

Overview

The Company is the largest producer of copper from its own resources in Europe and based on 1995 production figures the fifth largest producer of refined copper and the largest producer of silver in the world. The Company is an integrated producer of copper and silver, and in smaller amounts, gold and other metals, operating three mines, three metallurgical plants, a wire rod rolling mill and a precious metals plant in southwestern Poland. The Company's principal products are copper cathodes, wire rod and cast billets and refined silver.

The ore body mined by the Company is one of the largest single copper deposits in the world. As at 1st January, 1996, the Company's total balance geological reserves (including reserves in support pillars) were 33.5 million tonnes of copper and 2,842 million troy ounces of silver.

The Company is one of the largest companies in Poland in terms of 1996 revenue. For the year ended 31st December, 1996, the Company's net sales were PLN 3.35 billion (approximately U.S.\$1.17 billion at the 1996 year end exchange rate) with exports accounting for 62.3 per cent. of net sales, representing approximately three per cent. of Poland's total export revenues. The Company's copper cathodes are classified as Grade A copper by the LME, while its silver product is classified as "good delivery" by the London Bullion Market Association.

The Company was transformed from a state owned enterprise into a state owned joint stock company in 1991. At that time it assumed direct control of the sales and marketing of its products and implemented a strategy to strengthen its position as one of the preferred suppliers of copper in Europe. The Company is currently 100 per cent. owned by the State Treasury.

The principal executive office of the Company is located at ul. M. Skłodowskiej-Curie 48, 59-301 Lubin, Poland.

Business Strategy

The Company's principal strategic objective is to enhance shareholder value by continuing its transformation to a cost efficient and more profitable copper producer. In particular, a core objective is to reduce the unit costs of producing cathode copper from approximately \$1,952 per tonne in 1996 to \$1,465 per tonne by 2000 which is equivalent to the current worldwide average unit costs for copper cathode production. The strategy is based on the following initiatives:

Implementing a major cost reduction programme. The Company is focusing on cost reduction at its mines and metallurgical plants. This is to be achieved through tighter cost controls and modernisation of its production processes (see below). Based on cost reduction targets set by the Company's central management, each of the mines and metallurgical plants establishes a programme to meet these targets. The management of each of the mines and metallurgical plants are also given incentives to meet their individual budgets.

Increasing production at its mines and metallurgical plants. In light of its high level of fixed costs, the Company intends to increase copper production of copper cathodes from a current level of approximately 425,000 tonnes in 1996 to 470,000 tonnes in 2001. If achieved, this increased production, together with the cost reduction programme referred to above, will lead to decreased unit costs.

Modernising its core business through capital investment in order to increase copper production and reduce costs including environmental costs. The Company plans to invest in new machinery and equipment at its mines and metallurgical plants, which the Company believes will lead to improved operational efficiencies and a reduction in labour, maintenance and energy costs. The Company also intends to maximise the exploitation of its ore body by optimising mining methods, including investing in equipment which will allow it to mine thin seams of copper ore more efficiently, and improving blasting techniques. The Company expects that these improved mining methods will allow it to increase the average copper grade of the ore mined. The Company also plans to continue to invest in environmental projects with the goal of improving the environmental performance of its mines and metallurgical plants, thereby reducing or eliminating the environmental penalties currently associated with the Company's mining and smelting operations. The Company intends to invest up to PLN 2.5 billion (approximately \$780 million) over the five year period ending 31st December, 2001 in order to modernise its production processes, increase production, improve its environmental performance, reduce costs and introduce new technology to enable the extraction of certain other metals accompanying copper in the ore.

Increasing the proportion of higher value products produced. The Company produced approximately 175,000 tonnes of wire rod and 26,000 tonnes of billets in 1996 and it can increase production to approximately 200,000 and 35,000 tonnes per annum, respectively, to meet additional demand without significant additional capital expenditure. The Company intends to increase demand for its higher margin wire rod products through increased marketing activities in domestic and international markets. The Company is also seeking to increase the yield of gold recovered from its ore. In this regard, the Company intends to introduce exploitation methods designed to increase the gold content of ore mined and to improve its concentrating process to improve gold yields, with the goal of doubling gold production by 2000. In addition, the Company is considering methods of extracting cobalt from its slags.

Strengthening its position as one of the preferred suppliers of copper in Europe. The Company intends to take increasing advantage of its geographic location, its status as a long-term supplier and the high and consistent quality of its products to sustain its position as one of the preferred suppliers of copper in Europe.

Continuing the implementation of the Restructuring Plan to focus on core activities. The Company believes that in order to reach its core cost reduction objectives, the focus of its management team should not be distracted from its core mining and smelting businesses. The Company is continuing to implement a Restructuring Plan (see below) pursuant to which non-core businesses in KGHM Polska Miedź S.A. are being transferred to separate subsidiaries in order to provide competitive pricing of ancillary services to the Company's core mining and smelting operations. Over time, the Company intends to divest all or a portion of its interest in such subsidiaries.

Expanding the geographical spread of its mining and smelting activities. The Company is currently exploring opportunities in new geographical areas in order to diversify its products and operations. The Company has recently opened an office in The Democratic Republic of Congo (formerly Zaire) ("Congo") and acquired a licence to mine certain cobalt and copper deposits in southern Congo. Although payment terms have not been finalised, the Company expects its total investment in the Congo project will be \$54 million, of which \$19 million is to be spent in 1997. The balance comprises royalties to be paid over the life of the project which are expected to be payable out of revenues generated. The project is currently in the planning stage with geological and other preparatory work underway. Recently, a change in government resulting from military action occurred in Congo and it remains to be seen what effect, if any, this will have on the Company's investment. The Company is also investigating additional opportunities in India, Africa and China.

History

After World War II, two existing copper mines, Lena and Konrad, were reactivated. In 1951 in order to create an integrated copper production process, a copper smelting and refining plant was established at Legnica.

The widespread development of the Polish copper industry began later in the 1950s with the discovery of significant copper ore deposits around the towns of Lubin and Polkowice. The Company was established in 1959 under the name of "Lubin Mine State Owned Enterprise" to exploit these ore deposits.

The Lubin Mine State Owned Enterprise constructed four additional mines: Lubin, Polkowice, Sieroszowice and Rudna. On 1st May, 1961, Lubin Mine State Owned Enterprise changed its name to Copper Mining and Smelting Combine State Owned Enterprise ("KGHM SOE").

In 1968, the Lubin mine commenced operations as the Company's first post-World War II mine division. Later the same year, the Polkowice mine commenced operations. The Lena and Konrad mines and the Legnica metallurgical plant were transferred to the Company between 1968 and 1970. In 1973, KGHM SOE began the liquidation of the Lena mine, due to the commercial exhaustion of its ore deposits. As part of the liquidation process, the operations of the Lena mine were consolidated into the Konrad mine. The ore deposits of the Konrad mine were commercially exhausted in 1987 and the Konrad mine is now in the process of liquidation.

