financially supported by the Company. The Polska Miedź Foundation continues such charitable activities but it has also strongly



Cecylia Stankiewicz

Chairman of the Management Board of the Polska Miedź Foundation

I have been with KGHM Polska Miedź S.A. since 1991 and with the Polska Miedź Foundation since August 2009, when I became the Chairman of its Management Board. In the past, I took part in charitable campaigns but it was really only when I took the helm at the Foundation that I was able to become involved in the most valuable and significant social projects, including, to name but one, the Lower Silesian Volunteer of the Year Competition, on whose panel I sit.

The Foundation's activities are consistent with our corporate social responsibility strategy, which in practice means that, primarily, we give financial support to projects that are directly relevant to the inhabitants of the Copper Belt and Lower Silesia. Health care and promotion is a priority for us. The donations made by the Foundation enable hospitals to purchase expensive equipment, expand their wards or upgrade their specialist laboratories. However, what gives us the most satisfaction is the opportunity to financially support specific patients and others in need. There are many disabled children among them; we help them finance their physiotherapy and rehabilitation, medicines or expensive rehabilitation holidays. Children brought up in local orphanages go on holiday every year thanks to our donations but they also become independent upon leaving the orphanage.

I hope that this first Corporate Social Responsibility Report will also illustrate our activities in the area of promoting sports among children and young people, cultural, scientific and educational projects, as well as those that are intended to preserve our regional heritage. Out of hundreds requests for financial assistance that we receive from institutions and individuals we try to select those where financial assistance is needed the most and that are of key importance.

1. Notarial Deed – Representations of establishing the Foundation (Repertory A No. 594/2003 dated 11 February 2003, § 4), drawn up at the registered office of KGHM Polska Miedź S.A. in Lubin, at ul. M. Skłodowskiej-Curie 48. Registered on 21 March 2003 with the number – KRS 0000154740).

2. WR.IX NS-REJ. KRS/650/6/229 of 17 January 2006 - KRS 0000154740.

3. KGHM's Charitable Committee has donated PLN 27 104 747.00 for social purposes throughout the period of its operation (2003 to 2008).



Aleksander Marek Skorupa
Lower Silesia Voivode

KGHM Polska Miedź S.A. is one of Poland's largest enterprises. Both its organizational policy and its strategic business partnerships have an impact on the regional and national economy. However, we should remember that it is the people behind the enterprise's development who are the Company's most valuable capital. Together they have built the Company's success – one of the greatest in the history of the Polish economy since 1989. As the largest employer in Lower Silesia, KGHM takes special care of its employees and clients, creating an appropriate work environment based on the subjective treatment of people. The Company is a fair and honest business counterparty, and actively engages in social and cultural matters. The Company's wide-ranging investments best reflect its responsibility towards the region's community. Active operations in the area of socially responsible business, promoting social involvement and protecting the natural environment, is a reason to be proud and is an example for other entities on the business market. As a member of the Council of the Polska Miedź Foundation, I am glad that the Company is capable of sharing its capital, supporting valuable projects in the area of culture, education and sports.

intensified theme, in compliance with the Foundations Act and the Act on Public Benefit and Volunteer Activities. The arrangements in place have made it possible for the Company to spend its funds even more effectively. An orderly spending system and a transparent procedure for allocation and accounting for donations is one of the Foundation's strengths, enabling it to effectively pursue its corporate social responsibility policy.

The Polska Miedź Foundation intends to maintain and further consolidate its position as regional leader in pro-social activities. It has a good chance of achieving this thanks to its transparent and orderly operating procedures, both in the area of examining donation requests before making a decision and in the area of accounting for and documenting them. Lists of institutional beneficiaries, the donation grant rules and any and all regulations are disclosed on the Polska Miedź Foundation website together with any and all other documents relevant to potential requesters and any other interested parties.

KGHM is steadily increasing the amount of funds transferred to the Foundation: PLN 12.5m in 2010, PLN 15m in 2011. The Foundation is the clear leader in Lower Silesia and in Poland in pro-social activities: in 2003 to 2011 it assisted **1 385** institutional projects with **PLN 50 600 449.28** and made donations of **PLN 37 088 520.43** to individuals.

In 2010 and 2011, the Polska Miedź Foundation, in line with its statutory objectives and to the extent of available funds, endeavoured to identify various social needs and assisted local (457) and regional (220) projects and projects carried out in other areas of Poland and abroad (40) with its donations.

Health care

Since its inception, support for health care and promotion has been the Foundation's most important objective. In 2003 to 2011, the Foundation made donations to various health care institutions, located primarily in the Copper Belt and Lower Silesia. **In the years 2010 and 2011 alone, the Foundation spent PLN 12m on this. The funds were used to purchase advanced medical equipment and devices for hospitals, rehabilitation centres and other healthcare institutions.** Advanced equipment makes it possible to conduct diagnostic tests and contributes to the more effective prevention of many illnesses.

The **Szpital Zespołu Opieki Zdrowotnej** (Healthcare Centre Hospital) in **Lubin** which has received total donations of PLN 2.6m to date, including a video duodenoscope and

an X-ray machine bought by the hospital for PLN 680 thousand in 2011, is one of the beneficiaries of the Polska Miedź Foundation. The **Miedziowe Centrum Zdrowia S.A.** (MCZ) (Copper Health Centre) in Lubin can also count on the Foundation's financial support

each year. In 2010, the Gastroenterology Ward was upgraded: a video endoscope was purchased for PLN 200 thousand. Whereas the outpatient clinics of the MCZ in Legnica and Głogów were gifted with PLN 400 thousand for the purchase of digital sonographic scanners. A 'da Vinci' surgical robot, the first of its kind in Poland, was purchased

