



**NON-FINANCIAL REPORT  
OF KGHM POLSKA MIEDŹ S.A. AND THE  
KGHM POLSKA MIEDŹ S.A. GROUP  
FOR 2017**

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Instytut  
Rachunkowości  
i Podatków



## External auditor's opinion

### **To the Management Board of KGHM POLSKA MIEDŹ S.A.**

#### Description of the subject matter of the opinion

The formal basis for preparation of this opinion is provided by the Agreement between the Accounting and Tax Institute and KGHM Polska Miedź S.A. dated 9 February 2018 concluded for the Accounting and Tax Institute to perform the service of expert assessment and attestation of the methodological accuracy and integrity of preparation of the "Non-Financial Report of the KGHM Polska Miedź S.A. Group and Parent Entity" (hereinafter "KGHM Non-Financial Report").

The KGHM Non-Financial Report comprises qualitative and quantitative data for the period from 1 January 2017 to 31 December 2017 pertaining to the corporate social responsibility of the KGHM Polska Miedź S.A. Group and Parent Entity, understood as sustainable development of these organizational entities.

The KGHM Polska Miedź Management Board has prepared the report following the guidelines of the Directives of the European Parliament and of the Council (2014/95/EU and 2013/34/EU) and the Act of 15 December 2016 Amending the Accounting Act (Journal of Laws of 2017, Item 61; consolidated version: Journal of Laws of 2017 Item 2342) implementing them in Poland.

The KGHM Non-Financial Report comprises six key sections presenting the business model of the entities, their strategy, ethical foundations of its implementation and the actions regarding employee and human rights issues, social issues and natural environment issues. The descriptive contents presented in the report are based on the results of an analysis of the corporate social responsibility activities of the KGHM Polska Miedź S.A. Group and Parent Entity, the strategy developed on the basis of the Ten Principles of the UN Global Compact Initiative, and 17 sustainable development objectives of the UN Agenda 2030, corporate values of the KGHM Polska Miedź S.A. Group, and the best market

practices. The results and indicators section has been prepared using globally recognized non-financial reporting standards, relying on the methodology for corporate social responsibility reporting as published by the Global Reporting Initiative in version 4 (hereinafter GRI G4) and using the guidelines for conducting socially responsible business, presented in norm ISO26000 (Guidance on social responsibility), issued by the International Organization for Standardization.

#### Defining the Management Board's responsibilities

The auditor concludes that correct preparation of the Non-Financial Report subject to the assessment and attestation is the responsibility of the Management Board of the KGHM Polska Miedź S.A. Group and Parent Entity. The above responsibilities include selection, implementation and description of application of the: business model of socially responsible entities, key non-financial performance indicators associated with the operations of these entities, policies applied by the entities with regard to social, employee, natural environment, human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies. The level of the above responsibilities will be validated by constant compliance of globally executed sustainable development principles and objectives specified in the description of the subject matter of the opinion, and the GRI G4 and ISO26000 methodology.

#### Defining the auditor's responsibilities

The auditor's objective was to draw its own conclusions regarding the methods used for setting sustainable development objectives, indicators and policies for the KGHM Polska Miedź S.A. Group and Parent Entity and their operations presented in the KGHM Non-Financial Report in the descriptive form and confirmed by the figures and levels of selected GRI G4 indicators. For this purpose, the audit actions were used, based on the auditor's best knowledge and experience and due diligence. In addition, also the figures presented in the text and in the GRI G4 indicators were verified to determine the risk of material distortion of data and/or the method for determining them.

The audit was carried out using the (revised) standard ISAE 3000 (Assurance Engagements Other Than Audits or Reviews of Historical Financial Information).

#### Auditor activities performed

The activities performed by the auditor comprised the following five stages:

Stage 1. Assessment of the methodological accuracy of the selection by the KGHM Polska Miedź S.A. Group and Parent Entity of the following: the business model of socially responsible entities, key non-financial performance indicators associated with the operations of these entities, policies used by the

entities with regard to social, employee, natural environment, human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies and selection of the corporate social responsibility indicators in light of the GRI G4 reporting standards and ISO26000 and the uniqueness of the metals and mining industry.

Stage 2. Verification of the knowledge of the management staff on the business model used by the KGHM Polska Miedź S.A. Group and Parent Entity as socially responsible entities, key non-financial performance indicators associated with the operations of these entities, policies used by the entities with regard to social, employee, natural environment, human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies and selection of the corporate social responsibility indicators in light of the GRI G4 reporting standards and ISO26000 and the uniqueness of the metals and mining industry.

Stage 3. Assessment of the structure and effectiveness of the mechanisms used by the KGHM Polska Miedź S.A. Group and Parent Entity with regard to collection, processing and reporting of data for the key non-financial performance indicators associated with the operations of these entities, policies used by the entities with regard to social, employee, natural environment, human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies and the corporate social responsibility indicators in light of the GRI G4 reporting standards and ISO26000 and the uniqueness of the metals and mining industry.

Stage 4. Assessment of the structure and effectiveness of the key mechanisms for risk management and audit and internal control used by the KGHM Polska Miedź S.A. Group and Parent Entity with regard to collection, processing and reporting of data for the key non-financial performance indicators associated with the operations of these entities, policies used by the entities with regard to social, employee, natural environment, human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies and the corporate social responsibility indicators in light of the GRI G4 reporting standards and ISO26000 and the uniqueness of the metals and mining industry.

Stage 5. Verification of a sample of source documents for the non-financial indicators used by the KGHM Polska Miedź S.A. Group and Parent Entity, illustrating execution of the actions in the area of corporate social responsibility policies and procedures to define the risk of material distortion on the data presented in the KGHM Non-Financial Report and/or the method for determining them.

The auditor's activities have made it possible to obtain sufficient and adequate evidence to issue a positive conclusion for the Management Board of the KGHM Polska Miedź S.A. Group as presented below.

#### Auditor's conclusion

On the basis of the completed activities the auditor concludes that the "KGHM Polska Miedź S.A. Group and Parent Entity Non-Financial Report" has been prepared fully and correctly from a methodological perspective and following the rules of due diligence, and nothing has been identified in it which would indicate that the aforementioned provisions pertaining to the business model as socially responsible entities, key non-financial performance indicators associated with the operations of these entities, policies used by the entities with regard to social, employee, natural environment, human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies, fail to follow the guidelines of the Directives of the European Parliament and of the Council (2014/95/EU and 2013/34/EU) and the Act of 15 December 2016 Amending the Accounting Act (Journal of Laws of 2017, Item 61; consolidated version: Journal of Laws of 2017 Item 2342) implementing them in Poland. They are also consistent with the global corporate social responsibility standards and GRI G4 reporting standards and ISO26000, taking into account the uniqueness of the metals and mining industry.

#### Application of the conclusion

This opinion, particularly the resulting conclusion, has been prepared by the auditor representing the Tax and Accounting Institute, in accordance with the agreement with KGHM Polska Miedź S.A. concluded on 9 February 2018 only for the needs of the KGHM Polska Miedź S.A. Management Board and should not be used for any other purpose. The Accounting and Tax Institute does not assume in connection with this opinion any liability towards other persons than the KGHM Polska Miedź S.A. Management Board.



Paweł Bogacz, PhD (AGH University of Science and Technology in Cracow)

Accounting and Tax Institute auditor

Warsaw, 28 February 2018

## ABOUT THIS REPORT

This 2017 Non-Financial Report contains data and measures pertaining to the KGHM Polska Miedź S.A. Group and KGHM Polska Miedź S.A. (hereinafter referred to as the Parent Entity). The financial statements have been prepared in accordance with the guidance set forth in directives of the European Parliament and the Council (2014/95/EU and 2013/34/EU) and the amended Accounting Act with respect to the disclosure of non-financial information. Non-financial reporting is based on the baseline (core) level of version G4 of the Global Reporting Initiative (GRI) guidelines.

The reporting process in the KGHM Group and the Parent Entity is carried out on an annual basis. In 2017, there have been no significant changes in the structure, ownership or value chain that would affect the business model and the strategy.

In the process of preparing the Report, the documents, policies, due diligence procedures, risk management principles and other information materials related to the activities of the KGHM Group and the Parent Entity and the mining and smelting industry in general.

This Report was prepared for the first time as a supplementary and mandatory Non-Financial Report, attached to the published financial statements of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group for the year 2017. This document has been externally verified.

In addition, in line with its practice to date, KGHM Polska Miedź S.A. will publish its 2017 Integrated Report in June 2018.

### REPORTING METHODOLOGY

The wording of the Non-Financial Report was prepared in five stages:

**Stage 1.** Confirmation of applicability and importance of key business and sustainable development issues that are relevant for the KGHM Group and the Parent Entity in order to prepare a description of the business model.

**Stage 2.** Confirmation of the map of stakeholders in order to describe relations with the environment.

**Stage 3.** Collection of data depicting the implementation of policies, strategies and sustainable development objectives as well as due diligence and risk management principles and their application in the KGHM Group and the Parent Entity in 2017.



**Stage 4.** Summary of the 2017 Non-Financial Report of the KGHM Group and the Parent Entity based on the collected data in accordance with the Accounting Act of 15 December 2016 (Journal of Laws of 2017, item 61).

**Stage 5.** External audit assessing the correctness of the data and content included in the 2017 Non-Financial Report.

## 1. ON THE GROUP

### 1.1. DESCRIPTION OF THE BUSINESS ACTIVITY OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The KGHM Group numbers more than 70 entities. It has more than 33 thousand employees. The cohesion of such a complex organization is built on a set of common values - **zero harm, teamwork, results driven, accountability and courage**. These values have guided the company for nearly 60 years, setting out the direction of its development and the manner of its operation on the international market.

The KGHM Group is involved in the following lines of business:

- mining of copper ores and non-ferrous metal ores
- production of metals, among others copper, nickel, gold, platinum, palladium,
- manufacturing of goods from copper and precious metals,
- underground construction services,
- manufacturing of mining machinery and equipment,
- transportation services,
- research, analysis and design services,
- production of road construction aggregate,
- recovery of metals accompanying copper ore,
- recycling.

The activity of the KGHM Group with respect to the exploration and mining of copper and nickel ore and precious metals deposits is based on the concessions held by KGHM Polska Miedź S.A. for the mining of deposits in Poland and the legal titles held by companies of the KGHM INTERNATIONAL LTD. Group for the exploration and extraction of commodities in the USA, Canada and Chile.

KGHM Polska Miedź S.A. with its registered head office in Lubin at ul. M. Skłodowskiej-Curie 48 is a joint-stock company registered in the District Court for Wrocław Fabryczna, 9th Business Division of the National Court Register, KRS no. 23302, in the Republic of Poland.

KGHM Polska Miedź S.A. is a multi-divisional company, comprised of the Head Office and 10 Divisions: 3 Mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 metallurgical facilities (Głogów Copper Smelter and Refinery, Legnica Copper Smelter and Refinery, Cedynia Wire Rod Plant), Ore Processing Plants, a Tailings Division, a Mine-Smelter Emergency Rescue Division and a Data Center.

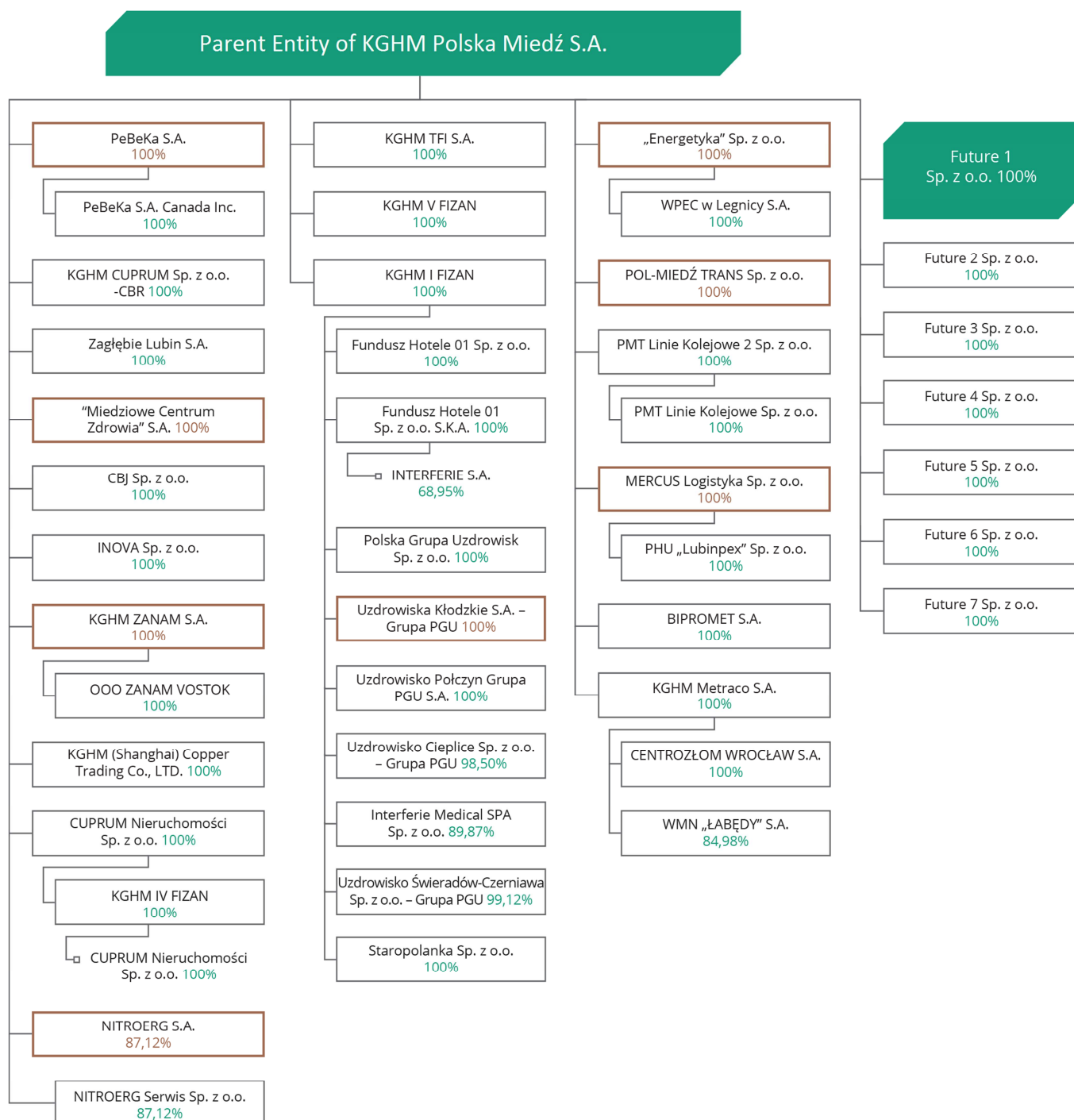
KGHM Polska Miedź S.A.'s shares have been listed on the Warsaw Stock Exchange since 1997.

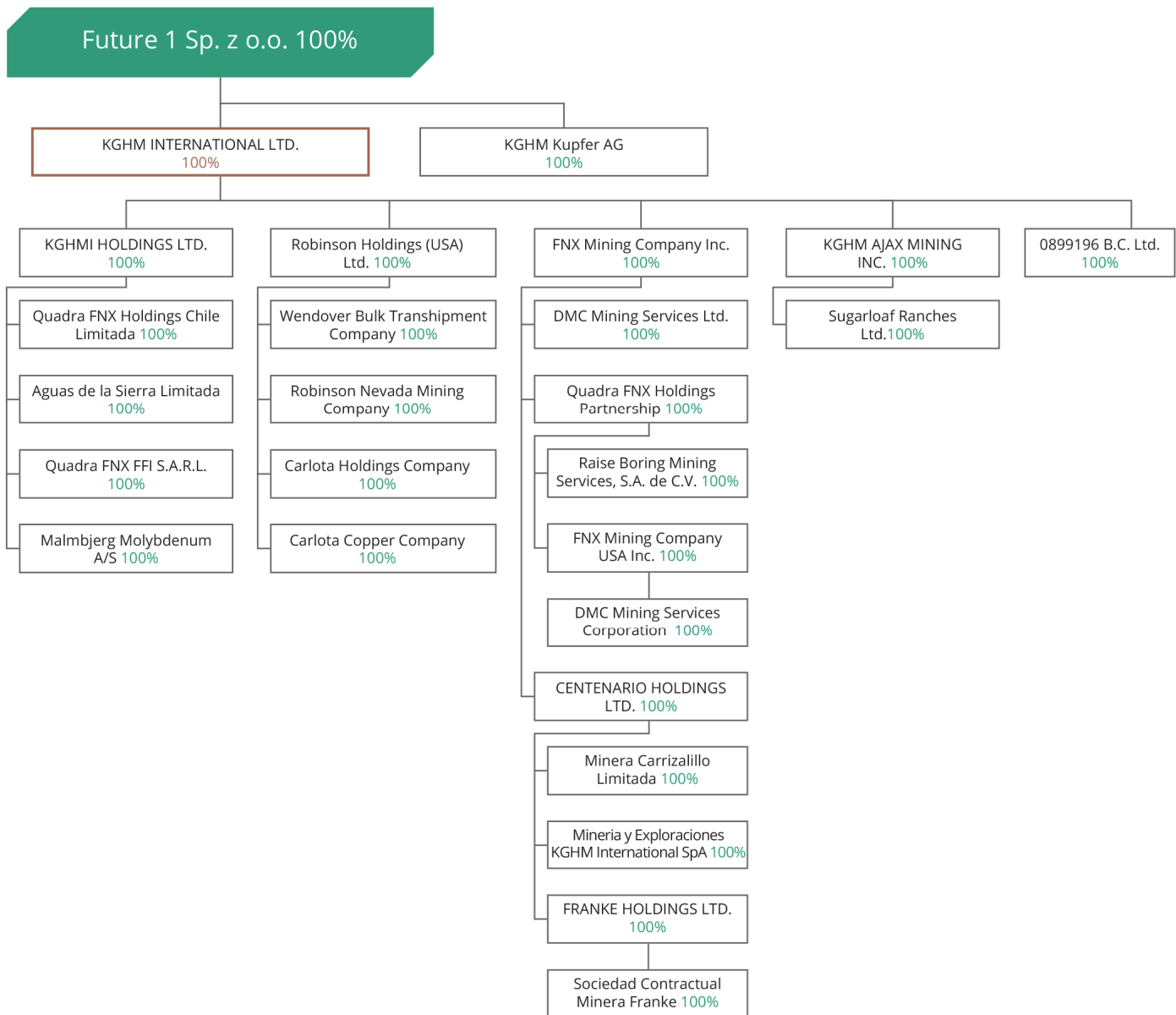
The Company's core line of business is as follows:

- mining of copper ores and non-ferrous metal ores,
- production of copper, precious and non-ferrous metals.

## 1.2. ORGANIZATIONAL STRUCTURE OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The organizational structure of the KGHM Polska Miedź S.A. Group including the position of its Parent Entity and its ownership interests in the various companies:





Core segments of the KGHM Polska Miedź S.A. Group:



### 1.3. KGHM GROUP COMPANIES INCLUDED IN THE 2017 REPORTING ACCORDING TO THE EUROPEAN PARLIAMENT DIRECTIVE 2014/95/EU

Key subsidiaries of the Parent Entity covered by the reporting obligation under Directive 2014/95/EU amending Directive 2013/34/EU with regard to non-financial disclosures:

**KGHM ZANAM S.A.** is one of the largest manufacturers of machinery and equipment for the mining sector in Poland. The company also manufactures equipment used in transloading systems, transport units, and in open pit and underground mines. It is also a significant manufacturer of steel and cast iron castings.

- The total carrying amount in 2017 was PLN 459 073 824,94
- Net sales revenue: PLN 785 855 292,85
- Headcount: 2 548 employees

For more information: <http://www.kghmzanam.com/>

**PEBEKA S.A.** has been executing construction projects all over the world for more than 55 years, specializing in mining, drilling, tunneling and infrastructural projects:

- The total carrying amount in 2017 was PLN 544 626 711,31
- Net sales revenue: PLN 525 788 309,94
- Headcount: 1 884 employees

For more information: <http://www.pebeka.com.pl/>

**“MIEDZIOWE CENTRUM ZDROWIA” S.A.** is a business providing a broad range of medical care services. Its assets include a hospital in Lubin with a full diagnostic base: a Laboratory Diagnostics Department and an Imaging Diagnostics Department. Lubin is also home to the General Outpatient Clinic, the Specialist Medicine Clinic and the Copper Rehabilitation Centre.

The structures of “MCZ” S.A. also include the Copper Occupational Medicine Center and the Copper Center for Psychology Research, offering comprehensive medical care to employees from the Copper Basin area.

- The total carrying amount in 2017 was PLN 122 834 292,80
- Net sales revenue: PLN 165 798 264,99
- Headcount: 759 employees

For more information: <http://www.mcz.pl/>

**„ENERGETYKA” SP. Z O. O.** is one of the largest heat providing companies in the Lower Silesia region. The company produces, transmits and distributes heat and electricity. It produces and distributes drinking and industrial water, purifies sewage, neutralizes waste, trades in petroleum products and cultivates energy crops, which are renewable fuels for the production of heat and electricity.

- The total carrying amount in 2017 was PLN 777 814 044,15
- Net sales revenue: PLN 533 164 912,15
- Headcount: 839 employees

**For more information:** <http://www.energetyka.lubin.pl/pl/>

**UZDROWISKA KŁODZKIE S.A. - PGU GROUP**, is the largest spa complex in Poland. It operates in three very popular health resorts with many centuries of spa tradition: Polanica-Zdrój, Duszniki-Zdrój and Kudowa-Zdrój.

The company's offering includes, among others, a wide range of natural treatment procedures and recreational services, healing, spa and hotel stays, prevention and rehabilitation programs, accommodation and conference facilities and natural mineral water sources. Uzdrowiska Kłodzkie S.A. – the PGU Group – offers health resort treatment services, i.e. spa hospitals for adults and children, sanatoriums, outpatient treatment, hospital or sanatorium style rehabilitation, providing these services in its own hospitals, sanatoriums, ambulatory care departments and outpatient clinics.

- The total carrying amount in 2017 was PLN 137 541 066,95
- Net sales revenue: PLN 100 571 062,78
- Headcount: 571 employees

**For more information:** <http://www.zuk-sa.pl/>

**NITROERG S.A.** is a company continuing a tradition of more than 140 years. Offering two basic products, explosives and initiation systems and a diesel oil additive 2-EHN (NITROCET 50). The Company's production activity takes place in two plants, located in Krupski Młyn – production of nitroglycerin and ammonium nitrate explosives, electric detonators, a non-electrical initiation system, shock tube detonators, detonating cords, NITROCET 50 fuel additive, and in Bieruń – production of emulsion, nitroglycerin and ammonium nitrate explosives, a non-electric initiation system and electric detonators.

- The total carrying amount in 2017 was PLN 333 605 955,49
- Net sales revenue: PLN 322 673 130,86
- Headcount: 1 014 employees

- **For more information:** <http://www.nitroerg.pl/>

**POL-MIEDŹ TRANS SP. Z O.O.** is mainly engaged in the transport of goods and passengers by rail and the maintenance of rolling stock, and acts as an entity in charge of the maintenance of wagons (ECM).

- The total carrying amount in 2017 was PLN 264 310 893,14
- Net sales revenue: PLN 188 262 526,55
- Headcount: 729 employees

**For more information:** <http://www.pmtrans.pl/>

**MERCUS LOGISTYKA SP. Z O.O.** has been operating as a logistics operator of KGHM Polska Miedź S.A. and KGHM Group companies for over 25 years now. It is engaged in sales of materials, goods and services traded with the KGHM Group to the external market, manufactures electric cables and wiring for manufacturers in the power, high technology and biotechnology sectors and hydraulic lines for mining machinery, among others; it is also an experienced passenger carrier in domestic and foreign traffic.

- The total carrying amount in 2017 was PLN 273 735 161,66
- Net sales revenue: PLN 997 929 539,24
- Headcount: 762 employees

**For more information:** <http://www.mercus.com.pl/>

**KGHM INTERNATIONAL GROUP** is a Canadian-based mining company engaged in the production of nickel, platinum, palladium, gold, cobalt and molybdenum. These commodities are extracted from deposits in the United States, Chile and Canada.

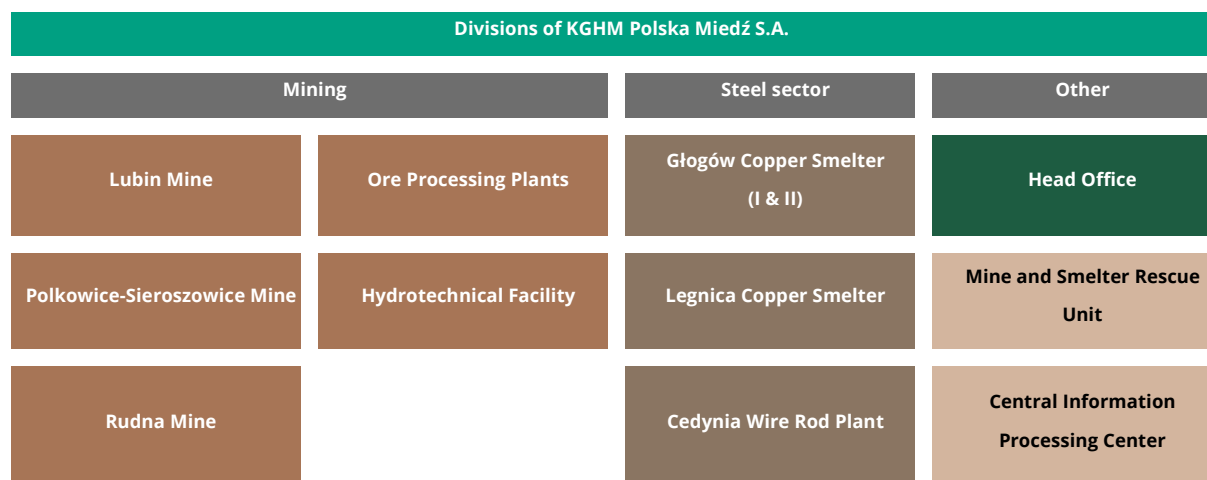
- The total carrying amount in 2017 was PLN 7 807 372 390,29
- Net sales revenue: PLN 2 602 291 168,95
- Headcount: 1 862 employees

**For more information:** <http://www.kghm.com/>

## 1.4. ORGANIZATIONAL STRUCTURE OF KGHM POLSKA MIEDŹ S.A.

In 2017, the multi-divisional company operating under the business name of KGHM Polska Miedź S.A., the Parent Entity of the KGHM Polska Miedź S.A. Group, consisted of the Head Office and 10 Divisions.

