



PARANAPANEMA

SUSTAINABILITY
REPORT 2014
2014

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I. Message from Management

“ Intensity and efficiency. This is how we can summarize the year 2014 at Paranapanema ”

Intensity and efficiency. This is how we can synthesize the year 2014 for our Company. The huge work developed enabled a thorough redesign of our activities, and the structuring of our processes for the future.

In 2014, we celebrated a great milestone for Paranapanema: we recorded stronger cash generation, and more consistent earnings. These achievements are examples of the success of the PMA 2018 Project, launched in 2014 to ensure the perpetuity and creation of value for the Company.

All this took place within a complex scenario of low growth in Brazil that involved many challenges for the basic metals market. In the international environment, deep changes in the economic scenario of China (lower growth and investments in infrastructure) and the stagnation in Europe have also resulted in a complex context for the activities linked to our commodities.

Regarding the organizational restructuring in course at the Company, it became clear that no long-term development model could be designed without taking into account the reality of the environment where we operate in.

Climate change is already affecting the reality of companies, and Brazil was hit by the water and energy crisis throughout 2014. It is clear that, as managers, we had and we must have to consider the new dynamics that impact people and the society, and which as result, will prompt companies to adjust their business models aiming at long-term sustainability.

We recognize that people are also acting and thinking in a different way, and that the globalized culture based on real-time information sharing is affecting our reality even in the smallest details.

In other words, within a changing and more competitive market, we had to improve our efficiency in order to continue with our long-term project, grounded on the following pillars: Financial Results, People and Processes.

The year 2015 will be even more challenging. We will work towards the recovery of our volumes and margins. To this end, we rely on a very efficient production team to help us maximize our productivity and product quality, without, however, letting go of the safety of our employees and the environment.

Our commercial team was redesigned to align to our expectations and face the challenge of maintaining our leadership in terms of volumes and margins.

Moreover, the 2018 PMA project has also attracted many professionals that came from several segments to join our team, believing in our project and wearing the company's cap with a lot of dedication. Besides them, we also count on our internal talents, who led us this far and will enable us to go farther. We have confidence and lots of energy and determination to reach our objectives.

We thank our shareholders, managers, employees, customers, suppliers, governments and the public in general for their support and partnership throughout 2014, and we hope them to join us and make 2015 an excellent year for all of us.

The Management



2. Paranapanema

2.1. Who We Are

“ It currently accounts for 100% of the copper produced in the country. ”

Paranapanema is a world-class Brazilian company operating in the copper segment, and Brazil's leading producer of refined copper, beams, drawn wire, laminates, bars, tubes and connections and their alloys. It currently accounts for 100% of copper produced in the country.

The Company has four industrial plants: one in the municipality of Dias d'Ávila (in the State of Bahia), producing refined copper (or primary copper), and three manufacturers of copper products and their alloys – two of them in the municipality of Santo André (State of São Paulo) and one in the municipality of Serra (State of Espírito Santo). Our subsidiary CDPC (Copper Products Distribution Center) is responsible for the Company's commercial logistics through its units in the States of Bahia and Rio de Janeiro.



Note: Capuava's industrial unit will be discontinued in 2015.

Our view is that the generation of value for shareholders, employees and communities is based on sustainable growth and maintaining proper profitability levels, through competitive advantages and established leadership in the local copper segment, expanding our client base and a selective presence in the foreign market with a diversified, high quality mix of products at lower costs, backed by a high level of social and environmental responsibility.

OUR MISSION

To ensure the sustainable production of copper and copper alloys, creating value for our employees, shareholders, customers and suppliers.

OUR VISION

To be a world-class company known for our competitive pricing and the excellence of our products and services.

OUR VALUES

- Motivation to win and maintain customers.
- Capacity to grow with sustainability
- Exemplary ethics in internal and external relations
- Creativity and innovation to attain excellence
- Commitment on everyone's part to face and overcome challenges
- Work relations based on trust and respect
- Capacity to adapt in order to overcome adversity

2.2. What We Do

Paranapanema is among the most important world-class Brazilian companies in the area of non-ferrous metals, smelting and refining primary copper and semi-manufactured copper and copper alloy products.

Primary Copper



Absolute leader, with over 50% share of sales in the Brazilian market

Copper products and copper alloys



Three plants for transformation of refined copper and copper scrap



Largest supplier of copper beams in Brazil



Growing presence in the tubes and connections market

Our activities are distributed among four industrial units:



Our Dias d'Ávila plant, located in the Industrial Hub of Camaçari (State of Bahia), engages in smelting and refining primary copper, producing anodes, cathodes, beams and drawn wire. These production processes also originate by-products such as sulfuric acid, oleum, iron silicate and anode sludge, from which precious metals are extracted.

Our Utinga unit, located in the municipality of Santo André (State of São Paulo), manufactures copper laminates, wire, bars and profiles and their alloys, from which parts and components are manufactured for the automotive, electronics, clothing, ironware, sanitary metalware, stamping and machining industries, among other. The new plant operates with leading-edge technology in the production of copper tubes that are used in domestic and industrial air conditioning equipment, compressors, components and a variety of cooling systems, as well as tubes intended for civil construction.

At our unit in the municipality of Capuava (State of São Paulo), we manufacture industrial copper tubes and tubes for the civil construction sector. The factory has been awarded the NSF-61 product certification (NSF International), which is mandatory for sale in the United States and Canada, and which guarantees that tubes are lead-free and do not contain elements that are harmful for health.

In our plant in the municipality of Serra (State of Espírito Santo), we produce copper and bronze connections for hot or cold water conduction systems, and pipes for industrial, residential gas and fire-fighting systems. It is also NSF-61 certified.



Strategy

To be the most efficient copper producer in Brazil, maximizing the productivity of existing assets, and growing above market average through the selective addition of opportunities for the existing assets, so as to sustain increasing return on invested capital rates.



2018 Paranapanema Project

At the beginning of 2014, we launched the 2018 Paranapanema Project (PMA 2018, or Project), which is a set of action plans aiming at increasing Paranapanema's earnings on a permanent basis, and, consequently, increasing the Company's value through short- and medium-term structured actions.

The scenario that motivated the development of the 2018 PMA included opportunities relating to processes, people and operational margin management.

The redesign of business processes aims at improving the predictability of results and maximizing the return on invested capital. The implementation of a sound budget culture and objective criteria for expenses management is extremely important to maximize the earnings potential. We believe that, by implementing a culture of excellence in management and of processes more focused on execution, we will be able to reinforce the conditions for sustainable creation of value.

Competitive Advantages

The Company has several competitive advantages that are essential to achieve its business purpose. Its advantages include:

- Recognized quality of products: the Company is the only producer in Brazil of electrolytic copper with 99.99% purity, which is confirmed by its "A" rating with the LME and its ISO 9002 certification. This makes the company able to compete with international competitors.
- Unique infrastructure position: the investments made to modernize and expand our industrial plants in recent years have increased our production capacity for refined copper and resulted in greater industrial flexibility, enabling us to obtain higher premiums for transformed products.
- Metal risk and exchange exposure management: the Company believes that the investments made to control and manage risk in metal prices and exchange rates reduce the volatility of production costs and contribute to more competitively priced final products.

2.3. Corporate Governance

Paranapanema's corporate governance model emphasizes a commitment to ethics in its decision making processes. Our practices are based on references such as the Code of Ethics and the Bylaws, always observing the guidelines on corporate responsibility, rendering of accounts, transparency, equity and collegiate decision-making on a consensus basis, with a long-term outlook.

The governance structure is set up by the General Shareholders' Meeting, which appoints the members of the Board of Directors (CA) and the Fiscal Council (CF). The Board of Directors includes seven members, of which two are independent members, elected for a two-year term of office, and is advised by three committees: the Audit Committee; the Finance, Risk and Contingencies Committee, and the People Management and Sustainability Committee. The Fiscal Council includes five members with a one-year term of office.