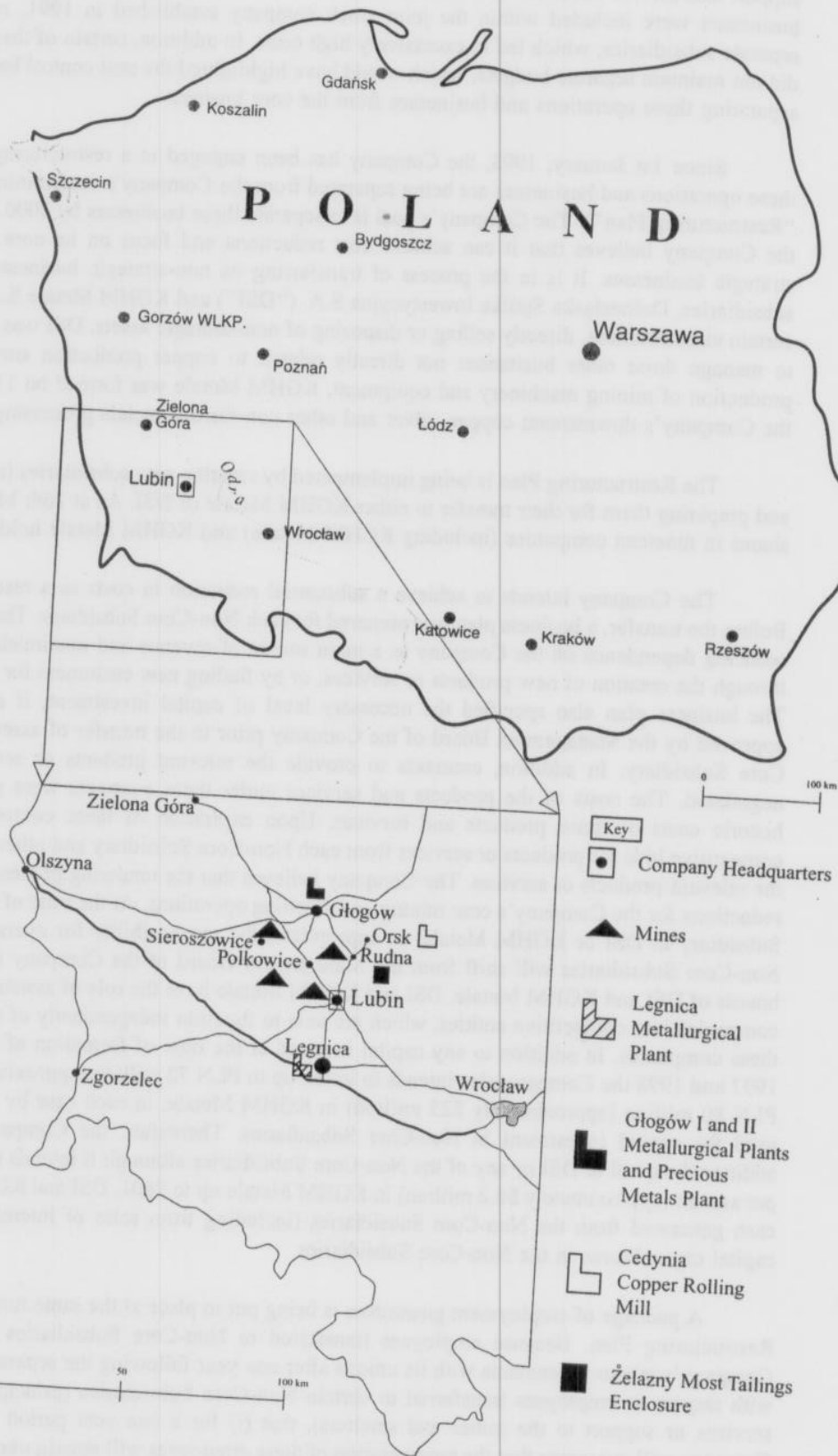
The Company's second smelting and refining operation comprises two metallurgical plants in Głogów, "Głogów I" and "Głogów II", which began operations in 1971 and 1978, respectively. Rudna, the Company's largest mine, commenced operations in 1974. Increasing demand for more refined copper products led to the creation of the Cedynia Copper Rolling Mill, which commenced production in 1979. Sieroszowice, the Company's most recent mine, commenced operations in 1986. Due to their proximity and in order to reduce operating costs, the operations of the Polkowice and Sieroszowice mines were combined in 1996 to form the

Polkowice-Sieroszowice mine division of the Company. The Company's precious metals plant, located in Głogów, commenced operations in 1993.

The Company operated as part of a centrally planned economy until 1989. As a result, the Company operated with the priorities of maximising production for export and maximising employment in the region. Owing to a combination of its location and restricted access to technology, the Company was forced to design and manufacture its own equipment and all support and service functions were carried out within the Company. In addition, until 1991 KGHM was not involved in the marketing and distribution of its products as Impexmetal, a separate state owned enterprise, was charged with foreign sales of copper products.

The Company was transformed into a state-owned joint stock company in 1991, pursuant to the Privatisation Act of 13th July, 1990. The Company is currently 100 per cent. owned by the State Treasury.

Geographic Location of the Company's Facilities



Restructuring Plan

At the time of its transformation into a joint stock company in 1991, the Company was largely self-sufficient, due to the unavailability in the past of external support services, material supplies, machinery and equipment. The Company's activities included not only mining and smelting operations but also a variety of support and service functions and businesses unrelated to the Company's core activities. These operations and businesses were included within the joint stock company established in 1991, rather than being formed as separate subsidiaries, which led to excessively high costs. In addition, certain of these operations and businesses did not maintain separate budgets, which would have highlighted the cost control benefits that would come from separating these operations and businesses from the core business.

Since 1st January, 1993, the Company has been engaged in a restructuring process pursuant to which these operations and businesses are being separated from the Company's core mining and smelting business (the "Restructuring Plan"). The Company's goal is to separate these businesses by 2000. By separating these entities, the Company believes that it can achieve cost reductions and focus on its core mining, smelting and other strategic businesses. It is in the process of transferring its non-strategic businesses to its two wholly owned subsidiaries, Dolnoslaska Spółka Inwestycyjna S.A. ("DSI") and KGHM Metale S.A. ("KGHM Metale"), or, in certain circumstances, directly selling or disposing of non-strategic assets. DSI was created on 1st January, 1995 to manage those other businesses not directly related to copper production such as mine construction and production of mining machinery and equipment. KGHM Metale was formed on 11th October, 1995 to manage the Company's downstream copper, silver and other non-ferrous metals processing businesses.

The Restructuring Plan is being implemented by creating new subsidiaries (the "Non-Core Subsidiaries") and preparing them for their transfer to either KGHM Metale or DSI. As at 16th May, 1997 DSI currently holds shares in nineteen companies (including KGHM Metale) and KGHM Metale holds shares in five companies.

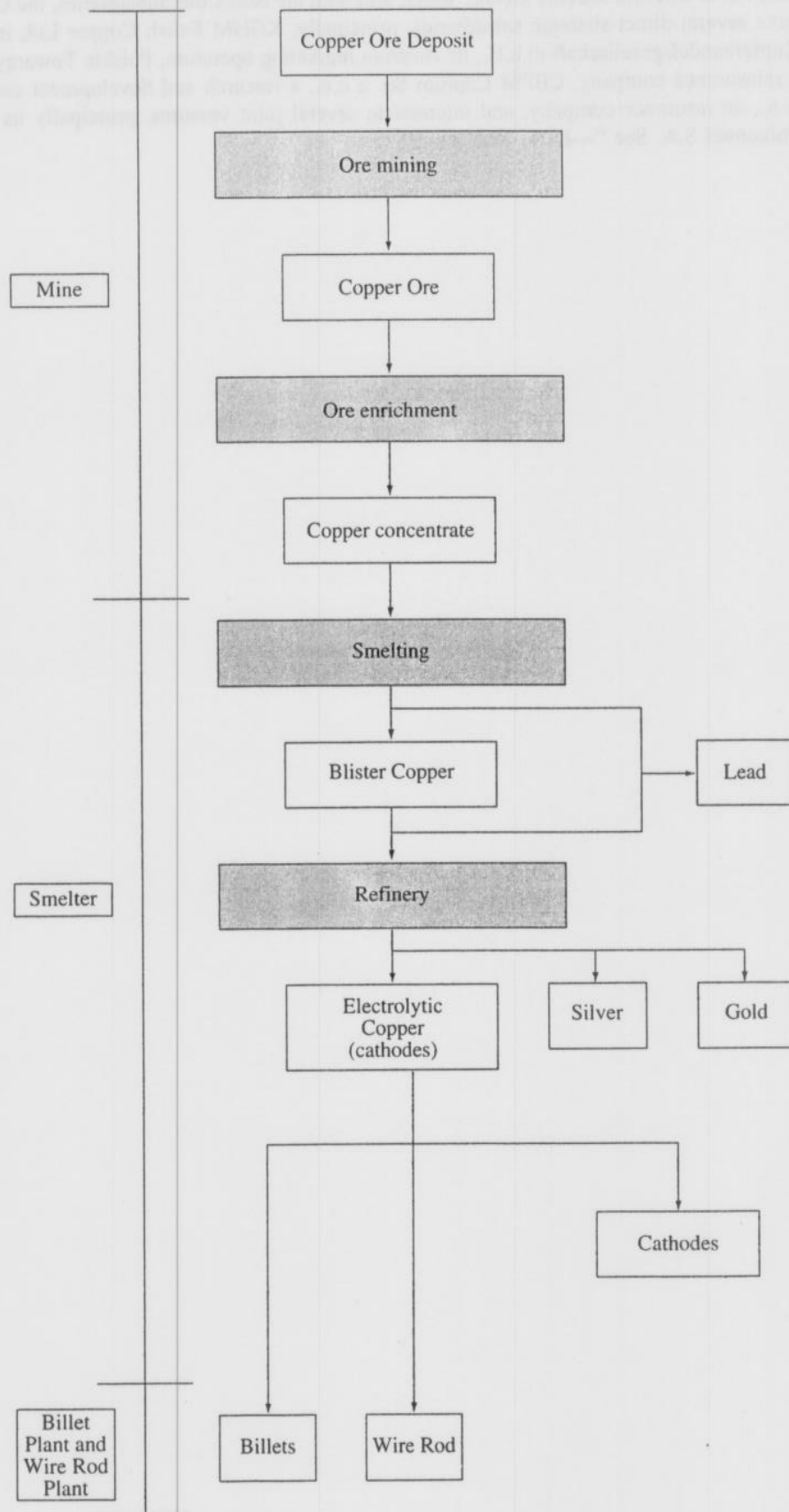
The Company intends to achieve a substantial reduction in costs as a result of the Restructuring Plan. Before the transfer, a business plan was prepared for each Non-Core Subsidiary. The plan had the primary goal of reducing dependence on the Company as a main source of revenue and maximising the use of excess capacity through the creation of new products or services, or by finding new customers for existing products or services. The business plan also specified the necessary level of capital investment, if any. Each business plan was approved by the Management Board of the Company prior to the transfer of assets and employees to the Non-Core Subsidiary. In addition, contracts to provide the relevant products or services to the Company were negotiated. The costs of the products and services under these contracts were generally lower than the real historic costs of those products and services. Upon expiration of these contracts, the Company will seek competitive bids for products or services from each Non-Core Subsidiary and other reputable suppliers, if any, of the relevant products or services. The Company believes that the tendering process may result in additional cost reductions for the Company's core mining and smelting operations. At the time of the transfer of each Non-Core Subsidiary to DSI or KGHM Metale, as appropriate, the responsibility for overseeing the performance of the Non-Core Subsidiaries will shift from the Management Board of the Company to the respective management boards of DSI and KGHM Metale. DSI and KGHM Metale have the role of assisting the transformation of these companies into competitive entities, which are able to function independently of the Company, or to dispose of these companies. In addition to any capital invested at the time of formation of each Non-Core Subsidiary, in 1997 and 1998 the Company also intends to invest up to PLN 72 million (approximately \$22 million) in DSI and PLN 80 million (approximately \$25 million) in KGHM Metale, in each case by way of capital increase, to be used for capital investment in Non-Core Subsidiaries. Thereafter, the Company does not intend to invest additional capital in DSI or any of the Non-Core Subsidiaries although it intends to invest up to PLN 20 million per annum (approximately \$6.2 million) in KGHM Metale up to 2001. DSI and KGHM Metale will be free to use cash generated from the Non-Core Subsidiaries (including from sales of interests therein) to fund additional capital expenditures in the Non-Core Subsidiaries.