### Organizational structure of KGHM Polska Miedź S.A.



### Major assets

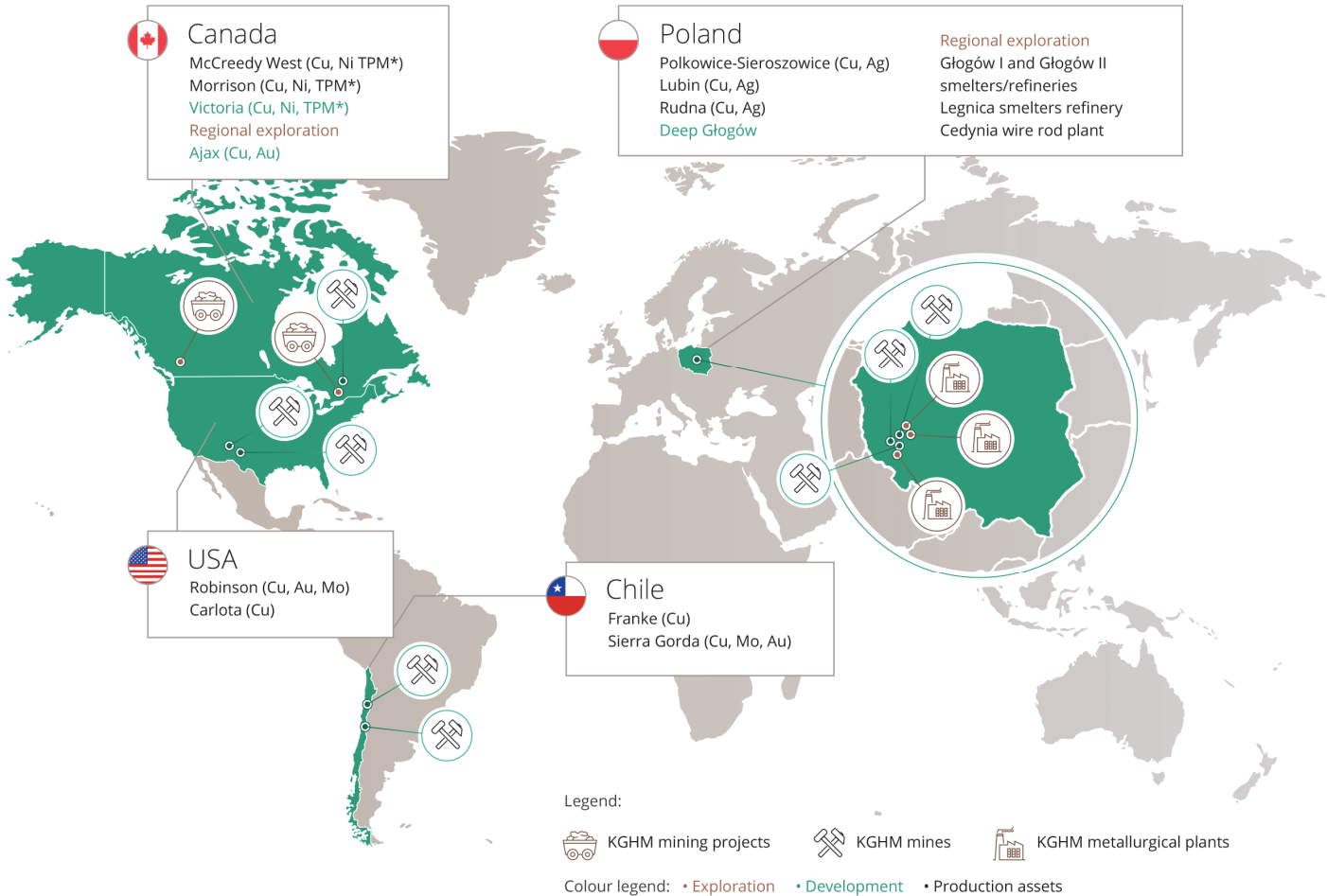
KGHM Polska Miedź S.A. is a leading producer of copper and silver, with 60 years of experience in the copper ore mining and processing industry. In Poland, KGHM Polska Miedź S.A. runs mining operations in one of the world's largest copper deposits, with 1.6 billion tonnes of documented geological resources of ore with an average Cu content of 1.87% and an average Ag content of 54 g/t, ensuring the continuity of production in Poland for the next several decades. The Company holds 7 copper ore mining concessions valid until 2054-63. KGHM Polska Miedź S.A. is also a producer of silver, gold, molybdenum, lead and rock salt. It ranks among the country's leading exporters and largest companies.

Major production assets and projects of the mining industry are illustrated in the following diagram (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD and Sierra Gorda S.C.M.).

KGHM Polska Miedź S.A. as the Parent Entity and its several dozen subsidiaries located on three continents – Europe, North America and South America – make up the KGHM Polska Miedź S.A. Group.

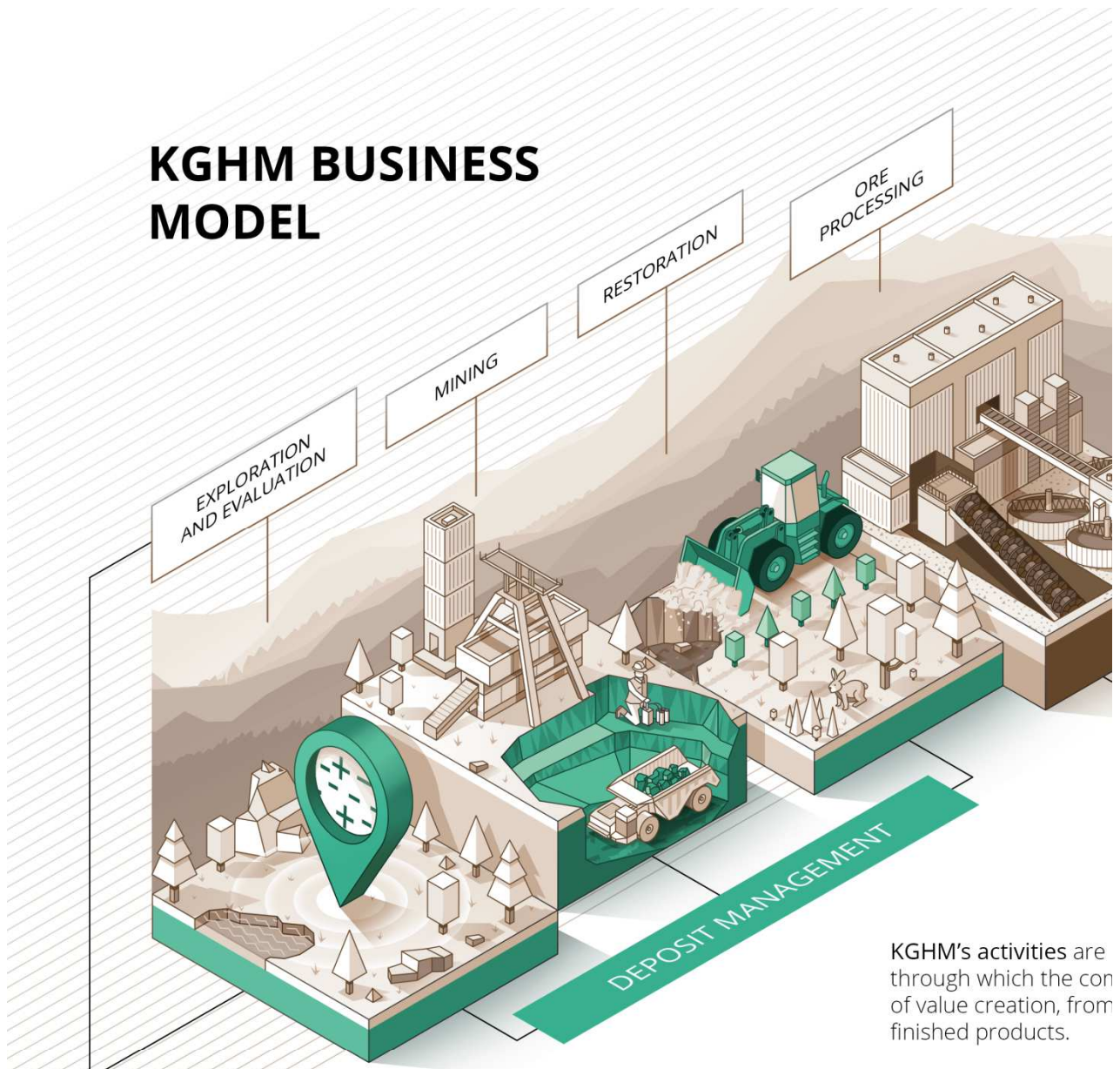


**Global activity of KGHM Polska Miedź S.A.**



1.5. BUSINESS MODEL

# KGHM BUSINESS MODEL



KGHM's activities are through which the con of value creation, from finished products.



**KGHM ZANAM S.A.**  
Produces mining machinery and equipment.



**PeBeKa S.A.**  
Investments in mining, drilling and tunnelling projects as well as infrastructure around the world.



**"Miedziove Centrum Zdrowia" S.A.**  
A company providing a broad range of medical services.

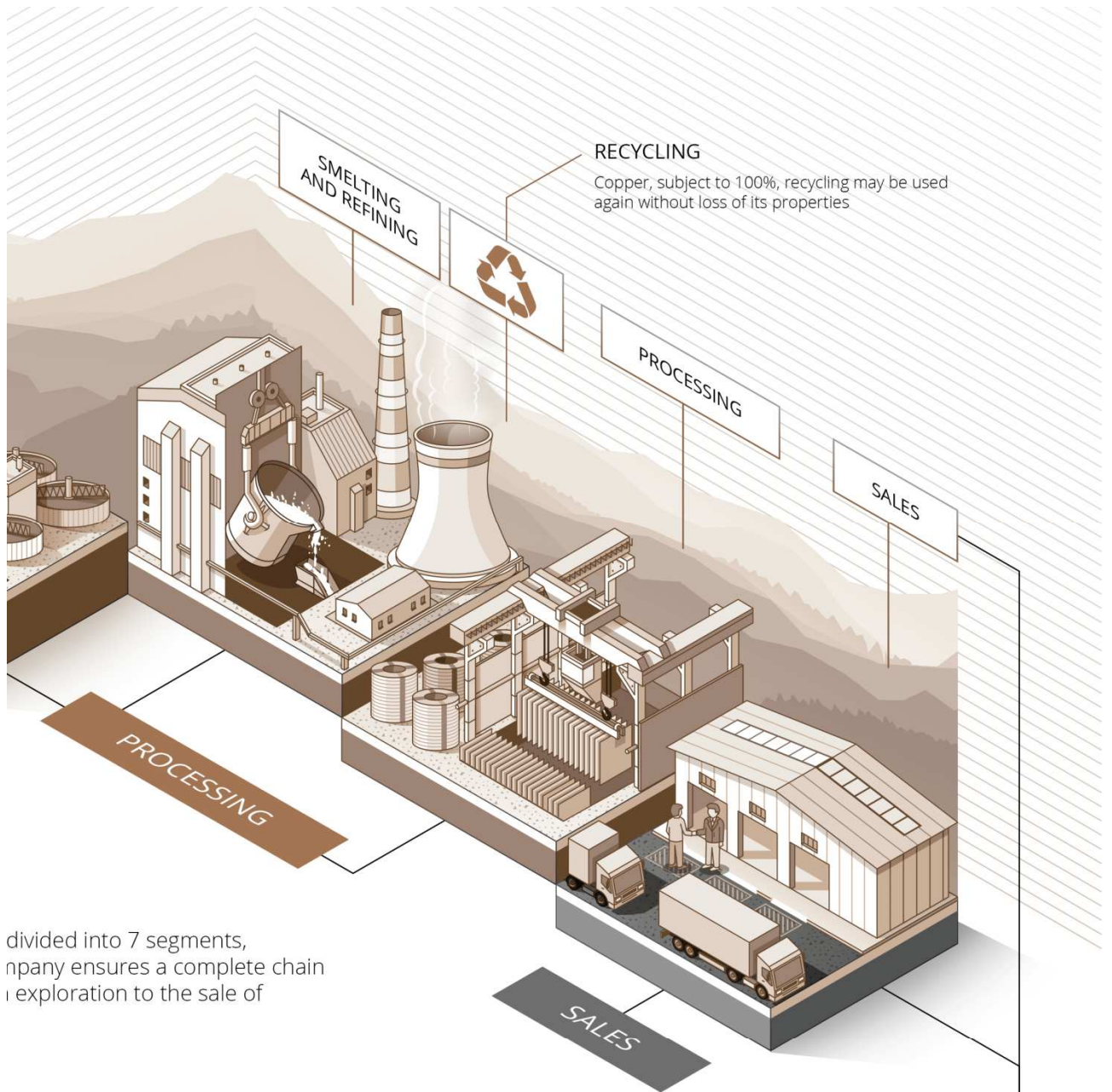


**„Energetyka” Sp. z o. o.**  
One of the largest providers of heating in Lower Silesia.

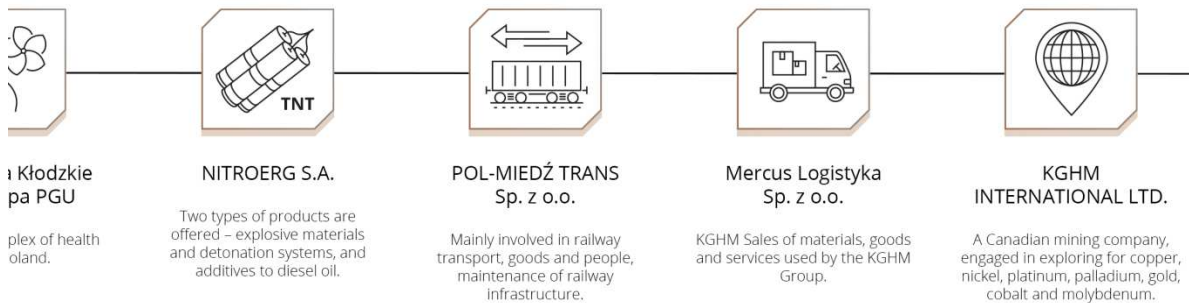


**Uzdrowiska S.A. - Gru**  
The largest com spas in P

Source: KGHM



divided into 7 segments,  
 company ensures a complete chain  
 from exploration to the sale of



## 1.6. CODE OF THE KGHM GROUP

In order to ensure the optimal model for managing and supervising the KGHM Group's business processes, particularly in the context of its rapid development in recent years, the process of establishing a new corporate governance system, relying on systemic legal and corporate solutions, was carried out. The project was triggered by the need to have a set of formal and legal regulations governing the principles of cooperation within the KGHM Polska Miedź S.A. Group.

On 7 December 2017, the **Code of the KGHM Group** came into force.

Following are some of the benefits arising from the Code:

- Outlining the legal basis for a joint strategy of all members of the KGHM Group, making it possible to base the strategy of each subsidiary on the Strategy of KGHM Polska Miedź S.A. and forcing the requirement to maintain consistency.
- Harmonizing the Group's interest with that of each company.
- Streamlining management in individual business areas.
- Integrating the KGHM Group's operating rules, e.g. in terms of information transfer, reporting, etc.
- Ensuring effective monitoring of key business decisions made by each company.
- Ensuring the implementation of unified standards in the companies.
- Elevating the level of security of the activities carried out by corporate authorities.

## 1.7. COMPETITIVE ADVANTAGES OF THE KGHM GROUP

The scope of our business; the unique comprehensiveness, on a global scale, of our mining and processing operations; our pursuit of innovation and maintenance of financial stability; and our extensive in-depth experience, allow us to market products that satisfy the expectations of even the most demanding customers of metals, machinery and equipment, materials and services.

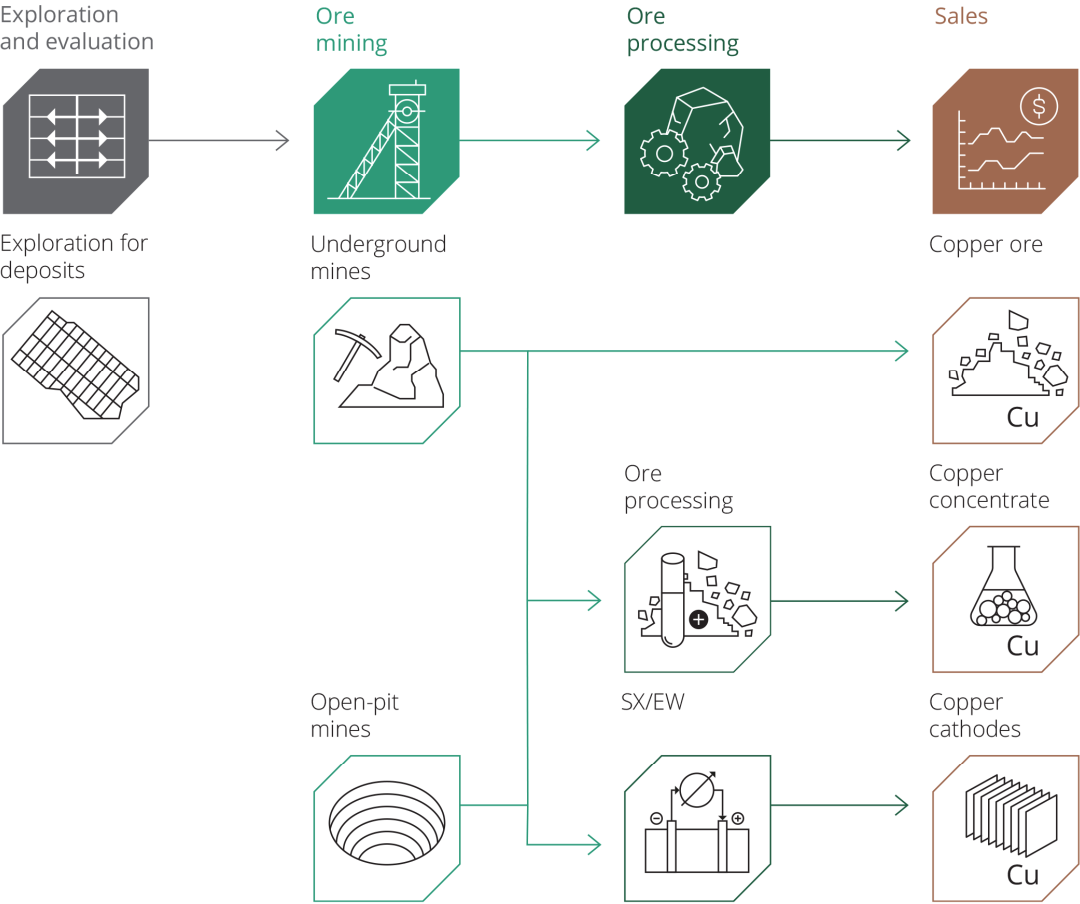
Competitive advantages of the KGHM Polska Miedź S.A. Group



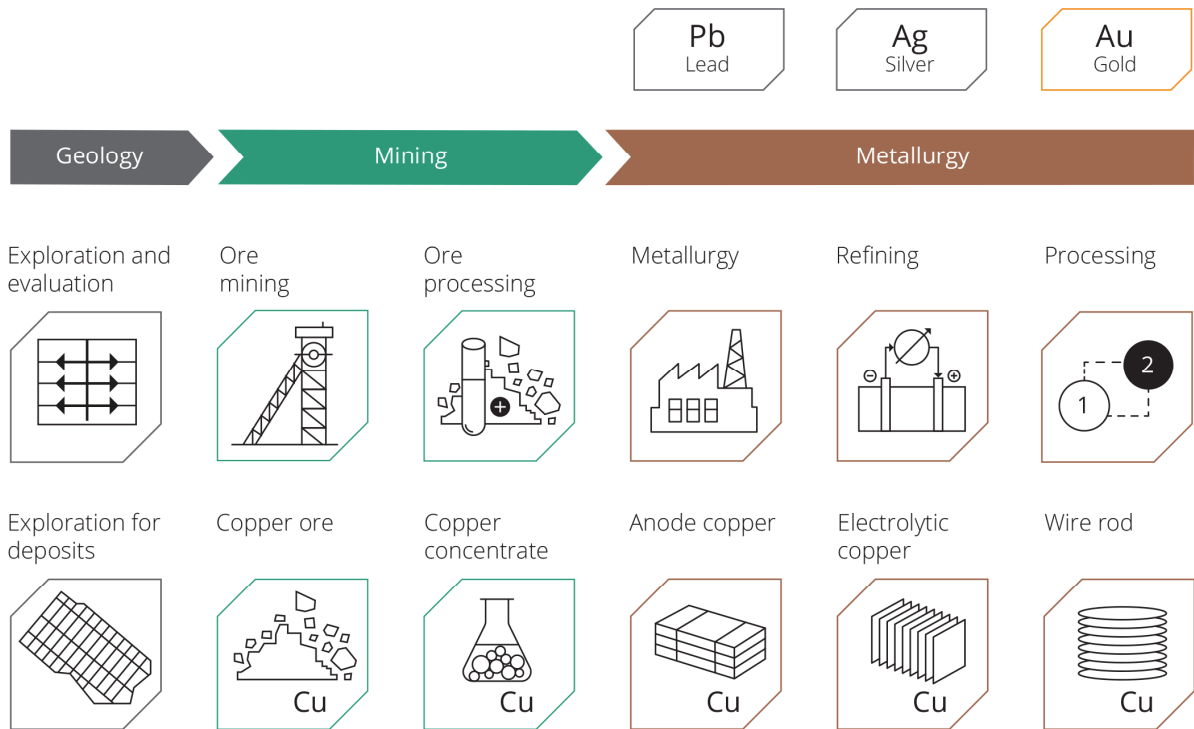
**Integrated process – from mining to sales**

In the KGHM Group, production and production-related processes are executed in accordance with the following two models:

**Simplified model of the core business in the KGHM INTERNATIONAL LTD. Group**



## Integrated geological, mining and smelting operations at KGHM Polska Miedź S.A.



The core business of the members of the KGHM INTERNATIONAL LTD. Group is the mining of metals, including copper, molybdenum, nickel, gold, platinum and palladium, carried out in both open-pit and underground mines, and the exploration for and evaluation of mining projects.

Production at KGHM Polska Miedź S.A. is a fully integrated process whereby the end product of one technological phase forms the input (intermediate product) for the subsequent phase of production. Mining operations at KGHM Polska Miedź S.A. are performed by three Mining Divisions: Lubin Mine, Rudna Mine and Polkowice-Sieroszowice Mine.

In the next phase, the Concentrators Division prepares concentrate for the smelters, and the Tailings Division is in charge of the storage and management of waste created as a result of copper ore processing. Within KGHM's organizational structure, there are three Metallurgical Divisions: Legnica Copper Smelter and Refinery, Głogów (1 and 2) Copper Smelter and Refinery and Cedynia (Wire Rod Plant).

## Global reach of its operations

In the 21<sup>st</sup> century KGHM has become a global miner active on three continents. On the one hand, the large scale of the operations substantially reduces the risk of disruptions in the continuity and quality of production, while on the other hand, it facilitates a continual transfer of knowledge and experience between its various units. Its mobility policy enables it to post the most prominent experts wherever their expert knowledge is needed to derive business benefits. That also leads to the diversification and enlargement of its product portfolio.

## Unique abilities and skills

During the 60 years of our history, we have gained experience, knowledge and skills that have enabled us to transform our business from a local mining company into an international Group acting as a major player in the global market for non-ferrous metals. Our skills are and will be used in the future as one of the fundamental assets for winning a competitive edge in the industry and for building a strong position for Poland as an industrial center. Also unique is the KGHM Group's complete business chain: from the exploration of deposits, accessing them, mining, manufacturing mining machinery and explosives, processing, smelting and refining and sales to recycling, all the while keeping in mind during the execution of these processes the principles of sustainable development and corporate social responsibility.

## Financial Stability as a Pillar underpinning Business Strategy

Securing financial stability supports growth and efficiency and ensures the ability to weather challenging markets. Our strategy is correlated with the financial safety of the KGHM Polska Miedź S.A. Group.

## Innovation

Innovation is one of the competitive advantages of the KGHM Group. We work on innovative solutions at various business levels, drawing on cooperation with independent entities while appreciating the potential and ingenuity of our own employees. They are the most familiar with our specific needs and are able to identify areas and solutions that will translate into better results and greater safety. We wish to base our development on increasingly more efficient use of our resources with an awareness of their scarcity and unique nature.



We believe that the creation of change and innovation should be an everyday practice of each employee.

We know that the KGHM Group's success currently hinges on the innovation, commitment and collaboration of many thousands of employees representing diverse knowledge and experience. The identification of in-house talent and the creation of individual development paths aligned to the organization's potential and needs are the key to our future development.

#### **1.8. KEY NON-FINANCIAL INDICATORS, IDENTIFIED AND REPORTED IN ACCORDANCE WITH THE CONCEPT OF SUSTAINABLE DEVELOPMENT IN KGHM POLSKA MIEDŹ S.A.**

In pursuit of the Company's vision defined in the KGHM Polska Miedź S.A. 2017-2021 Strategy, which envisages the efficient use of its resources in order to become a leader in sustainable development, a dedicated team of experts has been appointed, composed of representatives of those areas of the organization which are of key importance for the idea of sustainable development, including development, resource management, production, environment, society, safety and economics. This team's task was to develop a sustainable development concept and management model for KGHM Polska Miedź S.A.

Another one of its tasks was to devise a set of measures to reflect the ongoing and future operations of the Company based on sustainable development. Relying on its long-term expert business experience, and having carried out a multi-dimensional comparative analysis of the world's largest commodity producers, the team was able to identify five areas for measurement, which are of key importance for achieving sustainable development in the industry in which the Company operates. They include resource efficiency, society, environment, safety and economics. Given that the "economics" area is directly related to strictly financial issues, this Report will focus on the remaining four areas of non-financial indicators of sustainable development in KGHM Polska Miedź S.A., which we will henceforth consider key indicators. They will be reflected in the operations of the Company as an enterprise following the path of sustainable development.