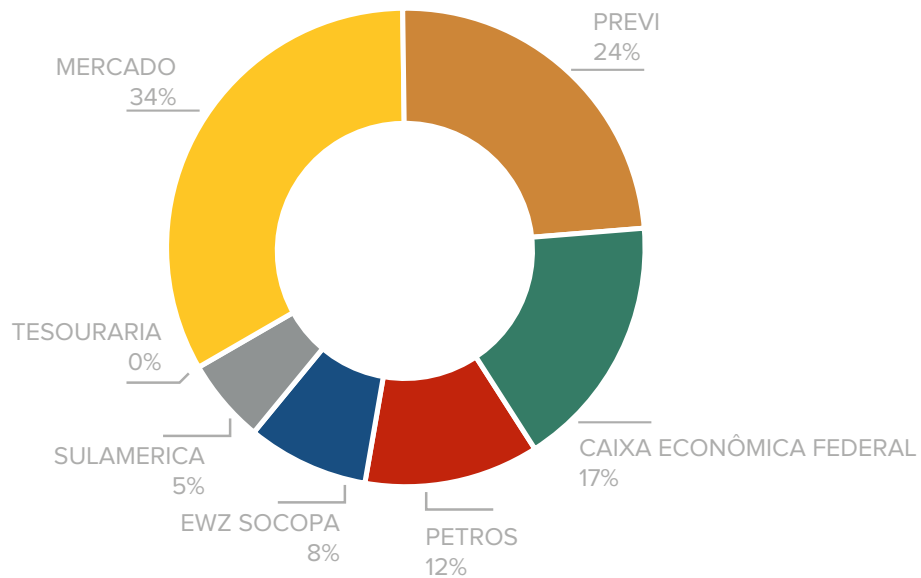
Among other responsibilities, the Board of Directors elects the Executive Board, which includes four statutory members and two non-statutory members.

In order to define its business and action principles, Paranapanema adopts a Code of Ethics, which was revised and approved by the Board of Directors on July 31, 2014. The Company has an Internal Audit area in place, and implemented its Internal Controls area in 2014 in order to ensure greater reliability to operations and support all corporate areas in the revision and implementation of policies, practices and internal procedures.

Our policies are tools used for formalizing the Company's standards and processes, based on the best Corporate Governance practices. Our Securities Trading, Information Disclosure, Related Parties Transactions, and Information Security Policies are available on our website for reference and consultation.

Paranapanema also has an Investor Relations area, which is responsible for our interaction with shareholders, investors, analysts, regulators and other capital market agents. Once a year, we hold public meetings with investment analysts, shareholders and other stakeholders. Since 2010, we have been disclosing our financial earnings and other matters of interest have been disclosed according to the IFRSs (International Financial Reporting Standards) during quarterly conference calls held in Portuguese and English with the capital markets.

2.4. Share Distribution



Base Date: December 31, 2014

2.5. Stakeholders

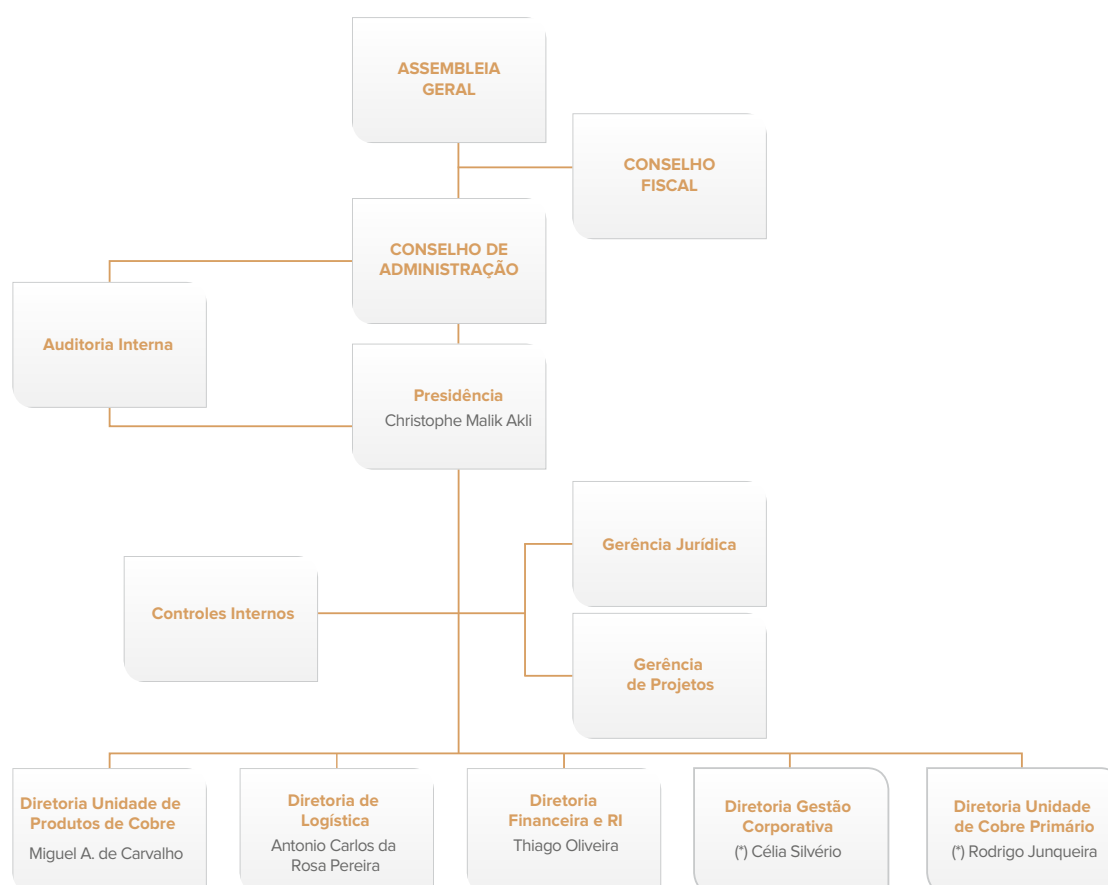
Paranapanema provides its stakeholders with communication channels to enable them to have access to the Company's information, its financial and sustainability reports, reports and articles, as well as other corporate information, such as awards, certifications and products. These are available on www.paranapanema.com.br

Stakeholders	Relationship Events and Communication Channels
Shareholders and Investors	Investor Relations website Email address for communication with the Investor Relations area Phone contact Meetings Meetings of the Association of Capital Market Analysts and Investment Professionals (APIMEC) Quarterly Reports and Conference Calls Sustainability Report Participation in Conferences Institutional video Ethics Line Code of Ethics Specific Policies
Customers	Customer relations meetings Website Phone contact Regular visits Printed and virtual information channels Visits carried out by the Technical Assistance and Sales teams Institutional videos Sustainability report Ethics Line Code of Ethics
Employees	Printed and virtual information channels Intranet Website Meetings with management Ethics Line Website Regular meetings Personal assistance Environment and Accident Prevention Week Sustainability Report Ethics Line Code of Ethics
Suppliers	Phone and email contact Specific policies Sustainability report Ethics Line Code of Ethics
Communities	Assistance through website/Phone Contact Publication of Social and Environmental Information Sustainability report Visits to Communities Ethics Line Code of Ethics
Government and society	Participation in Sector Forums and Committees Membership in Associations and Institutions Website Sustainability Report Ethics Line Code of Ethics

Paranapanema is a member of all major associations and entities linked to the copper segment. "Associations" are organizations intended to foster social assistance, culture, political representation and defense of professional interests.