Donations for institutions in 2010 and 2011

Donation purpose	Donation amount PLN	Number of projects	Project location		
			Copper Belt	Other areas in Lower Silesia	Other provinces of Poland and abroad
1. Health care	6 170 486.00	62	33	26	3
2. Protection of national heritage	5 497 450.00	72	37	31	4
3. Science and education	2 575 205.31	154	97	43	14
4. Sports and physical culture	2 803 363.00	162	131	27	4
5. Art and culture	1 943 816.00	78	36	35	7
6. Environmental protection and public safety	1 177 660.00	28	20	7	1
7. Regional heritage	1 179 771.00	58	39	13	6
8. Other social activities	1 269 336.00	103	64	38	1
TOTAL	22 617 087.31	717	457	220	40



Prof. Tomasz Kręcicki
Academic Teaching Hospital in Wrocław

I have been collaborating with KGHM Polska Miedź S.A. in the area of healthcare for more than 20 years now. Currently, I am a consultant on the Otolaryngology Ward of Miedziowe Centrum Zdrowia S.A. owned by KGHM. There are a number of very good wards at the hospital, including the cardiology, oncology, gastroenterology and laryngology wards. Thanks to the assistance from KGHM and the Polska Miedź Foundation, the hospital has unrivalled medical equipment, including a high-quality computed tomograph.

Having collaborated with KGHM for many years, I have experienced the great commitment of the Polska Miedź Foundation to health care and promotion in Lower Silesia. In 2011, the Foundation arranged and financed free screening tests for the Copper Belt inhabitants for ear, nose, throat and larynx diseases. 1 200 people were screened as part of the programme, with the health of many of them being saved thanks to the fact that they had been diagnosed with a disease. At the moment, the Polska Miedź Foundation is running its 19th preventive programme, this time involving prostate diagnostics. I am happy that the Foundation appreciates the need for prophylaxis, which very often makes it possible to diagnose a disease at an early stage and cure it.

Donations for individuals in 2010 and 2011

Lp.	Donation purpose	Donations		Number of donations	Project location		
		Amount granted PLN	%		Copper belt	Lower Silesia	Other provinces
1.	Health care	6 099 774.43	87.8	2 405	1 664	617	87
2.	Social service	848 796.00	12.2	520	486	65	6
TOTAL		6 948 570.43	100.0	2 925	2 150	682	93

for the **Wojewódzki Szpital Specjalistyczny** (Lower Silesia Regional Hospital) in Wrocław with financial assistance from the Polska Miedź Foundation; such robots are used for minimally invasive oncologic, gynaecologic, urologic and transplant surgery. The Polska Miedź Foundation has made several donations to the Wrocław-based specialist clinics of the Medical Academy, including PLN 300 thousand for the Department and Clinic for Gastrointestinal Tract and General Surgery for the purchase of an endoscope to diagnose gastrointestinal cancers, PLN 180 thousand for the purchase of specialist medical equipment for the newly established endoscopy laboratory at the Second Department and Clinic for Gynaecology, Obstetrics and Neonatology which will make it possible to conduct prophylactic examinations of gynaecologic diseases and conditions. In addition to the Copper Belt (Legnica, Lubin, Głogów), the Polska Miedź Foundation has provided financial assistance to many other healthcare institutions in Poland, in Wrocław, Warsaw, Jawor, Wińsko, Trzebnica, Góra, Środa Śląska, Bolesławiec, Złotoryja, Wołów, Lubiąż, Leszno and Ścinawa.

The purchases of equipment and upgrades at those healthcare institutions have contributed to a significant improvement in the health of many patients.

The Foundation did not limit itself to financing the purchase of equipment but has also initiated and supported many prophylactic programmes (18 in total so far). In 2011, free otolaryngological tests were performed among the inhabitants of the Copper Belt. The Foundation donated PLN 215 thousand for the purpose.

Specialist laboratories have also been upgraded and the medical infrastructure expanded using the Polska Miedź Foundation's funding. In 2010, the Foundation donated PLN 1m for the addition of a hospital pavilion housing the Emergency Ward, the Operating Room,

Blood for those in need

Not only the Foundation but KGHM employees themselves are also eager to help those in need. There are as many as five Polish Red Cross clubs at the Company's branches: the Volunteer Blood Donors' Club at the Głogów smelter (its members donated blood, for instance, for patients of the Clinic for Bone Marrow Transplants and Children's Haematology in Wrocław), the "Drop of Life" Volunteer Blood Donors' Club at the Polkowice-Sieroszowice mine, the Volunteer Blood Donors' Club at the Legnica smelter, the "Copper Drop of Blood" Volunteer Blood Donors' Club at the Rudna mine, and the "Miner's Heart" Volunteer Blood Donors' Club at the Lubin mine. Polska Miedź Foundation supports them, e.g. the Głogów club was donated PLN 9 730 in 2010, and PLN 9 000 in 2011, for the promotion and operation of the volunteer blood donation campaign. And PLN 3 000 was given to the PCK club in Lubin, both for its statutory activities and for organising Volunteer Blood Donor Days in 2011.

Volunteers want to help



Every year, 10 thousand people are diagnosed with blood cancer. One half of the blood cancer patients die because they cannot find a bone marrow donor. And they can't find a donor because people don't know how easy it is for them to save someone else's life. Readiness to help is the overriding objective of KGHM's Bone Marrow Team of volunteers. Some of the team members donate bone marrow or explain what a transplant involves, others run or ride a bike in special T-shirts to promote registering in the database of bone marrow donors. The KGHM bone marrow bike team already has 12 members. There is also a team of marathon runners.

