



**NON-FINANCIAL REPORT OF
KGHM POLSKA MIEDŹ S.A. AND THE
KGHM POLSKA MIEDŹ S.A. GROUP
FOR 2018**

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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 the preparation of this opinion is the Order executed between the Accounting and Tax Institute and KGHM Polska Miedź S.A. dated 28 December 2018 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 KGHM Polska Miedź S.A. (hereinafter referred to as the Parent Company – KGHM Polska Miedź S.A.) and the KGHM Polska Miedź S.A. Group for 2018" (hereinafter referred to as the "KGHM Non-Financial Report").

The KGHM Non-Financial Report comprises qualitative and quantitative data for the period from 1 January 2018 to 31 December 2018 pertaining to corporate social responsibility of the KGHM Polska Miedź S.A. Group and KGHM Polska Miedź S.A. as the Parent Company, construed as sustainable development of these organizational entities.

The KGHM Polska Miedź S.A. 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 a description of KGHM's business, organizational structure and business model, strategy and ethical foundations of its implementation and activities in the area of employee and human rights, 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 KGHM Polska Miedź S.A. as the Parent Company, the Corporate Social Responsibility strategy developed on the basis of the Ten Principles of the UN Global Compact Initiative, and 17 sustainable development goals of the United Nations' 2030 Agenda for Sustainable Development, corporate values and the Code of Ethics of the KGHM Polska Miedź S.A. Group as well as 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 the form of GRI Standards (hereinafter: GRI Standards) and using the guidelines for conducting socially responsible business, presented in norm ISO 26000 (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 KGHM Polska Miedź S.A. Management Board. 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 as well as a methodology based on GRI Standards and ISO 26000 guidelines.

Defining the auditor's responsibilities

The auditor declares that its objective was to draw its own conclusions regarding the methods used for setting sustainable development objectives, indicators and sustainable development policy for the KGHM Polska Miedź S.A. Group and KGHM Polska Miedź S.A. as the Parent Company and their operations presented in the KGHM Non-Financial Report in the descriptive form and confirmed by the figures and levels of selected indicators provided for by GRI Standards. 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 indicators provided for by GRI Standards were verified to determine the risk of material distortion of data and/or the method for calculating 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 KGHM Polska Miedź S.A. as the Parent Company of their: business model used by a group 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 reporting standards compliant with GRI Standards and ISO 26000 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 KGHM Polska Miedź S.A. as the Parent Company as a group 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 reporting standards compliant with GRI Standards and ISO 26000 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 KGHM Polska Miedź S.A. as the Parent Company 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 reporting standards compliant with GRI Standards and ISO 26000 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 KGHM Polska Miedź S.A. as the Parent Company 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 reporting standards compliant with GRI Standards and ISO 26000 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 KGHM Polska Miedź S.A. as the Parent Company, 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 KGHM Polska Miedź S.A. Management Board as presented below.

Auditor's conclusion

On the basis of its completed activities, the auditor concludes that the "Non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2018" has been prepared fully correctly from the methodological perspective and following the rules due diligence, and nothing has been identified in it which would indicate that the aforementioned provisions pertaining to the business model as a group 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, do not 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 the reporting standards provided for in GRI Standards as well as ISO 26000 guidelines, 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 Order of 28 December 2018 from KGHM Polska Miedź S.A. solely only for the needs of the KGHM Polska Miedź S.A. Management Board and must 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.



With a miner's greeting,

Pawed Bogacz, Ph.D. Eng. (AGH University of Science and Technology in Kraków)

Accounting and Tax Institute auditor

Warsaw, 27 February 2019

ABOUT THIS REPORT

This 2018 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 Company). It has been prepared in accordance with the guidelines of the Directives of the European Parliament and of the Council (2014/95/EU and 2013/34/EU) and the amended Polish Accounting Act with regard to disclosure of non-financial information, specifically 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 the said Directives in Poland. Non-financial reporting is based on the Global Reporting Initiative (GRI) guidelines developed with the use of indicators included in the GRI Standards methodology selected with a view to providing possibly the most comprehensive description of the issues covered.