ENTITY/DESCRIPTION	
ABCOBRE	Associação Brasileira do Cobre (Brazilian Copper Association)
ABM	Associação Brasileira de Metalurgia (Brazilian Metallurgy Association)
ABRASCA	Associação Brasileira das Companhias Abertas (Brazilian Association of Publicly Held Companies)
ABRAVA	Associação Brasileira de Refrigeração, Ar Condicionado, Ventilação e Aquecimento (Brazilian Association of Refrigeration, Air Conditioning, Ventilation and Heating)
ACB	Associação Comercial da Bahia (Trade Association of the State of Bahia)
COFIC PÓLO	Comitê de Fomento Industrial de Camaçari (Camaçari Industrial Promotion Committee)
FIESP	Federação das Indústrias do Estado de São Paulo (São Paulo State Industry Federation)
INSTITUTO PRO COBRE	Member of the International Copper Association (ICA), which is responsible for the promotion of copper worldwide.
SINDICEL	Sindicato da Indústria de Condutores Elétricos, Trefilação e Laminação de Metais Não Ferrosos do Estado de São Paulo (Association of Manufacturers of Electrical Conductors, Drawn Wires and Lamination of Non-ferrous Metals of the State of São Paulo)
USUPORT	Associação de Usuários dos Portos da Bahia (Association of Port Users of Bahia)
FIEB	Federação das Indústrias do Estado da Bahia (Industry Federation of the State of Bahia)
SIMMEB	Sindicato das Indústrias Metalúrgicas, Mecânicas e Material Elétrico do Estado da Bahia (Association of Metallurgy, Mechanical and Electrical Materials Industries of the State of Bahia)

2.6. Structure



(*) Non-statutory Office

Structure revised in January 2015

General Shareholders' Meeting

The General Shareholders' Meeting is Paranapanema's highest decision-making body. The Board of Directors is required to call the Ordinary Shareholders' Meeting on a yearly basis, and the Extraordinary Meetings whenever necessary.

Call notices are public, and the agenda of the meetings cover issues relating to the conduct of the business. Shareholders are encouraged to attend and vote, by means of the Shareholders' Meeting Attendance Guide, which Paranapanema has made available for all meetings since 2008.

Board of Directors

The Board of Directors of Paranapanema is responsible, among other, for establishing all policies and strategies for electing the executive officers and overseeing their management.

The Board of Directors consists of seven permanent members and seven deputies. It meets ordinarily once a month, or whenever an extraordinary decision is required. Board members are elected for a unified term of office of two years, reelection being permitted. According to Paranapanema's Bylaws, and pursuant to the regulations of BM&FBovespa's Novo Mercado, 20% of the Directors elected must be independent.

The compensation of Board members is based on a monthly fixed amount in line with market practice. Deputies receive 50% of the fixed compensation only when they attend meetings, in the absence of the permanent member. The compensation of the Company's management bodies is detailed in the Reference Form.

Fiscal Council

The Fiscal Council is independent of the Company management and the external auditors, and its primary responsibility is to monitor management's actions, review the financial statements, and report its findings to the shareholders.

It is a permanent body with a term of office of one year, consisting of five permanent members and the same number of deputies. Its members may not be members of the Board of Directors or the Executive Board, or employees of the Company or its subsidiaries, or be spouses or relatives up to the third degree of the managers.

Fiscal Council members receive a monthly fixed amount that seeks to compensate them in line with market practice. Deputies receive 50% of the fixed compensation only when they attend meetings, in the absence of the permanent member. The compensation of the Company's Fiscal Council is detailed in the Reference Form.

Advisory Committees

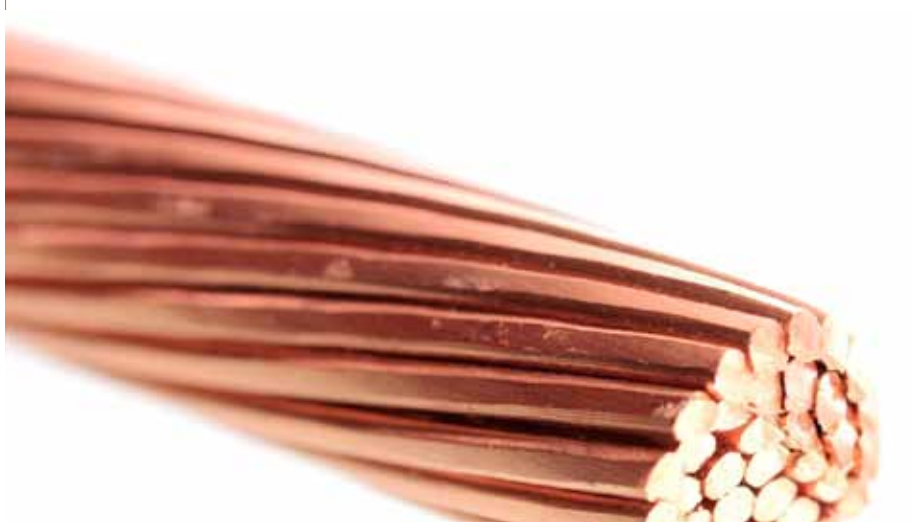
The internal regulations of the Board of Directors provide for advisory committees to be set up to support the management. Currently, the Company maintains the following committees: (i) the Audit Committee; (ii) the Finance, Risk and Contingencies Committee; and (iii) the People Management and Sustainability Committee. The principal function of the Advisory Committees is to analyze, recommend and validate the information supplied to the Board of Directors, so as to increase the efficiency of the decisions made by this body.

Executive Board

The Executive Officers are the legal representatives of the Company, primarily responsible for its day-to-day management and implementation of the general policies and directives handed down by the Board of Directors. They are elected by the Board of Directors with concurrent terms of office, and may be reelected or dismissed at any time.

Currently, Paranapanema's Executive Board is made up of four members. The Company also has two Non-Statutory Officers.

Executive Board members receive a fixed amount per month that seeks to compensate them according to the attributes and responsibilities of each position. The variable compensation comprises the ICP (Short-Term Incentive), which takes into account the targets agreed with the Board of Directors each year; and the ILP (Long-Term Incentive), which is based on the performance of the Company's share, and aligns the interests of the executives with the expectations of shareholders. The package of benefits granted to Executive Officers includes a healthcare plan, collective life insurance, dental care, food voucher; a supplementary pension plan and a car (including the refund of fuel expenses). The compensation of the Company's management bodies is detailed in the Reference Form.



3. Sustainable Development

Paranapanema sees sustainability as a strategic value that should be shared by all the Company's segments at every level, so as to ensure the future of the business through a balance between economic, social and environmental aspects.

3.1. Ethical Relationships

“Paranapanema sees sustainability as a strategic value.”

In 2014, the Company emphasized the importance of its ethical values, which must be complied with in the course of its business. To support this process, the Company created the “Ethics Line” to ensure to its shareholders, employees, clients and suppliers an independent, transparent and non-biased communication channel for handling reports and complaints.

The Ethics Line is under the responsibility of the Company's Executive Board, and provides information to the Audit Committee and the People Management and Sustainability Committee, which report to Paranapanema's Board of Directors.

Through this channel, we receive issues relating to ethics, people management, information security, and questions regarding accounting, audit and internal controls. In order to provide assistance and afford greater independence, transparency and appropriateness, in addition to ensure confidentiality and protect the information recorded, Paranapanema also counts on the support of PriceWaterHouseCoopers (PWC), a consulting firm with sound experience in audit, consulting and outsourcing of services.

On the ethics line page of Paranapanema's website (www.paranapanema.com.br), any person or company can fill it out a form with information to be submitted to the Company. Additionally, we can also be reached on (0800-702-2312) or at our physical address (Rua Felipe Camarão, 500, Utinga, Santo André/State of São Paulo – CEP 09220-580 – A/C Auditoria Interna).

In addition to the Ethics Line channel, we have also set up the ethics commission, which is responsible for the maintenance of the Code of Ethics and the analysis of more sensitive issues, indicating to the Company the actions required in each case.

A training program was prepared and released to the internal audience on the new version of the Code of Ethics, which ensures that the Corporate Governance model promotes transparent communication, and the compliance of our operations and business throughout the whole chain. Said training program is also provided in on-boarding processes for new employees.

The full text of the Code of Ethics is available at www.paranapanema.com.br

3.2. Environmental Management

Paranapanema's Environmental Management operations are decentralized at each industrial unit, under the responsibility of the Operations Department.

The establishment of all environmental objectives and targets is in line with legal and regulatory requirements, taking into account all associated risks and impacts, under the responsibility of technical specialists, and is submitted for analysis by the Executive Board.

All industrial units use the Environmental Management System ("SGA"), which ensures that all processes are monitored, from the use of raw materials, and manufacturing and distribution of products, to the correct disposal of waste and the byproducts generated.

Water Reutilization System

We have a process for the reuse of rainwater at our industrial units in Santo André (São Paulo), with storage capacity for approximately 6 million liters of water. Rainwater is captured in galleries and sent to a central reservoir, and then pumped to the industrial water treatment station prior to reuse.