Foundation activities – areas	Statutory areas of operation	Financed projects
HEALTH CARE	<ul style="list-style-type: none"> health care and promotion 	<ul style="list-style-type: none"> Research and diagnostic programmes Blood donation and haemotherapy Upgrading specialist laboratories and expanding hospital wards Purchasing equipment and specialist medical devices Supporting medical institutions and establishments Academic conferences and medical symposia
SCIENCE AND EDUCATION	<ul style="list-style-type: none"> science and education tourism and recreation for children and young people 	<ul style="list-style-type: none"> Equipment for educational laboratories, kindergartens, primary schools, middle schools, secondary schools, and universities Scholarships and maintenance grants, prizes Establishing new educational laboratories and upgrading the educational base Educational programmes Scout camps, summer camps, sleep-away schools Academic symposia and conferences Academic publications, popular science and educational and training publications
REGIONAL HERITAGE	<ul style="list-style-type: none"> local history preserving national traditions, promoting all things Polish and developing national, civil and cultural awareness supporting ethnic minorities supporting European integration and contacts and collaboration between societies 	<ul style="list-style-type: none"> Promoting of mining and smelting traditions in the Copper Belt Organising community-building meetings in order to preserve mining and smelting traditions Organising St. Barbara's Day celebrations Celebrations to commemorate anniversaries of the discovery of copper ore deposits by J Wyżykowski, DSc Mining conferences and congresses Documenting the history of the copper industry Promoting Lower Silesian regional identity Supporting institutions which promote mining and smelting traditions Tourism and recreation for children and young people from the former Eastern Borderlands of the Second Polish Republic Ethnic minority festivals
SPORTS AND PHYSICAL CULTURE	<ul style="list-style-type: none"> promoting physical culture and sports 	<ul style="list-style-type: none"> Supporting selected sports and sports clubs and associations: <ul style="list-style-type: none"> Interschool and student sports clubs Sports associations and societies Country and village sports clubs Sports unions and federations, sports clubs Karate clubs and centres Educational aspect of sports and physical culture (for children and young people) Promoting sports and physical culture among children and young people Additions to sports and sports and recreation facilities (construction of playing fields, gyms, playgrounds, skate parks etc.) Upgrading sports and sports and recreational facilities

Foundation activities – areas	Statutory areas of operation	Financed projects
PROTECTING THE NATIONAL HERITAGE	<ul style="list-style-type: none"> protecting cultural heritage and tradition protecting environmental heritage 	<ul style="list-style-type: none"> Long-term and comprehensive revitalisation of religious and non-religious sites Conservation, revitalisation and rebuilding of historic buildings Conservation of movable items in buildings Purchases of valuable items for museums Protecting historic buildings, etc. against their destruction
ART AND CULTURE	<ul style="list-style-type: none"> culture art 	<ul style="list-style-type: none"> Art and cultural events, including art exhibitions, theatrical plays, music and film festivals Music and video recordings, staging theatre plays and making selected exhibitions Supporting film productions, art workshops Purchasing equipment for cultural institutions
ENVIRONMENTAL PROTECTION AND PUBLIC SAFETY	<ul style="list-style-type: none"> environmental and animal protection rescue and protection of people public order and safety and counteracting social pathologies 	<ul style="list-style-type: none"> Fulfilling the tasks specified in the Health Promotion and Environmental Hazard Prevention Programme of KGHM Polska Miedź S.A. <ul style="list-style-type: none"> organising prophylaxis and therapy holidays for children and young people swimming pool rehabilitation and sport sessions monitoring tests – risks Environmental education for children and young people Rescue and protection of people <ul style="list-style-type: none"> purchasing equipment for volunteer fire-fighters, the Police Training and preventive activities
OTHER SOCIAL ACTIVITIES	<ul style="list-style-type: none"> social service, including assisting families and individuals in need, and creating equal opportunities for such families and individuals supporting the disabled charitable activities 	<ul style="list-style-type: none"> Purchasing fuel, clothes, food for orphanages, institutions assisting the homeless or addicts, charity canteens, and providing food to underprivileged children Subsidised rehabilitation holidays, supporting physical activity of the disabled, supporting occupational therapy workshops Financial and technical support for organising charitable campaigns aimed at obtaining funds for those in need of medical treatment
INDIVIDUALS	<ul style="list-style-type: none"> health care social service, including assisting families and individuals in need, and creating equal opportunities for such families and individuals 	<ul style="list-style-type: none"> Purchasing medicines, treatment and rehabilitation for the disabled Assisting with the purchase of rehabilitation and orthopaedic equipment (e.g. hearing aids, insulin pumps, wheelchairs, prosthetic limbs) Rehabilitation holidays, medical treatment abroad Eliminating architectural barriers in the apartments of disabled people Assisting those leaving orphanages for them to become independent Purchasing school accessories and schoolbooks



Prof. Wojciech Witkiewicz
Head of the Lower Silesia Regional Hospital in Wrocław

In 2010, our hospital purchased a Da Vinci surgical robot which is used for minimally invasive surgery; the first hospital to do that in Poland. We were able to afford the purchase thanks to, among other things, financial support from the Polska Miedź Foundation. As demonstrated in recent years, health care and promotion are some of the strategic objectives of KGHM Polska Miedź S.A. I know of many healthcare institutions which have benefited from donations made by the Foundation in that they have been able to purchase advanced medical equipment and devices, expand their infrastructure, hold academic conferences or symposia, therefore I hereby thank the Foundation wholeheartedly for the generosity and commitment and wish it many more years of work for the public good.



the Anaesthetics and Intensive Care Unit, and a heliport, to the Healthcare Centre Hospital in Głogów. The healthcare activities of the Polska Miedź Foundation also involved donations to finance medical conferences, conventions and academic conferences. We draw your attention to the fact that, in August 2008, the Foundation began to make financial donations for the purpose of saving life or health involving subsidised treatment, rehabilitation or rehabilitation



Fr. Józef Lisowski, DD
Chancellor of Legnica Diocese Curia

The collaboration between KGHM Polska Miedź S.A. and the Legnica Diocese (established in 1992) is mainly rooted in shared commitment to the preservation of the cultural heritage of Lower Silesia, organisation of education and recreation activities for children, young people and adults, and support for local community initiatives.