A package of employment guarantees is being put in place at the same time as the implementation of the Restructuring Plan. Because employees transferred to Non-Core Subsidiaries are no longer subject to the Company's labour agreements with its unions after one year following the separation, the Company has agreed, with respect to employees transferred to certain Non-Core Subsidiaries (principally operations which provide services or support to the mines and smelters), that (i) for a one year period from the date of transfer, the Company will guarantee that the remuneration of these employees will remain unchanged and (ii) for a three year period from the date of transfer, the Company will guarantee the employment of these employees. Moreover, certain of the Non-Core Subsidiaries have guaranteed employees up to 18 months' remuneration and up to 39 months' employment with the Non-Core Subsidiary from the date of separation.

Polkomtel S.A. See "—Other Businesses".

Copper Production Process

The Company's core production is organised as an integrated technological process where the product of one process is a semi-product consumed in the next process. A graphical presentation of the production process is shown in the chart below.



Mining. The Company extracts ore from underground mines by blasting (using explosives). As a result, a series of excavated chambers are created leaving unexcavated pillars between the chambers. The pillar and chamber method is a common form of underground extraction. The roof and sidewalls of the chambers and connecting corridors are secured by roof bolting. The extracted ore is transported to the hoisting shaft by a combination of diesel powered trucks and conveyor belts. The ore is then partially crushed and hoisted to the surface. At the surface, the ore passes to a concentrator (located at the main shafts of each of the Lubin, Rudna and Polkowice-Sieroszowice mines).

Ore enrichment. In the concentrator, the ore is crushed and finely ground in water producing a slurry. The slurry is transported to flotation cells where copper minerals are separated from waste rock. First, small quantities of frothing agents and modifiers are added to the slurry. Then, air is then pumped into the slurry forming bubbles to which minerals containing useful metals in the solution attach and which float to the surface to form a froth. The tailings which sink to the bottom of the flotation cells are transported as a slurry through pipelines to the Żelazny Most tailings enclosure. The froth containing copper and related metals is skimmed off, thickened and filtered to extract the copper concentrates. Following a drying process, the resulting copper concentrates (containing between 18 to 28 per cent. copper, depending on the mine) are transferred by rail to the smelters.

Smelting. The Company operates three metallurgical plants located at Legnica and Głogów, each of which contains a smelter and an electrolytic refinery. At the Legnica and Głogów I smelters, which utilise shaft furnace technology, the concentrates are blended with a binding agent, sulphite liquor, and the resulting material is briquetted and fed into shaft furnaces where it is smelted, producing copper "matte" and waste "slag". Matte contains approximately 60 per cent. copper. The slag can be further treated and used in road construction. The matte is transferred to siphon converters where sulphur is oxidised, impurities are vaporised and iron is removed in the form of converter slag which, after cooling, is recycled to the shaft furnace. The blister copper produced from the converters contains approximately 98.5 per cent. copper. In the Głogów II smelter, a flash furnace is utilised which produces blister copper directly from copper concentrate. This technology is utilised at only one other smelter in the world. Blister copper is further refined in an anode furnace before being cast into copper anodes containing 99 per cent. copper which are then transferred to the electrolytic tank house for further refining.

Electrolytic Refining. In the electrolytic tank house, anodes are suspended in tanks containing electrolyte, which is a solution of sulphuric acid, copper sulphate and additional agents. Thin copper plates ("cathode starting sheets") are placed between the anodes and a low voltage electrical current is passed between them, dissolving copper from the anodes and depositing it evenly on the cathode starting sheets. During this process, impurities settle to the bottom of the tank to form anode slime, which is a raw material for the production of silver, gold and platinum group metals at the Precious Metals Plant. The copper cathodes resulting from the build up of copper on the cathode starting sheets contain at least 99.99 per cent. copper. Copper cathodes are sheets of refined copper approximately one metre square and 20mm thick and are the Company's principal product. Each weighs between 75 and 130kg.

Casting. A portion of the copper cathodes is further processed at the billet plant at Legnica to produce copper billets. Copper cathodes are melted in a furnace and the molten copper is fed in a continuous process into a caster where it is cooled and formed. The solidified copper produced in this continuous process is then cut into required lengths by a circular saw creating billets. Billets are produced in diameters ranging from 120-310mm and in lengths up to 3 metres.

Rolling. In the Cedynia Copper Rolling Mill ("Cedynia"), copper cathodes are again melted and cast in a continuous process. The copper is fed directly from the caster into a series of rollers producing wire rod which is wound into coils. Cedynia produces 8mm diameter wire rod, a standard diameter required by customers, which it sells in coils weighing between three and five tonnes.

Precious Metals Plant. The Precious Metals Plant produces refined silver, gold, platinum/palladium slime and selenium. Anode slime recovered from electrolytic refining is first dried and subjected to a melting, converting and refining process in a furnace. Selenium dioxide contained in the off-gases from the furnace is recovered and processed to produce technological selenium, a trade product. The resulting metal is cast into anodes to be further electrolytically refined for the removal of the impurities from silver. The silver produced contains 99.99 per cent. silver and is cast into ingots or granulated. Almost all of the Company's production is in the form of granules with diameters up to 20mm which are sold in 25kg bags. Ingots weigh between 19.5 and 32.5kg. The slime from silver electrolytic refining is a raw material for the recovery of gold. The slime is treated with hydrochloric acid and gaseous chlorine which produces gold sand. The gold sand is washed and dried and

melted in a furnace where the finished product is cast as gold bars. Platinum/palladium slime is produced from the remaining solution.