Reutilized water accounts for approximately 94% of the total water required for production at our Utinga and Capuava units, in Santo André (São Paulo). Taking the two units together, in 2014 we reused 1,339,217 liters of water.

All water from the industrial process, treated wastewater and rainwater can be reused. To reduce environmental impact and comply with the environmental regulations, Paranapanema's wastewater treatment stations process the raw wastewater, which is then sent to an industrial water treatment station for polishing and then returns to the system for reuse; finally, water that would otherwise be discharged into a river is used again in the industrial process.

Paranapanema is always seeking to use the best technologies for the reuse of water in its production processes, maintaining the quality and safety of its industrial operations.

Dias d'Ávila Granulated Slag Recovery system (Bahia)

Granulated slag is a by-product of our productive process. It is a black, dry material that does not absorb water and is harder than sand, and is widely used in the cement industry. Recently, its use was approved in sub-base and asphalt mix for paving highways. Granulated slag is rated as a class II A waste with no significant impact on the environment.

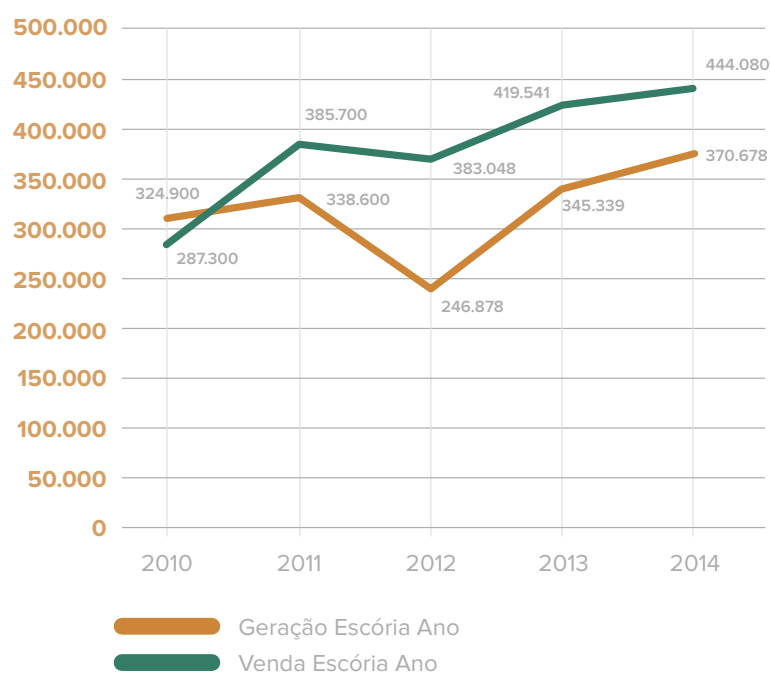
Copper slag generation is part of the pyrometallurgical process used to purify copper. The Company works with a raw material (ore concentrate) with an approximate 30% copper content. The impurities removed in the coking process will form the copper slag.

Paranapanema has concentrated on developing new reuse applications for granulated slag such as:

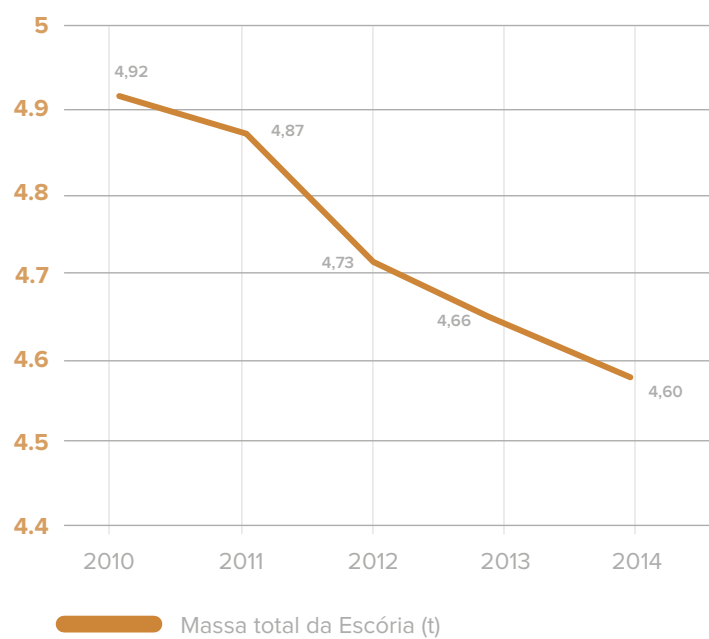
- additive to concrete - materials used by cement companies for clinker production.
- flooring blocks
- surface blasting
- slope stabilization
- sub-base for asphalt
- asphalt mix

In 2014, Paranapanema used a more modern technology to measure the volume of slag stocked at our Dias d'Ávila plant, and the volume indicated was 1.49 Mton less than that reported in previous years. The Total Granulated Slag Chart indicates adjusted slag volumes for prior years and the current year:

Granulated Slag Reuse (millions of tons)



Total Granulated Slag (millions of tons)



Internal Selective Collection System

The Internal Selective Collection System aims to educate employees about the importance of attitudes favoring the reduction, reuse and recycling of materials.

During the SIPAT week, some lectures were held for our employees on topics such as:

- Appreciation of Industrial Waste.
- National Solid Waste Policy.
- Waste Reverse Logistics.
- Zero Landfill.
- Proper destination of domestic and industrial waste.

INTERNAL SELECTIVE COLLECTION SYSTEM				
Waste	Unit of Measurement	2012	2013	2014
Plastic	kg	13,521	60,971	28,075
Paper and Cardboard	kg	55,557	143,884	171,639
Total	Kg	69,078	204,855	199,714

Solar Power System

Paranapanema uses solar energy to heat water for the employees' locker rooms at the Santo André (SP) and Serra (ES) Industrial Units.

Copper Waste Recycling

In 2014, Paranapanema implemented the Waste Recycling Center Project with the purpose of recording gains from internal processes, such as logistics, separation of materials, stocking and processing. As a result, we will be able to have a more thorough view of these processes as a whole, and improve cost management and reduction.

Our Company is the largest copper recycler in Brazil, receiving scrap (70,000 t/year) from various collection systems located throughout the country and abroad.

Copper is among the few materials that can be recycled several times without impairing its performance, thus helping preserve valuable natural resources, save energy, and reduce CO2 emissions. Today's recycling processes are quite efficient, and the innovation in this sector is an ongoing trend, providing for its easy recovery after the end of its useful life (source: Procobre - <http://procobre.org/pt/beneficios-sociais/reciclavel/>).

3.3. Environmental Indicators

Environmental Indicators						
General Indicators	Unit of Measurement	2010	2011	2012	2013	2014
Amount invested in environmental improvement projects	R\$ thousand	12,640	9,791	18,331	9,446	14,494
Annual power consumption	kwh	433,009,270	437,439,629	352,733,783	383,797,122	480,027,892
Power consumption per t of copper	kwh/t	2,183	2,269	2,119	1,494	1,257
I Total underground water harvesting (internal generation)	m3	2,783,480	2,607,400	2,563,352	2,563,352	2,793,747
I Total water harvested (municipal or third parties)	m3	x	x	x	96,701	92,932
I Total water recirculated	m3	1,482,096	1,734,805	1,720,908	1,658,911	1,417,653
I Annual water consumption	m3	4,265,576	4,342,205	4,134,801	4,318,964	4,304,332
I Recirculation % (process efficiency)	%	35	40	42	38	33
Water harvesting per t of copper	m3/t	13	12	14	10	7
Natural gas	m3	47,238,675	42,930,159	38,466,811	41,802,924	44,051,534
Natural gas consumption per t of copper	m3/t	228	209	223	163	115
I Generation of Class 1 Waste	t	X	X	X	X	3,669
I Generation of Class 2 Waste	t	X	X	X	X	477,130

Primary copper unit	Unit of Measurement	2010	2011	2012	2013	2014
2 Electrolytic copper recovery using a saturated solution from the pickling process	kg	27,542	13,070	16,664	20,010	31,367
3 Rate of specific sulfur emissions into the atmosphere	(kg sulfur / t raw material)	14	17	11	12	18
SO2 concentration at the air quality stations	(µg/m3)	4	3	3	2	4
Amount of solid waste generated	t	331,553	465,896	397,727	449,397	475,511
4 Amount of waste recycled	t	287,300	385,700	383,048	419,541	444,080
4 Waste recovery	%	86%	83%	96%	93%	93%

¹ Indices implemented in 2014

² Indices differ from prior years due to the review of the process and improvement of the method to calculate electrolytic copper recovery

³ We are taking actions to reduce the rate of emissions, and a new gas cleaning installation will start to operate in the second half of 2015. The Company maintains a channel to receive and handle all complaints, or even to warn about any variation in the emissions.