The Diocese of Legnica manages more than a thousand historic religious buildings which require large sums of money for revitalisation. The Polska Miedź Foundation, as part of its charitable activities, financially supports many repair, refurbishment and conservation projects involving such buildings. Worth mentioning is the former Cistercian, baroque complex in Krzeszów which has the oldest image of the Virgin Mary in Poland. We are grateful to KGHM Polska Miedź S.A. and the Foundation for the close collaboration, understanding of social needs, and assistance for the protection of the cultural heritage which the population of Lower Silesia has inherited.



Zdzisław Kurzeja
Conservator, Lower Silesia, Office for Protection of Historic Heritage

Since 1975, I have been following KGHM activities from the perspective of the influence of industrial activities on historic heritage. Until recently, you could see mining damage in Polkowice and the damaging impact of smelters on old parks. There have been fundamental improvements in that dire state of affairs since the end of the 1980s. In my opinion, nowadays the Company is doing all that is necessary to protect the environment and industrial damage is being eliminated. At this point, let me mention the efforts of the Rudna Mine to secure, restore and conserve the sanctuary in Grodowiec, the Church of the Archangel Michael in Polkowice, and the parish church in Sobin.

The list of historic buildings which have been financially assisted by KGHM is long and well-known to general public. In the past, KGHM donated significant funds for the protection of national heritage, while in recent years, the Polska Miedź Foundation has been active in that area. All this makes conservator's happy.

The former abbey in Krzeszów is at the top of the long list. The conservation of a church in Krzywa, Chojnów gmina, and the protection of the evangelical Church of Virgin Mary in Legnica against collapse, have been accomplished with financial assistance from the Foundation. The palace in Gaworzyce, which was on the way to total destruction, has been restored to its historic glory and the surrounding park is appreciated by the inhabitants of the gmina.

KGHM Polska Miedź S.A. is a company which responsibly treats and supports the protection of Lower Silesia, with its many architectural gems. The conservators appreciate that and anticipated that, in the future, the next social initiative support programme will be carried out with at least the same verve.

holidays, and purchases of rehabilitation and orthopaedic equipment – to individuals.

Protection of national heritage

The Foundation financially supports many cultural heritage protection initiatives in Lower Silesia, thus contributing to improving the condition of many historic buildings or even preventing their collapse. In the years 2010 and 2011, the Foundation donated nearly PLN 5.5m for the conservation of historic buildings. They were mostly religious buildings, e.g. **the collegiate church in Głogów**, which received PLN 400 thousand for the restoration of the Lady Chapel in 2011 alone.

Other major projects supported by the Polska Miedź Foundation were: the repair of the roof of St. Lawrence's

Church in Przychowa (PLN 349 thousand in 2010) or the repair of the roof of the Archdiocese of Lviv building (PLN 374 thousand). We also helped to save the former **Cistercian abbeys in Lubiąż and Krzeszów**, considered as masterpieces. For example, PLN 1.6m was donated for the repair work in Krzeszów in the years 2010 and 2011 alone; thanks to that, the Basilica of the Assumption of the Blessed Virgin Mary and the Krzeszów Calvary have been restored. In the same period, the monastery library was refurbished with financial assistance from the Foundation at the former Cistercian abbey in Lubiąż. Moreover, the Polska Miedź Foundation financially supported revitalisation work at the old **Spa Park in Kłodowa Zdrój**.



Prof. Monika Hardygóra

Chairman of the Management Board of KGHM Cuprum Sp. z o.o. Centrum Badawczo-Rozwojowe (Research and Development Centre)

Having been with the Wrocław University of Technology for many years and on the Board of the Polska Miedź Foundation for several years, I have always emphasised the significant contribution of KGHM Polska Miedź S.A. and the Foundation to activities which benefit Wrocław's scientific and academic community. KGHM gets involved in many valuable initiatives by financially supporting the organisation of conferences, academic events or purchases of devices which strengthen the research potential of academic centres. It is the only Polish company involved in international programs as part of the Federation of European Mineral Programs (FEMP). Every year, students of the Wrocław University of Technology get best thesis awards sponsored by the Polska Miedź Foundation.

Science and education

Using the cash donations made by the Polska Miedź Foundation, of more than PLN 2.5m, 154 projects were completed in the years 2010 and 2011. A considerable part of those funds was spent on subsidising tourism and recreation for children and young people in summer and winter. Holidays organized every year take form of camps or day camps and are managed by local branches of the Children's Friends Society, the Polish Scouting Organisation, community centres for underprivileged children, associations, orphanages and parishes. It is mainly underprivileged children who go on such holidays and, thanks to the Foundation's assistance, they have an opportunity not only to go to the seaside or to the mountains for the first time in their lives but also to get to know the rich Polish culture. In 2011, the Foundation spent more than PLN 500 thousand on that, including PLN 300 thousand donated to the

Legnica Diocese branch of Caritas. Financial support was provided to local scouting organisations in Lubin, Złotoryja, Legnica and Jawor. We draw attention to the fact that we take scouting activities very seriously due to their useful education and cultural role. The Foundation purchased additional teaching resources, IT and multimedia equipment for resource classrooms at educational institutions and contributed to the upgrade of the sports and recreation infrastructure. Thanks to the Foundation's donation of PLN 130 thousand, the University of Science and Technology in Kraków purchased 50 multimedia projectors for its resource rooms, and the Musical Academy in Wrocław received PLN 100 thousand for the purchase of a grand piano.

In addition to that, projects supported by the Foundation have also included various conferences, seminars, academic meetings, and numerous publications, including an illustrated album on the life and achievements of Maria Skłodowska-Curie "Moda na Skłodowską" (Skłodowska is in Fashion) or the publication of "Encyklopedia Solidarności" (Solidarity Encyclopaedia).