To ensure full transparency, a comprehensive approach and an analytical data layout, this document has been prepared in the form of a Report.

The reporting process in the KGHM Group and in the Parent Company is carried out on an annual basis. In 2018, there were no significant changes in the structure, ownership or value chain that would affect their business model.

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 Company and the metals and mining industry in general are analysed.

This is the second such Report, prepared as a 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 2018. This document has been subject to external review.

Moreover, in line with its practice to date, KGHM Polska Miedź S.A. will publish its 2018 Integrated Report by the end of June 2019.

REPORTING METHODOLOGY

The wording of the Non-Financial Report has been prepared in seven 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 Company in order to prepare a description of the business model. Significant issues were defined during discussion meetings with representatives of KGHM Polska Miedź S.A. and representatives of KGHM Group Companies.

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

Stage 3. Roll-out of an electronic tool to collect non-financial data in the Parent Company and KGHM Group Companies.

Stage 4. Selection and training of representatives of the KGHM Group Companies reporting non-financial data to the Parent Company in the use of the electronic tool.

Stage 5. Collection of data, using the electronic tool, 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 Company in 2018.

Stage 6. Summary of the 2018 Non-Financial Report of the KGHM Group and the Parent Company based on the collected data in accordance with the Accounting Act of 15 December 2016 (Journal of Laws of 2017, item 61, consolidated text: Dz.U. of 2017, item 2342).

Stage 7. External audit assessing the correctness of the data and content included in the 2018 Non-Financial Report.

1. ABOUT THE GROUP

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

KGHM Polska Miedź S.A. is a global, innovative organization involved in technologically advanced exploration, mining and smelting operations. For several decades, the Company has been mining and processing valuable underground resources, providing the world with commodities that enable its sustainable development. The Company's history began in 1957 with the discovery of one of the world's largest deposits of polymetallic ores, predominantly copper and silver, located in south-western Poland. The deposit has been effectively and reasonably mined to this day. As the years went by, the KGHM Polska Miedź S.A. Group significantly grew its business both from the product side and from the market side. Currently, KGHM Polska Miedź S.A. is presents on four continents: Europe, South America, North America and Asia. The KGHM Polska Miedź S.A. Group is comprised of KGHM Polska Miedź S.A. as the Parent Company and several dozen subsidiaries. In total, the KGHM Polska Miedź S.A. Group consists of 75 entities and employs over 34,000 staff worldwide who believe that what they do on a daily basis is significant for the world. Owing to their knowledge, courage and responsibility, the KGHM Polska Miedź S.A. Group produces valuable commodities, predominantly metals. The Group's core line of business is the production of copper along with non-ferrous metals accompanying it and the development of the resource base. The Company is ranked among the world's top producers of silver and copper. It also produces gold, nickel, rhenium, lead and platinum. The high quality of the copper, silver and other commodities produced by the Company have been confirmed by certificates awarded by various international commodity exchanges. By adopting a responsible approach, the KGHM Polska Miedź S.A. Group sets a good example for others, acting in accordance with its values in a transparent and socially responsible manner.

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 more than 60 years, demarcating the direction of its development and how it operates on the international market. For more than 20 years, the Company has been listed on the Warsaw Stock Exchange and is included in the WIG20 and WIG30 indices.

Specifically, the business of the KGHM Polska Miedź S.A. Group covers the following areas:

- 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 of non-ferrous metals.