The monitoring provided by CETREL (responsible for water supply, treatment and final disposal of effluents and industrial waste, in addition to the environmental monitoring of the Camaçari Industrial Hub and its area of influence) shows that SO_x emissions are below the levels provided for in the legislation.

In order to improve this process, in 2014 a work group was developed to involve the production, maintenance, process and environment to detect the critical points and, so, set up an action plan to reduce the SO₂-related impacts.

⁴ Different indices, considering the reuse of granulated slag only.

3.4. Social aspects

People Management

Paranapanema values a good relationship with its employees through trust and mutual respect.

In late 2014, Paranapanema had 2,175 employees, of whom 1,103 were in Santo André (SP), 950 in Dias d'Ávila (BA), and 122 in Serra (ES), including statutory officers, full-time (CLT) employees, trainees and apprentices.

Compensation and Benefits

Pursuant to Paranapanema's Remuneration policy and practice, wages, benefits and variable compensation paid to employees are in line with market practices, being also coherent with the business we operate and the Company's values. The value of each position is defined according to its complexity, specialization and importance. The goal is to improve the Company's ability to attract, develop, motivate and encourage performance and commitment to its objectives and results.

Paranapanema has two variable compensation programs: one for executives (PRV) and one for employees subject to Brazil's labor laws, or CLT (PPR).

The Variable Compensation Program (PRV) to which our executives are eligible is intended to leverage Paranapanema's financial results, recognize and compensate individual performances, and foster the retention of our talents.

The Profit Sharing Program includes all Paranapanema's employees and stimulates their participation in the results attained annually.

At Paranapanema, there is no differentiation in the base salary paid to men and women holding the same positions. PPR premium amounts are the same for all employees and depend on the achievement of the program's targets.

Relations with labor unions

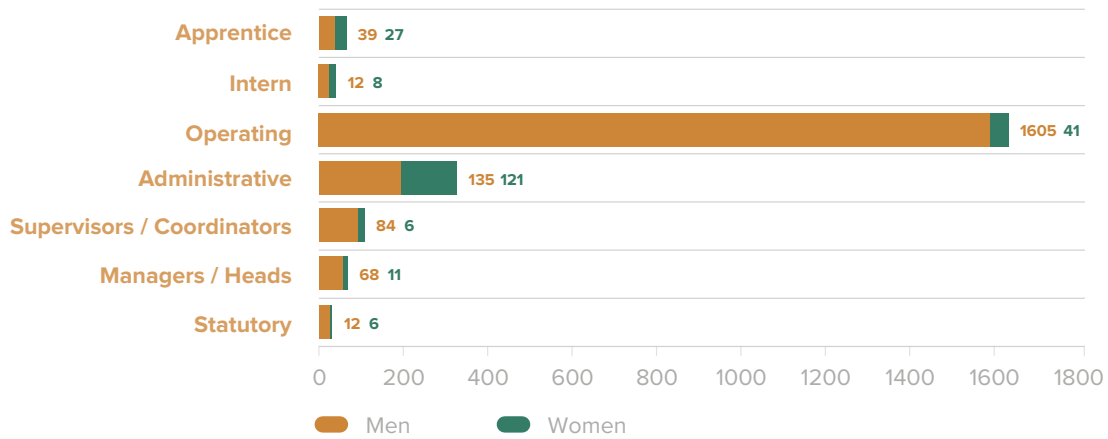
Paranapanema has a long-standing relationship with the Santo André (SP), Serra (ES) and Dias d'Ávila (BA) Unions. This favors dialog and constant negotiations in pursuit of a constructive, transparent, accountable and effective partnership. Meetings, which are not subject to a regular schedule, are peaceful and informal affairs. Paranapanema believes that all employees are entitled to freedom of association.

Profile of the workforce

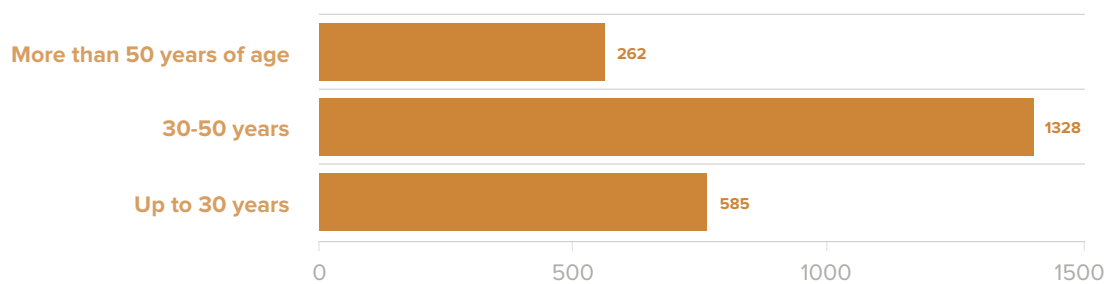
Breakdown of the employees										
Number of employees by category and gender	2010	2011	2012	2013	2014	2014				
						Masc.	Fem.	Up to 30 years	30 to 50 years	Over 50 years
* Statutory + CLT Officers	16	16	20	20	18	12	6	0	5	13
Managers/Heads	71	71	71	62	79	68	11	3	58	18
Supervisors/ Coordinators	112	117	108	104	90	84	6	2	67	21
Administrative	276	293	290	309	256	135	121	83	151	22
Operating	1832	1731	1714	1895	1646	1605	41	412	1046	188
Interns	63	77	65	29	20	12	8	19	1	0
Apprentices	54	46	80	76	66	39	27	66	0	0
Total employees	2424	2351	2348	2495	2175	1955	220	585	1328	262
Percentage	100%	100%	100%	100%	100%	90%	10%	27%	61%	12%

* Includes Officers/Board of Directors/Fiscal Council

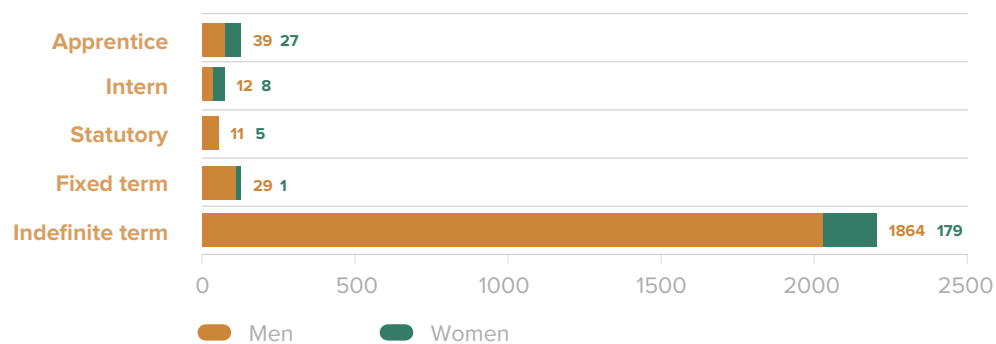
Distribution by category and gender in 2014



