

Company profile

Report on the application of corporate governance principles

Description of the basic characteristics of internal control and risk management systems

applied in the Company with respect to the process of preparing financial statements and consolidated financial statements

KGHM Polska Miedź S.A. has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the Group the Management Board of KGHM Polska Miedź S.A. is responsible. The system of internal control and risk management in this regard is based on the identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimalisation or total elimination.

KGHM Polska Miedź S.A. uses its many years of experience in the identification, documentation, record maintenance and control of economic operations and established audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data.

In order to ensure truth and accuracy in the keeping of the accounting records of KGHM Polska Miedź S.A. and the uniformity of applied accounting principles in preparing the financial statements of Group subsidiaries, the following has been introduced for continuous use: an Accounting Policy for KGHM Polska Miedź S.A. and the Group, in accordance with International Financial Reporting Standards, continuously updated based on new regulations,

and in addition, for KGHM Polska Miedź S.A.

Principles for Financial Management and for an Economic System,

Documentation for an IT system for the processing of accounting data,

Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets, and

Sector Chart of Accounts in accordance with IFRS,

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of KGHM Polska Miedź S.A. and the Group, along with the established scope and principles of financial reporting.

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. KGHM Polska Miedź S.A. continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. The technical servicing of the system is ensured by the highly experienced specialists employed by KGHM Polska Miedź S.A. KGHM Polska Miedź S.A. has full documentation of the IT system, both in the part meant for end-users, as well as in the technical part encompassing configuration, parameterization and calculation algorithms of the system. In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically verified and updated, and confirmed each time by the heads of the units, i.e. the Management Board of KGHM Polska Miedź S.A. and the management boards of subsidiaries.

In order to ensure the proper use and protection of systems and data, as well as secure access to data and hardware, KGHM Polska Miedź S.A. has introduced appropriate organisational and systemic solutions. Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

Control of the accounting principles applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and in the subsidiaries of the Group is based on functionally-developed reporting systems with control mechanisms, which continuously verify the conformity of these principles with the existing Accounting Policy and other documents representing the basis for the preparation of financial statements.

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of KGHM Polska Miedź S.A. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

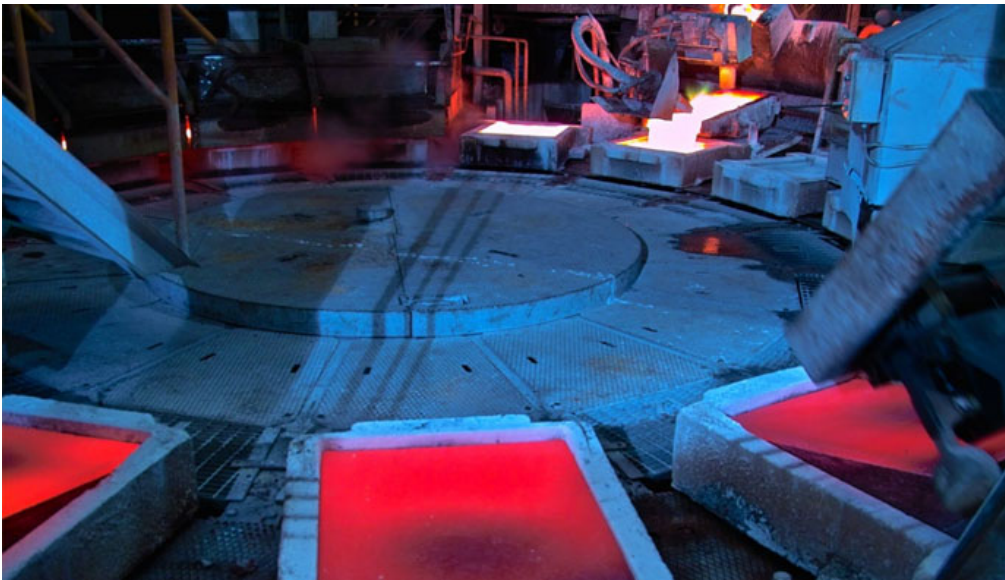
monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by KGHM Polska Miedź S.A. and prevailing laws,

monitors the effectiveness of internal control systems, internal audit and risk management,

monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and

recommends to the Supervisory Board an entity entitled to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.



A fundamental element of risk management with respect to the process of preparing financial statements of KGHM is examining the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A., carried out by internal audit. The tasks realised by internal audit are based on the "Integrated Audit Plan of KGHM Polska Miedź S.A. for the years 2011-2015" and the annual "Integrated Audit Plan" for the given calendar year, approved by the Management Board of KGHM Polska Miedź S.A. These documents were developed based on International Professional Standards in Internal Audit Practice published by the Institute of Internal Auditors, and received a positive opinion by the Audit Committee of the Supervisory Board. The goal of internal audit is to provide the Management Board and Supervisory Board of the Company with independent and objective information on and evaluations of the risk management and internal control systems, and analyses of business processes in KGHM Polska Miedź S.A.

The internal control system in KGHM Polska Miedź S.A. encompasses all of the processes functioning in KGHM Polska Miedź S.A., including those areas which directly or indirectly affect the correctness of the financial statements. Internal (institutional) control is performed by a separate department in the organisational structure. Apart from institutional control, the obligation fully remains for each employee in KGHM Polska Miedź S.A. to control their own performance, and for every level of management staff to perform their control – within supervisory-related duties.

The effectiveness of the internal control and risk management procedures in the process of preparing financial statements in KGHM Polska Miedź S.A. is the high assessment of the quality of these statements, confirmed the top position in the competition The Best Annual Report, in which KGHM Polska Miedź S.A. has participated for years.