Sport and physical culture

The Polska Miedź Foundation pays particular attention to promotion of sport and physical culture among children and young people. It strongly supports all and any initiatives to improve the physical fitness of young people undertaken by local institutions, associations and sports clubs. In the years 2010 and 2011, the Foundation donated about PLN 3m for the organisation of a series of training sessions, various tournaments and competitions, and sports summer camps. Handball and football, the two most popular sports in the Copper Belt could count on the highest financial support from the Foundation. In 2011, the regional sports clubs and associations each received donations of PLN 100 thousand for handball training activities for children and young people: Miejski Klub Sportowy "Zagłębie", Młodzieżowe Stowarzyszenie Piłki Ręcznej "Siódemka" (Zagłębie City Sports Club, "Siódemka" Youth Handball Association) in Legnica and Stowarzyszenie Piłki Ręcznej "Chrobry" (Chrobry Handball Association) in Głogów. Moreover, the sports clubs and associations purchased basic sport equipment and practice gear using the funds provided by the Foundation.

The Polska Miedź Foundation is also committed to creating equal development opportunities for children and young people and an adequate sports and recreation infrastructure in the Copper Belt by supporting the expansion or upgrade of school sports bases, e.g. the rebuilding of the basketball field in Dobrzejewice, Żukowice gmina, or the provision of additional equipment for a new sports hall in Białołęka.



Jacek Rusek

President of the Karate Shotokan "TORA" Club in Legnica

Every day over 600 children and young people aged from 5 to 19 exercise in our club. We try to reach out to the youngest generations, which is why we cooperate with kindergartens, where we conduct sports classes in the form of play and recreation, "imprinting" good physical exercise habits as early as possible, teaching the children, among other things, karate shotokan and swimming. Thanks to the support of the Polska Miedź Foundation we are able to conduct training, organise tournaments, enter competitions, equip and supplement our training base. I am extremely pleased that the Foundation gives us funds for sports enterprises, appreciating the need to exercise and promote a healthy lifestyle.

Art and culture

In the years 2010 and 2011, the Foundation made cash donations of nearly PLN 2m for that purpose. 78 projects were carried out using these funds, including 36 carried out by cultural institutions in Głogów, Legnica, Legnickie Pole, Lubin, Prochowice, Kunice, Miłkowice and Jawor. The beneficiaries included various cultural associations, societies, cultural centres, as well as museums, art galleries and theatres. To mention some local cultural events which are dear to us: the Legnica Silver Festival, the "Świat pod Kyczerą" (World at the Foot of Mount Kyczerza) Folklore Festival, the Satyricon, or the "Legnica Cantat" Polish Choir Competition. Using the Foundation's funds a series of chamber music events titled "Jawor Peace Concerts" were organised. They were met with great interest and appreciation on the part of the Copper Belt inhabitants. The performance by the Russian Alexandrov Choir in Głogów was yet another great art event in 2011. The Foundation donated PLN 150 thousand for its organisation; it also assisted two Polish-Russian film festivals: the Vistula Film Festival and the "Sputnik over Poland" Film Festival. The Współczesny Theatre in Wrocław and the Helena Modrzejewska Theatre in Legnica receive financial assistance for the organisation of theatre promotion festivals every year. We draw attention to the fact that the Foundation has also supported initiatives for the promotion of artistic and cultural activities among children and young people; young people had the opportunity to put their ideas into practice and realize their dreams at art workshops.



Waldemar Krzystek
Film Director

I have been very lucky to spend my whole life in Legnica and later on in Wrocław. I have all I need for my work here: great locations, buildings from any historical period for shooting, history – a wealth of topics and people whose lives are ready-to-use screenplays. Art is the best tool to build collective mind and memory. It is easier to remember and know of facts and events if they are shown in books or films and not in schoolbooks.

KGHM Polska Miedź S.A. is fully aware of these facts. It is thanks to their support that we held a first of its kind casting call in Moscow for Little Moscow, where we identified such great actors as Svetlana Khodchenkova, Dima Ulyanov or Alexei Gorbunov. Little Moscow and, by that token, our region – Legnica, reached audiences on all the continents. I admit, I am a local patriot. I have been doing projects associated with Lower Silesia for years and I have always been assisted in that by KGHM and the Polska Miedź Foundation. Thanks to their significant support, we are producing our latest film, Fotograf (The Photographer). In my opinion, the Company is a reliable and socially responsible partner who has a thorough understanding of the need for and is great at performing tasks which involve cultural development in the region, for which I am deeply grateful.



Jacek Głomb
Director of Modrzejewska Theatre in Legnica

When we were working on The Orchestra, a play showing the lives of Copper Belt miners, I joked that it was a present-day socialist realism film, a rebirth of the idea of an alliance between the world of labour and the world of art. Then it occurred to me that there was nothing there to laugh at, that that was the truth, a model situation. After all, we only tell true stories that are taking place at real locations in that play – at mines' waiting rooms, playing themselves. Thus, art crosses borders and becomes reality, a social space which is of interest both to the management of KGHM Polska Miedź S.A. and to the Polska Miedź Foundation, after all.

KGHM has been supporting the Modrzejewska Theatre in Legnica for years, in the first instance The Orchestra, a play which is set to contribute to the promotion of the Company's image in Poland and abroad for many years to come, theatrical education, unprecedented in Poland, provided every year to young people of all age groups, and the Nowy Świat Centre – the latest project of the theatre, whose objective it is to create a meeting point for young people from various countries whose history is associated with Legnica. All of these activities are assisted financially by our KGHM friends who are setting an example of enlightened sponsorship, proving at the same time that the largest company in the region is socially responsible. Investment in culture is investment in the future and our donors know that very well.