Distribution by age group – 2014



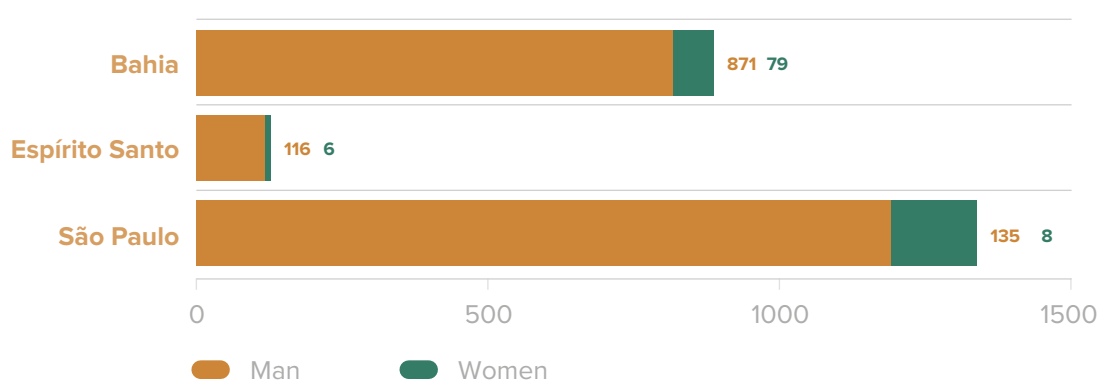
Distribution by type of Contract and Gender - 2014



Employees by region

Number of employees by region	2010	2011	2012	2013	2014		Total
					Men	Women	
São Paulo	1366	1289	1327	1410	968	135	1103
Espírito Santo	161	146	137	162	116	6	122
Bahia	897	916	884	923	871	79	950
Total employees	2424	2351	2348	2495	1955	220	2175

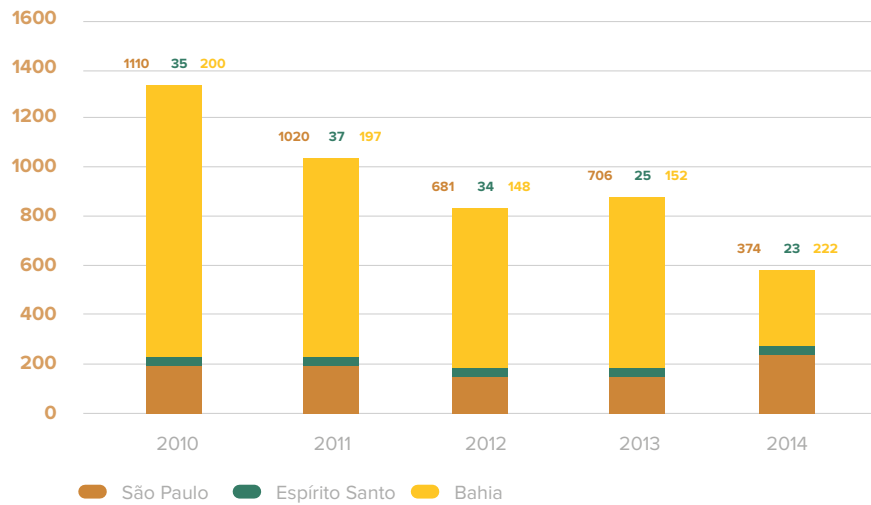
Distribution by type of Contract and Gender - 2014



Outsourced Staff by region

Number of outsourced staff by region	2010	2011	2012	2013	2014
São Paulo	200	197	148	152	222
Espírito Santo	35	37	34	25	23
Bahia	1110	1020	681	706	374
Total outsourced staff	1345	1254	863	883	619

Outsourced Staff Distribution by Region



Insourcing – Dias d’Avila

In 2014, we insourced some activities in the Maintenance and Production areas, reducing the number of outsourced suppliers and increasing our own headcount at the industrial unit.

Turnover

Distribution by Category and Gender 2014

Turnover by age group	2010	2011	2012	2013	2014			
	Index	Index	Index	Index	Hired	Terminated	Total employees	Index
Up to 30 years	18,4	23,0	17,0	25,3	247	184	585	36,84%
30 to 50 years	9,6	9,0	10,2	10,9	232	384	1328	23,19%
Aged more than 50 years	7,3	12,9	10,9	9,8	13	145	262	30,15%
Total	10,7	12,5	12,0	14,5	492	713	2175	27,70%

Turnover by Gender	2010	2011	2012	2013	2014			
	Index	Index	Index	Index	Hired	Terminated	Total employees	Index
Men	11,1	12,2	12,2	14,0	418	599	1955	26,01%
Women	7,3	14,8	10,3	18,8	74	114	220	42,73%
Total	10,7	12,5	12,0	14,5	492	713	2175	27,70%

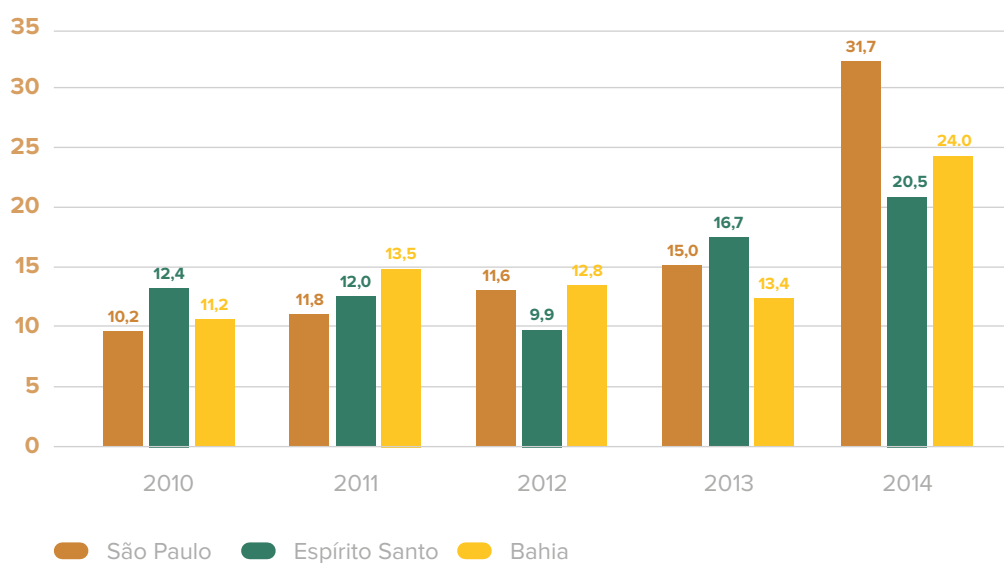
Turnover by Region	2010	2011	2012	2013	2014			
	Index	Index	Index	Index	Hired	Terminated	Total employees	Index
São Paulo	10,2	11,8	11,6	15,0	221	478	1103	31,69%
Espírito Santo	12,4	12,0	9,9	16,6	11	39	122	20,49%
Bahia	11,2	13,5	12,8	13,4	260	196	950	24,00%
Total	10,7	12,5	12,0	14,5	492	713	2175	27,70%

Note: the turnover index increased considerably due to: the discontinuing of our Capuava unit in February; insourcing of work positions at the Dias d'Avila unit; and one-off changes in some organizational units.

$$\text{Fórmula} \left\{ \frac{\frac{A + D}{2} \times 100}{EM} \right.$$

A = admissões de pessoal do período
 D = demissões de pessoal do período
 EM = efetivo médio dentro do período considerado
 PERÍODO BASE = janeiro a dezembro

Turnover by Region



Occupational Health and Safety

At Paranapanema, the employees' safety and health are more important than any other priority, being a permanent commitment of all employees and service providers.

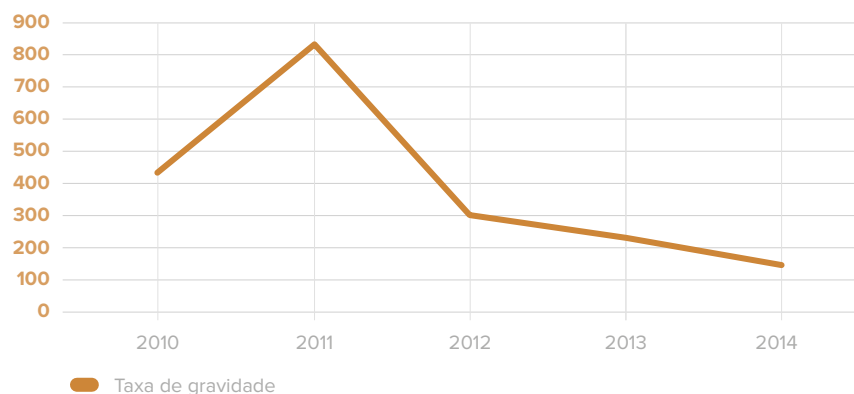
In 2014, we leveraged the process of changing our health and safety culture through actions to improve the work environment and a process for continuing education, training and qualification of our employees, as well as educational campaigns. The Safety Dialogs are also an important prevention tool that address safety, health, environment and life quality issues on a daily basis.