The following key non-financial indicators have been identified in the areas mentioned above:

Key non-financial indicators of KGHM Polska Miedź S.A. identified and reported in accordance with the sustainable development concept:

	2016	2017
<b>Environment</b>		
SO <sub>2</sub> /Mg Cu <sub>el</sub> emission ratio at the level of 0.008	0.006	0.002
Dust/Mg Cu <sub>el</sub> emission ratio at the level of 0.0001	0.001	0.001
CO/Mg Cu <sub>el</sub> emission ratio at the level of 3.0	3.7	2.6
<b>Society</b>		
Maintaining membership in the RESPECT Index	YES *	YES <sup>1</sup>
0% investment activity without a social dialogue policy	no data	YES <sup>2</sup>
Conclusion and maintaining of long-term contracts; achievement of a proper sales structure ensuring long-term relations with customers	no data	YES <sup>3</sup>
Sponsorship and charitable activities in building corporate social responsibility [sponsorship expenses for the purposes of the Company's promotion and regional support, i.e. sports/culture/science]	PLN 26.6 million	PLN 25.8 million
<b>Resource efficiency</b>		
Maintaining the term of resource self-sufficiency until 2055 or later	no data	Info <sup>4</sup>
Ore extraction (wet weight) per mine employee [tonne]	2,712	2,641
Production of electrolytic Cu per Company employee / and per metallurgical employee [tonnes]	29 / 152	29 / 148
Maintaining Cu yields (goal in 2017: no less than in 2016) [%]	98.18	98.23
Safety <b>LTIRF</b> <sub>KGHM</sub> (Lost Time Injury Frequency Rate KGHM)	12.65	10.4

1. Since 2009 KGHM Polska Miedź S.A. has been one of the companies listed on the Warsaw Stock Exchange comprising the Respect Index, which testifies to the application of the highest standards of social responsibility, ethical principles, best practices and internal regulations.

2. The Company observes the "license to operate" principle regulating such activities. Ultimately, they will be formally spelled out in the Social Dialogue Policy. In this context, investment activities mean projects to which the Company has no legal title, such as a construction permit, etc.

3. In order to foster good, long-term relations with customers and achieve the status of preferred supplier in 2017, over 80% of copper sales and over 70% of silver sales took place in the framework of long-term contracts (i.e. longer than 6 months);

Sales were geographically diversified, relative to the location of demand for Cu and Ag produced by KGHM (Company's Cu and Ag sales revenue split in 2017):

<b>Country</b>	<b>Percentage [%]</b>
Poland	26
China	13
Germany	13
United Kingdom	11
Czechia	8
Other countries	28
<b>TOTAL</b>	<b>100</b>

4. The measure for 2017 will be available at the end of February 2018. Under this methodology, it is not possible to calculate this measure. This deadline is prescribed by the Geological and Mining Law. The measure will be stated in the 2017 integrated report.

The Sustainable Development Council, established in KGHM Polska Miedź S.A. on 31 January 2018, will validate and verify the justification of disclosing the individual sustainable development measures in the Company's reports.

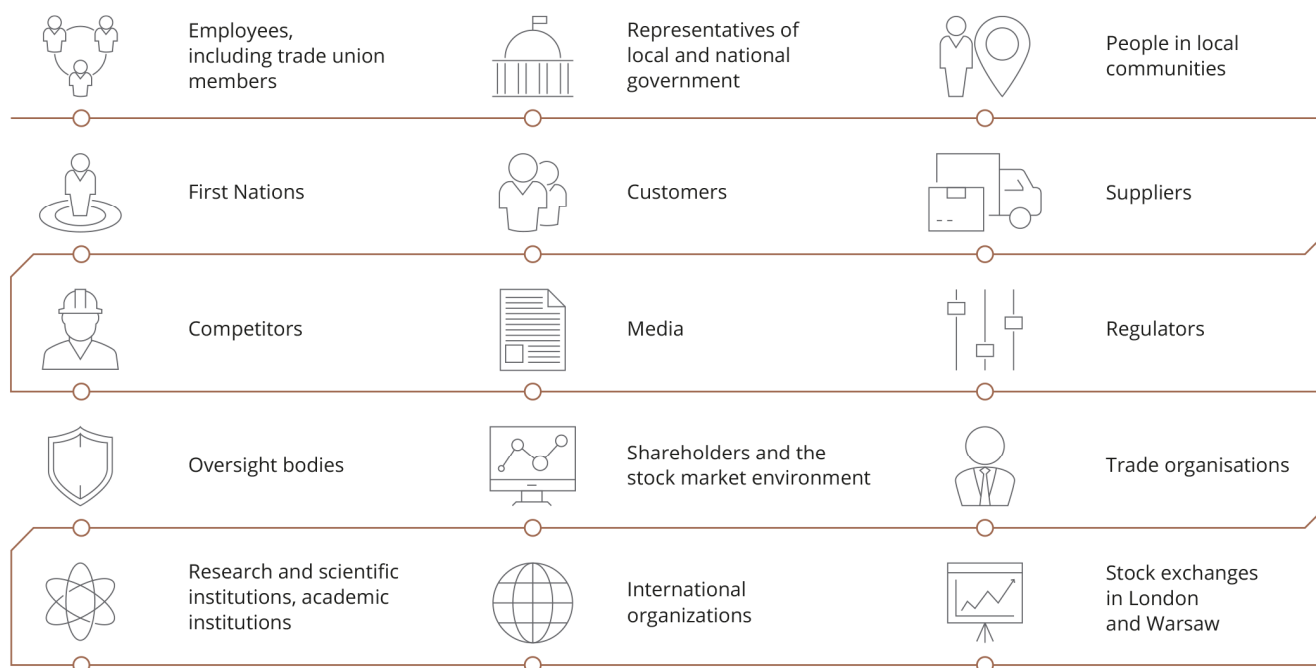
The Sustainable Development Council's key objective stems from our business development vision of operating according to accepted standards and canons shaping the future functioning of commodity companies across the world, as well as the need for internal information integrity and coherence in the Company's operations. The Council's primary goal will be to ensure transparent communications and creation of an open forum for knowledge sharing and promotion of activities reflecting the idea of sustainable development. The Council's activities will complement the vision incorporated in the business strategy of KGHM Polska Miedź S.A., which means that the results of its work will support the strategic directions of the Company's development. Furthermore, the Council will serve as a kind of sustainable development incubator, as well as promote commodity industry standards accepted in Poland and across the world.

## 1.9. THE KGHM GROUP'S KEY STAKEHOLDERS

Good relationships with stakeholders, based on mutual understanding and trust, are of crucial importance to the KGHM Group as an organization exerting a significant impact on its economic, social and natural environment, of which it is fully aware and for which it is prepared to accept full responsibility. Cooperation – one of the company's values – is the basis for its success in business and social activity. The Group builds relationships with stakeholders based on partnership and complete transparency, with an awareness of their importance in its long-term strategy and sustainable approach to business. The basis of this process is dialogue geared towards learning about mutual expectations and capabilities and implementing agreements.

In 2016, a process to identify and map the KGHM Polska Miedź S.A. Group's Stakeholders was conducted. Its first stage was to distinguish Stakeholder groups. This was accomplished using a survey filled in by senior management from the individual companies forming the Group representing various scopes of business. During the second stage of this process involving a validation workshop, these same respondents assessed the degree of interest and orientation: demonstrated by Stakeholders to the organization and by the organization to Stakeholders. Their assessments made it possible to specify four Stakeholder groups. The key Stakeholders, forming the KGHM Group's most influential and interesting Stakeholders, are one of them.

## Key Stakeholders in the KGHM Polska Miedź S.A. Group:



KGHM Polska Miedź S.A.'s Business Strategy for 2017-2021, newly adopted in May 2017, incorporates the objective of utilizing its competitive advantages to the fullest while taking account of full cooperation with its stakeholders.

## 2. STRATEGY

In all we do, we are guided by values we consider to be essential. KGHM's values inform the decisions we take at every level of the organization and justify directions of change and improvements. Furthermore, our values underpin our integrity and clear vision of the future.

### 2.1. KGHM POLSKA MIEDŹ S.A.'S BUSINESS STRATEGY FOR 2017-2021

The primary objectives of the Business Strategy for 2017-2021 with an outlook to 2040 are to generate an EBITDA of PLN 7 billion in 2021 and an EBITDA margin for the Group of over 20% on average; total Group investment and capital expenditure of PLN 15 billion with stable production and costs ensuring the Company's financial security.

The strategy adopted in May 2017 is the Company's response to the new realities on the commodity markets. The Company's activities will be geared mainly towards projects linked to its core business,

while concurrently reducing expenditures on projects generating the lowest returns and divestment of assets not linked to the Company's core business. The Strategy's primary objective will be achieved through 6 key pillars, i.e. three executory strategies and three supporting strategies, including its Corporate Social Responsibility Strategy, thereby confirming its previous targets and objectives.

**KGHM Polska Miedź S.A.'s Strategy**

EBIDTA at the level of PLN 7 billion in 2021 and the EBITDA margin of the Group exceeding 20% in the years 2017 – 2021

EXECUTORY STRATEGIES:



SUPPORT STRATEGIES:



**The Main Pillars forming KGHM Polska Miedź S.A.'s strategy**

**Production and Safety**

Average annual production volume (copper in ore) in Poland at the level of approx. 470 thousand tonnes of copper at a C1 cost of approx. 3 800 USD/t and annual production abroad of approx. 145 thousand tonnes of payable Cu at an annual C1 cost of less than 4 000 USD/t in the period 2017-2021.

**Coherent Organization**

Implement system-based solutions designed to increase the value of the KGHM Polska Miedź S.A. Group.

**Development of Domestic and Foreign Assets**

Efficient management of investments and resource projects.

**Corporate Social Responsibility**

Strengthen the image of the KGHM Polska Miedź S.A. Group.

**Financial Stability**

Ensure financial stability, support development and efficiency, and ensure resilience to difficult market conditions.

**Innovation**

Improve productivity in the KGHM Polska Miedź S.A. Group.

**Executory strategies**

**Development of Domestic and Foreign Assets** – whose aim is to manage investments and resource projects effectively. Equity and capital expenditures in the KGHM Polska Miedź S.A. Group for 2017-2021 have been planned at the level of PLN 15 billion, of which more than PLN 9.7 billion in KGHM Polska Miedź S.A. alone.

**Production and Safety** – in 2017-2021 the plan is to achieve an average annual Cu production volume (Cu ore yield) of about 470 thousand tonnes in Poland and average annual production of payable Cu abroad at the level of 145 thousand tonnes. One of the main priorities is to ensure a broad scope of safety in work, environment and energy.

**Coherent Organization** – the aim is to implement system-based solutions designed to increase the value of the KGHM Polska Miedź S.A. Group by devising tailor-made organizational processes, with a view to improving the efficiency and effectiveness of the supply chain.

### Supporting strategies

**Corporate Social Responsibility** – activities to further enhance the positive image of the KGHM Polska Miedź S.A. Group and development of proper relations with the community (stakeholders).

Corporate Social Responsibility Strategy is available on our website at <http://kgm.com/en/sustainable-development/strategic-approach>

**Innovation** – orientation towards productivity growth and achievement in the KGHM Polska Miedź S.A. Group of intensive development in microeconomic terms. Innovation allows us to maintain the long-term economic effectiveness of the Group's business activity.

**Financial Stability** – planned solutions to ensure financial stability, support development and effectiveness and increase resilience to adverse market conditions. The strategy is designed to ensure the financial stability of the KGHM Polska Miedź S.A. Group.

KGHM Polska Miedź S.A.'s Business Strategy for 2017-2021 is available on our website at (<http://www.kgm.com/en/about-us/strategy>).



## 2.2. MISSION AND VISION

The Company's mission and vision have been altered following a revision of the Parent Entity's strategy to date and the adoption of new targets in the Business Strategy of KGHM Polska Miedź S.A. for 2017-2021 with an outlook to 2040. Based on KGHM's values, they constitute the foundation for the execution of all six operational strategies:

### Mission

**“To Always Have Copper”**

### Vision

**“To use our resources efficiently to become a leader in sustainable development”**

## 2.3. SUSTAINABLE DEVELOPMENT CONCEPT AND MANAGEMENT MODEL

In November 2017, the Management Board of KGHM Polska Miedź S.A. adopted the “Sustainable Development Concept and Management Model for KGHM Polska Miedź S.A.” The decision to follow the idea of sustainable development in KGHM's operations is a direct consequence of KGHM Polska Miedź's Strategy for 2017-2021 adopted in May 2017. The vision, which positions the Company in a long-term perspective, speaks of the efficient use of KGHM's resources to become a leader in sustainable development.

The starting point for devising a “Sustainable Development Concept and Management Model for KGHM” was the “2030 Sustainable Development Agenda” adopted by the United Nations in 2015, which identifies 17 sustainable development objectives. 6 objectives relating specifically to the mining sector were subsequently selected from among 17 sustainable development objectives. What is noteworthy is that KGHM Polska Miedź S.A. pursues many more objectives than the 6 identified for the industry.

For example, the positive aspects of KGHM Polska Miedź S.A.'s operations translate into the economic development of the region. The Group provides employment to over 33 thousand people, which supports the development of cooperating entities and drives the economy. A multiplier of more than 5 to 1 is directly referenced on job creation stemming from one job in the mining industry, which can be seen as a direct step towards reduction of poverty, elimination of hunger and development of areas in the vicinity of the Group's facilities. We also strive to take care of the health and quality of life of not

only our employees and their families, but of all the region's inhabitants. To this aim we operate the Miedziowe Centrum Zdrowia ("Copper Health Care Center"); health promotion programs are implemented and grants are awarded to health care providers. Good quality of education is another objective to which we contribute directly. The region of the Company's operations – and largely thanks to the Company's presence – is relatively affluent, as a result of the Company's many contributions (e.g. in the form of taxes, grants, sponsorship) and the relatively attractive employee compensation. Many of the region's inhabitants can afford to attend school, including paying for further education. Furthermore, KGHM cooperates with many universities and scholars. The Company encourages its employees to pursue continuous development, offering many attractive paths of competence improvement. Those actions taken by KGHM make a direct contribution to the reduction of social inequalities. Access to health care, dignified employment and education helps to level out such inequalities, that may develop in a society missing the economic driving force of the kind that KGHM is for the Legnica and Głogów Copper Basin. As a direct correlation, KGHM is also involved in the implementation of the objective related to sustainable towns and communities. In terms of basic tax revenue per inhabitant, an indicator adopted to calculate the equalization grant for 2017, the Jerzmanowa and Polkowice municipalities are among the wealthiest municipalities in Poland.

### Ministry of Finance's Ranking of the Wealthiest Municipalities in Poland

Rank	Municipality Code				MUNICIPALITY	G Indicator for 2018
1	10	01	04	2	KLESZCZÓW	31962.75
2	10	09	05	2	RZAŚNIA	8634.17
3	02	23	05	2	KOBIERZYCE	5808.52
4	20	10	05	2	MIELNIK	5793.09
<b>5</b>	<b>02</b>	<b>03</b>	<b>03</b>	<b>2</b>	<b>JERZMANOWA</b>	<b>5753.53</b>
6	32	05	07	2	REWAL	5741.33
<b>7</b>	<b>2</b>	<b>16</b>	<b>04</b>	<b>3</b>	<b>POLKOWICE</b>	<b>5593.17</b>
8	14	21	05	2	NADARZYN	5508.24
9	30	21	15	2	SUCHY LAS	5433.47
10	30	21	17	2	TARNOWO PODGÓRNE	5020.31

Source: Samorzad.pap.pl

Responsible resource consumption and production are another objective cherished by the Company. As a production company, KGHM continually seeks methods of improvement, in order to achieve the optimal, safe and sustainable technological process. The Company also strives to eliminate waste and pursue rational resource management with a view to waste elimination. The Company achieves these objectives by applying the Lean Management concept in the Company's production, including many methods and tools for better resource utilization. The Company also makes active use of the circular economy concept, signifying a departure from the linear economy towards closed circles of material utilization. To this end the Circular Economy program is also being developed.

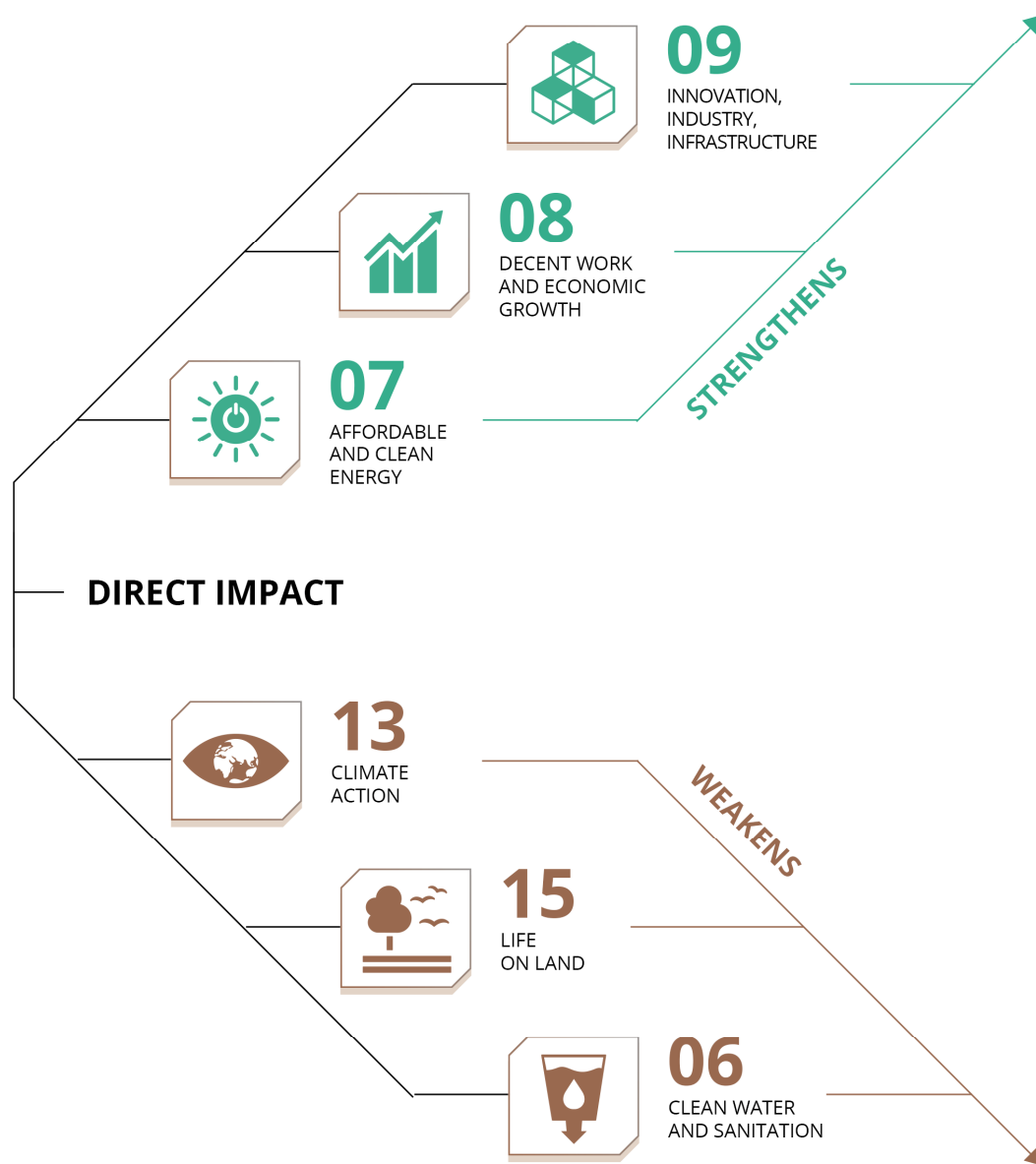
The practice employed by KGHM Polska Miedź S.A. proves that the commodities industry touches upon many more sustainable development objectives than just the ones (6) considered to be typical for the sector. The partnership for objectives is an important part of the 2030 Agenda. As the Company, we wish to join forces and intensify the activities designed to cooperate with institutions who equally cherish the idea of sustainable development.

# GOALS OF SUSTAINABLE GROWTH

	<b>01</b> NO POVERTY		<b>02</b> ZERO HUNGER		<b>03</b> GOOD HEALTH AND WELL-BEING
	<b>04</b> QUALITY EDUCATION		<b>05</b> GENDER EQUALITY		<b>06</b> CLEAN WATER AND SANITATION
	<b>07</b> AFFORDABLE AND CLEAN ENERGY		<b>08</b> DECENT WORK AND ECONOMIC GROWTH		<b>09</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE
	<b>10</b> REDUCED INEQUALITY		<b>11</b> SUSTAINABLE CITIES AND COMMUNITIES		<b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION
	<b>13</b> CLIMATE ACTION		<b>14</b> LIFE BELOW WATER		<b>15</b> LIFE ON LAND
	<b>16</b> PEACE, JUSTICE AND STRONG INSTITUTIONS		<b>17</b> PARTNERSHIPS TO ACHIEVE THE GOAL		



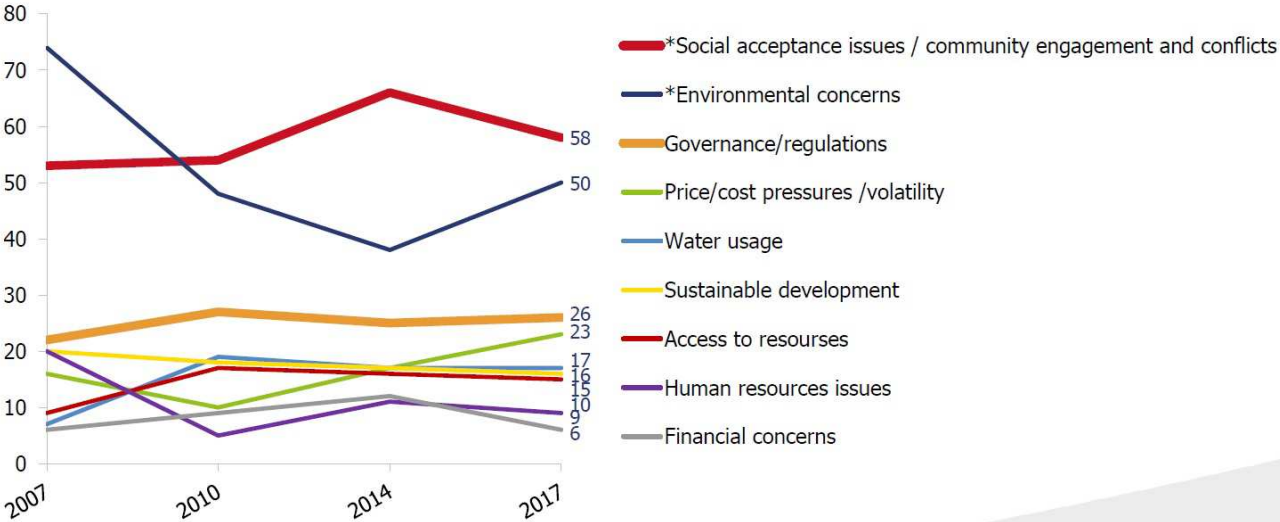
## IMPACT OF INDIVIDUAL GOALS ON THE MINING INDUSTRY



One of the steps taken by KGHM Polska Miedź S.A. towards the 2030 Agenda objectives was the signing on 6 December 2017 of the “Partnership Charter for the Implementation of Sustainable Development Objectives” at the “Partnership for Sustainable Development” conference in Warsaw. By this token, KGHM Polska Miedź S.A. joined a group of about 40 signatories, i.e. organizations and enterprises which have declared their wish to follow the path of sustainable development.

The International Council of Mining and Metals (ICMM) presented a report, summarizing – based on the research conducted in 2007-2017 – the greatest challenges for mining companies, as seen by their shareholders. Aware of those challenges, the KGHM Group has developed a concept and model of sustainable development management.

**The Greatest Challenges for Mining Companies According to ICMM**



\*For historical comparability, the 2014 and 2017 figures for “Environmental concerns” include climate change, pollution, biodiversity. Similarly, mentions of community conflict / lack of acceptance, and community engagement are included in “Social acceptance issues”.  
 Q3t. What do you think are the most serious issues that the international mining and metals industry will face in the next five years? List a maximum of three.



The “Concept and Model of Sustainable Development Management at KGHM Polska Miedź S.A.” embraces not only the sustainable development objectives typical for the industry, but also identifies other areas of sustainable development which are key for the mining sector, and on which KGHM wishes to focus. Thus the areas typical for sustainable development, such as the environment, economics and society, have been extended to include new areas, such as safety – conceived of as full safety for employees and KGHM's environment, as well as ensuring safety of the Company's operation itself; and resource efficiency understood as sustainable deposit use allowing for its best utilisation while maintaining the equilibrium of the natural environment.