Environmental protection and public safety

Having regard for the environment in which the inhabitants of the Copper Belt live, the Polska Miedź Foundation has been involved in environmental and public safety initiatives for two years now. As part of such initiatives, 28 projects were assisted financially, for PLN 1 177 660 in total. The majority of the donations were spent on the purchase of advanced rescue and other equipment for local volunteer fire-fighting teams, the water rescue service and the police. Advanced equipment purchases made it possible to improve the level of safety in the Copper Belt and enabled the institutions which protect our life, health and property to operate efficiently. The Polska Miedź Foundation has also provided considerable financial support for the operation of the **Health Promotion and Environment Hazard Counteracting Programme** of KGHM Polska Miedź S.A., involving prophylaxis and medical treatment holidays for children and young people, swimming pool rehabilitation and sport activities, and lead level monitoring tests. In 2011, thanks to the donations made by the Polska Miedź Foundation, 145 primary school students from the following gminas: Żukowice, Krotoszyce and Kotla, attended sleep-away schools. Nearly PLN 300 thousand were spent on that. In addition to that, training and preventive activities were carried out and environmental protection classes were offered to children and young people thanks to financial

assistance from the Foundation. We also draw attention to the fact that the Polska Miedź Foundation takes part in charitable initiatives to help victims of natural disasters, for instance, in 2010, the Foundation financially assisted the organisation of a series of art events entitled "Hałda Jazz Powodzianom" (Heap Jazz Aid for Flood Victims), with the proceeds donated to the victims of the flood in Bogatynia.



Andrzej Kowalski
President of the Złotoryja Mining Tradition Society

Thanks to the financial assistance from KGHM, every year we can hold "Dymarki Kaczawskie" in Leszczyna in the vicinity of Złotoryja which, through the presentation of old crafts, traditional smelting, or obsolete trades reflects the history of Silesian copper.

In 2012, we opened the Mining and Smelting Town – an open-air museum in Leszczyna with financial assistance from the Polska Miedź Foundation. The museum was recognised as the Tourist Discovery of the Year 2012 in the open-air and other museums category. Now, students and lovers of history have the opportunity to get to know the secrets and history of the mining industry, which has been present in the Copper Belt for centuries. The open-air museum is to be an educational institution, therefore I hereby thank the Company very much for its significant financial support for the rebuilding and upgrade of the buildings, additional purchases for the Mining Tradition Room, and preparation of the educational "Leszczyna Trough" trail.



ASSISTANCE ONLY THROUGH THE FOUNDATION

As stated in the policy of the Management Board of KGHM presented in the "Code of Best Practice for the KGHM Group" introduced in 2009, Group companies are not permitted to make direct donations to external entities. They may only engage in charitable activities through the Polska Miedź Foundation to which they transfer relevant funds. In 2009, the first agreements with the Companies on the transfer of donations to the Foundation were executed. In the following years, that policy was continued, therefore what we have now in place at KGHM is an orderly system for social-purpose donations.

GOOD PRACTICE

Regional heritage

Fostering mining and smelting traditions in the Copper Belt is very important for the identity of our region, therefore the Polska Miedź Foundation is very accommodating about promotion of the copper industry; in the years 2010 and 2011 it provided financial assistance of about PLN 1.2m for that purpose. It is, among

others, thanks to the Foundation's assistance that annual St. Barbara's Day celebrations and celebrations to commemorate anniversaries of the discovery of copper ore deposits by Jan Wyżykowski, DSc, could be held. Such celebrations were prepared by local social and cultural associations for the inhabitants of the Copper Belt, e.g. the Jan Wyżykowski Association in Sieroszowice, the Friends of the Lubin Region Society. The Złotoryja Mining Tradition Society has been assisted financially for many years now; it received large financial support for the construction of the Mining and Smelting Town – an open-air museum in Leszczyna in the vicinity of Złotoryja. The total amount donated for that purpose in the years 2003 to 2011 was PLN 385 thousand.

Other social activities

As part of its pro-social activities, the Polska Miedź Foundation uses its best efforts to counteract social exclusion of disabled or underprivileged individuals and families. In the last two years, the Foundation donated more than PLN 1.2m to institutions and more than PLN 800 thousand to individuals for that purpose.

A considerable number of projects supported by the Foundation are projects involving the disabled. **Thanks to the financial support from the Foundation, rehabilitation holidays were subsidised, rehabilitation equipment was purchased for care and therapy centres, and equipment was purchased for occupational therapy workshop institutions.** In 2011, the Promyk Workshop

Institution in Lubin was donated PLN 50 thousand. The Polska Miedź Foundation also financially supported the meal sponsorship programme for the homeless and the poor operated by charity canteens and made Christmas donations, including donations for the preparation of Christmas gifts for children. It also financed the purchase of fuel, shoes and clothes for orphanages, single mother's homes, and individuals. Moreover, cash donations were made to numerous families, single mothers, people dependent on social services, and were also spent on the purchase of school starter kits for children from the poorest families, the financing of the repair or rebuilding of homes of victims of flood, fire, and those leaving orphanages.

SPONSORING IN THE REGION

KGHM's sponsoring activities do not have any marketing significance, as the Company's end products are not of interest to the ordinary retail customer. Therefore, the Company builds its image by becoming involved in projects which are useful and important for its environment. The sponsoring built into KGHM's promotional policy is also a form of communication with the environment. By sponsoring many important cultural, academic or sport projects, KGHM Polska Miedź S.A. meets the community's expectations. As part of its sponsoring projects, KGHM co-finances conferences, symposia or other events which are intended to make the industry and the academic community work more closely together, as well as sport events (including the Zagłębie Lubin

sports club). The total sponsorship expenditure in the years 2010 and 2011 was more than PLN 45m.

KGHM is a sponsor of professional sports. The Company views sport as an important aspect of social life, therefore it supports both professional sport of the highest class and youth sport. As a sponsor, KGHM is involved in financing of Zagłębie Lubin S.A., supports the International Piast Cross-Country Skiing Competition in Szklarska Poręba-Jakuszyce, and the Piast Trail Cycling Race.

The total sponsorship expenditure in the years **2010–2011** was more than **PLN 45 million.**



Zbigniew Warczewski
President of the Palium Foundation and Association

This hospice, which operates in Lubin, is a gift of the Lubin community, KGHM, and the Lubin Municipality. The idea of its construction occurred to members of the Legnica-Lubin-Głogów Lions Club, with the participation of KGHM Polska Miedź S.A. representatives, as early as in 1996 and the financial support from the copper concern was already provided at the stage of preparation of the technical documentation for the institution.