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

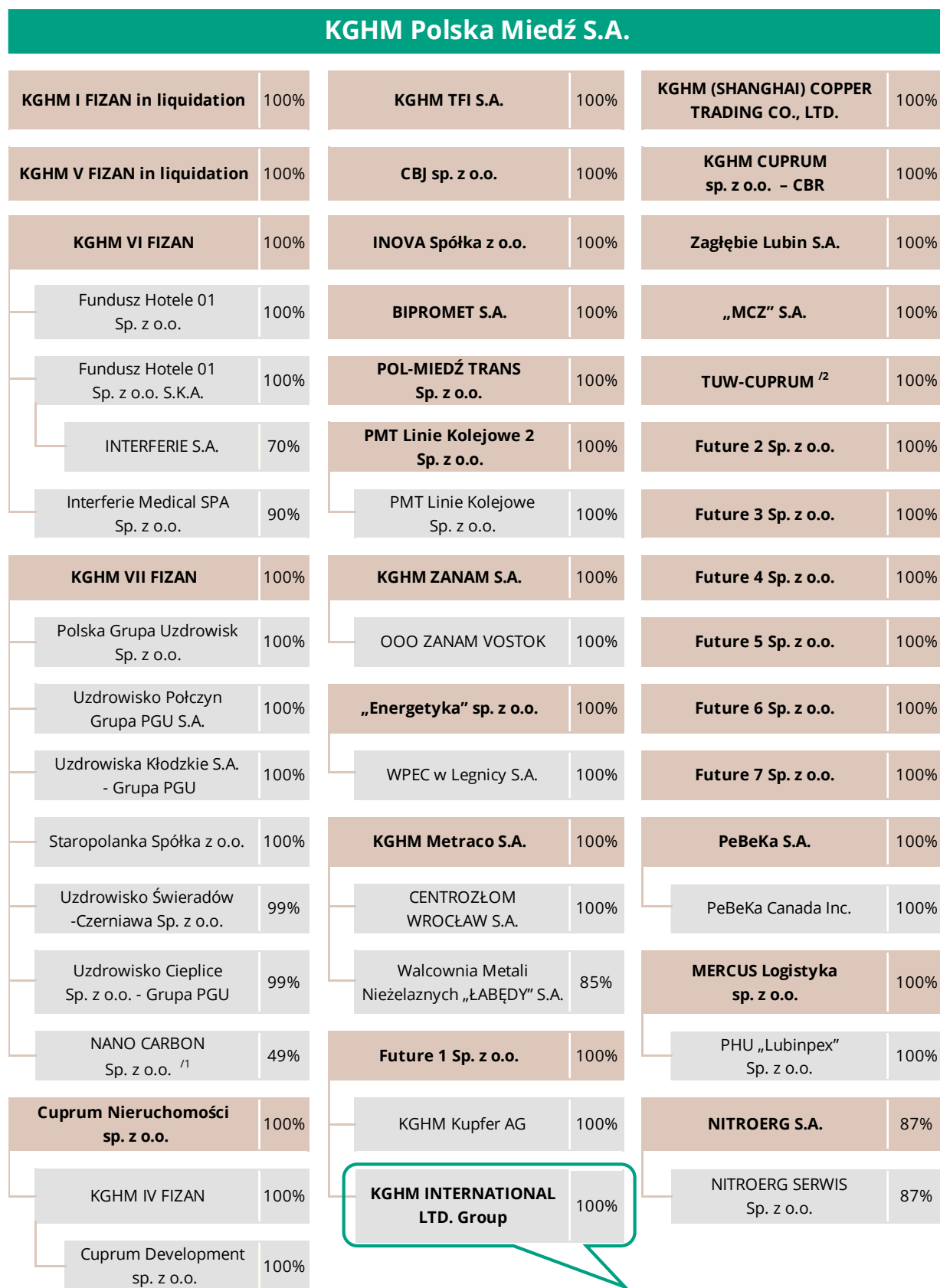
1.2. ORGANIZATIONAL STRUCTURE OF THE KGHM GROUP

As at 31 December 2018, the Group was composed of KGHM Polska Miedź S.A. as the Parent Company and 75 subsidiaries (including five closed-end mutual funds investing in non-public assets) located on four continents: in Europe, North America, South America and Asia. Some of these subsidiaries formed their own corporate groups. The largest of them, both in terms of the number of members and the value of equity, is the KGHM INTERNATIONAL LTD. Group, the main assets of which are located in Canada, the United States and Chile. It consists of 25 subsidiaries. As at the end date of the reporting period, the KGHM Polska Miedź S.A. Group held a stake in two joint ventures with external business partners, specifically Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.