By-products. In order to comply with environmental regulations, sulphur dioxide emissions from the smelters are collected and treated to produce sulphuric acid at the sulphuric acid plants. Copper sulphate and nickel sulphate are additional by-products produced from a crystallisation process used to treat the copper electrolyte which circulates through the electrolytic tank house. Finally, dust retrieved from smelter emissions is treated to produce an additional by-product, crude lead.

The following table sets forth the Company's production for the periods indicated.

	Year ended 31st December,			Three months ended 31st March,
	1994	1995	1996	1997
	(tonnes except as indicated)			
Copper ore (net dry weight)	24,828,956	25,140,221	25,998,340	6,008,694
Concentrate (net dry weight)	1,493,363	1,505,907	1,652,832	389,703
Electrolytic copper:				
Cathodes not further processed	273,248	211,383	223,663	52,863
Cast billets	17,539	28,976	26,290	6,232
Wire rod	111,527	165,380	174,755	48,943
Wire bars ⁽¹⁾	2,779	—	—	—
Total	<u>405,093</u>	<u>405,739</u>	<u>424,708</u>	<u>108,038</u>
Other metals				
Refined silver	819	964	933	230
Refined gold (kg)	463	474	530	77
Crude lead	11,800	12,100	12,600	3,250
By-products				
Sulphuric acid	412,220	447,100	455,150	131,900
Copper sulphate	7,009	6,894	6,213	1,345
Nickel sulphate	1,603	1,675	1,608	385

(1) The Company discontinued production of wire bars in 1994 due to low market demand.

Mining Operations

Overview

The Company operates three contiguous mines, covering a total area of 412 km², located in southwestern Poland: the Lubin mine, the Polkowice-Sieroszowice mine and the Rudna mine. An earlier mine, Konrad, is in the process of being liquidated. See "— Konrad Mine".

The Company's ore deposits stretch northwest from Lubin, have a length of approximately 40 kms, a width of approximately 10 kms and dip approximately five degrees northeast. The thickness of the ore deposits varies between 0.4 and 20 metres and the depth of the ore deposits currently mined by the Company varies between 600 and 1,150 metres. The Company's mines are subject to a severe geothermal gradient of approximately 1°C per 40 metres of depth. This geothermal gradient adds to increased costs associated with ore extraction. See "Investment Considerations – Considerations Relating to the Company – Mining and Refining Risks".

In common with other deep mines, the Company's mines experience rock burst phenomena where the roof of a chamber or corridor may cave in. As the Company's mining operations move to greater depths, the frequency of rock bursts may increase.

Each mine operates within its respective technical and financial plan which is submitted each year to, and is approved by, the Management Board. These plans set forth production targets, unit cost targets and investment budgets. Production targets are set to match mine output with the copper concentrate requirements of the Company's metallurgical plants.

In addition, each mine prepares a three year mining plan which details the mining methods and proposed sequence of mining. This mining plan is submitted to the local mining authority for approval and any changes to the plan must be similarly approved.

The Company's mines generally operate on a schedule of three 7.5 hour shifts per day, for five days per week with either one or two additional shifts worked on Saturdays, depending on the smelters' copper concentrate requirements. Underground production from all of the Company's mines is determined by the hoisting capacity of the shafts, on which, pursuant to Polish law, certain maintenance procedures are carried out on a daily basis. The effect of the maintenance procedures is that hoisting time in each shaft is limited to approximately 112 hours per week. Due to excess stocks of copper concentrate from 1996, the Company intends to reduce production from its mines during 1997.

As at 31st March, 1997, the net book value of the Company's plant and equipment used for exploration and extraction (which includes ore enrichment) was PLN 321 million.

Set forth below are certain operating data for the Company's mines for 1996:

	Lubin ⁽¹⁾	Polkowice-Sieroszowice ⁽²⁾	Rudna ⁽³⁾	Total
Size of licensed mining area (km ²).	158	176	78	412
Depth of mines (m)	610-910	700-1,000	900-1,150	—
Total annual ore production (millions of tonnes)	6.4	9.2	10.4	25.99
Average copper grade of ore (%)	1.36	1.84	2.08	1.82

(1) Covers the Lubin I and Malomice I licenced mining areas.

(2) Covers the Polkowice II, Sieroszowice I and Radwanice Wschód licenced mining areas.

(3) Covers the Rudna I and Rudna II licenced mining areas.

Reserves

Data in this section have been extracted from the Mining Engineers' Report set out under "Mining Engineers' Report". Such data may not be treated as a projection or forecast by the Mining Engineers, the Company, the Selling Shareholder, the Managers or their respective affiliates and representatives. As explained in the Mining Engineers' Report, the estimated reserves have been calculated using the cut off grade criteria developed in 1994 on the basis of 1993 costs. The Company has no present intention of updating the cut-off grade. Cut-off grade is the lowest grade of ore it is considered economic to extract. The Company's mining costs have increased substantially in dollar terms since 1993 and, accordingly, the reserve estimates contained herein may be overstated. The Mining Engineers' Report states that, in the judgement of the Mining Engineers, the extent of this overstatement should not exceed approximately 15 per cent. of the reserve estimates contained herein. However, at the same time the material remaining in the reserves will be of higher average grade than that currently reported. In addition, any future changes in prices and costs will alter the Company's reserves. See "Investment Considerations – Considerations Relating to the Company – Reserves".

The following table lists the Company's proved and proved and probable mining reserves (including available reserves and unavailable reserves in pillars) at 1st January, 1996 as well as the average grade of such ore.

	At 1st January 1996 ⁽¹⁾
	(millions of tonnes, except percentages)
Lubin Mine:	84.7
Proved mining reserves	131.4
Probable mining reserves	216.1
Proved and probable mining reserves	1.29% ⁽²⁾
Average grade of copper ore	
Polkowice-Sieroszowice Mine:	95.3
Proved mining reserves	288.5
Probable mining reserves	383.8
Proved and probable mining reserves	1.74% ⁽²⁾
Average grade of copper ore	
Rudna Mine:	243.9
Proved mining reserves	62.2
Probable mining reserves	306.1
Proved and probable mining reserves	1.91% ⁽²⁾
Average grade of copper ore	

- (1) A discussion of the methods used to produce the reserves estimates is set forth under "Mining Engineers' Report".
(2) Represents average ore grade of mining reserves as at 1st January, 1997.

The maximum depth of the reserves is approximately 1,250 metres. These proved and probable mining reserves would be capable of sustaining the projected rates of production until at least 2030 at the Lubin mine, 2035 at the Polkowice-Sieroszowice mine and 2020 at the Rudna mine. However, the Company has not planned the development of the areas to be mined after 2015. The Company is currently investigating the economic feasibility of mining additional deposits below 1,250 metres. The problems associated with mining at such depths include high temperatures and rock bursts. See "Investment Considerations – Considerations Relating to the Company – Mining and Refining Risks".

As the rock temperatures increase, the Company must provide sufficient cooling in working areas since Polish regulations require that underground work time for personnel must be reduced to a maximum of six hours per day if the temperature exceeds 28°C and that all work must cease if the temperature exceeds 33°C. Currently, the Company uses ventilation and local air-conditioning to reduce underground temperatures in work areas and believes that this method will be sufficient up to depths of 1,250 metres. The Company is currently studying alternative means of temperature control at depths below 1,250 metres, including the use of refrigeration units underground to cool air drawn from the surface and the use of mining machines with air conditioned cabs.

Due to the implementation of improved mining methods, the percentage of copper in ore mined by the Company has increased from an average grade of 1.63 per cent. in 1991 to 1.82 per cent. in 1996. As part of its strategy to increase copper cathode production, the Company intends to continue to increase the grade of the ore mined rather than increase the volume of ore extracted. See "–Business Strategy".

Lubin Mine

The underground operations at Lubin are currently conducted within two licensed mining areas covering an aggregate of 158 square km at depths of 610 to 910 metres below the surface.

The Lubin mine extracts both sandstone and shale-carbonate ore, with the bulk of production obtained from the sandstone. The Lubin mine has an ore seam typically ranging from 3 to 4.5 metres, with an average thickness of approximately 3.5 metres. However, there are areas where the thickness exceeds 18 metres.

The Lubin mine has seven shafts: one hoisting shaft, four service and ventilation shafts and two shafts used for ventilation only.