Our partnership with the Polish Copper Foundation began in 2003 when we received financial support for the purchase of medical equipment for the hospice. In 2009, we decided to expand our palliative care base. It was then that we received friendly support from the Foundation, which made it possible to very quickly build the second pavilion; much bigger and of a higher standard. This joint investment project demonstrates the generosity and sensibility of the copper region's community. Our Lubin hospice is a monument for posterity and clearly demonstrates the social responsibility of the copper company.



Bogdan Rzepka
Chairman of Lower Silesian Cycling Association

KGHM Polska Miedź S.A. has been supporting our Piast Trail International Cycling Race for a few dozen years now. We are happy that the Company appreciates the importance of sport in shaping the recreation culture of adults and its educational role for young people. Young Lower Silesian cyclists can compare their skills against professional foreign teams during the race. We are aware of the fact that KGHM Polska Miedź S.A. products are of no interest to the ordinary retail customer; that is why we appreciate the Company's involvement in sport projects for the region's inhabitants even more.



Marek Bestrzyński
Chairman of Management Board of Zagłębie Lubin S.A.

KGHM significantly supports and gets involved in our projects targeted at the inhabitants of the Copper Belt, including the Company's employees.

Thanks to the support from the Company, which promotes a healthy lifestyle, active recreation and sport, the Club can ensure professional conditions for development in sport and intellectual terms to youth football groups. Those coming through the youth ranks of Zagłębie Lubin S.A. are not only the children of employees of the KGHM Polska Miedź S.A. Group SA, but also of others in our regions. KGHM's financial involvement makes it possible for our company to implement our flagship project, i.e. the **Academy of the Young Footballers of KGHM**, which is ultimately supposed to operate using a modern youth training system based on proven European standards.

The Club and the Polska Miedź Foundation work together on the promotion of sports and a healthy lifestyle among the inhabitants of the Copper Belt. The support we receive from KGHM Polska Miedź S.A. also makes it possible for former players to group around Zagłębie and to document the rich history of a few dozen years of the most titled football club in the Copper Belt and Lower Silesia.

Welcome to the club

Zagłębie Lubin plays a special role in KGHM's sponsoring strategy. Since the 1960s, Zagłębie has been closely related to KGHM Polska Miedź S.A., which finances its operation to a significant extent. In 1998, the club, which had operated as an association, became a sport joint-stock company. In 2007, KGHM acquired all the shares in the company. In the following year, the club changed its name to Zagłębie Lubin Spółka Akcyjna, the name it has been using to this date. Since 2007, the main team has been using the name KGHM Zagłębie Lubin.

Zagłębie matches draw thousands of fans, including many employees of the copper company, to its modern stadium built using KGHM funds. As the Company's miners and smelters and their families attend these matches, the sponsoring of Zagłębie plays a crucial role in building internal relations between employees, the employer and the region. An important social and community aspect of the club sponsored by KGHM is its work with young people. In 2010, the teams

of senior juniors and young juniors played in the Polish Championship's final round. The senior juniors won the final and defended their last year's Polish Champion title, and their younger colleagues took the fourth place. Today, about 200 young players aged 7 to 19 train at the club. The club also collaborates with schools, managing football classes at primary and middle schools and operating a secondary sports school.

The club also intends to develop a model youth training system which envisages a uniform training process modelled on Zagłębie, a chain of schools, and partner clubs (Young Talent Academy). The YTA is intended as an example of an investment which combines the interests of a sports club with the common good, which is the creation of a strong national Polish team. Ultimately, the new brand should attract sponsors to the club focusing on talented young people.

The club also intends to make greater commercial use of the Dialog Arena Stadium. The proposed events are intended to make it a place which is well known in the region, and the whole of Poland, for great shows and, by that token, to associate the KGHM brand with supporting and integrating the local community.