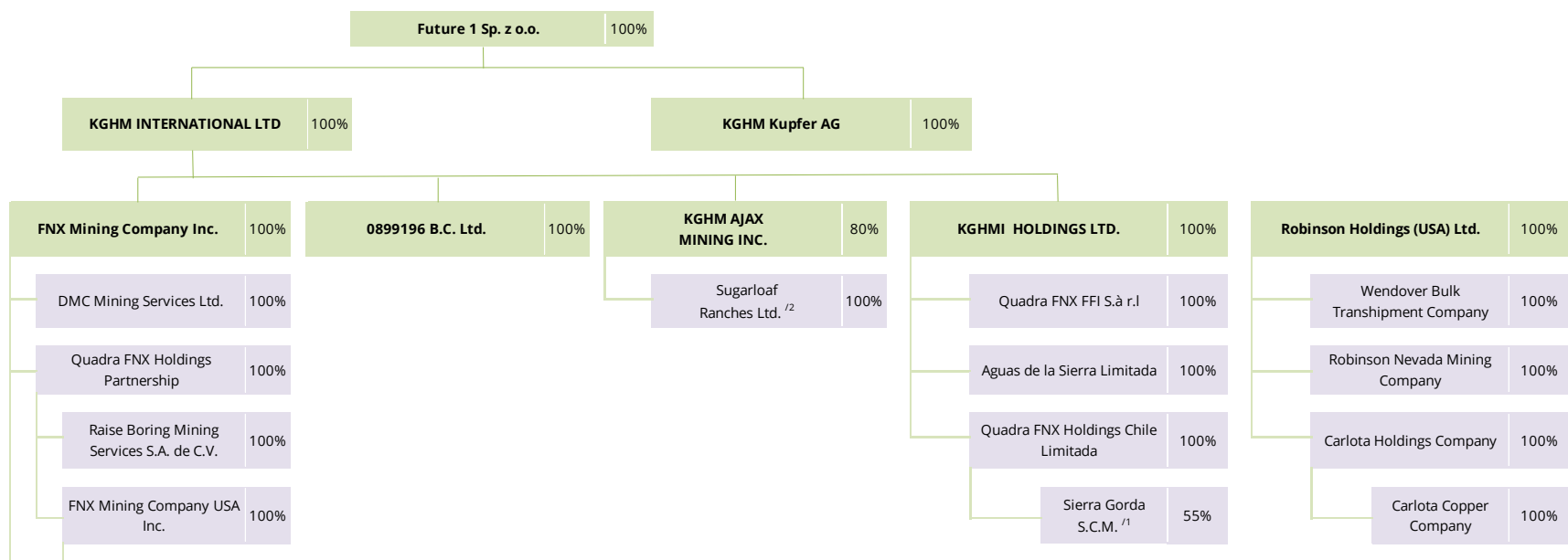
The detailed structure of the KGHM Polska Miedź S.A. Group, along with interconnections between its members, is depicted in the following diagram.

The major companies from the Group involved in the mining industry make up three basic reporting segments, each of which is subject to a separate assessment by the managing authorities. These companies are: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. Other companies, with the exception of Future 1 Sp. z o.o., Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o. and Future 7 Sp. z o.o., are classified into the "other segments" category.

Organizational structure of the KGHM Polska Miedź S.A. Group, including the position of KGHM Polska Miedź S.A. as the Parent Company and its stakes in each company:



Group structure presented in Appendix 2



The diagram below presents major production assets and projects executed as part of the following reporting segments: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., Sierra Gorda S.C.M. and other segments.