Production of ore from the Lubin mine for 1996 was approximately 6.4 million tonnes. Due to the Lubin mine's reliance on a single production shaft, 1996 ore production levels approximated the hoisting capacity of the Lubin mine. In 1996, the Lubin concentrator processed all of the ore extracted from the mine to produce approximately 417,000 tonnes of concentrate with an average copper content of 18.7 per cent. For 1996, the grade of the ore mined averaged 1.36 per cent. copper. While the Lubin mine has the lowest copper grade of all of the Company's mines, the ore contains the highest silver concentration in relation to the Company's other mines, with an average silver content for 1996 of 73 grams per tonne of ore mined.

Polkowice-Sieroszowice Mine

The underground operations at Polkowice-Sieroszowice are currently conducted within three licensed mining areas covering an aggregate of 176 square km at depths of 700 to 1,000 metres below the surface.

The Polkowice-Sieroszowice mine extracts sandstone and shale-carbonate ore, with the bulk of production obtained from the shale-carbonate ore. The ore seam thickness at Polkowice-Sieroszowice mine typically varies from 1.5 to 4.5 metres.

The Polkowice-Sieroszowice mine has 11 shafts: three production and ventilation shafts, six service and ventilation shafts and two shafts used for ventilation only.

Production of ore from the Polkowice-Sieroszowice mine in 1996 was approximately 9.2 million tonnes. For 1996, the grade of the ore mined averaged 1.84 per cent. copper and the average silver content was 34 grams per tonne of ore. The production shafts at the Polkowice-Sieroszowice mine are operating at near maximum capacity. In 1996, the Polkowice-Sieroszowice concentrator processed approximately 8.0 million tonnes of ore to produce approximately 487,000 tonnes of concentrate with an average copper content of 26.7 per cent. Due to the limited capacity of its concentrator, which operates 24 hours per day, seven days per week, the excess portion of the ore mined is transported to the Rudna concentrator.

Rudna Mine

The Rudna mine is the Company's largest mine. In 1996, the Rudna mine accounted for approximately 46 per cent. of the Company's total production in terms of copper content.

The underground operations at Rudna are currently conducted within two licensed mining areas covering an aggregate of 78 square km at depths of 900 to 1,150 metres below the surface.

The Rudna mine extracts both sandstone and shale-carbonate ore, with sandstone being the predominant ore type. The Rudna mine has ore seams of varying thicknesses from 2 metres to more than 20 metres.

The Rudna mine has a total of ten shafts. Three shafts are used for production and ventilation of which two are also service shafts. The other seven shafts are ventilation shafts of which one is also a service shaft.

Production of ore from the Rudna mine for 1996 was approximately 10.4 million tonnes. For 1996, the grade of the ore mined averaged 2.08 per cent. copper and the average silver content was 49 grams per tonne of ore mined. In 1996, the Rudna concentrator processed approximately 11.6 million tonnes of ore to produce approximately 749,000 tonnes of concentrate with an average copper content of 28.6 per cent. In 1996, approximately 1.2 million tonnes of ore were transported to the Rudna concentrator from the Polkowice-Sieroszowice mine. A portion of this ore was transported to the Rudna mine underground and hoisted to the surface using the Rudna facilities and, as a result, the Rudna production shafts were operating at full capacity in 1996.

Konrad Mine

The Company began liquidating the Konrad mine in 1987 due to the unprofitability of its operations. In 1996, because of a natural spring located at the Konrad mine, the Company began converting the mine into a water production facility and created a new subsidiary Aquakonrad S.A. in order to manage the underground water resources at the Konrad location.

Hydrotechnical Unit

The Hydrotechnical Unit is responsible primarily for managing the flotation tailings sent to the Żelazny Most tailings enclosure. It also provides water necessary for the concentrators and collects water from the Company's mines.

Żelazny Most is a substantial waste reservoir for the flotation tailings which are pumped along a pipeline from the concentrators. It is located near the Company's mining operations. From the pipeline, the tailings slurry is deposited at the edge of the enclosure and the water flows to the middle of the enclosure area. Coarse grain material settles by the edge to form a 200 metre beach reinforcing the construction of the dam surrounding the reservoir. Water, together with fine grain material, accumulates inside the enclosure area. The water that flows to the middle of the tailings enclosure is recycled to the Company's concentrators and excess water can be pumped to a nearby river.

The protective dam surrounding Żelazny Most is approximately 4 km in diameter and its maximum height is approximately 40 metres above ground level. The reservoir currently holds approximately 260 million cubic metres of waste. The Company has received the necessary approval to raise the maximum height of the dam to 46 metres above ground level, which would increase the capacity to 350 million cubic metres of waste. The Company estimates that this limit will be reached by 2003, unless the Company is able to find alternative uses or storage methods for its tailings. The Company is currently exploring the use of tailings as a material for hydraulic backfilling operations in its mines, or the storage of tailings in underground mines that would otherwise not be filled. When the currently approved capacity for Żelazny Most is reached, it will be necessary for the Company either to increase the height of the dam above the presently approved maximum, or to consider other options, for example, reopening a previous tailings enclosure at Gilów. The Company believes that it can increase the capacity of the Żelazny Most tailings enclosure to 700 million cubic metres. The Company also believes that the combination of a tailings enclosure capacity of 700 million cubic metres and the ability to use tailings for hydraulic backfilling, will be sufficient to dispose of all tailings arising from the exploitation of its reserves.

In 1967, two years prior to the transfer of the Konrad mine to the Company, an older dam surrounding a former tailings enclosure for the Konrad mine near the town of Iwiny partially collapsed. The resultant mud slide led to 18 fatalities as well as significant property damage. As a result of this incident, and more recent tailings enclosure accidents at other mining companies in other countries, such as South Africa and the Philippines, the design of and method of depositing waste in the Żelazny Most tailings enclosure, and the Hydrotechnical Unit's management of the enclosure are geared to ensure that safety is paramount. The design and method of depositing waste in Żelazny Most is different from that which was used in the Iwiny tailings enclosure. In this regard, the Hydrotechnical Unit continuously monitors a number of parameters which are essential to the safety of the structure, including water pressure in the ground, any movement of the dam and seismic activity. See "Investment Considerations – Considerations Relating to the Company – Mining and Refining Risks".

Smelting, Refining and Rolling Operations

The Company operates three metallurgical plants located at Legnica and Głogów, each of which comprises a smelter and an electrolytic refinery. There is also a wire rod rolling mill at Orsk and a precious metals plant at Głogów.

As in the case of the mines, each of these plants produces a technical and financial plan annually, which is submitted to, and approved by, the Management Board. These plans are prepared by the plants based on performance parameters, including production and unit cost targets and investment budgets and take into account the scheduled shutdowns of the plants for overhaul.

In order to comply with stringent emissions regulations in Poland relating to sulphur dioxide, each smelter reduces its emissions of this gas by treating it in a plant which converts it to sulphuric acid.

The following table sets forth the production of cathode copper at the Company's metallurgical plants for the periods indicated.

	Year Ended 31st December,		
	1994	1995	1996
		(tonnes)	
Legnica	80,082	80,089	83,702
Głogów I	162,888	163,805	174,831
Głogów II	162,123	161,845	166,175

Legnica

The Legnica smelter has a maximum production capacity of approximately 83,000 tonnes of cathode copper per annum and relies on shaft furnace technology. In 1996 79,735 tonnes of blister copper were produced at the smelter. The blister copper produced was refined further at the Legnica electrolytic refining plant together with other copper-bearing materials purchased from outside sources, and this resulted in total production of 83,702 tonnes of cathode copper in 1996.

Over the past three years, copper recovery rates from copper concentrate to copper cathode have improved from 95.8 per cent. to 97.8 per cent. In order to reduce sulphur dioxide emissions further and also to reduce dust and other particle emissions, the Company installed a SOLINOX flue gas desulphurisation plant. See “– Polish Regulation and Environmental Matters – Environmental Matters”. As a result, the Company believes that its sulphur dioxide emissions are among the lowest in the world among smelting and refining companies.

Głogów I

Głogów I has a maximum production capacity of 180,000 tonnes of cathode copper per annum and its copper smelting process also relies on shaft furnace technology. In 1996, 221,000 tonnes of blister copper were produced at the smelter, which were refined further at the refining plant into 174,831 tonnes of cathode copper. Over the past three years, copper recovery rates from copper concentrate to copper cathode have decreased slightly from approximately 96.6 per cent. to 96.5 per cent.