Our Utinga (SP) unit implemented the Occupational Safety and Health Management System, which was audited and certified in May 2014, according to the requirements of BS OHSAS 18001:2007, recording another great achievement for the whole organization.

Health & safety indicators	2010	2011	2012	2013	2014
Accident frequency rate – with and without lay-off (1)	35,66	40,71	37,71	21,18	12,02
Severity Rate	418	814	296	231	167
Accidents with and without lay-off (2)	165	188	157	100	67

(1) Frequency and severity rates are based on each 1 million man-hours worked, as per NBR 14280. To calculate lost days, the day following the accident is considered.

(2) Minor injuries with first-aid treatment are not included



Paranapanema provides medical services at all industrial units for preventive and emergency care. We employ occupational safety staff, in addition to employees of the various operating areas who are duly trained to man the Emergency Brigade.

Prevention Programs

In 2014, several actions were carried out simultaneously at the units of Santo André, Dias d'Avila and Serra, focusing on health issues, such as:

- **Pink October** – Internationally renowned popular movement. Its name refers to the color of the pink ribbon, which represents the fight against breast cancer and stimulates the participation of the population, corporations and entities.



All employees received a kit with a small pink ribbon and a folder with information on breast cancer prevention.

- **Blue November** – This awareness campaign is carried out by several entities in November. It is addressed to society and all men about the importance of prevention and early diagnosis of prostate cancer.



All employees received a kit with a small blue ribbon and a folder with information on the importance of prostate cancer prevention and early diagnosis.

- **“Health in your hands”** - Pilot project focused on the employees at the units of Utinga and Capuava, in partnership with Sesi. In 2015, this project will be extended to all units. All employees were invited to participate in this health session, which reached over 80% of our headcount at Utinga and Capuava units.



In addition to the update of mandatory exams, SESI made available the following exams and services at no cost:

- Medication and BMI assessment
- Questionnaire on habits
- Abdominal perimeter
- Blood pressure
- Blood glucose
- Dental analysis

Dias d'Ávila:

- Conference on women's sexuality: addressed to women; discussed breast and uterine cancer prevention, as well as healthy aging.
- Conference on prevention of prostate cancer and sexually transmitted diseases (STD): addressed to the male audience.
- Week on health guidance, with themes such as: hypertension and diabetes prevention, dietary guidance, healthy food, prevention and STD-AIDS.



Vaccination program

The annual vaccination program aims at immunization and protecting against all three subtypes of influenza viruses that circulate in winter: A (H1N1 - commonly known as swine flu), A (H3N2) and B. In 2014, 1,009 doses of vaccine were given to Utinga, Capuava, Serra, and Dias d'Ávila employees.

Training and Development

Paranapanema believes that a company is formed, essentially, by people, and that through substantial investment in their development it is possible to achieve excellence. The Company seeks to create conditions for employees to reach their maximum potential, through both professional and personal growth.

Training and development needs are decided annually by Paranapanema Managers and Officers in order to provide for the continuous improvement of procedures and activities in each area.

Annual average hours of training per employee				
2010	2011	2012	2013	2014
4,13	5,3	3,71	8,23	6,51

Young Apprentice Project

To help train young people, Paranapanema has introduced its Young Apprentice project, a learning program aimed at preparing and inserting them into the labor market. The project provides appropriate technical and vocational training and seeks to convey to the young apprentices values such as a working relationship based on mutual trust and respect, and the need for everyone's commitment to face and overcome challenges.

Young Apprentice Project				
Location	Partnerships	No. of young people		
			2013	2014
Santo André - SP	Piero Pollone and Camp SBC	30	29	21
Serra - ES	CESAM - Centro Salesiano do Menor	7	8	8
Bahia	Leandrinho and Lamarão do Passé Community	28	33	30
	Total young apprentices	65	70	59

Community Support Program

Paranapanema is concerned about the quality of life of those living in the areas surrounding its manufacturing units, and to that end it is searching for solutions that ensure the conditions required for the proper development of the population.

Since 1989 the company has run the PAC – Community Support Program in the municipality of Dias d'Ávila (BA) and in the Leandrinho and Lamarão do Passé communities, engaging at all times with the local authorities and the public in order to promote the means to sustainable regional development while strengthening the company's integration within the community. This initiative benefits projects in the municipalities located in the Company's area of operation, with focus on job creation and income generation, healthcare, environment and safety issues.

Community Support Program - PAC			
Program	N° of people assisted		
	2012	2013	2014
Dental clinics in partnership with SESI, so as to ensure access to oral healthcare	839	980	1090
The junior apprentice project for young people from the community between the ages of 18 and 22 years.	28	33	30

3.5. Relations with Suppliers

Paranapanema follows the best market practices in the selection of its suppliers, treating them as partners in the development of productive and responsible business. Therefore it is careful when selecting professionals and businesses to serve its needs, where the relationship is always based on honesty, integrity, loyalty and ethics.

Negotiations with suppliers seek to obtain the best outcome for Paranapanema, and employees are prohibited from obtaining privileges in terms of pricing or otherwise when acquiring goods for personal use; they are also prohibited from having a continuous or occasional employment relationship with suppliers, as well as from receiving commissions, advantages or gifts that might interfere in any manner with the negotiations.

Paranapanema inserts in all its supplier agreements specific clauses where the parties agree to expressly abide by the labor legislation, in addition to executing the services in accordance with the law. In addition, and in line with its Code of Ethics, it requires suppliers not to engage in child or slave-like labor practices, to respect human rights and prohibit any kind of discrimination. Failure to comply with the current legislation may result in the agreement with the supplier being terminated.

3.6. Relations with Customers

Paranapanema's relations with its customers are built primarily on ethics and transparency of information, leading to relations that are sound, responsible and trustworthy, and obtaining excellent results from its products and services.

Paranapanema pursues excellence in all aspects of its business, from the quality of its products and services, through to delivery to the customer; to do this it has a team of highly specialized employees that provide all-round technical and commercial support, responding quickly to customers and indicating and developing innovative products that fulfill the particular requirements of each customer.

The commercial structure is constantly evolving in order to generate perceived value for customers, as these actions are considered essential for obtaining customer satisfaction and preference. The Company develops initiatives for research and innovation in copper products, together with customers and respected partners.

Awards

In 2014 Paranapanema received the following awards:

- **2014 Anamaco Award** – copper tubes and connections segment – Mass Market and Large Customers category;
- **18th Reseller Award** – Best Product of the Year in the category in the copper tubes and copper connections segment;
- **Polo de Segurança (Safety Reference) Award** – Bronze Category

Certifications

Paranapanema possesses the certifications required by the Brazilian and international markets through its management system, whereby the industrial units are certified to the following standards:

Certification	Industrial Unit Dias D'Ávila	Industrial Unit PMA Utinga	Industrial Unit PMA Capuava	Industrial Unit PMA Serra
ISO 9001 (product)	Validity: 02/05/2018 Certificate N°: BR 020507-1	Validity: 05/18/2015 Certificate N°: FM 67115	Validity: 05/18/2015 Certificate N°: FM 67115	Validity: 04/16/2015 Certificate N°: FM 77829
ISO 14001 (environment)	Validity: 02/05/2018 Certificate N°: BR BR 020509-1	Validity: 06/14/2017 Certificate N°: EMS 567751	-	Validity: 04/16/2015 Certificate N°: SEM 553520
ISO 14001 (environment)	Validity: 02/05/2018 Certificate N°: BR BR 020509-1	Validity: 06/14/2017 Certificate N°: EMS 567751	-	Validity: 04/16/2015 Certificate N°: SEM 553520

Products and Services

Paranapanema's certified products are marketed in accordance with the technical standards described below:

Products	Standards I
Rolled laminates, seamless tubes, profiles, bars, wires and rebars of copper and copper alloys	RoHs and Reach
Seamless tubes for water, gas, air conditioning, refrigeration and industrial purposes in I 10, I 20 and I 22 copper alloys	RoHs and Reach
Light, medium and heavy seamless copper tubes for conveyance of fluids	ABNT NBR 13206
Seamless copper tubes for flexible conveyance of fluids	ABNT NBR 14745
Seamless copper tubes for water	ASTM B88
Seamless copper tubes for air conditioning and refrigeration	ASTM B280
Copper tubes for drainage	ASTM B306
Drinking water system components - healthcare	NSF / ANSI Standard 61
Connections for joining copper tubes by welding or capillary brazing	ABNT NBR 11720
Connections with compression terminals for use with copper tubes	ABNT NBR 15277
Cathodes	Registered on the LME and Shanghai Metal Exchange

Compliance

Paranapanema operates in accordance with current Brazilian and international standards and legislation, using standardized manufacturing processes so that its products are appropriate for the purposes of its customers. Furthermore, it works to detect and correct any possible non-conformity.