**Key Elements of Sustainable Development in Mining**

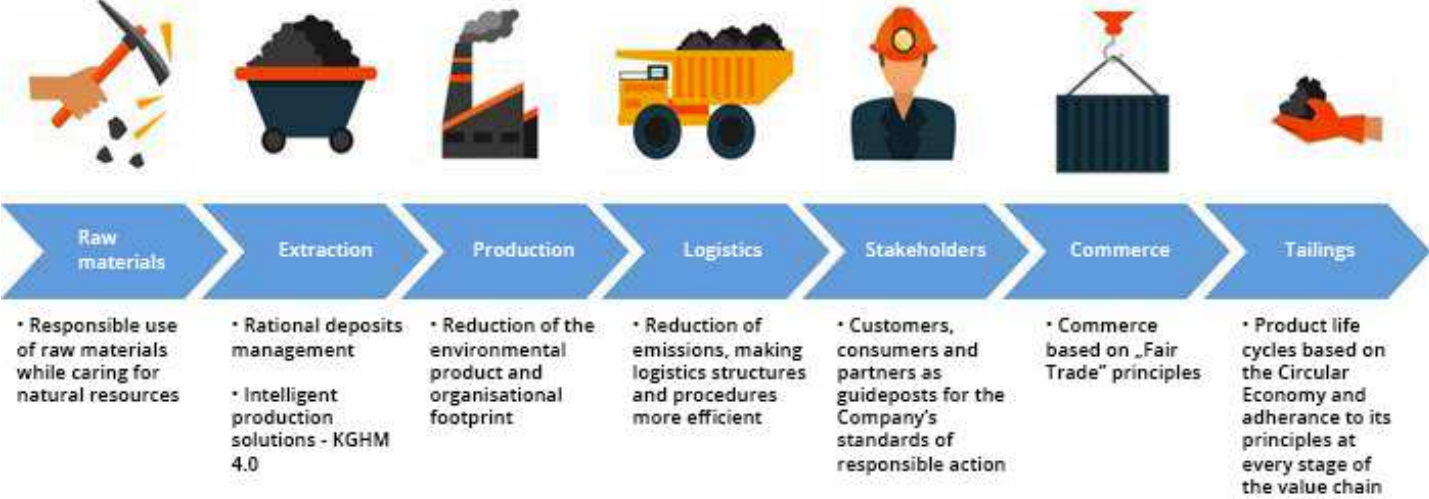


The conclusion was reached that to adopt three basic areas of sustainable development would not be sufficient for KGHM Polska Miedź S.A. Safety is of the utmost importance to the Company and is seen in many dimensions. The first and foremost is employee safety. Occupational safety must further be accompanied by ensuring the safety of the environment, energy and resources. For all those reasons, this crucial area must be included among the key focus points for sustainable development. Resource efficiency is the fifth area added to the objective of natural resource safety/security. Given the nature of the sector in which the Company operates and the highly integrated production character of the Company, the efficient and rational management of its resources is crucial. KGHM Polska Miedź S.A. operates like communicating vessels. Continual improvement and searching for ways of better resource management at each stage of production may translate into a number of benefits. Even the smallest innovation may lead to greater efficiency or new savings.

When speaking of the integrated production process it would be worthwhile to add that in striving to implement sustainable development in the organization, KGHM Polska Miedź S.A. seeks to incorporate this idea at each stage of the value chain. KGHM Polska Miedź S.A. is characterized by a unique and highly integrated technological chain, one unknown to other resource industry companies. The

Company independently performs tasks ranging from deposit exploration, prospecting and commodities sourcing, through extraction, production, transport, contact with customers and stakeholders and ending with responsible waste management to reduce its adverse environmental impact to the greatest degree possible. Managing such complex processes with extremely different characteristics calls for an integrated and sustainable approach each step of the way.

**KGHM Polska Miedź S.A.'s sustainable value chain**



Furthermore, KGHM Polska Miedź S.A. is engaged in sustainable development by participating in international organizations dedicated to this issue. The Company is pursuing the idea of sustainable development in commodities by, among others, creating and supporting the activities of the European Innovation Partnership on Raw Materials. In 2017, KGHM received a mandate on the EIP's High Level Steering Group, which gives it an opportunity to participate actively in the creation of the EU's natural resources strategy and policy. These are real actions related, among others, to participation in the European Union's Horizon 2020 Framework Program and initiatives and meetings of working groups involved in the active creation of natural resources policy in Europe.

Furthermore, as of 2017 KGHM has its own representative on the European Technology Platform on Sustainable Mineral Resources (ETP on SMR). The implementation of the Platform's objectives will contribute to the medium- and long-term security of stable procurement of natural resources (including key commodities, industrial mineral materials and wooden materials) which are indispensable for the fulfillment of the basic needs of any modern society striving to achieve efficient resource utilization. The Platform also has an advisory role in the creation of the EIP's natural resources policy. In the near future, KGHM Polska Miedź S.A. intends to intensify its activities to cultivate the idea of sustainable development in business, with a view to achieving its vision of



becoming a leader in sustainable development, not just in Poland. The Sustainable Development Council is the authority providing support in this matter. The key premise in creating the Sustainable Development Council was the business development vision to operate based on accepted standards and canons to shape the functioning of the world's natural resources companies in the future, as well as ensuring internal information integrity and coherence in the Company's operations.

#### 2.4. CORPORATE SOCIAL RESPONSIBILITY STRATEGY

In the context of devising the Company's Business Strategy, 2017 saw a revision of the CRS Strategy, which introduced a new primary objective, measures and operating targets. The CRS strategy's individual objectives have been defined so as to support the achievement of the Company's business strategy. These objectives and activities have been assigned tools in keeping with the Global Reporting Initiative (G4) indicators. Units responsible for the implementation of the individual objectives were also appointed.

The Strategy is based on the following:

- The results of analyzing the Company's corporate social responsibility efforts.
- ISO 26000 guidelines (<https://www.iso.org/iso-26000-social-responsibility.html>) concerning corporate social responsibility and the guidelines of the International Council on Mining and Metals (<https://www.icmm.com/>).
- Strategy developed on the basis of the Ten Principles of the UN Global Compact Initiative (<https://www.unglobalcompact.org/>).
- Guidelines regarding sustainable development reporting according to the Global Reporting Initiative (GRI G4) (<https://www.globalreporting.org/>).
- Consultations with senior management, local communities, employees and key partners.
- Best market practices (as applied to global mining enterprises).
- KGHM's corporate values.

**THE CORPORATE SOCIAL RESPONSIBILITY STRATEGY IS AN INTEGRAL PART OF KGHM'S BUSINESS STRATEGY FOR 2017-2021 WITH AN OUTLOOK TO 2040. THE STRATEGY IS SUBJECT TO QUARTERLY MONITORING DURING THE FINANCIAL YEAR.**

The Corporate Social Responsibility Strategy is based on five key strategic objectives:

- shaping cooperation with local communities and internal organizations,
- establishing the position of a trusted and stable business partner,
- maintaining the position of a responsible employer, building an image of the KGHM Group as friendly to human health and the environment,
- increasing the effectiveness of the Group's internal and external communication.

The first objective pertains to shaping cooperation with local communities and internal organizations through:

- building the principles of long-term cooperation as regards social engagement,
- determining the principles for conducting dialogue with local communities and gaining social approval for conducting the activity ("licence to operate") on the basis of best business practices,
- implementing uniform and transparent principles governing charitable activity and sponsorship – building the position of a global leader who cares about the common good,
- creating social involvement programs to better understand the stakeholders' expectations and respond to their needs,
- supporting KGHM's key investment processes at all stages of their development.

The next objective pertains to establishing the position of a trusted and stable business partner, through:

- extensively promoting KGHM in domestic and international sector initiatives (related to sustainable development),
- communication support in maintaining and developing trade cooperation with long-term and stable partners,
- development of cross-sectoral cooperation,
- attaining the position of "investor of choice" thanks to compliance with the principles of sustainable development, and development of a relationship-based system of cooperation with suppliers,
- respecting human rights and the expectations of local communities.

The third objective of CSR activities is to maintain the position of a responsible employer. Within activities in this area, the Company:

- promotes voluntary activities to increase employee engagement on the Group level,
- builds the image of an attractive employer,
- supports communication implementation of the rules of the work safety policy,

- conducts operations on the basis of the highest standards of dialogue with the employees,
- makes efforts to attain a leadership position in the sector in terms of health and safety at work, as well as stability of employment and remuneration, and continuing employee education – “long life learning”,
- promotes transparency on the basis of the code of ethics and corporate governance rules, in particular respecting human rights,
- supports and promotes the education of future human resources.

The environmental aspect is of fundamental importance for the fourth objective – building an image of the KGHM Group as friendly to human health and the environment. Within activities in this area, the Company:

- carries out CSR Programs: Promoting Health and Counteracting Environmental Hazards – ECO-Zdrowie, implementing initiatives for protecting innovation and the natural environment – Strefa Innowacji,
- strengthens the role and activity of the Group in the area of environmental protection,
- develops programs and initiatives to minimize environmental impact (emissions of greenhouse gases, energy efficiency, waste management and reclamation of areas after closing mines, use and protection of water).

The last, fifth pillar of CSR activities pertains to increasing the effectiveness of internal and external communication of the KGHM Group. The key initiatives in this area include:






- standardization of the communication rules and behaviors within and outside the KGHM Group,
- organization of coordinated PR activities of the KGHM Group on the international level,
- improvement of internal communication in KGHM Polska Miedź S.A.,
- standardization and consolidation of the reporting tools in the key companies from the KGHM Group,
- development of an international education system regarding sustainable development.

## Objectives of Corporate Social Responsibility

### Socially Responsible Business

**Main goal: Strengthen the image of the KGHM Polska Miedź S.A. Group**

#### OPERATING GOALS:

 <p>Shape cooperation with local communities and internal organisations</p>	 <p>Solidify position as a trustworthy and stable business partner</p>	 <p>Maintain position as a responsible employer</p>	 <p>Build the image of the KGHM Group as friendly to the environment and health</p>	 <p>Enhance the internal and external communications of the KGHM Group</p>
<p><b>Initiatives</b></p> <p>Standardised approach to dialogue with stakeholders (local communities, trade unions, local organisations)</p>	<p><b>Initiatives</b></p> <p>Strengthen relations with business partners</p>	<p><b>Initiatives</b></p> <p>Create the image of responsible employer internally and externally and build a leading position in terms of occupational health and safety</p>	<p><b>Initiatives</b></p> <p>Create the image of the KGHM Group as a pro-ecology partner, which also cares for the health of its stakeholders</p>	<p><b>Initiatives</b></p> <p>Create the KGHM Group information policy</p> <p>Strengthen the feeling of belonging of employees to the KGHM Group, create appropriate systems of action and behaviour within the organisation</p>

KGHM Polska Miedź S.A.'s Corporate Social Responsibility Strategy is available at the Company's website <http://www.kghm.com/en/about-us/strategy/social-responsibility-strategy>.

## 2.5. COMPREHENSIVE RISK MANAGEMENT SYSTEM IN THE KGHM GROUP

### Key risk factors

Risk is an inherent part of conducted activity. According to our definition, risk is the impact of uncertainty on the execution of our business objectives, resulting in opportunities and threats. The areas generating risk in the KGHM Group are constantly monitored and effectively managed. Consequently, the Group complies with the principles of due diligence in the conduct of its business activity.

From the perspective of a global company, we define risk at the KGHM Group level. The execution of our strategic objectives, including in the area of corporate social responsibility, has to take into account the occurrence of risks and counteracting them.

The KGHM Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current, future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risk factors.

We identify, assess and analyze on an ongoing basis the risks in different areas of the Group's operations in the context of the possibility of mitigating them. Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo constant monitoring by the Department of Corporate Risk Management, Compliance and Continuity of Operations, and in terms of financial risk by the division of the Executive Director for Finance and Risk Management.

This comprehensive approach to analysing risk factors also comprises the identification of risk factors related to achieving the strategic goals. In 2017, risks were reviewed related to achievement of the strategic goals contained in the Main Strategy and in the Executory and Support Strategies.

Presented below is the organisational structure of risk management in the Parent Entity. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

## Organisational structure of risk management in KGHM Polska Miedź S.A.

Supervisory (Audit Committee)
Carries out an annual assessment of the effectiveness of the risk management and monitoring of the level of key risks and the methods of addressing them.

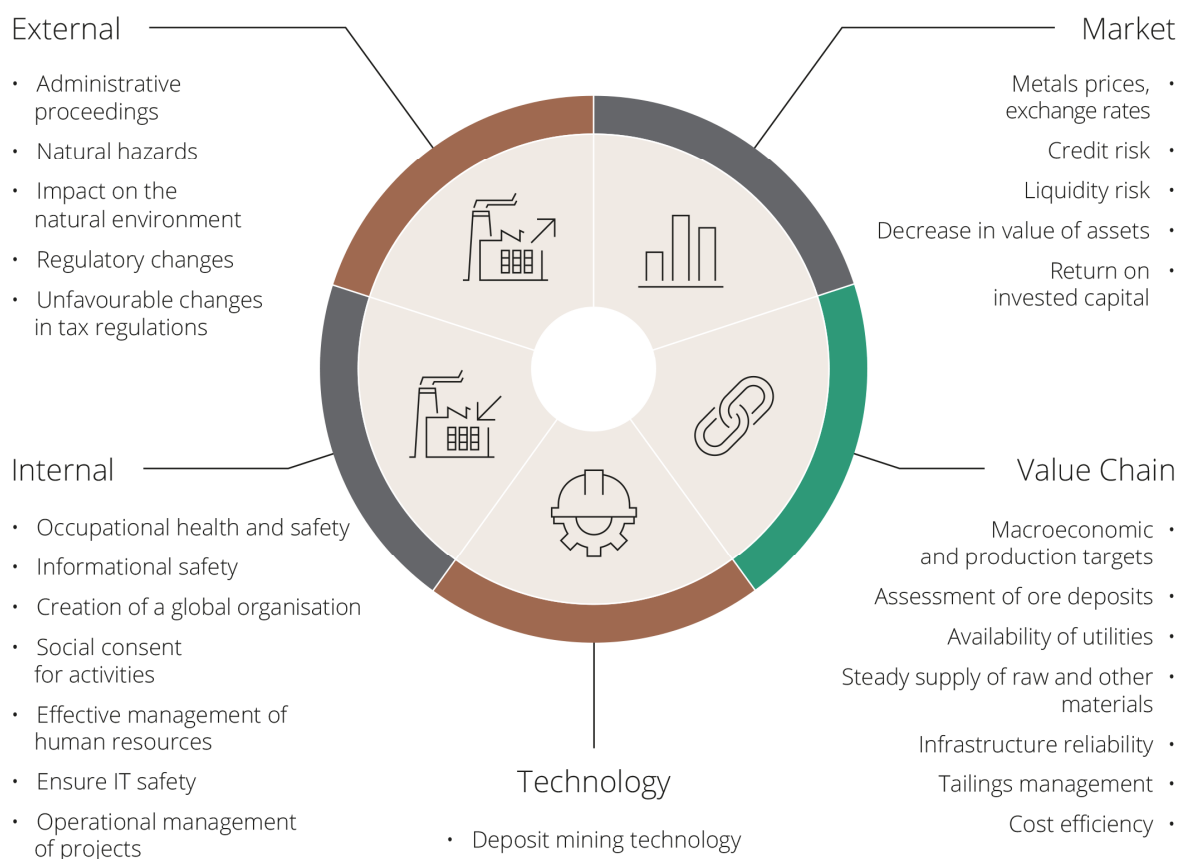
Management Board
Ultimately responsible for the risk management system and supervision over its individual elements.

First line of defense	Second line of defense				Third line of defense
Management	Risk Committee				Audit
Managers are responsible for identifying, assessing and analysing risk factors and for the implementation within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.	They support effective risk management and ongoing supervision over key risks.				The Internal Audit Plan is based on risk assessment and subordinated to the business objectives; an ongoing assessment of the level of individual risks and the effectiveness of risk management is carried out.
	Corporate and Compliance Risk Committee	Market Risk Committee	Credit Risk Committee	Financial Liquidity Committee	
	Manages corporate risk and continuously monitors key risk factors	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors to meet their obligations	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations	Internal Audit Rules
	<i>Corporate risk management policy</i>	<i>Market risk management policy</i>	<i>Credit risk management policy</i>	<i>Liquidity Management Policy</i>	
	Department of Corporate Risk Management, Compliance and Continuity of Operations	Executive Director, Finance and Risk Management			Audit Department
	<b><i>Reports to the President of the Management Board</i></b>	<b><i>Reports to the Vice President of the Management Board (Finance)</i></b>			<b><i>Reports to the President of the Management Board</i></b>

## 2.6. CORPORATE RISK IN THE KGHM GROUP – KEY RISKS AND MITIGATION

A tool used in identifying risk factors in the KGHM Polska Miedź S.A. Group is the Risk Factors Model. Its structure is based on a given risk's source and is divided into the following 5 categories: Technological, Values chain, Market, External and Internal. Several dozen sub-categories have been identified and defined covering particular areas of the operations or management.

### Risk factors in the KGHM Group:



In addition, the KGHM Group has defined the key risks and specified the risks specific to the Parent Entity and the KGHM INTERNATIONAL LTD Group. In response to the policies and due diligence procedures in place in the Group, the risks together with their mitigating factors for individual sustainable development issues are presented in the further chapters of the Non-Financial Report.

A detailed description of the risks associated with the KGHM Group's economic environment can be found in the Management Board Report on the Activity of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017, in the chapter entitled "Risk management in the Group": <http://www.kghm.com/en/investors/reports-and-presentations/financial-reports>.

We are continuously looking for ways to mitigate or leverage risks. For key risks, we regularly prepare a Risk Response Plan and Corrective Actions. The remaining risks are subject to constant monitoring by the Corporate Risk Management and Supervisory Standards Unit, and financial risks by the Executive Director, Director for Finance and Risk Management.

Most of the aforementioned risks are the result of the macroeconomic situation. The pace of change in the mining sector and the non-ferrous metal industry, as industries featuring market cycles, generates risks which are beyond the Company's control, but the Company may hedge them and minimize their potential adverse impact by taking the appropriate remedial measures. KGHM Polska Miedź S.A. makes every effort to mitigate all identified risks. For each executory and supporting strategy, as well as for the Strategy as a whole, so-called risk maps have been devised, identifying potential risks for all of the areas specified in the Strategy.

Having an awareness of the possible risks we are better prepared and capable of fast response should they materialize.



### 3. ETHICAL FOUNDATIONS OF IMPLEMENTATION OF THE STRATEGY

The rules, methods and tools presented below are the basic elements for creating appropriate care in the KGHM Group and the Parent Entity.

#### 3.1. KGHM VALUES

**“KGHM’s values bind all employees, regardless of their position in the organization or nationality, and are a guidepost for all decisions and actions taken.”**

KGHM is a company with 60 years of history, operating on the basis of deeply rooted values and principles which employees follow in their daily work. Zero harm, teamwork, results driven, accountability and courage – these values bind all KGHM employees, regardless of whether they work in a mine, processing plant or smelter/refinery, in Poland or in other parts of the world. KGHM builds its global position as a reliable producer, trusted business partner and a company pursuing a sustainable development policy. The KGHM Group Code of Ethics is also based on the aforementioned values and constitutes a guidepost for all the decisions and actions taken in the Parent Entity and the KGHM Group.

#### KGHM VALUES



**We are all responsible for ZERO HARM.**

- Protecting the lives and health of our employees is our top priority.
- We respect the natural environment and local communities in which we operate.
- We put emphasis on continuity and stability of KGHM's operations.

**TEAMWORK is the basis for our success.**

- We work as a team, sharing our knowledge and experience.
- In discussions we respect the views of others and are open to new perspectives.
- We leverage the talents of the employees and respect multi-culturalism.

**RESULTS DRIVEN – we achieve results while focusing on KGHM's long-term success.**

- We set ambitious objectives and constantly develop.
- We take initiative and make extra efforts for the benefit of KGHM.
- We perform our work well, using the appropriate tools and applying the best solutions based on our knowledge.

**ACCOUNTABILITY – We are jointly responsible for the actions taken for the benefit of our stakeholders.**

- We set a good example for others, acting in a transparent and socially responsible manner.
- We take responsibility for our decisions, obligations and constant development.
- We build long-term relations with our business and social partners.
- We are responsible for the natural environment in which we conduct our operations

**COURAGE – we face new challenges in a well thought-out manner.**

- We are courageous. We stand up to new challenges.
- We are open and honest in mutual contacts and are not afraid to speak up about our opinions.
- We make decisions and seek new innovative solutions.
- We are responsible towards the natural environment in which we conduct our operations.

### 3.2. KGHM GROUP CODE OF ETHICS

The KGHM Group Code of Ethics is a collection of rules applicable to the employees of the Parent Entity and the KGHM Group. It is one of the pillars of KGHM's organizational culture which is deeply rooted in the mining and metallurgical traditions. They constitute the genetic code of our community, building its professional identity.

The Code of Ethics aims to ensure compliance of the employees' behaviors with the highest standards based on accepted values. The status of a global leader and international corporation obligates us to keep the highest standards of the business ethics. It also entails challenges resulting from the richness of the national cultures within which we operate.

This diversity contributes to KGHM's success and allows us to build our brand. This would be difficult to achieve without the binder that strengthens our community. This is the role played by the KGHM Group Code of Ethics, comprising a consistent system of values and principles which are close to all employees of the KGHM Group. Consequently, they constitute our moral commitment towards our collaborators and business partners.

The Group's Code of Ethics is published at: <http://www.kghm.com/en/investors/corporate-governance/code-ethics>.

The Parent Entity's internal regulations in the area of the Procurement Policy are based on the Code of Ethics – defining the rules and standards of professional conduct of the persons participating in the procurement processes in KGHM Polska Miedź S.A. Compliance with the rules set out in the Code of Ethics by the employees of the KGHM Group is key to maintaining the efficiency of our processes and assuring our shareholders, suppliers and other stakeholders about our professionalism and honesty.

In addition to the Code of Ethics, the Parent Entity has in place other regulations and standards, including pertinent policies and procedures. Their implementations comply with global corporate governance standards and meet the increasing expectations from our stakeholders, often arranged in their systems of specific requirements.

Relying on the best corporate governance practices, the Company has in place policies implementing the global uniform standards adapted to the legal regulations of all the jurisdictions in which KGHM Polska Miedź S.A. operates.

In 2018 an update of the KGHM Group Code of Ethics is planned. Additionally, the work supporting and improving the ethical standards and corporate governance will be continued in 2018.

### 3.3. PROCEDURE FOR VERIFICATION OF COMPLIANCE WITH THE ETHICAL PRINCIPLES OF KGHM POLSKA MIEDŹ S.A.

As a socially responsible company, KGHM Polska Miedź S.A. applies due diligence procedures, attaches importance not only to observance of human rights, lawful terms of employment, environmental norms, freedom of establishing trade unions, compliance of the operations with generally prevailing laws, no child labor and no extraction of production commodities from conflict sources (so-called conflict minerals) but also wants to cooperate with business partners who share these values. For this reason our customers and suppliers are obligated to declare in writing their compliance with the aforementioned principles by signing the so-called Customer Card and Supplier Card, which is for us an important element of the business decisions on undertaking cooperation with a given partner.

#### Principles declared by KGHM Polska Miedź S.A.'s customers and suppliers

Human rights and work standards		
<p><b>Basic human and employee rights</b></p> <p>Promotion of the principle of equal opportunities among the employees and ensuring a work environment free of discrimination and harassment. Additionally, it declares compliance with the local laws regarding work time, minimum wages and right of association in employee organizations.</p>	<p><b>Prevention of forced and child labor</b></p> <p>Compliance with international human rights standards, elimination of all forms of illegal or forced labor and prohibited child labor, in accordance with local regulations.</p>	<p><b>HEALTH &amp; SAFETY</b></p> <p>Controlling the threats and taking preventive actions to avoid accidents at work and vocational diseases. Additionally, it undertakes to educate employees on occupational health and safety.</p>
Ethics and business activities		Environment
<p><b>Prohibition of corruption and influence peddling</b></p> <p>No tolerance for any forms of corruption, including direct or indirect influence peddling of business partners and/or state officials and accepting gifts, other than customary gifts, in return for purchase of products or services from business partners.</p>	<p><b>Money laundering prevention</b></p> <p>No intentional participation in the money laundering process and implementation of preventive actions in this respect.</p>	<p><b>Environmental protection</b></p> <p>Minimizing pollution and constant improvement of environmental protection standards and acting in accordance with local and international environmental protection standards.</p>

### **3.4. THE KGHM GROUP'S ANTI-CORRUPTION POLICY AND ANTI-CORRUPTION INSTRUCTIONS (COMPRISING THE RULES FOR OFFERING AND ACCEPTING GIFTS)**

The KGHM Group holds the position that in all of the company's activities it is necessary to comply with basic ethical rules and do business honestly. Understanding the importance of the corruption problem, we decide to take actions mitigating the risk in this respect and eliminate all corruptive phenomena that may occur in connection with the company's operations.

In 2017 the Parent Entity devised an anticorruption program which regulates in the entire Group such issues as conflicts of interests or whistleblowing, and translates the code rules into specific actions. The aim of the program is to develop awareness among all employees, which is indispensable for the employees to identify with the company's ethical conduct.

In 2017 the KGHM Polska Miedź S.A. Management Board adopted the Anticorruption Policy and Anticorruption Instructions, which constitute an element of the anticorruption program in the KGHM Group. The aim of the Anticorruption Policy is to establish mechanisms for prevention of such behaviors of the company's employees and cooperating entities (the company's representatives) which could be recognized as prohibited in all jurisdictions in which the company conducts operations. As part of the policy, an organizational structure has been established to guarantee cooperation and coordination of the anticorruption efforts on the KGHM Group level.

#### **The above standards are implemented through the following activities:**

- familiarizing employees with the documentation making up the anticorruption program – developing an active training system, constant improvement of employee qualifications,
- introducing an internal control system – detecting and eliminating identified irregularities,
- actions that encourage reporting of corruption events/threats, with the possibility of remaining anonymous,
- appropriate handling of the reports – removal of the problem together with the cause of the irregularity, analysis to prevent similar situations from happening in the future,
- guaranteeing that each breach of the implemented procedure results in a sanction,
- exchange of information/experience – both on the forum of the organization and outside, e.g. with business organizations,
- assessment and update of the program/procedures.