The Company is currently in the process of constructing a desulphurisation plant at the Głogów I facility which must be completed by 15th November, 1997 in order to avoid penalties in connection with exceeding permitted sulphur dioxide emissions since 1991. The Company believes that it will complete the Głogów I project by this deadline. If the Company does not complete the project by this time, the Company will be required to pay an aggregate penalty of approximately PLN 67 million (the amount of fines assessed for 1991 to 1995 inclusive), and any penalties which may be assessed for violations in 1996 and 1997 (prior to the completion of the plant). See “– Polish Regulation and Environmental Matters – Environmental Matters”.

In 1997, the Company has scheduled a six week shutdown of Głogów I for plant maintenance and connection of the gas desulphurisation system.

Głogów II

Głogów II has a maximum production capacity of 180,000 tonnes of cathode copper per annum. Its copper smelting process is based on flash furnace technology which converts concentrate directly into blister copper. In 1996, 114,000 tonnes of blister copper were produced at the smelter which, together with anode wastes obtained from Głogów I, were refined further at the refining plant, resulting in 166,175 tonnes of cathode copper.

Over the past three years, copper recovery rates from concentrate to cathode have improved from approximately 97.6 per cent. to approximately 98.1 per cent. The flash furnace technology results in lower sulphur dioxide emissions than the shaft furnace technology utilised at Głogów I and Legnica.

In 1996, Głogów II was shut down for four months in order for the Company to rebuild its electric furnace, modernise the flash furnace and install a sulphuric acid plant. The working cycles in which Głogów I and Głogów II operate provide for maintenance periods of at least a two weeks during alternate years.

Cedynia Copper Rolling Mill

Cedynia Copper Rolling Mill ("Cedynia") was commissioned in 1979 and employs the CONTIROD continuous process for melting, casting and rolling copper wire rod. The 8mm diameter wire rod produced by the plant is one of the Company's most processed products. Cedynia is capable of producing various grades and sizes of wire rod to meet customer specifications. The nominal capacity of Cedynia is 165,000 tonnes of 8mm wire rod per annum based on five days per week, three shifts per day operation. Due to increased demand for wire rod in the domestic market in 1995 and 1996, Cedynia at times operated on a six days per week basis (20 Saturdays per year) to meet this increased demand. The following table sets forth Cedynia's production for the periods indicated.

	<i>Year Ended 31st December,</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>(tonnes)</i>		
Copper wire rod.	111,527	165,380	174,755

In March 1995, Cedynia was awarded ISO 9002 certification from the Polish Research and Certification Centre, which evidences the quality of its production process.

Precious Metals Plant

The Precious Metals Plant has a maximum production capacity of approximately 1,000 tonnes of silver per annum and approximately 1,000kg of gold per annum. In practice, due to current levels of concentration of gold contained in the anode slime, actual gold production has been approximately 500kg per annum for the last three years. The Company intends to increase the gold content of the ore mined and improve its concentrating process to improve gold yields. See "– Business Strategy".

The Precious Metals Plant was commissioned in 1993. It treats all the anode slime from the Company's three metallurgical plants, using processing technology developed by Boliden of Sweden, to recover and produce silver and gold as well as smaller quantities of platinum/palladium slime and selenium. The plant is located adjacent to the Głogów II complex, but it is a completely separate installation.

The following table sets forth the production data for the Precious Metals Plant for the periods indicated.

	<i>Year Ended 31st December,</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>(kgs)</i>		
Silver.	819,316	964,277	933,044
Gold	463	474	530
Platinum/palladium slimes.	103	70	104

Marketing

Prior to its incorporation as a state owned joint stock company in 1991, KGHM SOE was not involved in the sales or marketing of its products outside Poland. During this period, export sales were carried out by Impexmetal, then a state-owned foreign trade organisation. The Company was not aware of the pricing or other terms of the sales contracts or the identity of customers. In 1991, Impexmetal's monopoly terminated and the Company set up a subsidiary, PHM Metraco Spółka z o.o. ("Metraco"), to handle the Company's foreign sales. Shortly thereafter, Metraco established AB Polmet Ltd, renamed KGHM Polish Copper Ltd ("Polish Copper Ltd"), in 1995 in London to handle substantially all of the Company's export sales of copper cathodes, wire rod and silver.

In 1992, the Company decided that direct access to customers would provide it with better demand and pricing information. It therefore established the Sales Department at the Company's headquarters in Lubin. The Sales Department is responsible for all sales of the Company's products: both sales through subsidiaries and direct sales to customers. Over the next few years, the Sales Department assumed control of domestic sales of the Company's products previously handled through the sales offices at each of the Company's smelters.

Polish Copper Ltd continued to have responsibility for all of the Company's exports until 1996, at which time the Company decided to share responsibility between the Sales Department in Lubin and Polish Copper Ltd. In 1993, the Company assumed direct ownership of Polish Copper Ltd from Metraco. In 1996, Polish Copper Ltd

accounted for approximately 38 per cent. by volume of the Company's total export sales of copper. Metraco is now responsible for sales of the Company's by-products, such as sulphuric acid.

In 1996, the Company established KGHM Kupferhandelsgesellschaft m.b.H., a wholly owned subsidiary based in Vienna, to handle sales of its products to the Austrian, Russian and Ukrainian markets from 1997.

Substantially all the Company's copper and silver is sold under annual contracts. For these contracts, pricing is based on LME prices with respect to copper, and LBM prices with respect to silver. To the extent that it is not sold under annual contracts, copper may be sold on a spot basis to merchants and consumers. Annual sales contracts are typically signed at the end of the previous year for the following year's production. The Company has entered into annual contracts covering all of its forecast 1997 production.

In the case of agreements with foreign customers, prices are fixed in hard currency, whereas agreements with domestic customers usually contain valorisation clauses, pursuant to which dollars are converted into zlotys at the average NBP rate of exchange at the date when the invoice is issued.

The Company is not currently engaging in strategic hedging of copper or silver and, consequently, is fully exposed to prices on the LME or LBM. However, the Company may enter into strategic hedging transactions in the future. See "Investment Considerations – Considerations Relating to the Company – Hedging".

Each of the Company's sales contracts contains a delivery obligation of the Company at its own cost and risk. In order to meet this obligation, the Company maintains annual and short term delivery contracts. Most of the transport by road, and all the transport by sea, is arranged through third party contractors and, with respect to rail, Polish railways. The Company also uses its wholly owned transport subsidiary, Pol-Miedź Trans. Sp. z o.o., to deliver limited quantities of its products to customers by road.

The table below presents the structure of sales of the Company's products by volume and by their percentage share in total unconsolidated revenues from sales for the periods indicated.

	<i>Year ended 31st December,</i>		
	<i>1994</i>	<i>1995</i>	<i>1996</i>
	<i>(tonnes, except percentages)</i>		
Percentage of sales			
Copper cathodes	53.1%	41.9%	41.1%
Copper wire rod	23.4%	36.0%	35.0%
Cast billets	3.5%	6.2%	5.3%
Other copper products.	1.2%	1.0%	0.6%
Silver (including anode slimes)	15.3%	11.4%	13.2%
Other ⁽¹⁾	3.4%	3.6%	4.8%
By volume			
Copper cathodes	270,530	200,945	218,040
Copper wire rod	108,917	165,458	172,464
Cast billets	16,777	28,626	26,023
Other copper products.	6,736	4,704	3,316
Refined silver ⁽²⁾	915	961	950

⁽¹⁾ Includes gold, crude lead, copper sulphate, nickel sulphate, sulphuric acid, salt, anhydride, electricity and heat, other products and services.

⁽²⁾ The Company also had sales of 115 tonnes of anode slime in 1994.

In 1996 export sales of the Company accounted for approximately 62.3 per cent. of its total sales of products and services. The Company's principal export markets are France, Germany, United Kingdom, and Hungary. Since transport costs are important the Company intends to continue to focus its activities on the European markets, while at the same time increasing the level of sales of its products on the domestic market.

Copper Cathode Sales

In 1996, 82.6 per cent. of copper cathodes by volume were sold on foreign markets. The main foreign market for copper cathodes is France, which accounted for 37.8 per cent. of the Company's exports by volume. German, British and Swedish markets accounted for 16.1 per cent., 16.0 per cent. and 12.8 per cent., respectively. The domestic market accounted for 17.4 per cent. of the total sales of copper cathodes.