The management systems at our units are periodically evaluated for compliance with corporate guidelines on safety, quality and the environment. There are no records of deviations or non-conformity events in the supply and use of our products.

3.7. Risk Management

Paranapanema understands risk management as essential for supporting its growth plan and its strategic and financial planning. Risk management is founded on the Market Risk Management Policy approved by the Board of Directors, and its purpose is to protect against unexpected impacts from the variation in prices of goods, foreign exchange and interest rates on Paranapanema's profitability and cash flow. It also establishes a corporate governance structure and contracts that ensure an efficient implementation of Paranapanema's guidelines regarding the management of market risks to support the growth plan, strategic planning and business continuity of the company. Thus, it reinforces its capital and asset management structure, ensuring the reliability of its financial management and strengthening corporate governance practices.

All matters involving risk management for submission to the Board of Directors must be presented to the Finance, Risks and Contingencies Committee.

The Risks Commission is in charge of:

- (i) identifying risks and monitoring exposure;
- (ii) providing guidance and validating proposed limits and responses to risks, submitting them for approval by the Finance, Risks and Contingencies Committee;
- (iii) reviewing the results of the hedge strategy;
- (iv) approving the financial instruments and counterparties in hedge transactions;
- (v) following up on the implementation of risk management actions;
- (vi) proposing occasional updates, modification or flexibilization of the criteria or limits set out in the Policy.

The responsibilities of the Risk Management area are:

- (i) to measure and report on exposure to the risks identified;
- (ii) to contribute to identifying new risks and reassessing those already identified;
- (iii) to produce the monitoring and follow-up reports envisaged in the Policy;
- (iv) to centralize the information required for internal and external notification of the Market Risk Management activities, thereby ensuring their transparent disclosure.

It is incumbent on the Executive Board:

- (i) to evaluate the company's positioning for each risk identified in accordance with the guidelines and policies handed down by the Board of Directors;
- (ii) to approve the performance indicators to be used in risk management;
- (iii) to foster ways of strengthening and diffusing a risk management and internal controls culture.

3.8. Economic Aspects

Consolidated net revenue stood at R\$4,734.4 million. Domestic market sales amounted to R\$2,950.17 million, representing 62% of consolidated net revenue in 2014, against 72% in 2013.

Gross Profit

Paranapanema showed a Gross Profit of R\$384.2 million in 2014, with gross margin of 8.1% against 7.1% in 2013, specially due to cost reduction initiatives, which are a pillar of the Company's turnaround.

Adjusted EBITDA

Paranapanema's Adjusted EBITDA (earnings before interest, tax, depreciation and amortization, after stripping out non-recurring revenues and expenses) amounted to R\$358.3 million in 2014, an increase of 7.8% over 2013. Thanks to improved operating results the company ended the year with an Adjusted EBITDA Margin of 7.6% against 6.0% in 2013.

Investments

In 2014, capex totaled R\$69 million, or 65% below the capital budget approved for the year due to a comprehensive review of our investment strategy, which used to focus on production capacity expansion, and is now focused on increased capacity use.

Economic and Financial Indicators

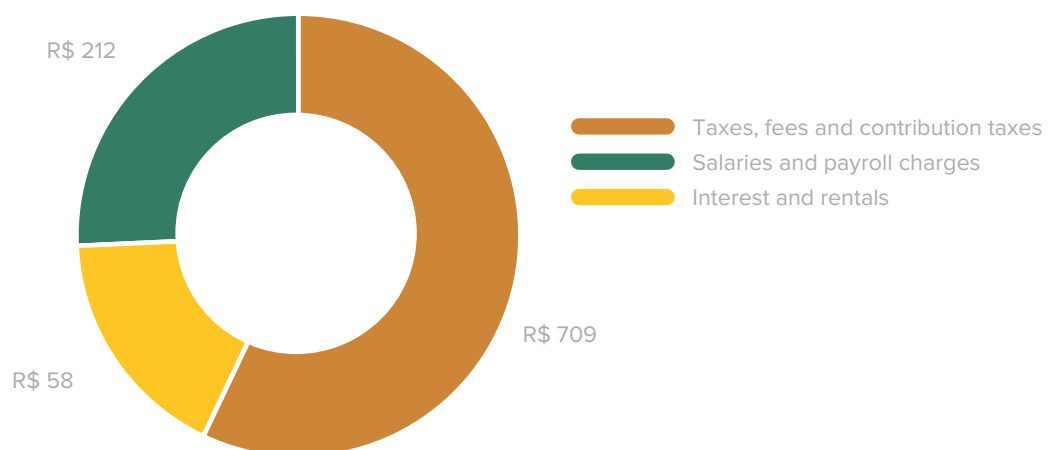
Specification (R\$ millions)	2010	2011	2012	2013	2014
Consolidated Net Revenue	3,192.1	4,098.4	4,025.8	5,548.6	4,734.4
Domestic Market	1,919.0	2,375.4	2,880.7	3,323.8	2,950.1
Overseas Market	1,237.1	1,722.9	1,145.1	2,224.8	1,749.6
COGS	-3,036.1	-4,005.1	-3,841.5	-5,153.8	-4,350.2
Cost of Metal	-2,529.1	-3,431.6	-3,361.5	-4,569.9	-3,797.6
Cost of Metal/COGS	83.3%	85.7%	87.5%	88.7%	87.30%
Gross Profit	156.0	93.3	184.3	394.9	384.2
Operating Expenses	-106.3	-111.1	-111.4	-144.2	-131.2
Other operating revenues/expenses, net	-25.0	-29.0	-282.7	-90.5	-126.4
Financial Revenue / Expenses, net	6.5	-43.8	-70.7	-163.4	21.7
Income and social contribution taxes	16.0	42.9	74.0	9.2	-24.4
Net Income (Loss)	47.5	-47.7	-206.5	5.9	123.9
Adjusted EBITDA	130.7	69.2	125.0	332.4	358.3
EBITDA margin	3.3%	1.0%	3.1%	6.0%	7.10%
Net Debt (cash)	308.4	-144.4	156.1	716.6	274.1
Investments	51.5	139.8	358.2	115.4	69.0

Operational indicators

THOUSAND (T)	2011	2012	2013	2014
Primary Copper Production	213.1	175.3	256.9	238.4
Copper Products Production	187.1	224.0	263.2	250.5
Own Consumption	154.5	155.5	153.9	183.6
Total	245.8	243.8	366.2	305.4
Primary Copper Sales	78.5	55.2	125.2	77.6
Sale of Copper Products	108.9	114.9	205.3	189.1
Total Sales	248.1	232.8	330.5	266.7

Note: Presentation changed in relation to the previous years so as to match the Company's financial statements.

Distribution of Value Added



Year 2014

This report represents Paranapanema's commitment to all its stakeholders, and is part of our constant process of transparency. It covers the period from January 1 to December 31, 2014.

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Credits

The Paranapanema Sustainability Report was produced from information collated with the participation of all areas of the Company.