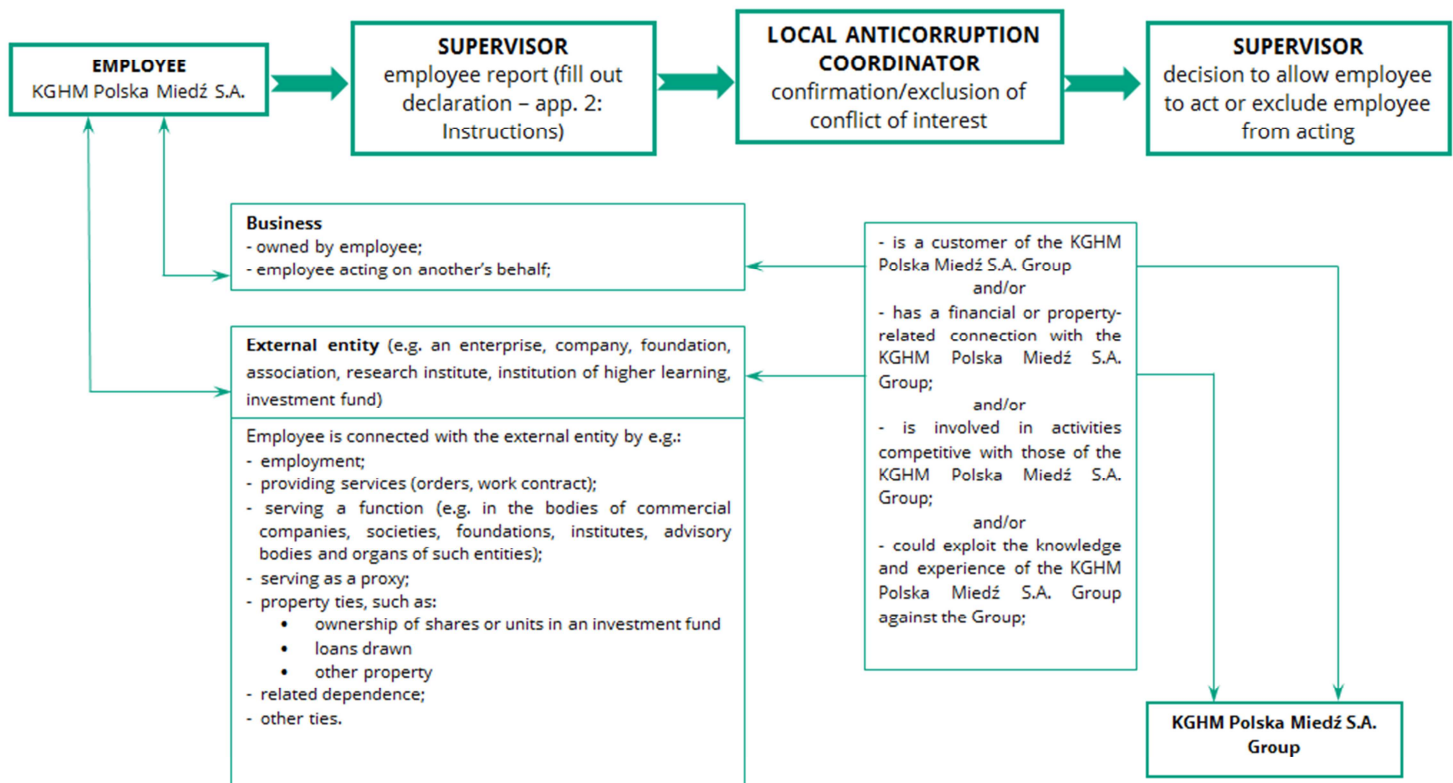
An Anticorruption Manual has been defined. It is available to each employee on KGHM's Corporate Portal (accessible to each employee via the Intranet and Extranet). In KGHM's Divisions and in KGHM Group companies, Local Corruption Combat Coordinators have been delegated. They are tasked with training employees in this respect and are the responsible persons to whom all breaches should be

reported. The Company has in place whistleblowing procedures using a dedicated special telephone line, e-mail address and written correspondence – with a note indicating it should only be opened by the addressee.

### **3.4.1. Anti-Corruption Instruction**

The Anti-Corruption Instruction contains a more detailed description of the rules found in the Policy and is addressed to the employees of the Polish portion of the KGHM Group. It comprises, among others, the rules of conduct in situations in which employees may be offered financial benefits, rules for avoidance of conflicts of interest and rules for offering and accepting customary business gifts. In 2017 the Company defined a scheme for reporting conflicts of interests, together with specification of situations that may lead to conflicts of interests. The scheme is as follows:

Diagram showing the flowchart for reporting conflicts of interest, and situations in which conflicts of interest may arise



### 3.4.2. Procedures to prevent money laundering and the financing of terrorism in KGHM Polska Miedź S.A.

The Parent Entity is an international company. Due to cultural differences, procedures to prevent money laundering and the financing of terrorism have been introduced. The purpose of these procedures is to establish a process for reviewing the Company's business partners in terms of the **risk** of money laundering and/or the financing of terrorism. The procedures assign duties to organizational units, specifies the tools allowing for reliable verification of business partners, and specifies the methods and frequency of training in this respect.

### 3.4.3. Internal Audit Rules (whistleblowing) in KGHM Polska Miedź S.A.

As part of its duties, the Internal Audit unit which holds appropriate independence prerogatives, set by international standards in this respect, handles reported irregularities (both anonymous and reported by known persons) to clarify and subsequently eliminate them. One of the 14 areas subject to internal audit is ethics, understood not only in internal but also in external terms. The special position of the Internal Audit unit in the organization guarantees impartiality and reliability of the process and ensures that the whistleblower remains anonymous (if they requested to remain anonymous).

The high effectiveness of the system in place in KGHM Polska Miedź S.A. in this area is confirmed by the fact that no corruption cases have been recorded.

The selected GRI G4 indicators for 2017 present the actions in the area of prevention of corruption:

#### G4-SO5 – Confirmed corruption cases and actions taken in response

<b>Recorded corruption cases ended with:</b>	<b>KGHM Polska Miedź S.A. Group</b>	<b>KGHM Polska Miedź S.A.</b>
disciplinary dismissal or punishment of employees	0	0
refusal to renew contracts with business partners due to breach of corruption rules	0	0
legal action pertaining to corruption practices taken against a reporting organization or its employees in the reporting period	0	0
<b>Total</b>	<b>0</b>	<b>0</b>



## 4. ACTIONS IN THE AREA OF EMPLOYEE AND HUMAN RIGHTS

This part presents policies in the areas of employment and human rights applied in the KGHM Group and the Parent Entity, with reference to the rules for their application with due diligence and the risk management system as well as a description of the results of the activities with relevant figures (including selected GRI G4 indicators).

### **We create a work environment in which everyone is treated with respect**

In accordance with the provisions of the **CODE OF ETHICS** in the KGHM Group we follow the principle of respecting the dignity of each person. We treat others with respect, even if their opinions and views deviate from ours. Respect for others builds internal trust and a climate of cooperation between people and helps us to be courageous: voice our concerns or put forward ideas, regardless of the place in the organizational structure or position occupied. We follow a rule according to which each opinion is valuable because it may contribute to improvement of the work conditions and the way we operate.

#### **Our principles are as follows:**

- We respect the rights, dignity and personal freedom of our employees and collaborators.
- We openly express our opinions and if we criticize anything, we do it constructively.
- We try to resolve misunderstandings and solve problems in the spirit of cooperation, openness and bearing in mind KGHM's long-term relations and success.
- We do not allow for any manifestations of humiliation, verbal and physical violence, prosecution and intimidation.
- We take actions which will prevent breaches of personal dignity and mobbing.

### **In the KGHM Group, the human being – the employee – is the most valuable asset**

In KGHM we respect human rights, including employee rights, and apply work and employee relation standards defined by international institutions, i.e. the International Labor Organization (ILO) or the UN Global Compact. Within KGHM we develop regulations and policies considering the good of the employees and our mutual relations, we follow the practice of ensuring due diligence, regardless of the organizational unit or place where we operate.

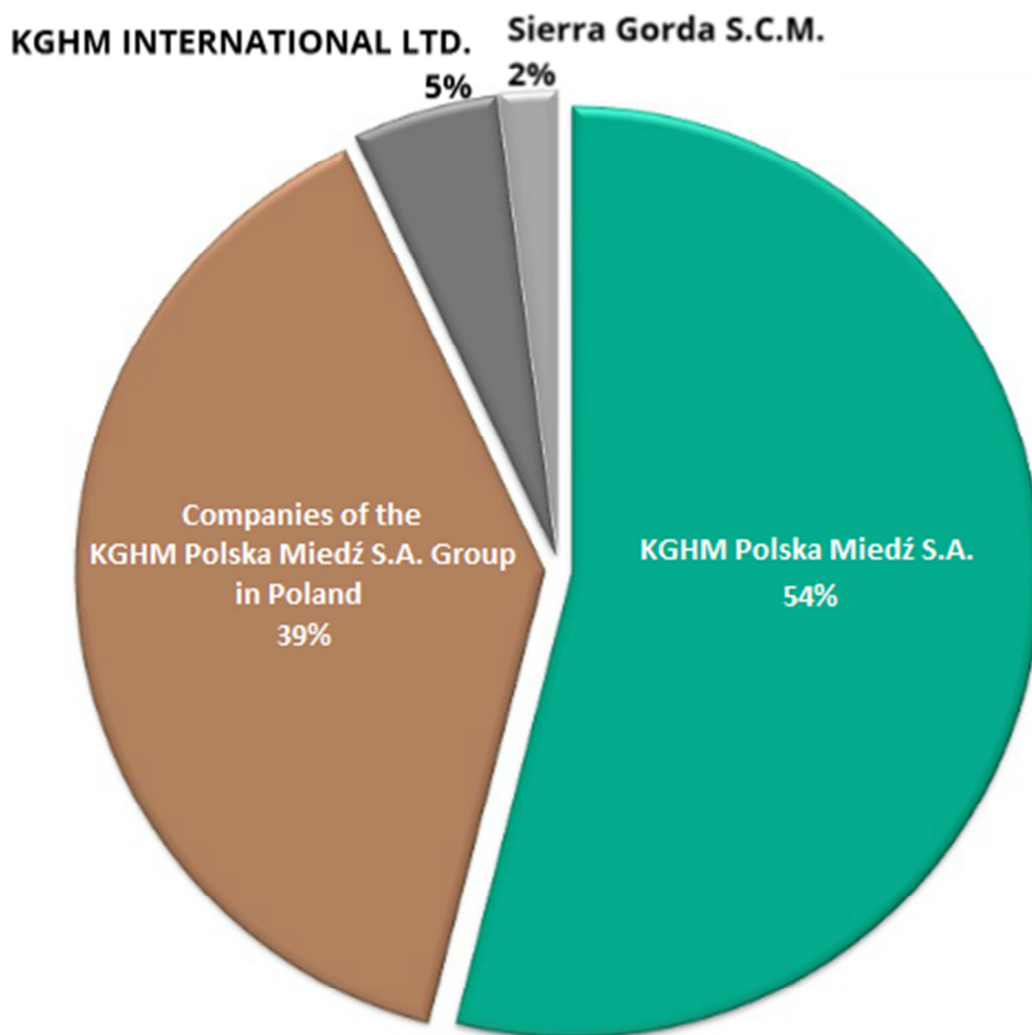
**Our rules:**

- We comply with labor law in the jurisdictions in which we operate as well as the adopted standards of internal labor regulations.
- We comply with the regulations concerning work time and minimum wage.
- We respect employees' rights to associate in employee organizations and trade unions and conduct collective bargaining negotiations.
- We foster employee development and support them in improving their competencies through a variety of training forms and possibility to participate in new projects.
- We respect human rights and do not permit any forms of illegal or forced labor, including children labor.

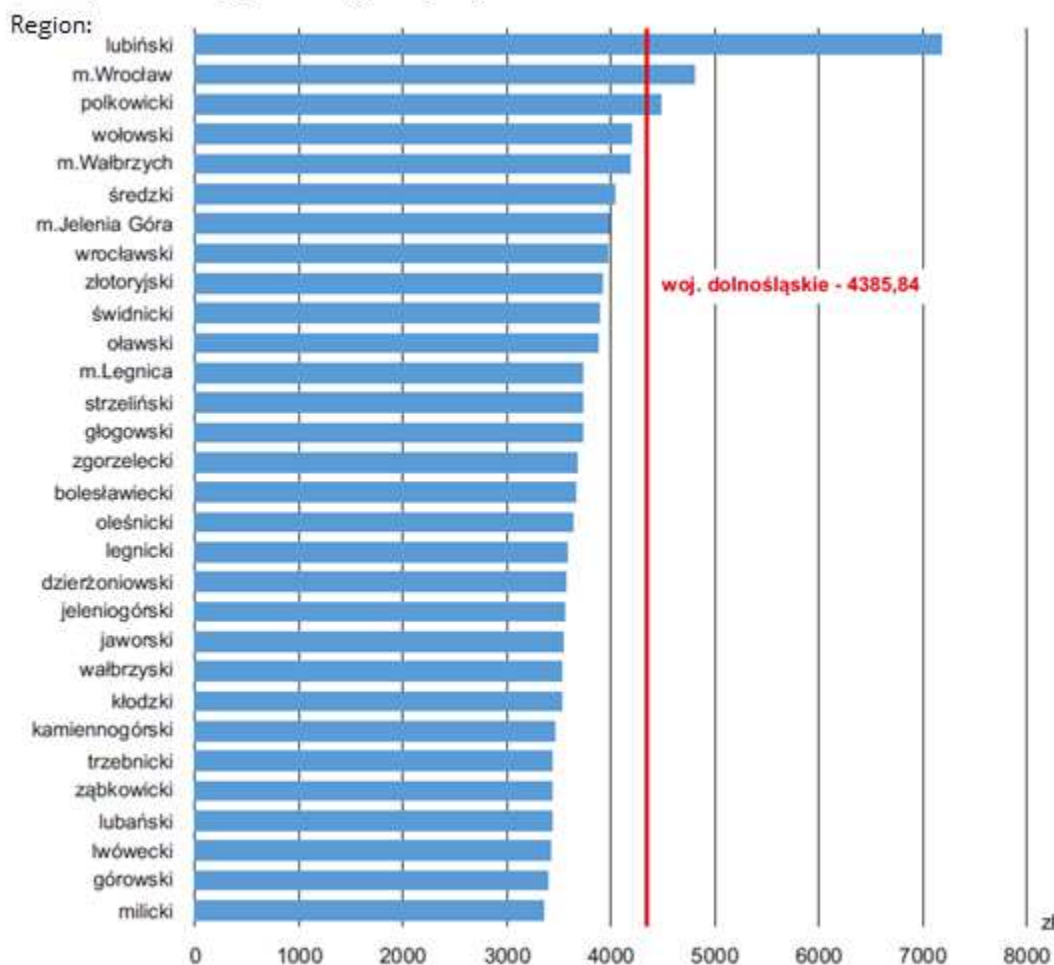
**The Third Pillar of the Corporate Social Responsibility Strategy calls for retaining the position of a socially responsible employer, promoting transparency based on rules of ethics and corporate governance, in particular respect of human rights.**

## Employment

**200 thousand** – this is the number of people we estimate that have jobs – directly or indirectly – thanks to the KGHM Group. For decades we have been the largest employer in Lower Silesia and one of the major employers in Poland. Our mines make the Copper Basin the wealthiest part of the voivodeship, with the highest wage levels.



### Average monthly gross wages<sup>a</sup> by region in 2016



<sup>a</sup> excluding businesses with fewer than 10 employees

KGHM's activities also influence the overall nation's economy. The natural resources mined are the basis of other industrial sectors. By cooperating with local suppliers, business partners, intermediaries and wholesalers, we drive the economic development of not only Lower Silesia, but also of thousands of companies across Poland. The need to develop innovative mining methods and cooperation with research institutes allow for the development of science, providing the financing of research and specialist education.

#### 4.1. INTERNATIONAL MOBILITY POLICY IN THE KGHM GROUP

In connection with the acquisition of foreign assets, since 2015 KGHM has conducted an employee mobility program. In view of the international operations of the Group, a policy of international mobility has been adopted as the basis for action in conformity with the rules of the due diligence procedure. Being delegated to companies in Chile, Canada and the US represents an investment of major

significance for the Group. This not only satisfies local requirements for personnel, but also develops the employee's professional capacities. In 2017, 10 employees (including 9 persons from the Parent Entity) were delegated to work in our international companies under the International Mobility Policy. At the same time, 5 persons continued their delegations commenced in previous years.

In 2017, more than ten employees worked in foreign companies of the Group under the International Mobility Policy, mainly with managerial responsibilities and tasked with the performance of the production process.

Based on previous challenges and experiences related to employee mobility, an interdisciplinary team developed an update of the International Mobility Policy focused on increasing the process' efficiency. New rules are to be implemented in 2018.

#### 4.2. WORK REGULATIONS AT KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A. has in place **work regulations** which define the organization and order of the labor process as well as the related rights and obligations of the employer and employees. It formulates the manner and rules of accounting for work time, granting of holidays, and the timing and manner of paying remuneration. It defines rules of occupational health and safety. Moreover, it describes the adopted practice with regard to rewards and distinctions, as well as punishments used for infringements of the order and discipline at work.

#### 4.3. HR POLICY OF KGHM POLSKA MIEDŹ S.A.

For the Parent Entity an **HR Policy** has been defined and it assumes that the Employees of KGHM constitute the most valuable capital of the company – they create a unique corporate culture and build the firm's market position. In order to secure the achievement of its strategic goals, the company has consistently invested in the labor market for years and actively influenced the process of educating young people. The company acts with due diligence towards the employees, since it is personnel that plays a key role in the development of all areas of the business model, builds the global standing of the enterprise and makes us an integrated organization open to the future. KGHM recruits the best experts and specialists. As a result of those actions the company employs people with the greatest potential, who really correspond to the company's needs. The work of each of those persons is equally important to the success of the entire organization.

The uniqueness of the pursued HR policy is attested to by the fact that KGHM's employees are people who not only are talented and highly qualified, but also act in conformity with KGHM's values, are open

to changes, seek innovative solutions, and are willing to share their knowledge and experience. Most importantly, however, KGHM's employees, regardless of their job titles, see their personal development as a challenge which contributes to the benefits achieved by the entire organization.

The development of KGHM has also driven changes in human capital management inside the company. Although the Social Potential Management System, which defines employee policy, has not been modified recently, the very manner of implementing HR policy has been transformed. A consistent set of key processes and tools have been implemented to support long-term development of competencies, new solutions have been prepared for employee performance and assessment management, internal communication has been improved, and focus has been made on modern project, program and portfolio systems. In view of swift development, it has become a priority to identify the best employees efficiently, and then systemically prepare them to assume key roles and functions in all business operations.

In 2017 we provided the employees with the following:

- the possibility to pursue educational programs to develop professional, managerial and specialist competencies,
- implementation of the performance management process for managers and development of an employee assessment system,
- improved IT tools to support recruitment of the highest quality personnel,
- updated Mobility Policy in the KGHM Group.

KGHM as a global company gives a unique opportunity to persons who want to gain access to state-of-the-art technologies and equipment. They can do so by participating in the work of specialist project teams. Participation in the work of such a team is also a perfect opportunity to share knowledge and experience within the company.

### **Human capital and risk on the international market**

The global nature of the KGHM Group also translates into the risk related to human capital. We want to recruit and retain the best employees necessary among other for development projects.

We continuously improve the efficiency of our recruitment processes. Since 2015 we have also conducted an employee mobility program. It defines in detail the rules of seconding employees abroad. The program guarantees the consistency of our human resources management policy with best market practices and ensures continuity of risk management (including legal, tax, immigration risks) in the process of seconding personnel to work abroad. We also see the employees' international mobility as

an opportunity to transfer knowledge, experience and best practices among the KGHM Group companies.

Major risks and their mitigation have been defined for the KGHM Group with regard to employees and respect for human rights:

	<b>RISK</b>	<b>MITIGATION</b>
<b>Human capital</b>	(KGHM Group) Risk of recruitment and retention of human resources incl.: to implement development projects.	Performing programs to increase the efficiency of recruitment, succession and retention processes for key positions. Employee mobility program. Education support programs.

Risk validation is conducted quarterly on a five-degree scale using an expert assessment method and it influences the Management Board’s decisions. Risk is analyzed as positive or negative on a 1-5 scale in terms of health and safety.

**Management of career paths and recruitment in KGHM Polska Miedź S.A.**

We secure highly qualified personnel through the process of internal and external recruitment. We take care of the KGHM brand as the employer of first choice for current and prospective employees. Acting on the basis of due diligence rules, KGHM Polska Miedź S.A. keeps an electronic register of job candidates based on the announcements published at <https://www.rekrutacja.kghm.pl>. The electronic registration of candidates comprises job vacancies announced by all Divisions of KGHM Polska Miedź S.A. In order to submit an application the candidate should complete the template containing the necessary personal data and requirements for the job for which the candidate applies. Online registration is considered as valid if the application was sent within the set timeframe, after entering by the candidate of all necessary data, confirmed in accordance with the information sent to the candidate by the system. KGHM Polska Miedź S.A. is not liable for lack of possibility to register the application due to Internet failures, server overload, server failures and other cases of this type. Candidates are obligated to express consent to the processing of their personal data contained in the online application for the purposes of recruitment at KGHM Polska Miedź S.A., in conformity with the

Act of 29 August 1997 on Personal Data Protection. (Journal of Laws of 2002 no. 101, item 926 as amended).

The Company ensures full confidentiality to candidates who submit applications and reserves the right to contact only selected candidates. No information within the timeframe set in the job announcement means that the applications was not accepted. Candidates whose applications have been accepted are notified separately of the date of their job interview. Candidates who successfully pass their job interview may be, upon the candidate's consent, entered in the Central Base of Candidates. The application is stored in the Central Base of Candidates for a period of 12 months. Changes and updates of the stored application are made on the candidate's request. Personal data collected during electronic recruitment of candidates are used only for the recruitment processes and are not made available to third parties.

The candidate's communication via the <https://rekrutacja.kghm.pl> portal is encrypted with SSL protocol with the use of a certificate issued by a trusted certification center. The electronic recruitment system in KGHM ensures the security of the candidate's data stored therein in conformity with the act of 29 August 1997 on personal data protection (Journal of Laws of 2002 no. 101, item 926 as amended). The candidate's attempts to obtain access to the server, attacks blocking its functioning, breaking through the security mechanisms, interception, theft or destruction of the data of registered candidates are prohibited. Such actions result in disqualification of the candidate from recruitment.

#### **4.4. TRAINING POLICY IN KGHM POLSKA MIEDŹ S.A.**

Within its operations the KGHM Group does not have a defined common Training Policy. In view of the international scope of activities, cultural differences and specific characteristics of the industries in which the Group operates, each company conducts a series of activities related to employee training. A Training Policy has been defined in the Parent Entity.

The Parent Entity, employing 58 % of employees of the KGHM Group, has a **Training Policy** in place. The purpose of development activities in KGHM was and remains to retain and improve human capital, manage the Company's intellectual capital, taking into account the Company's mission and Strategy, as well as long-term development plans through:

- Improving the qualifications of the Company's employees and changing their educational structure by continuing to co-fund graduate and post-graduate studies.



- Securing the fulfilment of the requirements defined in regulations by the employees' participation in periodic training courses on occupational health and safety, courses and examinations entitling to take up jobs in which specialist actions are performed in underground mines as well as other jobs in the Company.
- Improving employees' competencies by organization of training courses and other development activities, with particular focus on managerial and interpersonal skills, as well as training on business process orientation in management.

The Company's employees may improve their qualifications in the context of expected organizational and technological changes by participating in training courses, conferences, studies, post-graduate studies. The employer ensures a high level of training among others by aligning the contents of the training courses with the business goals of KGHM Polska Miedź S.A.

The Company conducts systemic competence development activities performed by a centralized unit specialized in this area. Development needs are collected systemically once a year and constitute the basis for building a training plan and calculation of the resources needed for its performance. These actions are performed on the basis of the procedures existing in the Company and are registered for purposes of internal and external accounting.

Both the competence development activity and the utilization of the allocated budget are regularly monitored, and the results are reported.

In 2017 the number of employees participating in a single training event was 28,387, of which 19,442 in blue-collar jobs and 8,945 in white-collar jobs.

In 2017, 905 employees took part in industry symposia and conferences in Poland and abroad in order to become acquainted with new technological and organizational solutions, as well as exchange experiences with regard to performance, improvement of production efficiency, human capital management and innovation. The Company's employees participated in regularly organized conferences such as: "Winter School of Rock Mass Mechanics" and "School of Underground Mining."

47 persons benefited from co-funding of their studies in 2017. The co-funding comprises graduate, post-graduate and MBA studies. The Company continues cooperation with the largest Polish universities in opening faculties aligned with specific needs of KGHM.

389 of the Company's employees benefited from language courses in 2017. The purpose of the courses was to prepare the personnel of KGHM Polska Miedź S.A. to use general and business English and Spanish. Enhancing language skills is an important element of the implementation of the plan of cooperation and exchange among Polish and foreign companies within the KGHM Group.

Other important development events in the Company were:

- Conducting of a training course for the accounting services Balance Sheet 2017, prepared by the Polish Accountants Association. The purpose of the training was to improve the qualifications of the employees responsible for closing and accounting for the 2017 financial year. 39 persons took part in the training.
- Continuation and conduct of training on Lean Management: elimination of wastefulness, 5S methodology and awareness of wastefulness and TPM (total productive maintenance) for 653 employees involved in the process of Lean Management implementation in the organization. The purpose of the training was to acquaint the participants with the methodology and overcome barriers related to the change of the manner of work organization used to date.
- Training on the integrated management system for 326 employees. The purpose of the training was to prepare the employees for the role of auditors of and plenipotentiaries for the integrated management system.
- Conducting of training on MS Office, including above all training on Excel, Word, Outlook and Power Point. The training courses were conducted as two-day events, at three levels of advancement defined on the basis of pre-tests. Such training courses attract considerable interest. Efficient use of the systems contributes to increased performance of the employees who use various IT applications on a daily basis to perform their responsibilities. 377 employees were trained.
- 2017 saw continuation and completion of another edition of the Leadership Study program – development of managerial competencies addressed to persons who manage employees working, among others, in mines. The performance of the program improved managerial skills and contributed to a change of attitudes of the program participants, thereby translating into increased production efficiency, organizational efficiency and improvement of relations with employees. In 2017 the program covered approximately 260 employees.
- Conducting training courses for Company Social Labor Inspectors – for 362 persons. This training course is for company and sectional (divisional) social labor inspectors to prepare employees for the function and performance of the tasks resulting from the act on social labor inspection.
- Commencement of work to launch PBI training on the e-learning platform.
- Launch of the Toolkit for Managers program (previous name Academy of Leaders). In the first step commencement of work to identify development needs based on a uniform competence model

#### 4.5. SAFETY POLICY IN KGHM POLSKA MIEDŹ S.A.

As a change leader the Parent Entity, as early as the early 1990s, started implementing, first in its divisions and then in its subsidiaries, standardized management systems. Initially this involved the quality management system and resulted from the need to seek external markets (in the case of companies) or to meet commercial requirements (the London Metal Exchange in the case of refineries). Today, management systems in accordance with ISO standards are the standard for companies in their daily operations. This is why, in accordance with due diligence, the KGHM Group implemented and maintains a System of Occupational Health and Safety Management in accordance with 18001/OHSAS. Risks have been identified for all jobs. An assessment of occupational hazards for them has been made and the jobs are appropriately prepared in terms of occupational safety. Working conditions are continuously monitored and periodic reviews and assessments of possible hazards, equipment overhauls and required technical inspections and attestations are conducted. Employees undergo systematic training and continually improve their qualifications. Prevention of accidents at work and occupational diseases is treated as a priority at each level of our organization. Indeed, we all feel mutually responsible for health and safety – our own and of our colleagues.