Cast Billet Sales

In 1996, 57.3 per cent. of all cast billets by volume were sold on foreign markets. The main market for cast billets was Germany, which accounted for 37.0 per cent. of all cast billets by volume exported by the Company, while the French and Austrian markets accounted for 23.4 per cent. and 27.5 per cent., respectively. The domestic market accounted for 42.7 per cent. of the total sales of cast billets.

Wire Rod Sales

In 1996, 40.4 per cent. of all wire rod by volume was sold on foreign markets. The main market for wire rod was Germany, accounting for 28.8 per cent. of wire rod exports by volume. The Hungarian and Czech markets accounted for 25.5 per cent. and 15.8 per cent., respectively, of all wire rod exported by the Company. The domestic market accounted for 59.6 per cent. of total wire rod sales. Wire rod is sold principally to cable manufacturers.

Silver Sales

In 1996, 89.1 per cent. by volume of all refined silver sold by the Company was sold on foreign markets. The main market for refined silver was Belgium, accounting for 31.9 per cent. by volume of all refined silver exported by the Company. The Company exported 25.6 per cent. of its refined silver to the Far East (mainly to Korea), 21.6 per cent. to Germany and 11.7 per cent. to the United Kingdom. The domestic market accounted for 10.9 per cent. of total refined silver sales. Silver is sold mainly to the photographic and jewellery industries.

Other Businesses

The Company currently has a number of subsidiaries and businesses that engage in activities related to the Company's core business such as; the design, production and maintenance of machines and equipment for mining and other industries, mining and drilling works, mine construction, steel construction and civil engineering, production of insulated wire and copper products promotion. The Company also currently has interests in subsidiaries and businesses unrelated to the Company's core business of mining and processing copper. These subsidiaries and businesses engage in a range of activities from cellular telephone network operations, through its 19.25 per cent. interest in Polkomtel S.A., to reinsurance. In connection with its interest in Polkomtel S.A. the Company has guaranteed repayment of up to approximately \$42.5 million of loans made available to Polkomtel S.A. under a credit facility provided by a syndicate of banks.

Land

The Company owns or leases approximately 70 km² of land at and surrounding its mines, metallurgical plants and Żelazny Most.

Competition

The Company is subject to active competition in the sale of refined copper from foreign copper producers, many of which have lower production costs than the Company. The price the Company receives for its products depends almost entirely upon market conditions over which it has no control. See "Investment Considerations – Considerations Relating to the Company – Copper Price Volatility". The Company may enter into strategic hedging transactions in the future which would reduce its exposure to market prices. See "Investment Considerations – Considerations Relating to the Company – Hedging".

Competition in the sale of copper cathodes is based principally on the premium over the LME copper price, although delivery schedules, technical ability and the characteristics of the copper produced are also competitive factors in the sale of copper cathodes.

Research and Development

The Company's research and development activities are directed mainly at improving operating efficiency, reducing production costs, optimising ore deposits and ensuring that its operations are being conducted in accordance with the Environment Act. The Company's main research and development activities are focused on assessing the economic feasibility of mining deposits below 1,250 metres and reducing the impact of the Company's operations on the environment. The Company's research and design unit, Zakład Doswiadczalny Sp. z o.o., engages in implementing the research and development projects of the Company.

Polish Regulation and Environmental Matters

Regulation of Mining Activities

The rights and obligations of holders of mining concessions are currently set forth in the geological and mining law of 4th February, 1994, as amended (the "Mining Act"), which is administered by the Ministry of Environmental Protection, Natural Resources and Forestry of Poland ("MEP").

Under the Mining Act the right to mine is established by executing an agreement (each a "usufruct agreement") with the MEP and thereafter obtaining a concession from the MEP. The usufruct agreement, which is a civil, or private contractual, agreement establishes certain conditions for mining, such as the price for obtaining the mining rights from the owner of the property and the types of deposits that may be exploited. The exclusive right to enter into the usufruct agreement is established by financing the exploration of the relevant mining area and the subsequent production of geological documentation. The concession is a public law document which establishes the right to exploit the types of deposits specified in the usufruct agreement in the mining area described in the concession. In addition, the relevant gmina (local governmental authority) must issue an opinion prior to the issuance of any new concession. The Company has obtained seven concessions from the MEP for the exploitation of copper and other metals (five of which are supplementary concessions) and has executed the related usufruct agreements. These concessions and usufruct agreements provide a basis for the Company to extract copper and other metals from its mines until at least the year 2013.

After the concession is obtained, a mine operation plan (which provides the framework for the way in which the mine is required to be managed, taking into account safety, environmental and other municipal concerns) and a mine exploitation plan (which describes the parameters, including the time frame, for extracting minerals) are required to be developed by the holder of the concession and approved by the mining authorities. In order to comply with the safety and environmental standards set forth in its mine operation plans, the Company has made a significant amount of capital expenditures and is required to monitor its mines on an ongoing basis. In 1994, 1995 and 1996, the Company estimates it has incurred costs of approximately \$3.14 million, \$2.59 million and \$3.08 million, respectively with respect to remediating mining damage. Based on projected 1997 production, the Company expects to incur an aggregate cost of approximately \$3.84 million in respect of remediating mining damage for the year. Further, each concession is required to be consistent with the local development plan for the gmina in which the mine is located. The gminas in the Company's licenced mining areas have not yet approved local development plans. As a result, these gminas may in the future approve local development plans which may modify the conditions of the Company's concessions, although the Company believes that the risk of its concessions being modified on this basis is low. Operation of the mines is controlled and supervised on an ongoing basis by the mining supervision authority.

Royalties for minerals excavation ("Exploitation Fees") are required to be paid in accordance with the Council of Ministers Decree, dated 23rd August, 1994, which sets the Exploitation Fees at a rate of 3 per cent. of the value of processed minerals produced. The gminas receive 60 per cent. of such royalty fees and the Polish National Fund of Environmental Protection and Water Management receives the other 40 per cent. However, a discretionary reduction of up to 50 per cent. of the basic Exploitation Fee rate is permitted to compensate a holder of a concession for difficult mining conditions, or for the costs of preservation or remediation work relating to surface subsidence. Similarly, the Exploitation Fee rate can be increased up to 50 per cent in certain circumstances. Each of the Company's mines has obtained reductions from the basic Exploitation Fee rate, which in 1996 were 35 per cent. for the Lubin and Rudna mines and 35 to 50 per cent. for the Polkowice-Sieroszowice mine (depending on the concession area). However, because this discount is discretionary and is reviewed quarterly by the MEP, there can be no assurance that these discounts will continue. Although by law royalties are payable based on the value of the processed minerals produced, the Company calculates Exploitation Fees payable based on its internal price for copper concentrate. The MEP has sanctioned this practice historically. However, there can be no assurance that the MEP will not require a different, more costly method in the future.

Holders of mining concessions at the time the Mining Act was enacted were required to seek supplementary concessions and enter into usufruct agreements (which were not required under the mining law superseded by the Mining Act in 1994). Two gminas are challenging in the Polish Supreme Administrative Court the validity of supplementary concessions issued to the Company on the basis that decisions of the relevant gmina were required prior the issuance of any new concession. While the MEP is contesting this claim on behalf of the Company, there can be no assurance that the MEP will succeed in such action. As a consequence, the Company may be required to obtain decisions of the two gminas which could result in additional costs to the Company.

For three areas which the Company may consider mining after 2015, the Company holds joint title with the State Treasury to the geological documentation necessary to establish the exclusive right to enter into a

usufruct agreement. The MEP has informed the Company that, in its estimation, the Company has borne 55.2, 66.9 and 56.5 per cent., respectively, of the costs to create the relevant geological documentation for the three areas. The Company is considering the possibility of further exploring the copper ore deposits surrounding the existing exploratory drilling holes and obtaining approval for new geological documentation which would establish the Company's exclusive right to mine the areas, or obtaining the missing portion of the geological documentation from the State Treasury, subject to its consent.

The Company commenced liquidation of the Konrad mine in 1987 and all mining at the Konrad mine ceased in 1989. However, the Company has not obtained approval under the mine operational plan for liquidating the Konrad mine, as required by law. As a result, the Company may incur additional costs in connection with the possible changes to the mine operational plan caused by decisions of the relevant gminas.