What's new in culture

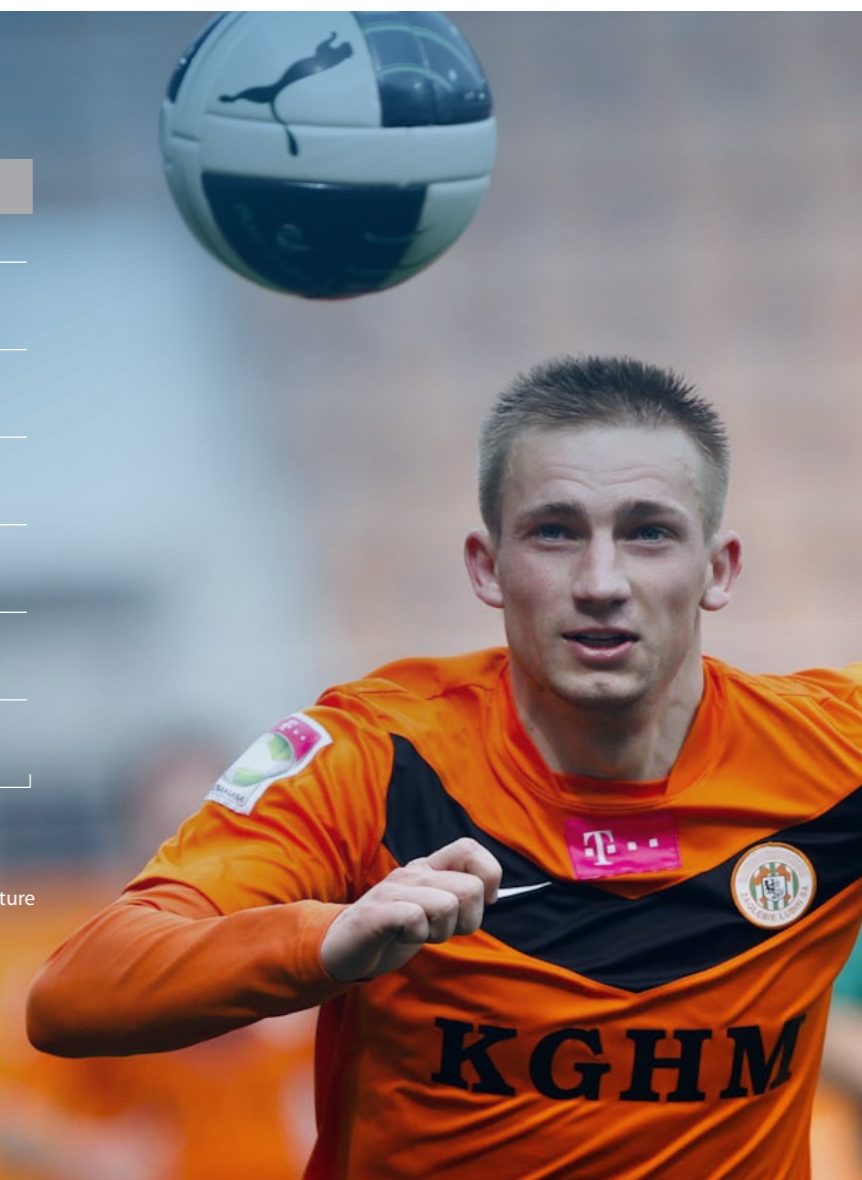
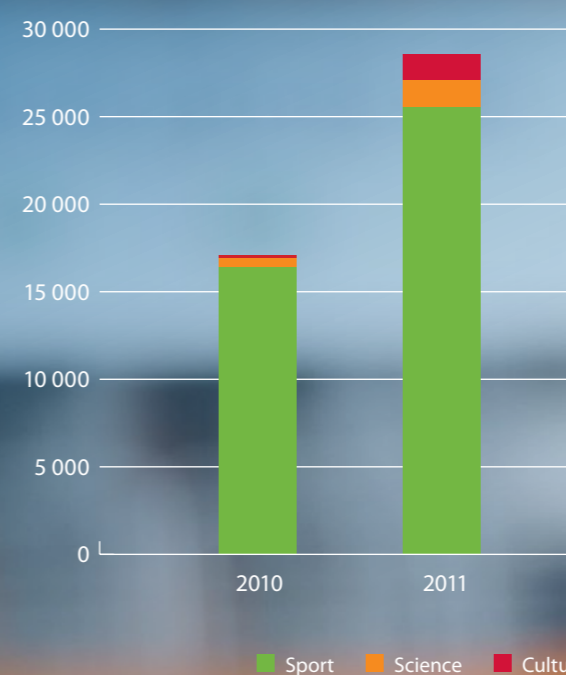
The Company is perceived as a sponsor of art and culture. KGHM Polska Miedź S.A. participates in organising and sponsoring significant projects intended for the regional community and the whole of Poland. In 2010 and 2012, KGHM sponsored, among others, the Vistula Polish Film Festival in Russia, the SREBRO Silver Festival, Dymarki Kaczawskie, the "Music from the Besieged City" Festival, the Theatre in Lubin, the operas: "Prince Igor" and "Fiddler on the Roof", "The Polish Music Weekend in Beijing", the "Sputnik over Poland" Russian Film Festival, and the premiere of the film *To był czas* (That Was the Time).

For academic world

KGHM Polska Miedź S.A. is also active in the area of scholarship. It supports universities and scientific and academic institutions, forging closer links between the industry and the academic community. The Company provides financial and technical support to projects involving problems that are being solved for the benefit of KGHM and the region. In 2010 and 2011, KGHM was involved in both organisational and financial terms in various academic conferences and symposia, including:

- School of Underground Exploitation;
- 24th International Copper Conference;
- Polish Forum of Listed Company Managements;
- Copper Oncologic Workshops;
- "Energy Market Customers" Conference;
- Wrocław Global Forum;
- European Economic Congress;
- "Key Mining Problems in the EU" Conference;
- "Polska Miedź with science into the future" Forum;
- Conference on "Sustainable production and consumption of mineral resources in Europe – integration of social aspects and rational use of resources";
- Conference on "Mining heritage and history and the use of old mines"
- Lower Silesian Science Festival; conference on "Integrated approach to growth – a key to an intelligent, sustainable and inclusive Europe"; and
- Lower Silesian Political and Business Forum in Krzyżowa.

Sponsoring expenditure PLN thousand



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KGHM

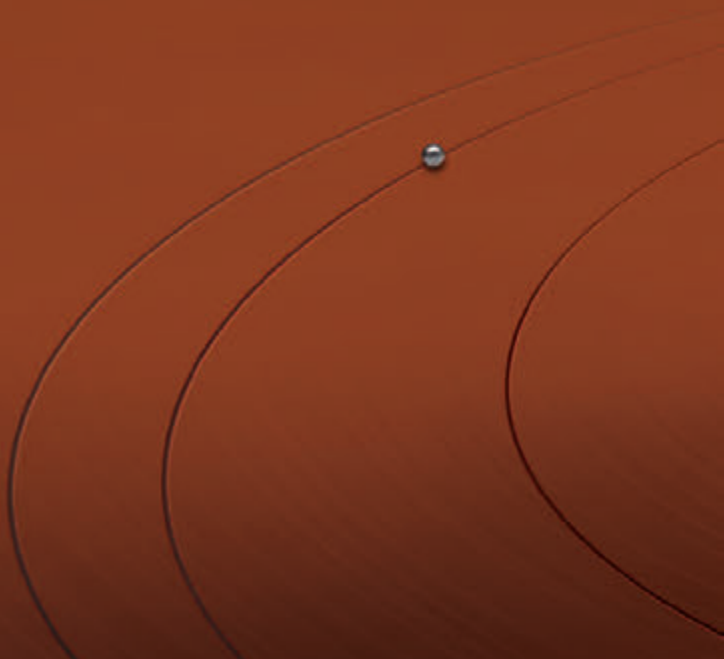
POLSKA MIEDŹ S.A.

If you wish to share with us your thoughts and opinions on this report, please feel free to contact:

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