We do not tolerate illegal or risk-generating behavior. We encourage reporting any situation which might potentially affect employee's health and safety. We all participate in regular training on the rules of occupational health and safety. The state of occupational health and safety in KGHM Polska Miedź S.A. is continuously monitored and assessed, and the conclusions are used on an on-going basis. In order to eliminate or mitigate the risks we use the best available technologies and we develop new solutions. We impose strict safety standards on ourselves and our suppliers and subcontractors alike. We promote the Golden Rules of OHS, which are placed in all work places. Their catalogue was updated in the context of employees' risky behavior under mind-altering substances. Additionally, a cyclical contest of knowledge on the Golden Rules of OHS is organized, in which any employee may participate. Until now 341 employees have taken part. In 2017 a program to improve OHS culture was launched. As part of the program, the company KGHM Cuprum sp. z o.o. CB-R was mandated to perform a "Survey of key elements of the occupational safety culture with preparation of proposed corrective actions." In order to improve communication, the OHS Portal was used with 29 articles, 21 infographics, 56 informational materials and 36 illustrations for the "Safety Passport – five minutes for safety" made at the Polkowice-Sieroszowice mine. The materials are implemented on an on-going basis.

Periodic internal audits are carried out in individual Divisions of the Company with the participation of the OHS services from other Divisions (number of conducted audits: 7).

On 13 September 2017, the Head Office of KGHM Polska Miedź S.A. concluded Annex no. 3 to the agreement with Miedziowe Centrum Zdrowia S.A. on providing psychological aid to persons involved in accidents at work or potential accidents on the premises of the Company. The service was extended with psychological aid to KGHM employees and their families in crisis situations.

On 12 – 14 December 2017, the uniform program for mines “Healthy employee in a difficult work environment” was inaugurated for particular profiles (health, fitness, overweight, obesity).

In order to make the employees aware of the hazards which might occur in their work environment, selected accidents in the Divisions of KGHM Polska Miedź S.A. were reconstructed as well as instructional videos describing dangerous events. To date, 4 reconstructions, 1 instructional video and didactic materials have been prepared.

An assessment was made of the current level of occupational stress at the Head Office of KGHM Polska Miedź S.A. and a preliminary proposal of prevention-oriented activities has been presented. This work was performed by the company KGHM Cuprum sp. z o.o. CB-R. The task was launched in 2017. The assessment process will end in 2018 with a summary of research and workshops which will cover, among others, issues related to coping with stress.

As part of research and development work, the following projects were conducted oriented at OHS improvement in KGHM Polska Miedź S.A.:

- an automatic device for breaking URB/ZS-3-type blocks in underground copper ore mines,
- a KOT-170A self-propelled bolting car with automatic bolting head,
- an innovative system of wireless communication in room-and-pillar excavations in underground mines,
- development and implementation of an innovative, comprehensive system to support training of the operators of self- propelled mining machines (SMG) for efficient and safe work in underground copper ore mines,

- development of a wireless communication system in underground mines with particular focus on communication and data transmission in the area of the operating front in the room-and-pillar system.

OHS Golden Rules



**I THINK BEFORE I ACT**



**I USE APPROPRIATE PROTECTIVE EQUIPMENT**



**I COME TO WORK RESTED AND SOBER, AND NOT UNDER THE INFLUENCE OF INTOXICANTS**



**I WORK WITH PROPERLY-FUNCTIONING TOOLS, MACHINERY AND EQUIPMENT**



**I REACT WHEN I SEE UNSAFE BEHAVIOUR OR SITUATIONS**

**RISK**



**I AM AWARE OF THE OCCUPATIONAL HAZARDS AND RISKS**



**I THINK OF MY FAMILY**



**I MAINTAIN HARMONY AND ORDER AT MY WORKPLACE**

The Group has defined significant risks and their mitigation in the area of safety:

	<b>RISK</b>	<b>MITIGATION</b>
<b>Natural hazards</b>	(KGHM Group) The risk of employees' loss of life or health. Disruptions or restrictions in production as a result of seismic events and associated roof collapses, or destressings of the rock mass and the occurrence of uncontrolled rock bursts.	A wide variety of technological and organisational solutions and other active and passive methods are applied to prevent roof collapses enabling restriction of the effects of dynamic events (roof collapses or rock mass destressings) in the mines. Preparation of reserve fields in the orebody which could handle reduced production.
	(Parent Entity) Risk related to gas hazards (methane and hydrogen sulphide).	The risk of gas hazards occurring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odours.
	(Parent Entity) Risk related to underground climate risk, which increases in tandem with increasing mine depth.	The construction of additional ventilation shafts, the use of centralised, workplace and individual air cooling systems as well as reduced working time.
<b>Occupational health and safety</b>	(KGHM Group) The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper safety devices. The risk of temporary work stoppages caused by serious accidents.	In the Parent Entity, occupational health and safety standards are in force (18001/OHSAS); regular training in occupational health and safety standards, programs to identify potentially dangerous events.
<b>Technology</b>	(Parent Entity) Technological risk related to the mining of deep underground copper ore deposits, under conditions associated with natural hazards.	R&D work and trials of alternate mining methods to currently-used copper ore mining technology, as well as ventilation, air conditioning and transport, prevention of rockbursts. Comprehensive on-line monitoring of people and mining machines.

(Parent Entity) Risk associated with gas hazards (methane and hydrogen sulfide).	Performance of controls of occurrence of gas hazards and development of rules of conducting works in the case of such risk. Individual employee safety measures and equipment, and measures of hydrogen sulfide concentration reduction and odor neutralization.
(Parent Entity) Risk associated with climatic threat, increasing in conjunction with exploitation depth.	Construction of additional ventilation shafts, use of central, workplace and personal air-conditioning, as well as shorter working hours. Increased automation and mechanization, based on the Industry 4.0 principles.

Risk is validated on a quarterly basis on a five-degree scale using an expert method and influences the Management Board's decisions. Risk data are analyzed in positive and negative categories on the 1-5 scale with respect to Health and Safety.

### **Labor Safety Council of KGHM Polska Miedź S.A.**

The Parent Entity's employees are represented in the Labor Safety Council whose functioning is based on the principles of mutual trust and cooperation. The Council is the opinion-making and advisory authority with respect to matters of occupational health and safety. It consists of 40 persons, including representatives of the employers (Divisions), representatives of the trade unions operating in the Company and the Company Voluntary Labor Inspectors of the Divisions of KGHM Polska Miedź S.A.

The duties of the Labor Safety Council include among others the regular evaluation of occupational health and safety, submitting opinions on preventive actions and formulating conclusions with respect to improvement of the working conditions.

At each facility of KGHM Polska Miedź S.A., the representatives of the employer, employees and medical services who are members of the Company Commissions for Occupational Health and Safety perform periodic reviews of the working conditions, assess occupational health and safety and draw conclusions with respect to improvement of such working conditions. Since 2016, current safety issues have been discussed at each meeting of the Supervisory Board of KGHM Polska Miedź S.A. In 2017, these matters were analyzed at 9 meetings of the Supervisory Board.



#### 4.6. ZERO HARM POLICY OF KGHM POLSKA MIEDŹ S.A.

Risk management, including the principle of prudence, is an essential element of our business. KGHM strives for minimization of any threats to its employees, local communities and the environment (**Zero Harm Policy**). We believe that the facilities with the highest level of safety are the best.

Employees of the copper ore mines of KGHM Polska Miedź S.A. work in difficult conditions and are exposed to a great number of various hazards. Natural risks connected with the underground mining of copper ore deposits are among the most important threats to the life and health of our employees. Specifically, threats connected with rock mass tremors and their potential impact in the form of rock bursts and roof collapses are considered to be very important in terms of safety as they may lead to serious or fatal accidents and damage to machinery, equipment, and underground infrastructure, as well as breaks in production. Since employee safety is our priority, we have instituted a number of preventive and protective measures. We conduct regular seismic observations in the mining divisions based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all the regions and mining areas. In 2017, there were 105 seismic monitoring stations. We perform ongoing assessment of the rock mass and indicate the zones particularly susceptible to bursts. We carefully select the appropriate mining systems and directions, as well as the optimum order of ore extraction. We apply pro-active methods to mitigate the burst hazard, using rock blasting techniques. In 2017, rock blasting techniques aimed at relief of stress in rock masses were used 7,632 times in order to prevent bursts. We have been continuously implementing state-of-the-art organizational and technical solutions developed to improve the safety of our teams.

The Company follows an integrated model of occupational health and safety management, which comprises the following entities:

- the Company Occupational Health and Safety Service;
- the Mine-Smelter Emergency Rescue Division of proved world-class excellence,
- Miedziowe Centrum Zdrowia S.A., an entity providing specialized medical services;
- a research and development unit, KGHM Cuprum Sp. z o.o.;
- CBR and the accredited laboratory of Centrum Badań Jakości Sp. z o.o.;
- an entity specialized in rescue services equipped with its own medical facilities.

#### 4.7. GOOD COOPERATION PRACTICE WITHIN THE KGHM GROUP

Our employee safety is the top priority of the value hierarchy of the KGHM Group, as well as one of the pillars of our Corporate Responsibility Strategy. We do focus our principal research and development initiatives on the improvement of occupational safety. We comply with all effective standards and legal regulations in the area of occupational health and safety, and in selected areas we additionally apply our own, even more rigorous rules. In view of our business profile, impact on the environment and care for our employees, we set ourselves ambitious goals, the achievement of which translates into concrete effects in terms of improvement of work and occupational health and safety conditions. Our focus on respect for life and health improves our efficiency and effectiveness and ensures continuity of production, which is essential in the mining and metallurgy industry. Moreover, the highest standards in the area of Occupational Health and Safety pertain not only to staff employed at our enterprise, but to all entities providing services for the benefit of our Company.

#### **Declaration of diversity of KGHM Polska Miedź S.A.**

The KGHM Group does not possess a common Diversity Policy in written form. Taking into consideration the international nature of our activities, cultural differences and specific natures of the Group's industries, each company has been performing a number of actions in the area of respect for diversity. In view of the above, an independent Diversity Declaration has been developed at KGHM Polska Miedź S.A.

In our activities, we comply with the prohibitions of discrimination and take actions in order to ensure respect of diversity in the workplace. Our organizational culture is based on mutual respect, equal treatment, access to development opportunities and optimal use of employee talent regardless of, among others, ethnic origin, age, gender, nationality, citizenship, religion, political beliefs or trade union membership. We aim at ensuring reasonable diversity both in the selection of personnel (also in the recruitment process), with special focus on knowledge, technical competence and social skills.

The Parent Entity guarantees the implementation of the diversity principle across the KGHM Group and promotes and popularizes these values among the stakeholders and business partners.

Further information on our approach to diversity in the supervisory bodies is presented in appendix 1, Corporate Governance Statement to the Management Board's Report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017.

<https://www.gpw.pl/best-practice>

<http://www.kghm.com/en/investors/corporate-governance/governance-compliance>

### **Declaration of Human Rights Protection of KGHM Polska Miedź S.A.**

The KGHM Polska Miedź S.A. Group does not possess a common Human Rights Protection Policy. Taking into consideration the international nature of our activities, cultural differences and specific natures of the Group's industries, each company has been performing a number of actions to protect human rights. Given that, the independent Declaration of Human Rights Protection has been defined at KGHM Polska Miedź S.A.

At KGHM Polska Miedź S.A., we declare that we recognize, respect and promote human rights everywhere we conduct our business. We do not tolerate any violations of human rights. We undertake to conduct our operations in compliance with the Universal Declaration of Human Rights of the United Nations and with other norms and standards, including legislation and implementing regulations of the target countries of our business activity.

KGHM Polska Miedź S.A. is a global organization, aware of the importance of respect for human rights in the modern world. We accept responsibility for protection and respect for fundamental human rights and implement such standards across the KGHM Group. We assume that respect for human rights by other entities is a vital element of mutual relationships.

In compliance with the adopted principles, each employee and collaborator of the KGHM Group is responsible for ensuring that in his/her closest environment human rights are respected, and any infringements are reported according to the agreed procedure.

This Declaration is the basis of our approach to human rights, as it supplements and consolidates the human rights issues considered in the Company's other policies and guidelines, such as the Code of Ethics, the Diversity Declaration, HR and the Responsible Supply Chain Policy.

Implementation:

- each employee provided with access to a computer receives the accepted declaration electronically, via the Company Document Circulation System;

- each employee with no access to a computer for work purposes are informed of the declaration implementation via the extranet (accessible to all employees) and by their direct superior.

Reporting of infringements:

- an employee has the right and obligation to report an infringement of the Declaration of Human Rights Protection to his/her direct superior;
- employees may report infringement to the trade unions operating in the Company (in KGHM Polska Miedź S.A. there are 15 trade unions, which have established 48 company trade organizations; the trade union membership percentage ratio in the Company is 88.6%). KGHM Polska Miedź S.A. acts in compliance with the Collective Bargaining Agreement,
- infringements may be reported to the Occupational Health and Safety Commission,
- the Employee Councils active within the Company, whistleblowers,
- the National Labor Inspectorate (PIP).

### Company Collective Bargaining Agreement (CCBA) of KGHM Polska Miedź S.A.

The CCBA specifies the conditions to be met by the employment relationship, in particular: working hours, recreational and additional leave, remuneration rules, protection of working conditions, benefits associated with employment and rules of their assignment and provision, benefits for former employees, old-age and disability pensioners and members of their families, and the mutual obligations of the parties to the Agreement.

Selected GRI G4 indicators for 2017 present actions in the areas of employment and human rights.

### Total number of employees

Total number of employees (head count):	Number of employees	
	KGHM Group	KGHM Polska Miedź S.A.
<b>Total</b>	<b>15 737</b>	<b>18 198</b>

## Total number of new employee hires and employee turnover

New hires in 2017:	Total number of employees (head count) by:	Number of employees (head count)		Number of new employee hires		Rate of new employee hires (head count)	
		KGHM Group	KGHM POLSKA MIEDŹ S.A.	KGHM Group	KGHM POLSKA MIEDŹ S.A.	KGHM Group	KGHM POLSKA MIEDŹ S.A.
		<b>Total</b>	<b>15 737</b>	<b>18 198</b>	<b>1 674</b>	<b>1 068</b>	<b>10,64%</b>
Employee turnover in 2017:	Total number of employee turnover (head count) by:	Number of employees (head count)		Number of employee turnover (head count)		Rate of employee turnover	
		KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.
		<b>Total</b>	<b>15 737</b>	<b>18 198</b>	<b>1 798</b>	<b>976</b>	<b>11,43%</b>

## Total number of injuries by gender

	KGHM Group		KGHM Polska Miedz S.A.	
	Women	Men	Women	Men
Total number of work accidents (incidents)	62	136	3	297
Number of fatal accidents (incidents)	-	-	-	2
Number of severe accidents (incidents)	-	-	-	4
Number of mild accidents (incidents)	60	116	-	294
Total number of people injured in accidents	<b>198</b>		<b>300</b>	

## Average hours of training per year per employee

	Total number of training hours	
	TOTAL	
	KGHM Group	KGHM Polska Miedź S.A.
Total number of training hours	98 619	487 241
Number of employees (figures the same as the data from the G4-10 ratio)	15 737	18 198
Average number of training hours	6,27	26,77

## 5. ACTIVITIES RELATED TO SOCIAL ISSUES

**We are a global company with rich mining and metallurgy traditions, which is open to new directions of development. At the present moment, due to its size, the KGHM Group may affect the well-being of communities, regions and even countries – our adopted values allow us to exert such influence in a wise and responsible manner.**

In relations with clients, employees, external partners and local communities, we comply with the laws which are in effect in the countries in which we are conducting our operations. We also comply with voluntarily adopted obligations resulting from, among others, ISO standards as well as membership in international organizations, such as.: International Copper Association, European Precious Metals Federation, Eurometaux, Euromines, London Bullion Market Association, European Technology Platform on Sustainable Mineral Resources, European Innovation Partnership, Federation of European Mineral Programs and national organisation, such as.: Association of Stock Exchange Issuers, Association of Non-Ferrous Metals Engineers and Technicians, Economic Chamber for Non-Ferrous Metals and Recycling, Polish Committee of the World Mining Congress Association, Polish-Canadian Chamber of Commerce, Economic Chamber for Advanced Technologies, Polska Miedź Employers' Association. We do not participate in undertakings which involve breaking the law and put KGHM's reputation at risk. We avoid such situations and we prevent them by reporting each and every instance of breaking or breaching the law. We are aware of the fact that any actions contrary to the law entail commensurate sanctions.

### **Our rules:**

- We comply with the regulations of the commonly binding law as well as the internal regulations in effect in KGHM.
- We keep the obligations set forth in the agreements, and we keep our verbal promises which we make to our clients, suppliers and social partners.
- We perform our professional duties in a reliable manner.
- We do not offer and accept bribes or other material or personal benefits; we do not initiate cooperation with companies with doubtful reputation.

**We take responsibility for the quality of our products and services**

According to an overriding document – **the KGHM Group Code of Ethics** – as the leading global producer of metals, KGHM bears responsibility for the quality of its products and services. Our technological processes employ the highest standards, and they are being continuously perfected by us. We hold world-renowned certificates which attest to the highest quality of our processes and products. In our daily work, each one of us is doing their best to create products which will be appreciated by our customers, and which – due to their quality – will ensure long-lasting business relations.

Our rules:

- We manufacture products and provide services which meet the expectations and quality standards expected by our clients and consumers.
- We strive our best to ensure that our products and services meet safety, health and environmental protection criteria.
- We make every effort to ensure that our products exert the smallest possible impact on the environment during their life-cycle.
- We provide our clients and consumers with credible and adequate information on our products.
- We have implemented quality management systems in line with international requirements.
- We are actively striving to avoid obtaining raw materials and semi-finished products for our production facilities from illegal or unethical sources.

**The Corporate Social Responsibility Strategy** regulates the KGHM Group's approach to achieving the position of a trusted and stable business partner through:

- extensively promoting KGHM in domestic and international industry initiatives (related to sustainable development),
- communication support in maintaining and developing trade cooperation with long-term and stable partners,
- development of cross-sectoral cooperation,
- attaining the position of the “investor of choice” thanks to compliance with principles of sustainable development,
- respecting human rights and the expectations of local communities.



## 5.1. KGHM GROUP'S COMPETITION LAW POLICY

The KGHM Group has implemented the Competition Law Policy. Their purpose is to establish the operational framework for the system that will enable the Group to maintain compliance with the competition laws prevailing in all the countries in which we operate.

## 5.2. KGHM GROUP'S COMPLIANCE POLICY

### Ethical standards and the procurement process

We are guided by high ethical standards across our procurement process. The selection principles, which are transparent and apply equally to all the suppliers, have been gathered in the Code of Ethics. The Code's main message is to warrant the professionalism and honesty of the persons responsible for the performance of the procurement processes. The document also describes aspects such as preventing conflicts of interest as well as equal treatment of suppliers to ensure compliance with the principles of free competition. KGHM's purpose is to promote awareness of preventing dishonest market practices, therefore we are investing in educational measures.

### Procurement policy and supply chain practices

The procurement procedures in effect in KGHM are precisely defined in the adopted Procurement Policy and business partners are selected in accordance with the principle of equal treatment of business entities.

KGHM's production plants have implemented the ISO 14001 environmental management system, which means that their operations are safe for employees and the environment.

The company is auditing its suppliers from the standpoint of compliance with human rights and regulations governing the hiring of minors.

Currently, KGHM is drafting a separate code of conduct for the suppliers which will regulate all the key issues associated with collaboration, including issues related to corporate social responsibility.

### 5.3. THE RESPONSIBLE SUPPLY CHAIN POLICY IN THE KGHM GROUP

The KGHM Group complies with the highest standards of production, business ethics and business activity. We are guided by those principles across our value creation chain, which is reflected in the Code of Ethics of the KGHM Group. We are fully aware of the fact that selection of responsible suppliers, especially as regards the sourcing of conflict minerals (such as gold, tin, tungsten and tantalum), is of key importance for conducting activities oriented towards sustainable development. The document which regulates the foregoing issues is the **Responsible Supply Chain Policy**. Its purpose is not only to guarantee the selection of only responsible suppliers, especially as regards sourcing the so-called conflict minerals (gold, tin, tungsten and tantalum) but also to ensure that the goods and services procured by us do not contribute to financing terrorism and are manufactured or provided in compliance with basic human rights, labor standards, standards of environmental protection and preventing corruption.

The Parent Entity has fully implemented an internal responsible gold supply chain management system which is comprised of the Responsible Supply Chain Policy in the KGHM Group and the Responsible Gold Supply Chain Audit Procedure in KGHM Polska Miedź S.A. Our system is subject to independent external audit to ensure its compliance with LBMA Responsible Gold Guidance and the LBMA (The London Bullion Market Association) certification.

In order to ensure compliance with due diligence principles, the KGHM Group implemented the internal responsible supply chain management system which is comprised of the scope of the system's application, the system's organization, the participants of the process, criteria for acknowledging a business relationship as being the high risk relationship, a supply chain audit process that takes into account the Know Your Customer process, transaction monitoring, documentation storage and employee training. The management of the process has been entrusted to the Compliance Officer reporting directly to the Company's Management Board. KGHM has also set up an e-mail address, [conflict.minerals@kghm.com](mailto:conflict.minerals@kghm.com), to which any comments and observations related to the gold supply chain may be sent by employees, business partners and other stakeholders.

In 2017, 9 suppliers passed the Responsible Gold Supply Chain Audit Procedure with a positive result.

A description of the policy for the Group's business partners may be found at

<http://www.kghm.com/en/our-business/products/responsible-supply-chain>

The Group identified the following significant risks and their mitigations in the responsible supply chain area:

	<b>RISK</b>	<b>MITIGATION</b>
<b>Logistics and supply chain</b>	(KGHM Group) The risk of restricted access to transportation infrastructure, which affects the steady flow of resources and materials required in production and the delivery of finished products.	Supply flow management and maintenance of minimum levels of resources and materials inventories required in production. Development of own logistical base.

Validation of risk is conducted once per quarter on the one-to-five scale by the expert method, and it has an impact on the decisions made by the Management Board. The risk data are analyzed in positive and negative categories on the 1-5 scale in terms of Reputation and Stakeholders.

#### 5.4. SOCIAL DIALOGUE AND COOPERATING WITH LOCAL COMMUNITIES IN THE KGHM GROUP

**Approach to management in the area of relations with market stakeholders – whenever we operate or intend to operate, we hold meetings with local authorities. Due to the fact that KGHM Polska Miedź S.A. conducts its operations on several continents, it encounters various cultures and interacts with local indigenous communities.**

**Maintaining proper relations is one of our priorities. We always act in accordance with the law and we care for KGHM’s reputation.**

**The Corporate Social Responsibility Strategy** regulates the KGHM Group’s approach to forging collaboration with local communities and internal organizations through:

- building the principles of long-term cooperation for social engagement,
- determining the principles for conducting dialogue with local communities and gaining social approval for conducting the activity (referred to as “license to operate”) on the basis of best business practices,
- implementing uniform and transparent principles governing charitable activity and sponsorship – building the position of a global leader who cares about the common good,
- creating social involvement programs to better understand the stakeholders’ expectations and respond to their needs,
- supporting KGHM’s key investment processes at all stages of their development.

**Approach to management in the area of relations with local communities – in every area in which we operate we feel responsible for local communities, and we analyze the social and cultural aspects of our impact.**

The binding document for the KGHM Group regulating issues related to relations with local communities is the Code of Ethics. Pursuant to the Code of Ethics, we stimulate social and economic development in the places in which we conduct our operations. We do this by taking actions as part of our Corporate Social Responsibility (CSR) policy, including actions related to environmental protection, responsible investing, adding jobs, and also through sponsorship to contribute to improvement of the quality of life of local communities and their residents. When collaborating with local communities, we build their trust in KGHM and we contribute to strengthening the KGHM brand.

**Our rules:**

- We respect the cultures and habits of the countries or regions in which we operate.
- When making business decisions, we keep in mind local communities.
- We actively listen to the voices of local communities and we take their opinions into consideration.
- We are honest when negotiating with local communities.

**SOCIAL DIALOGUE**

In 2017, the Parent Entity held talks with local communities as part of collaboration on the extension of the Źelazny Most Tailings Storage Facility to include the Southern Quarter. In 2017, the Company signed Memorandums of Agreement with the Rudna and Grębobocice municipalities, under which funds will be transferred by 2019 which are earmarked for projects in the following areas: holidays for children, healthcare, spa holidays for adults, revitalization of parks and leisure areas, cleaning ditches, securing rivers, protection of soil and crops from the harmful impact of industry, and protection of cultural heritage sites.

A Memorandum of Agreement was signed with the Polkowice municipality for cooperation with KGHM Polska Miedź S.A. in the following areas: organizing and co-funding summer and winter holidays for children and youth, healthcare, protection of soil and crops, identifying alternative heating solutions, wider Internet and mobile telephone access, support in preparation of recruitment processes conducted by the Company and ensuring safety of the local communities directly adjacent to the Źelazny Most Tailings Storage Facility.

In 2017, the Parent Entity also signed a partnership agreement with Gaworzyce township for renovation of the road in Kłobuczyn which was destroyed during an intensive hail and rainstorm in July 2016.