Major reporting segments of the KGHM Polska Miedź S.A. Group

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. joint venture of KGHM INTERNATIONAL LTD. and companies from the Sumitomo Group	Other segments
Core business	- mining and metallurgical production of metals – Cu, Ag, Au	- mined production of metals - Cu, Ni, Au, Pt, Pd	- mined production of metals - Cu, Mo, Au, Ag	This category includes other Group companies (each company forming a separate operating segment).
Key production assets	- underground mines - Lubin Mine - Polkowice-Sieroszowice Mine - Rudna Mine - metallurgical plants - Legnica Copper Smelter and Refinery - Głogów I Copper Smelter and Refinery and Głogów II Copper Smelter and Refinery - Cedynia Wire Rod Plant	- Robinson Mine in the US (open pit)	- Sierra Gorda Mine in Chile (open pit)	
Main development projects	- Głogów Głęboki-Przemysłowy (Deep Głogów) - pre-production and exploration projects in south-western Poland	- Victoria Project in the Sudbury Basin in Canada – construction of an underground copper and nickel mine - Sierra Gorda Oxide project in Chile		

The other segments of the KGHM Polska Miedź S.A. Group may be broken down into the following several key groups of entities:

- companies supporting the core business of KGHM Polska Miedź S.A.,
- closed mutual funds and portfolio companies,
- companies fulfilling important roles in advancing the CSR policy,
- special purpose vehicles in the holding structure,
- companies earmarked for restructuring and divestment.

The Parent Company of the KGHM Group, i.e. KGHM Polska Miedź S.A. with its registered office in Lubin at ul. M. Skłodowskiej-Curie 48, is a joint-stock company registered in the District Court for Wrocław Fabryczna, 9th Commercial 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 plants (Głogów Copper Smelter and Refinery, Legnica Copper Smelter and Refinery and the Cedynia Wire Rod Plant), an Ore Enrichment Plants (Concentrators) Division, a Tailings Division, a Mine-Smelter Emergency Rescue Division and the Data Center Division.

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

The Group's Parent Company KGHM Polska Miedź S.A. is a global leading producer of copper and silver, with more than 60 years of experience in the copper ore mining and processing industry. In Poland, KGHM Polska Miedź S.A. exploits one of the world's largest copper deposits, the capacity of which will enable the Company to continue production in Poland for the next several decades. KGHM Polska Miedź S.A. also produces silver, gold, molybdenum, lead and rock salt and is one of Poland's leading exporters and largest companies.

On 26 June 2018, the Company's Ordinary Shareholder Meeting adopted a resolution to amend the Statutes of KGHM Polska Miedź S.A. The amendment came into force on 27 July 2018, upon entry in the Register of Commercial Undertakings of the National Court Register, and provided for entrusting the Company's Supervisory Board with the right to adopt the consolidated text of the Statutes prepared by the Management Board.

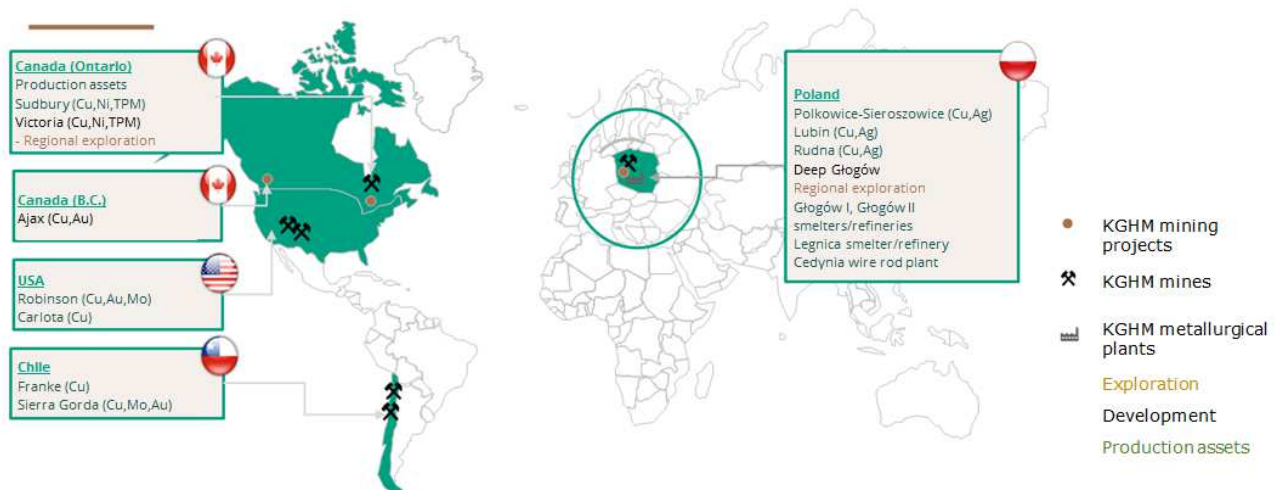
The KGHM Polska Miedź S.A. Group is a global, innovative organization involved in technologically advanced exploration, mining and smelting operations with a geographically diversified portfolio of mining projects. KGHM's business model is divided into 7 segments through which the Group ensures a full value creation chain – from exploration to sales of finished goods.