Environmental Matters

Under the Environmental Protection Act of 31st January, 1980, as amended (the "Environment Act") and the Water Law of 24th October, 1974, as amended, the Company is required to obtain permits which set permitted types and levels of gaseous emissions, liquid effluent discharges, water abstraction and solid waste storage or disposal by its operations. These permits are issued pursuant to administrative decisions of the relevant Voivod (local representative of the Polish government). The State Environmental Protection Inspectorate monitors compliance under the Environment Act and the permits issued thereunder through periodic inspections of the Company's operations. In addition, the Environment Act requires fees to be paid on a quarterly basis based on the volume of emissions, discharges, water abstraction and waste in accordance with rates set by the Council of Ministers Decrees of 27th December, 1993. From this time, the fees payable were indexed to inflation annually. Accordingly, the size of the environmental fees paid by the Company increases or decreases as the levels of emissions, discharges, water abstraction and waste produced from its operations vary and as the inflation rate varies. In 1996, the aggregate amount of environmental fees paid by the Company was approximately PLN 110 million.

If emission, discharge, water abstraction or waste levels exceed the amounts authorised by the relevant permit, the Company is required to pay fines which are determined by the Voivod Environmental Protection Inspectorate. However, under the Environment Act, the Company is able in certain circumstances, to suspend payment of these fines for up to five years from the date of assessment if the Company demonstrates that it is implementing measures to eliminate the cause of the related fine. If the Company eliminates the cause of the related fine within the five year period, the related penalty will be cancelled up to the amount expended to reduce the level of emissions, discharges, abstraction or waste. As of the date of this Offering Circular, the Company had an aggregate of approximately PLN 67 million in fines outstanding (substantially all of which related to air emissions at Głogów I) which have been assessed over the past five years for the years 1991 through 1995 (inclusive). The amount of fines to be assessed by the Voivod Environmental Protection Inspectorate due to the Company's excess emissions, discharges, water abstraction and waste levels in 1996 and 1997 have not yet been determined.

Waste

Approximately 85 per cent. of the Company's total environmental fees in 1996 related to solid waste storage and disposal. Flotation tailings, which are produced in the Company's concentrators are a major source of waste. The Company stores flotation tailings at Żelazny Most, which currently holds approximately 260 million cubic metres of waste. The Company has obtained a permit from the MEP to increase the capacity of Żelazny Most to a maximum of 350 million cubic metres of waste. The Company estimates that this volume will be reached in 2003, unless the Company is able to find alternative uses for its tailings, or obtain permission to increase further the size of the enclosure. The Company is currently exploring the use of tailings as a material in its backfilling operations in its mines or the disposal of tailings in underground mines that would otherwise not be filled. These methods, if introduced, would result in a reduction in the Company's environmental fees with respect to waste storage and disposal by reducing the volume of tailings stored at Żelazny Most.

The Company also produces other solid waste such as waste rock and furnace slag. Furnace slag is stored on site at the smelters. The Company is investigating methods of using slag for industrial purposes, including road construction and production of abrasive materials or for disposal of slag in the companies mines.

At 31st December, 1996, no fines were assessed against the Company relating to the storage or disposal of waste.

In connection with obtaining the approval for the extension of Żelazny Most to a capacity of 350 million cubic metres, the Company agreed to pay 5 per cent. of the total value of investment in Żelazny Most to the Rudna gmina and 5 per cent. to the Polkowice gmina for the years 1988 to 1998 (inclusive). The Company is required to pay such amounts on a quarterly basis. For 1997 and 1998, the Company expects to pay an aggregate of PLN 3.9 million to these gminas.

Air Emissions

As of 31st December, 1996, approximately 6.6 per cent. of the Company's total environmental fees relate to air emissions. Historically, the Company's shaft furnaces at Legnica and Głogów I have been the major source of air emissions from the Company's operations. Prior to 1995, the Company began gradually to modernise its gas handling installations and power plants, with the goal of increasing the proportion of off-gases diverted from the shaft furnaces to the power plants at its metallurgical plants to 100 per cent. In 1995, the Company achieved this goal. Currently, the major air emissions from the Company's operations originate from the Company's power plants at its metallurgical plants, which emit sulphur dioxide. However, the Company installed a desulphurisation plant in 1995 at Legnica to reduce sulphur dioxide emissions. In addition, the Company is currently installing a desulphurisation plant at Głogów I. All treated gases emitted by the smelters may contain small amounts of lead and copper.

All the currently unpaid, but assessed, air emission fines which have not been cancelled relate to the burning of shaft furnace off-gases at the power plant at Głogów I. In order to comply with the levels set by the Voivod, the Company is constructing a desulphurisation plant at Głogów I, which is currently scheduled for completion and to commence operations on or before 15th November, 1997. The Company believes that the plant will be completed by this time. If the plant is completed on time all the suspended penalties with respect to the plant will be removed. If the Company does not complete the plant by this time, it will be required immediately to pay an aggregate penalty of approximately PLN 67 million (the amount of the suspended fines assessed for 1991 to 1995 inclusive) and will be required to pay, upon the determination of such amounts by the environmental authorities, any penalties which may be assessed for violations in 1996 and 1997 (prior to the completion of the plant). Additionally, upon completion of the plant the Company expects that the level of emissions will decline below permitted levels thereby eliminating potential assessment of fines and also resulting in a lower amount of fees to be paid by the Company.

From 1990 to 1994 (inclusive), the Company was assessed fines of approximately PLN 27 million for exceeding permitted levels of air emissions at Legnica. In response to the Voivod's recommendations to reduce emission levels, the Company constructed a desulphurisation plant at Legnica which resulted in the cancellation of approximately 95 per cent. of these emissions fines and a lowering of environmental fees.

Historically, excessive air emissions have resulted in the contamination of soil and vegetation in the areas surrounding the smelters and, to a lesser extent, Żelazny Most. As a result, the environmental authorities required the Company to establish and manage three environmental protection zones surrounding the metallurgical plants and Żelazny Most. This obliged the Company to offer to purchase the land in the protection zones and introduce land use restrictions in these areas. At 31st December, 1996, the Company had purchased substantially all the land in the protection zones. In 1996, the Company decreased the area of the protection zone surrounding the Legnica smelter by approximately 44 per cent. due to the reduced air emissions from the power plant. In addition, the Company is required by the environmental authorities to control dust emissions from the 200 metre beach of drained tailings within the Żelazny Most enclosure by spraying the beach with asphalt emulsion and water.

The Polish Civil Code requires that the Company compensate local farmers for any crop damage caused by the Company. In 1995 and 1996, the Company paid an estimated aggregate of PLN 2.8 million to farmers in connection with the settlement of similar claims. The Company believes that future claims by these farmers will be eliminated in the next two to three years based upon the Company's estimates of the reduced dust emissions. At 31st December, 1996, the Company was subject to one claim by an ecological society, which contends that the dust emissions from the metallurgical plants and from the Żelazny Most tailings enclosure have had a detrimental impact on the environment.

Water

The major sources of effluent discharges from the Company's operations are saline water discharges from Żelazny Most to the Odra river and treated effluent discharges from the metallurgical plants to the Odra and Kaczawa rivers. The Company also pays fees for water abstraction in the Company's mines and metallurgical plants.

Since 1993, the Company has been assessed a number of small fines for exceeding permitted saline concentrations in the water discharged from Żelazny Most to the Odra river during periods of low water levels.

Noise

No environmental fees are imposed on the Company for noise pollution. The major sources of noise pollution are the ventilation shafts at the Company's mines. In particular, Polkowice-Sieroszowice mine has exceeded permitted levels of noise on certain occasions because one of its ventilation shafts is situated close to a village. At 31st December, 1996, a number of small fines had been assessed against the Company for exceeding acceptable noise levels.

Ongoing Environmental Compliance

Although the Company remains a significant source of pollution in Poland, it has since the 1980s, reduced, and continues to reduce, the impact of its operations on the environment. In this respect, the Company has budgeted \$140 million over the next five years to continue to improve its environmental performance and reduce both environmental fees and fines. However, additional environmental protection laws, regulations and enforcement policies thereunder are expected to be enacted over time in Poland, which may require the Company to incur additional costs. In particular, there is currently environmental legislation pending in Parliament that is expected to be enacted in 1998. At present, it is unclear what effect, if any, the proposed legislation will have on the Company. See "Investment Considerations – Considerations Relating to the Company – Environmental and Other Governmental Regulatory Matters".

Legal Proceedings

Although the Company is involved in various legal proceedings (including tax proceedings), there are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the previous 12 months a material impact on the financial condition, results of operation or cash flows of the Company.