As part of its activities related to corporate social responsibility, the Company does not only help local governments. In 2017, the Company was involved in helping the victims of severe storms. The KGHM Polska Miedź Foundation transferred funds of PLN 0.5 million to individuals affected by the storms in the Kujaw-Pomeranian and Pomeranian voivodeships, to lease residential containers to provide temporary accommodation and to build a playground for children. In addition, the Company provided building materials for reconstruction of residential buildings destroyed by severe storms in both voivodeships.

In 2017, thanks to KGHM Polska Miedź S.A.'s help, 5 families from Kazakhstan were able to relocate to Poland and make Poland their home. The company offered employment to the repatriates, as well as aid in finding a place to live, daily support in adaptation to Polish conditions and the KGHM Group's work environment, and Polish language lessons.

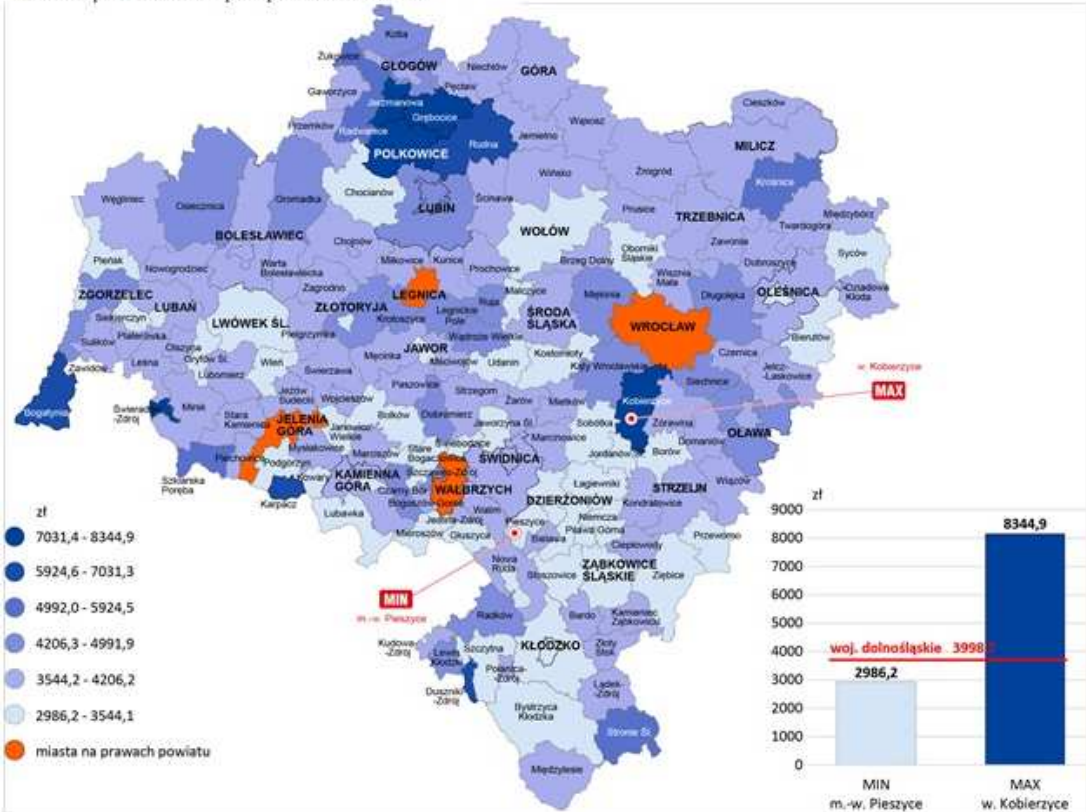
Due to the strong impact of the operations of KGHM Polska Miedź S.A.'s operations, the Company's strong interactions with local communities as well as due to the importance of social dialogue, on 1 July 2017 the CSR and Social Dialogue Department was established, whose tasks include, among other things, cooperation with local communities.

KGHM Polska Miedź S.A. cooperates with the surrounding municipalities in, among others, their development strategies, and it supports their development through payment of taxes or hiring residents of adjacent towns. The Company has entered into several social agreements whose purpose is to increase the living standards of the residents. The Company's representatives are participating in meetings and sessions of city and municipality councils, and in events organized by local governments. Every year, mayors of municipalities, towns and cities participate in festivities organized to commemorate the Miners Day and Metallurgists Day holidays. We also provide financial support to municipalities through sponsorship of events organized by local governments. The KGHM Polska Miedź Foundation funds summer and winter holidays for children as well as environmentally-oriented camps (green schools) or trips to a swimming pool.

Social dialogue is embedded in the Company's sustainable development strategy.

In March 2017, the Parent Entity established a team for negotiating an agreement between KGHM Polska Miedź S.A. and the Żukowice municipality related to KGHM's planned investment projects. The team's purpose is to obtain regulatory consent for a change in the local zoning plan and study for the construction of the GG - 2 Mine Shaft. The Głogów Głęboki-Przemysłowy (aka Deep Głogów) mine shaft is the largest deep mining project in Europe in terms of mineral resources. The mining of the deposit will enable KGHM to maintain its current levels of extraction in Poland for several dozen years, and it will even further increase the wealth of the Copper Basin's residents.

Municipal income<sup>3</sup> per person in 2016



<sup>3</sup> excluding income of municipalities which also have the status of 'town' with the administrative rights of a county

In mid-December 2017, the Ministers of Environment and of Energy, Mining and Petroleum Resources of the Province of British Columbia made a decision to refuse to issue an environmental certificate for the planned Ajax mine. The Ajax Project is located in Canada's British Columbia Province 400 km north-east of Vancouver, near the city of Kamloops. The project assumes the construction of an open-pit, copper and gold mine along with an ore processing plant and accompanying infrastructure. The shareholders of the project are KGHM Polska Miedź S.A. (80%) and Abacus Mining & Exploration Inc. (20%) with its registered head office in Vancouver. Currently, KGHM is waiting for the decision of the federal authorities, in which the Canadian authorities will express their final opinion on the development of the Ajax project in its current form. KGHM was unable to sign a memorandum with

local First Nations to guarantee their share in the benefits from mining the resources on the areas that belong to them.

The Group defined the following significant risks and their mitigations in the social dialogue area:

	<b>RISK</b>	<b>MITIGATION</b>
<b>Stakeholders</b>	(KGHM Group) The risk of negative ad campaigns and the risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.	Execution of the CSR Strategy, close cooperation with government bodies, meetings and negotiations with stakeholders, informational campaigns, conferences, publications.  Close cooperation and relations with the local communities.

The risk is validated on a quarterly basis on a five-degree scale using an expert method and influences the Management Board’s decisions. The risk data are analyzed in positive and negative categories on a 1-5 scale in terms of reputation and stakeholders.

**5.5. FOUNDATIONS, SPONSORSHIP AND CSR ACTIVITIES IN THE KGHM GROUP**

Impact of the Parent Entity on the region through foundations and sponsorship activities.

KGHM is a good neighbor and trustworthy investor. We support local communities, social organizations and institutions related to science, culture and sport. We promote an active lifestyle and help people in need.

One of the pillars of our efforts in the area of corporate social responsibility is the [KGHM Polska Miedź Foundation](#) which is engaged in conducting *pro publico bono* and charitable activities. It helps in performance of socially useful projects, and it supports people who are experiencing hardships.

**KGHM Polska Miedź Foundation**

The KGHM Polska Miedź Foundation was established in 2003 to continue long traditions of *pro publico bono* activities conducted by its Founder – KGHM Polska Miedź S.A., and to implement local and regional initiatives and projects of national and global reach.

The Foundation supports important social initiatives and interesting projects in the following four areas: health and safety, science and education, sports and recreation, and culture and tradition.

In 2017, the KGHM Polska Miedź Foundation made every effort to identify various social needs, in line with the assumptions of its articles of association and within its capabilities. In order to make it possible, in 2017, the scope of the Foundation's objectives described in its articles of association was expanded. Support was granted in the form of cash donations in a total amount of PLN 15,622,546.95, including PLN 14,641,850.96 for performance of 432 projects and PLN 980,695.99 for 161 private individuals.

In addition, in 2017, the KGHM Polska Miedź Foundation, as part of its activities described in its articles of association, funded winter and summer holidays and "Green Schools" for more than 270 children from Jerzmanowa, Kotla and Żukowice municipalities and from the communities located next to the future Southern Quarter of the Żelazny Most Tailings Storage Facility. The Foundation earmarked the total amount of PLN 475,900.00 for that purpose.

In 2017, the key area of the KGHM Polska Miedź Foundation's operations was the promotion of health and safety. As part of these activities, the Foundation provided financial support to several healthcare institutions and private individuals. Most of the funds were earmarked for purchase of state-of-the-art equipment and specialist medical equipment for hospitals, rehabilitation centers and other healthcare facilities. This resulted in a significant improvement of quality and effectiveness of pro-health prophylactics.

More information on the activities and projects of the KGHM Polska Miedź Foundation may be found at the Polish language website <http://www.fundacjakghm.pl>

### **Revimine Innovation and Cultural Heritage Foundation**

The Revimine Foundation was established in 2014 by KGHM Polska Miedź S.A. to conduct activities related to the protection of cultural heritage as well as of the mining and metallurgical traditions of the Copper Basin. The Foundation supports undertakings and initiatives aiming at technological, environmental and social revitalization of post-industrial areas that are no longer used for industrial purposes, and other areas that are significant from that standpoint, and restoration of the environment.

On 28 April 2017, during the festivities related to the Metallurgists Day holiday in the Copper Basin, the process of building the Center for Science and Preservation of the Polish Copper Industry's Heritage was symbolically launched at the Head Office of KGHM Polska Miedź S.A..

More information on the Revimine Foundation may be found at <http://www.revimine.com>



## Polish National Foundation (Polska Fundacja Narodowa)

Since 2016, KGHM Polska Miedź S.A., along with a dozen or so of the largest Polish enterprises from key sectors of the economy, namely the power industry, transportation, logistics, mining, metallurgy, fuels, insurance, chemistry, financial sector, real estate and lotteries and gaming, is one of the founders of the Polish National Foundation.

The Company will support the Polish National Foundation for 2016-2026.

More information on the activity and projects of Polish National Foundation can be found at <http://www.pfn.org.pl>.

## Sponsorship

The Parent Entity is a patron of culture and science. It supports both local and nation-wide initiatives. It regularly supports a number of sports initiatives addressed both to children and to adults. It provides financing for professional and amateur sports activities. Hence, KGHM Polska Miedź S.A.'s cooperation with tennis player Łukasz Kubot or swimmer Radosław Kawęcki. The Parent Entity is the major sponsor (owner) of the Lubin Basin football team from Ekstraklasa, the top Polish professional league, but the company also supports handball and volleyball clubs (teams playing in top league games in Poland).

For years, KGHM Polska Miedź S.A. has been one of the sponsors of "Bieg Piastów", a cross-country skiing marathon, in Jakuszyce. KGHM also supports other running events – "Cross Straceńców" (Cross-Country Race of Desperados), the New Year running and walking event in Głogów, the Wolf's Trail Run to commemorate Polish "cursed soldiers", as well as local sports organizations whose members include employees of the KGHM Group.

To ensure transparent rules of taking decisions to support a given project, offers are analyzed by the Sponsorship Commission. Decisions issued by the Commission are recorded in a report, which is approved in each case by the President of the Management Board of KGHM Polska Miedź S.A.

The sponsorship activity of the KGHM Group is subject to regulations set forth in the Sponsorship Policy of KGHM Polska Miedź S.A. and the procedure of obtaining an opinion from the Sponsorship Commission.

**In 2017, the Company performed programs under the first operational objective of the Corporate Social Responsibility Strategy – forging collaboration with local communities and internal organizations**

## CSR Programs of KGHM Polska Miedź S.A.

**EKO-zdrowie [ECO-Health]** - a KGHM program launched 4 years ago under the corporate social responsibility policy. The health-promoting activities of the Program include cyclic Nordic Walking Activities for adults and swimming lessons for children from the Copper Basin.

The Nordic Walking project is addressed to people over 40 years of age. It assumes cyclic activities with the participation of qualified and experienced instructors in various cities and towns of the Copper Basin. The most recent training cycle that took place in the fall of 2017 lasted for more than 2 months and included ten activities of 1.5 hours each, with about 150 participants. The participants acquire or improve the basic skills of walking with poles and take part in lectures on Nordic Walking techniques and principles of healthy nutrition. So far, 6 editions of the activities have been held in which more than 1,000 people participated.

On the other hand, the swimming teaching program assumes cyclic basic swimming classes for children aged 5-10. The classes are held in indoor swimming pools in several cities and towns of the Copper Basin (Lubin, Legnica, Głogów, Polkowice and Rudna). In 2017, 300 children participated in the classes (60 children from each city or town) to learn basic skills of moving in water under the supervision of qualified instructors from swimming clubs of the region, holding licenses of the Polish Swimming Association. Children's participation in swimming pool activities organized by KGHM Polska Miedź S.A. is not only about learning, playing and getting used to water, but also provides many people with the opportunity to have their children learn with experienced professionals, where such classes would otherwise exceed the family budget. So far, 6 editions of the swimming learning activities have been held in which over 1,300 children participated.

### PERFORMANCE INDICATORS: 150 adult participants in 2017

### 300 participating children in 2017

**Strefa Innowacji [Innovation Zone]** - KGHM's success today depends on the innovation, involvement and collaboration of thousands of employees with diverse knowledge and experience. Identifying talented people and building their individual career paths adjusted to the possibilities and needs of the organization is the key for the further development of the company as a whole.

Of particular significance here is Strefa Innowacji, or a tool for creating leaders to meet the challenges of efficient management of the company at the international level. The objective of the program is to build an innovation culture at KGHM. We effectively encourage our employees to seek new

technological solutions. Due to this, many of them are inventors who determine the company's innovative character.

In 2017, under the Innovation Zone, support was granted to a nationwide project "Safe Hospital of Tomorrow" aiming to raise the awareness and increase the frequency of application of antimicrobial copper symbolized by the sign Cu+ in healthcare facilities. Partners in the performance of the task were the European Copper Institute and Miedziowe Centrum Zdrowia S.A.

Selected GRI G4 indicators for 2017 present the actions in the area of social issues:

List of donations from the KGHM Polska Miedź Foundation for institutions in 2017, by area:

No.	Areas	Donations	
		Awarded gross amount in PLN	Number of projects
1.	<b>Health and Safety</b>	5 252 605.65	99
2.	<b>Science and education</b>	1 402 894.16	51
3.	<b>Sports and recreation</b>	3 390 519.00	147
4.	<b>Culture and tradition</b>	4 595 832.15	135
<b>TOTAL</b>		<b>14 641 850.96</b>	<b>432</b>

A detailed list of donations granted to institutions is presented at <http://www.fundacjakghm.pl/>.

List of donations from the KGHM Polska Miedź Foundation for private persons by area:

Purpose of the donation	Donations		Number of donations	Location of donations		
	Granted gross amount in PLN	%		Copper Basin	Voivodeship of Lower Silesia (without the Copper Basin)	Other voivodeships (without the Copper Basin and the Voivodeship of Lower Silesia)
Healthcare	911 295.99	93	155	97	21	37
Social aid	69 400.00	7	6	5	0	1
<b>TOTAL</b>	<b>980 695.99</b>	<b>100</b>	<b>161</b>	<b>102</b>	<b>21</b>	<b>38</b>

A comprehensive summary of the donations granted by the Foundation in a given year is presented in the Annual Report on the Foundation's activities, which is available at <http://www.fundajakghm.pl/>.

A list of amounts granted by KGHM Polska Miedź S.A. under Sponsorship by area:

Area	Granted amount in PLN
Sport	22 299 486.00
Culture	2 428 200.00
Science	890 151.06
<b>TOTAL</b>	<b>25 617 837.06</b>

The amount granted by KGHM Polska Miedź S.A. under Sponsorship in 2017 was: **PLN 6 526 617.00.**

## 6. ACTIVITIES AIMED AT PROTECTING THE NATURAL ENVIRONMENT

This part presents policies in the areas of employment and human rights applied in the KGHM Group and the Parent Entity, with reference to the rules for following them with due diligence and the risk management system as well as a description of the results of the activities with relevant figures (including selected GRI G4 indicators).

**“KGHM Polska Miedź S.A., as one of the largest socially responsible companies, takes actions to reduce its impact on the environment as far as possible. The concept of sustainable development, including in particular respect for the natural environment, is one of the most significant values which guide the Company’s activities.”**

**We care for the natural environment, minimizing our adverse impact.**

The KGHM Group is an innovator that implements environmentally-friendly technologies and business solutions. It complies with international environmental standards and cooperates with the authorities to raise standards aimed at even better protection of the health of residents and natural resources in the region. The KGHM Group cares for safe working conditions and attempts to maintain its infrastructure in fully operational condition. This leads to a reduction in the number of accidents and failures that could have an adverse impact on the environment.

The Group’s responsibility for the environment is shown by a number of actions taken by it to reduce its environmental impact.

According to the assumptions of the **Code of Ethics**, the KGHM Group is aware of the fact that the industry in which it operates exerts a considerable impact on the natural environment. At KGHM, we follow a pro-active policy of caring for the natural environment and complying with relevant local regulations. Caring for the natural environment contributes to the health of our employees and local communities.

### **Our rules:**

- We minimize the impact of our operations on the natural environment.
- We adjust our activities to local environmental requirements.
- In the manufacturing process, we use natural resources in the optimum way.
- We care for optimum resource management and we are sensitive to any signs of wastage – also with regard to the resources used at work.

In addition, in accordance with the assumptions of the Corporate Social Responsibility Strategy in the KGHM Group, the environmental aspect is of fundamental importance for the fourth objective – to build an image of the KGHM Group as friendly to human health and the environment.

Under activities in the above area, the Company:

- carries out CSR Programs: Promoting Health and Counteracting Environmental Hazards – ECO-Zdrowie, implementing initiatives for protecting innovation and the natural environment – Strefa Innowacji,
- strengthens the role and activities of KGHM in the area of environmental protection,
- develops programs and initiatives to minimize environmental impact (emissions of greenhouse gases, energy efficiency, waste management and restoration of areas after closing mines, use and protection of water).

The KGHM Group does not possess a defined common Diversity Policy for its activities. Considering the diversity and specific natures of the Group's industries, each company takes a variety of actions to minimize its impact on the natural environment. The documents that regulate environmental issues at the level of the KGHM Group are the Code of Ethics and the Corporate Social Responsibility Strategy. For this reason, KGHM Polska Miedź S.A. has defined its own separate environmental policy.

## **6.1. ENVIRONMENTAL POLICY AT KGHM POLSKA MIEDŹ S.A.**

Care for the natural environment is combined with our business model in which, through all the segments making it up – from exploration to reclamation – we apply standards to ensure that our operations are conducted in a safe and environmentally-friendly manner.

### **6.1.1. THE MAIN ASSUMPTIONS OF THE ENVIRONMENTAL POLICY:**

- maintenance of fully operational machines and equipment protecting the environment,
- keeping abreast of new technical developments to reduce the environmental impact of the industry and implementing them as needed and possible,
- development of waste management techniques and a steady increase in the share of managed waste in the total waste amount,
- ongoing cooperation with local communities and authorities for the benefit of the environment,

- cooperation at the level of the Ministry of Environment in the implementation of the country's environmental policy,
- cooperation in preparing a BAT (Best Available Techniques) reference document for the non-ferrous metals industry,
- cooperation with the European mining and non-ferrous metals industries within the framework of industry organizations when drawing up European Union environmental documents.

As a socially responsible company, we cannot and we do not want to evade responsibility for the state of the environment. The extraction of copper and its subsequent processing at all production levels is inextricably associated with affecting particular components of the natural environment. Compliance with stringent legal standards is possible due to the systematic modernization of existing installations and the construction of new ones which reduce and minimize the impact on the environment.

The Group has identified material risks and their mitigating factors in the area of natural environment.

	<b>RISK</b>	<b>MITIGATION</b>
<b>Natural environment and climate change</b>	(KGHM Group) The extraction and processing of copper ore at all stages of production has an unavoidable impact on various parts of the natural environment. Risk related to pricing and the placing of limits on CO <sub>2</sub> emissions.	Compliance with rigorous environmental standards imposed by law is possible thanks to the systematic modernisation of environmental protection installations, both those built in the past as well as new investments in this regard.  (In the Parent Entity a CO <sub>2</sub> Emissions Management System has been implemented as well as environmental management standards ISO 14001).
	(Parent Entity) Risk related to evaluating air quality in Lower Silesia (exceeding the average annual target level of arsenic in suspended dusts PM <sub>10</sub> ).	Carrying out the list of actions arising from Air Protection Programs.

<b>Waste management</b>	(Parent Entity) Risk of the inability to store mine tailings.	<p>Operation, construction and development of the tailings storage facility pursuant to the operating instructions. Cooperation with a Team of International Experts (TIE) and the General Designer, introduction of Observation Methods during development recommended by the TIE, based on the evaluation of geotechnical parameters obtained from the results of monitoring performed, which allow conclusions to be made regarding the behaviour of the constructed/operated facility.</p> <p>Introduce the LCA model and closed-circuit management.</p>
<b>Availability of materials and utilities</b>	(KGHM Group) Risk related to the lack of availability of utilities (electricity, natural gas, water).	<p>Ensure back-up systems for key utilities and on-going evaluation of the security of power systems. Conduct a variety of investments aimed at strengthening energy security.</p>
<b>Production and infrastructure</b>	(KGHM INTERNATIONAL Group) Geotechnical risks in open-pit mines (wall stability) and in underground mines.	<p>Geotechnical risk in open pit mines (stability of slopes) and in underground mines. Risk of failure to achieve the assumed leach extraction performance parameters.</p>
<b>Law and regulations, taxes</b>	(KGHM Group) The risk of changes in the regulatory environment in areas such as geological-mining law, environmental protection, energy and corporate law.	<p>Monitoring of legal changes in individual jurisdictions and active participation in legislative processes. Taking preemptive actions to adapt to organisational, infrastructural and technological changes. Carrying out activities related to the implementation of an ISO 50001-compliant energy management system in KGHM Polska Miedź S.A.</p>



The risk is validated on a quarterly basis on a five-degree scale using an expert method and influences the Management Board's decisions. Risk data are analyzed in positive or negative categories on the scale of 1-5 in the Natural Environment dimension.

### **6.1.2. MEASURES REDUCING THE ENVIRONMENTAL FOOTPRINT OF THE KGHM GROUP**

Domestic companies of the KGHM Group operate in compliance with environmental regulations. The companies that are obliged to do so have valid environmental permits. Among the Group's domestic companies, Energetyka Sp. z o.o. was the company that exerted the greatest impact on the environment and it incurred the highest environmental fees in 2017. They were more than PLN 3 million and were related mainly to charges for water consumption and sewage disposal (over PLN 2.0 million) and emissions of pollutants into the air (PLN 1.1 million). In 2017, the Company implemented, and over the coming years it will continue to implement, the modernization projects of four CHP plants: E-1 Lubin, E-2 Polkowice, E-3 Głogów, E-4 Legnica, in respect to the adaptation of installations to the standards arising from the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) for large combustion power plants pursuant to Directive 2010/75/EU of the European Parliament and of the Council.

### **6.1.3. MEASURES REDUCING THE ENVIRONMENTAL IMPACT OF THE KGHM INTERNATIONAL LTD. GROUP.**

In 2017, entities of the KGHM INTERNATIONAL LTD. Group also conducted activities related to protection of the environment.

In the case of the Robinson mine (USA), these activities focused on monitoring air and water quality, managing waste and restoring mining areas; approximately PLN 32.2 million was spent for these purposes, including PLN 2.8 million on account of the environmental permits granted, including PLN 0.01 million in the form of emission fees.

In the Carlota mine (USA), activities related to the closure of the mine and environmental monitoring were carried out, with expenditures for this purpose amounting to about PLN 5.9 million, including PLN 0.2 million in the form of emission fees.

Also, the Franke mine (Chile) conducted activities related to dust control, waste management and environmental impact monitoring, with total expenditures of approximately PLN 2.6 million. There is no system of environmental emissions fees in Chile.

Expenditures in other operations amounted to roughly PLN 1.0 million.

The main causes of environmental impact are production operations and auxiliary power generation activities. They are related to fees for waste and emissions as well as fees for utilities, mainly water. The KGHM Group does not have in place a shared Energy Policy. Because of the diversity and the unique characteristics of the industries in which the Group operates, each company conducts a number of energy management activities. An Energy Policy was developed in KGHM Polska Miedź S.A.

#### **6.1.4. ENERGY POLICY OF KGHM POLSKA MIEDŹ S.A.**

The primary objective of KGHM Polska Miedź S.A. in respect to energy management is to manage energy in a rational manner while ensuring the security of energy supply to facilities and installations within the Company's production line. The process of implementing the standard of energy utility management in accordance with the ISO 50001 standard began with the adoption of the Energy Policy by the President of the Management Board of KGHM Polska Miedź S.A. (28 November 2016).

The Energy Policy contains the most important assumptions of KGHM Polska Miedź S.A.'s activities in the area of energy management. In performance of its guidelines, we are committed to:

- providing all of the resources required to achieve the planned objectives and tasks in the energy management area,
- operating in accordance with legal regulations and other energy management requirements,
- developing desirable attitudes, building energy awareness and constantly improving the skills of the Company's employees and business partners who carry out tasks for the benefit of KGHM Polska Miedź S.A.
- preventing waste in the area of energy consumption,
- cooperating with partners and suppliers in procurement of material goods and services, including energy efficiency as an important selection criterion.

The assumptions adopted in the Energy Policy of KGHM Polska Miedź S.A. are implemented by all employees of the Company, as well as other persons and entities performing tasks for its needs.

Application of the Energy Policy in KGHM Polska Miedź S.A. has resulted in introducing several regulations and taking actions to ensure that energy management is rational, legal and includes, among others:

- rules of conduct in the investment and procurement process,

- energy reviews carried out by KGHM's Divisions and the Head Office in accordance with the approved methodology,
- approved objectives and tasks,
- implementation of the regulations: Legal and other requirements in the field of power generation and evaluation of their conformity for purposes of the Energy Management System at KGHM Polska Miedź S.A.

## 6.2. ENERGY MANAGEMENT SYSTEM (SZE) IN KGHM POLSKA MIEDŹ S.A. AND ENERGETYKA SP. Z O.O.

In 2017, the Parent Entity and Energetyka Sp. z o. o. implemented **the Energy Management System (SEZ)** compliant with the ISO 50001 standard.

As a result of the implementation of SZE and application of the Energy Policy, the costs of energy audits are avoided, which must be performed pursuant to the Energy Efficiency Act if no certified Energy Management System is in place as imposed by the Energy Efficiency Act.

As a result of the conducted energy reviews, 52 energy efficiency improvement targets have been set. 72 energy tasks were defined and the key energy performance measures were specified. The implementation of RES also reduces the costs related to the purchase and consumption of power utilities. In 2017, savings in this respect amounted to about 78 GWh of energy (236 GWh of primary energy). By 2020, we are planning to achieve further savings of 230 GWh (700 GWh of primary energy). At the same time, we are reducing greenhouse gas emissions, thus lowering the cost of purchasing CO<sub>2</sub> emission rights, and most importantly, by implementing standards and improving procedures, we are also improving occupational safety and increasing the competence of our employees.

### 6.3. WATER AND SOIL USED IN KGHM POLSKA MIEDŹ S.A.

The Company ensures that the quality of local water resources is not affected by its activities. Water is an important component of the production process. It is used, among others, to enrich ore (by flotation), to transport waste by water, and also in the production process in smelters. The largest quantities of water are used in flotation (the process involves separation of minerals from the waste rock and forming the concentrate by compacting). Total water consumption in the Polish KGHM Group companies alone exceeds 20 million m<sup>3</sup>. This is why for us water is a very valuable resource in the production processes.

In Poland, the flotation process mainly uses water from mine drainage. It then circulates in a closed circuit between the Ore Processing Plants and the Źelazny Most Tailings Storage Facility. In each of our plants we operate technologically advanced wastewater treatment plants. We also do not allow water from the production process to get into surface waters or to contaminate groundwater.

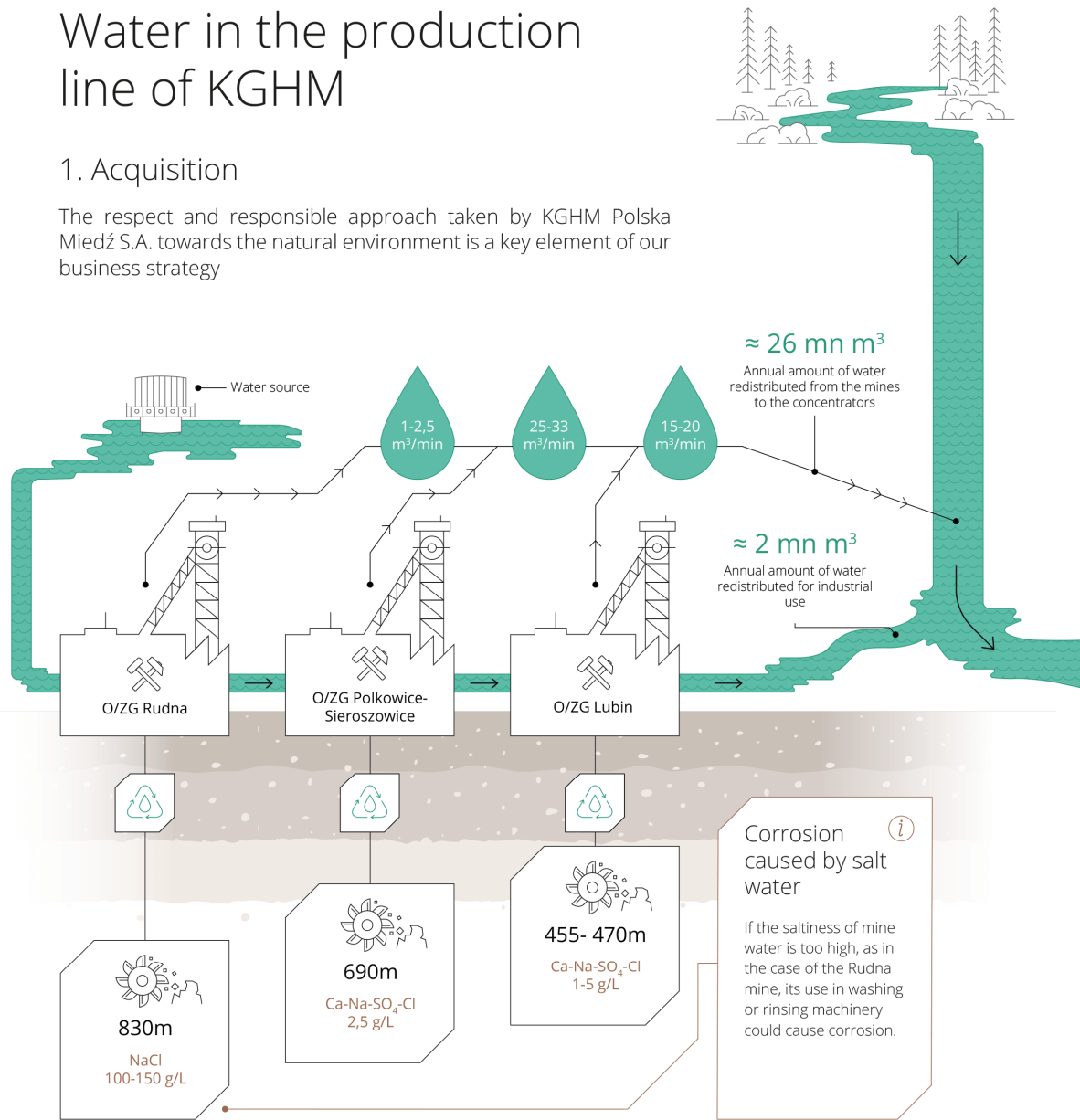
The Źelazny Most Tailings Storage Facility is the only place where ore flotation tailings from all KGHM Polska Miedź S.A. Mines can be deposited. It is one of the best monitored, also in terms of environmental protection, facilities of this type in the world, as evidenced, among others, by the geodetic observation network with as many as 500 research points used to study deformation of the crown and the foreground of the reservoir.

Excess water in the Źelazny Most reservoir is discharged by hydrotechnical method (periodically). This process has been developed and implemented in cooperation with scientific entities and in accordance with the requirements of the Water Law Act. Research shows that the discharge of mine and technological waters to the Odra river does not cause changes affecting the proper functioning of aquatic ecosystems.

# Water in the production line of KGHM

## 1. Acquisition

The respect and responsible approach taken by KGHM Polska Miedź S.A. towards the natural environment is a key element of our business strategy



### Mines

Water acquired from the dewatering of the mines is used in technological processes, in particular:

- in hydraulic backfilling
- in rinsing drilling pipes,
- in firefighting piping networks.

### Energetyka Sp. z o.o.

This company manages water used for consumption-social purposes in the mines of KGHM Polska Miedź S.A.

- management of water sources,
- sewage off-take.

## 2. Utilisation

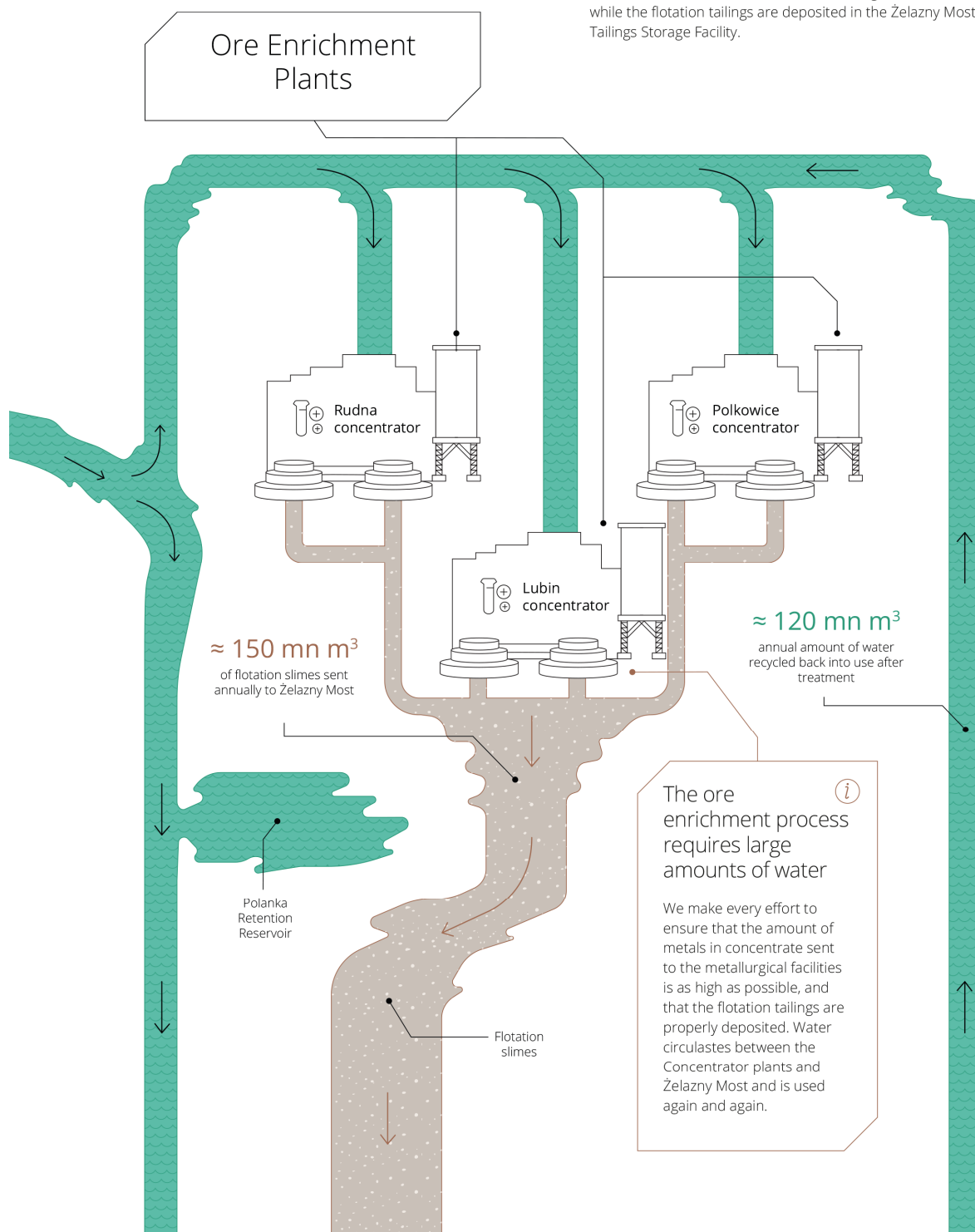
Water is used in many aspects of the production process, of which ore enrichment is the most important.

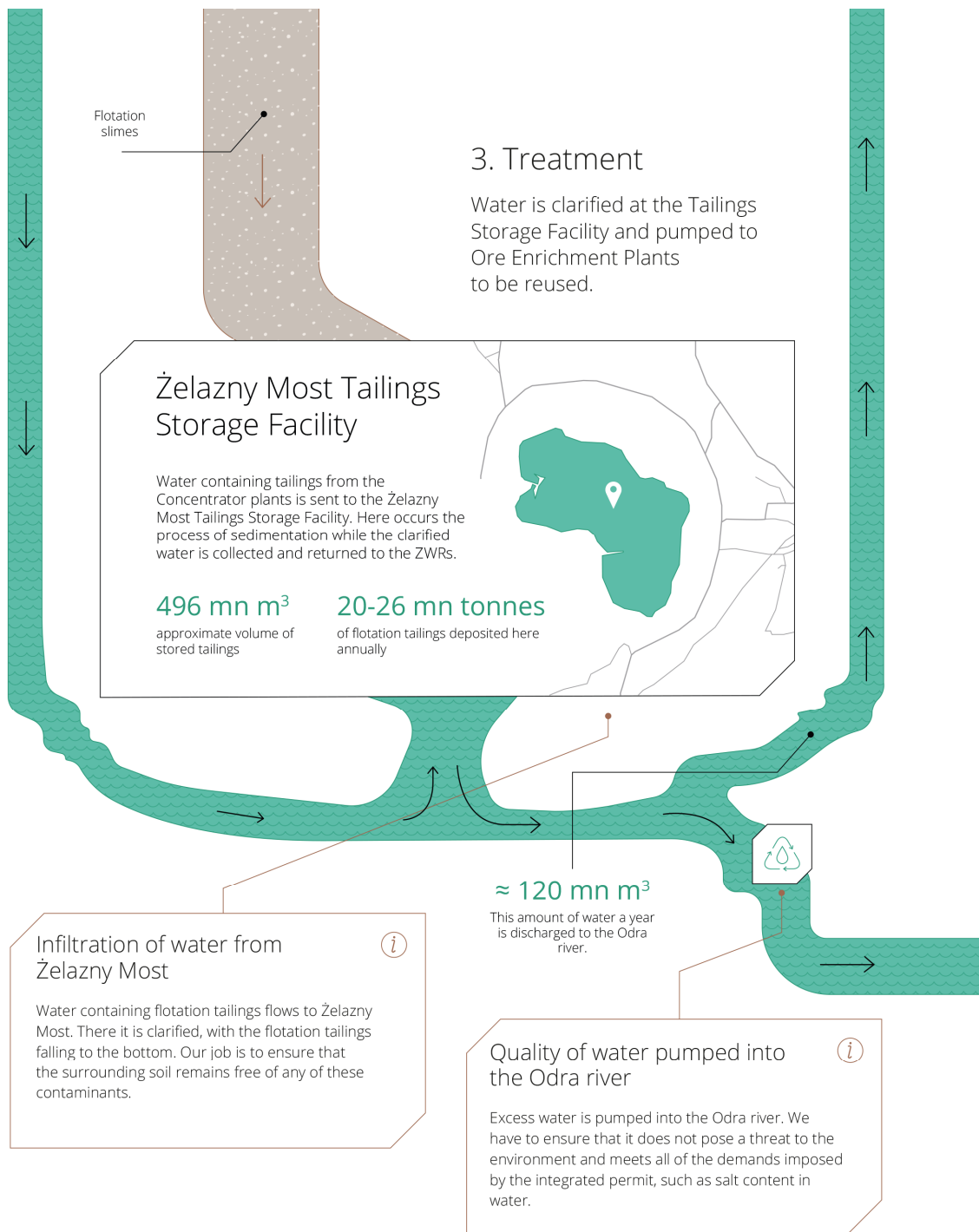
### Ore enrichment plants

The Concentrator Division (aka ZWR) uses water in the ore enrichment process. This involves:

- milling and classifying ore from the mines
- flotation,
- concentrate dewatering (thickening, filtration and drying)

Next the concentrate is sent to the metallurgical facilities while the flotation tailings are deposited in the Żelazny Most Tailings Storage Facility.





 **Tailings Plant Division**

This Division is responsible for:

- environmental management,
- technological water management,
- management of tailings flows and deposition,
- pumping of excess water to the Odra river.

 **Cuprum Sp. z o.o. CBR**

This company conducts monitoring, at the request of KGHM Polska Miedź S.A., of underground and surface water.

 **CBJ Sp. z o.o.**

Water quality and composition is controlled at all stages of the process. The company Centrum Badań Jakości is responsible for this.

#### 6.4. ENVIRONMENTAL ACTIVITY OF KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A. is the largest company in Lower Silesia and, being the socially responsible company that it is, it cannot and does not want to avoid being responsible for the condition of the environment in which we live. The concept of sustainable development, including in particular respect for the natural environment, is one of the Company's key values. The extraction and subsequent processing of copper ore at all stages of production is inextricably linked to the impact on the individual components of the environment. Compliance with stringent environmental standards following from the law is possible due to systematic modernization of installations for protecting the environment, both those built in the past and new investments in this field. In 2017, the Company spent nearly PLN 369 million on environmental investments, including the largest expenditures of over PLN 72 million for the Pirometallurgy Modernization Program at the Głogów I Copper Smelter and Refinery.

Pursuant to the sustainable development agreement signed in 2013 between the management of the Głogów County and the Management Board of KGHM Polska Miedź S.A., a soil liming campaign was carried out in the Pęcław township in 2017. Pursuant to the resolution adopted by the Management Board of KGHM Polska Miedź S.A., the Pęcław township received the financial resources that allowed it to conduct liming soils used for agricultural purposes on an area of 1370 ha wherever, according to an expert opinion, it was needed and necessary.

#### Environmental usage fees

Environmental usage fees incurred by KGHM Polska Miedź S.A.'s Divisions in 2017 amounted to PLN 14 million. It was more than PLN 10 million less than in 2016. Such a significant reduction of fees in 2017 was achieved following the launch of a system for monitoring chloride and sulphides volumes at the mines, which lets them calculate the fee for discharge of surface water from the Żelazny Most Tailings Storage Facility reduced by the chloride and sulphides loads measured in the collected water. Last year, the waste storage fee of PLN 7 million constituted the largest part of the fee structure. The next largest cost item amounting to more than PLN 4 million is the fee for the atmospheric emissions of dusts and gases.



## Formal and legal situation and intentions

KGHM Polska Miedź S.A. operates ten installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits. As a result of the coming into force of Implementing Decision 2016/1032 of the European Commission establishing best available techniques (BAT) conclusions for the non-ferrous metals industries, we reviewed the integrated permits held in terms of their compliance with existing law and submitted applications to change these decisions.

In addition, the Tailings Division holds permits for the operation of the Żelazny Most tailings storage facility, and sector permits required by law. In December 2017, the head of the Rudna Municipality issued an environmental impact permit for the construction of the southern quarter of the Żelazny Most tailings storage facility. The remaining Divisions of the Company possess environmental sector administrative permits.

Metallurgical installations at the Głogów and Legnica Copper Smelters and Refineries as well as the gas-steam blocks in Polkowice and Głogów also hold permits to participate in the CO<sub>2</sub> emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the obligatory European Union Emissions Trading System (EU ETS).

In 2017, emissions in the previous year in the amount of 767 thousand tonnes of CO<sub>2</sub> were settled by freely-acquired rights (597 thousand tonnes of CO<sub>2</sub>) supplemented by purchases of rights (EUAs or European Emission Allowances and CERs - certified emission reduction).

It is expected that 2017 emissions at the level of approx. 1.1 million tonnes of CO<sub>2</sub> will be settled thanks to freely-acquired rights for the Głogów and Legnica Copper Smelters and Refineries as well as additional rights received for the Głogów gas-steam block for 2016 and 2017 (altogether 580 thousand tonnes of CO<sub>2</sub>) as well as purchases of rights (EUA and CER) in the amount of over PLN 15 million.

The largest pending environmental projects are as follows:

- construction of a concentrate roasting installation at the Głogów Copper Smelter and Refinery,
- updating of the integrated permit for the planned construction of the RCR furnace at the Legnica Copper Smelter and Refinery.
- overseeing the system for trading CO<sub>2</sub> emissions,
- work related to ensuring the security of the Żelazny Most tailings storage facility, such as strengthening the containment dam,
- continuation of a program to promote health and prevent environmental threats – aimed at the people living in the nearest proximity to our metallurgical facilities,
- construction of the southern quarter of the Żelazny Most tailings storage facility.

## Activities to comply with the REACH Regulation

The Company is a member of six international consortia created to meet the requirements of EC Regulation No. 1907/2006, the so-called REACH Regulation. In 2017, cooperation with the consortia involved adaptation to changes in REACH requirements as regards registration documentation, the classification of substances, assessment and authorisation. These changes are to be introduced smoothly, which is why the REACH consortia will continue to function.

In 2017, costs incurred by KGHM due to cooperation with the consortia amounted to EUR 129.1 thousand and GBP 5.7 thousand. The main item was the fee paid to the Copper Consortium and the Precious Metals and Rhenium Consortium related to performance of additional research and the updating of registration documentation. It is expected that the costs of participating in the REACH consortia will be at the level of EUR 100 thousand annually.

## Update of the BREF documentation

BREF documents are required by the EU and comprise descriptions of techniques applied in various industries with an emphasis on best available ecological techniques, for use by Member States as a starting point for the issuance of environmental permits.

Work is being conducted by the Joint Research Centre – Institute of Prospective Technological Studies (JRC-IPTS) in Seville in cooperation with Technical Working Groups (TWGs), composed of representatives of Member States, organisations and industry (including KGHM Polska Miedź S.A.).

Since 2013 work has been conducted on the BREF update dealing with mining tailings and waste, the MWEI BREF document. In 2017, the TWGs held a concluding meeting, at which the wording of the document was decided. Final confirmation and publication of the MWEI BREF document will take place in the first half of 2018.

## KGHM Polska Miedź S.A. Health Promotion and Environmental Hazards Prevention Program

The purpose of the Program is to provide preventive care for the inhabitants of the Copper Basin with a special focus on children and young people through the implementation of tasks such as:

- prevention and health trips to mountain or seaside spas as part of the “green schools” program,
- year-long rehabilitation and sports activities at a swimming pool,
- tests monitoring the presence of lead in blood,
- tests monitoring the presence of arsenic in the bodies of the region’s inhabitants,

- environmental education combined with promotion of health.

Values of selected GRI G4 indicators for 2017 depicting environmental activities:

### G4-EN3 - Direct and indirect energy consumption by the organization

1	Total consumption of non-renewable natural resources (own or purchased) in Joules or a multiple thereof, broken down by type of commodity	Values (MWh)		Values (GJ)	
		KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.
Non-renewable	coal	346 925.83	-	4 558 745.83	-
	natural gas	8 325 665.70	1 998 376.056	204 223.31	-
	heating oil	1 013.61	-	733 242.22	-
	diesel fuel	1 288.50	-	379 514,72	-
<b>Total</b>	<b>Total consumption</b>	<b>8 674 893.64</b>	<b>1 998 376.06</b>	<b>5 875 726.08</b>	<b>-</b>
2	Total consumption of renewable natural resources (own or purchased) in Joules or multiples thereof, by type of commodity	Values (MWh)		Values (GJ)	
		KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.
Renewable	biomass	-	-	-	-
	biofuels	-	-	-	-
	wind energy	-	-	-	-
	solar energy	293.784	-	-	-
	geothermal energy	167	-	600	-
	hydro energy	-	-	-	-
	Other (t)	-	-	-	-
<b>Total</b>	<b>Total consumption</b>	<b>460.78</b>	<b>-</b>	<b>600</b>	<b>-</b>
3	Total consumption of energy produced or purchased, by electricity, heat in Joules or multiples thereof	Values (MWh)		Values (GJ)	
		KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.
	electricity	170,480.20	2 843 054,841	165 640,35	-
	heat (including consumption of steam, consumption of cooling energy)	29 873,80	-	220 695,90	-
<b>Total</b>	<b>Energy consumption</b>	<b>200 354.00</b>	<b>2 843 054.841</b>	<b>386 336.25</b>	<b>-</b>

4	Total energy sales: electricity, heat, cooling and steam, in Joules or multiples thereof	Values (MWh)		Values (GJ)	
		KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.
	Total sales of electricity	78 209	177 661.40	21 186	-
	Total sales of heat (net)	237 810	-	4 427 201	104 781
	Total sales of cooling energy	-	-	-	-
	Total sales of steam	-	-	775 727	-
<b>Total</b>	<b>Sales</b>	<b>316 019</b>	<b>177 661.40</b>	<b>5 224 114</b>	<b>104 781</b>
5	Total energy consumption within the organization according to the formula	8 559 689.42	4 663 769.5	1 038 548.33	-104 781

#### G4-EN 16 – indirect greenhouse gas emissions

Indirect emissions, by source	Greenhouse gas emissions (tCO <sub>2</sub> e)	
	KGHM Group	KGHM Polska Miedz S.A.
Emissions resulting from electricity purchased for own needs	92 284.13	1 879 943
Emissions resulting from heat purchased for own needs	658 617.16	195 132
Emissions resulting from cooling energy or steam purchased for own needs	8 458.42	-
<b>Total indirect emissions</b>	<b>759 359.71</b>	<b>2 075 074</b>

#### G4-EN23 – Total weight of waste by type and disposal method

No.	Total weight of non-hazardous and hazardous waste, by treatment method	Weight of waste in 2017 [t]			
		non-hazardous waste		hazardous waste	
		Group	KGHM Polska Miedź S.A.	Group	KGHM Polska Miedź S.A.
1	Re-use of waste	1 776.31	1 990.02	39.42	-
2	Recycling (including organic recycling, e. g. composting)	2 039.67	1 617.59	14.54	11.60
3	Recovery (including recovery of energy)	80 107.20	20 319 700.13	216.93	43 257.71
4	Incineration (or use as fuel)	50.53	0.00	89.61	-
5	Storage in waste storage facilities	1572.31	10 721 329.78	3 502.46	142 211.81
6	Dumping in deep wells	-	-	-	-
7	Storage on site	4970.88	227 981,00	4.01	63 981.45
8	Other	462.33	145.34	202.43	41 069.95
	<b>TOTAL</b>	<b>90 793.23</b>	<b>31 272 820.95</b>	<b>4 069.40</b>	<b>290 532.52</b>

#### G4-EN29 – Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

The evidence confirming the effectiveness of environmental initiatives and the reduced environmental impact of our activities includes just one non-financial sanction imposed on the KGHM Polska Miedź S.A. Group and no such sanctions imposed on the Parent Entity.

<b>Information on administrative and judicial sanctions imposed on the organization for non-compliance with environmental legislation</b>		
<b>Total value of fines for non-compliance with environmental laws and regulations [PLN]</b>	KGHM Group	KGHM Polska Miedź S.A.
	PLN 874 178.00	PLN 8 204.00
<b>Number of non-financial, administrative and judicial sanctions imposed on the organization for non-compliance with environmental legislation, including international declarations/conventions/treaties and national, regional and local laws, as well as voluntary arrangements with regulatory bodies that are considered binding.</b>	1	-

## REQUIREMENTS OF DIRECTIVE 2013/34/EU

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<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD</b>			
<b>Date</b>	<b>First, Last Name</b>	<b>Position/Function</b>	<b>Signature</b>
13 March 2018	Rafał Pawełczak	President of the Management Board	
13 March 2018	Ryszard Jaśkowski	Vice President of the Management Board	
13 March 2018	Stefan Świątkowski	Vice President of the Management Board	