Deposit development	Processing	Sales
<ul style="list-style-type: none"> - exploration and evaluation - mining - restoration 	<ul style="list-style-type: none"> - ore enrichment - smelting and refining - processing 	<ul style="list-style-type: none"> - product sales

The KGHM Polska Miedź S.A. Group owns geographically diversified mining assets in low-risk countries. The Group's mines extracting copper, silver, molybdenum, nickel and precious metals are located in Poland, the United States, Chile and Canada. The Group's key international asset, the Sierra Gorda mine, is a joint venture of KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and Sumitomo Corporation located in Chile. Moreover, the KGHM Polska Miedź S.A. Group. is advancing mining projects in the pre-operational phase (Victoria, Sierra Gorda Oxide) and in the exploration phase.

Major production assets and projects of the mining industry advanced by the KGHM Group are illustrated in the following diagram.

Location of mining assets of the KGHM Polska Miedź S.A. Group



1.3. KGHM POLSKA MIEDŹ S.A. GROUP COMPANIES INCLUDED IN THE 2018 REPORTING ACCORDING TO DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL RUNNING AN INDEPENDENT BUSINESS

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

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

- Balance sheet total: 399 PLN (million)
- Net revenues on sales: 761 PLN (million)
- Headcount: 2 480

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

PEBEKA S.A. has been executing construction projects for more than 55 years, specializing in mining, drilling, tunneling and infrastructural projects

- Balance sheet total: 586 PLN (million)
- Net revenues on sales: 770 PLN (million)
- Headcount: 1 958

For more information, visit: <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: the Laboratory Diagnostics Department and the 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.

- Balance sheet total: 130 PLN (million)
- Net revenues on sales: 174 PLN (million)
- Headcount: 761

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

ENERGETYKA SP. Z O.O. is one of the largest heat distribution companies in the Lower Silesia region. The company produces, transmits and distributes heat and electricity. It also produces and distributes drinking and industrial water, purifies sewage, neutralizes waste and trades in petroleum products.

- Balance sheet total: 794 PLN (million)
- Net revenues on sales: 571 PLN (million)
- Headcount: 836

For more information, visit: <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.

- Balance sheet total: 130 PLN (million)
- Net revenues on sales: 99 PLN (million)
- Headcount: 562

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

NITROERG S.A. is a manufacturer of explosives, initiating agents and the 2-EHN diesel fuel additive (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, non-electrical initiation system, shock tube, 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.

- Balance sheet total: 354 PLN (million)
- Net revenues on sales: 350 PLN (million)
- Headcount: 1 053

For more information, visit: <http://www.nitroerg.pl/>

POL-MIEDŹ TRANS SP. Z O.O. runs a business related mainly to transport of passengers and cargo by rail as well as maintenance of rolling stock, and acts as an entity responsible for maintenance of wagons (ECM).

- Balance sheet total: 263 PLN (million)
- Net revenues on sales: 194 PLN (million)
- Headcount: 686

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

MERCUS LOGISTYKA SP. Z O.O. serves as a logistics operator for KGHM Polska Miedź S.A. and KGHM Group companies. It engages 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 e.g. mining machinery; it is also an experienced passenger carrier in domestic and international traffic.

- Balance sheet total: 278 PLN (million)
- Net revenues on sales: 1 030 PLN (million)
- Headcount: 718

For more information, visit: <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 raw materials are extracted from deposits in the United States, Chile and Canada.

- Balance sheet total: 9 587 PLN (million)
- Net revenues on sales: 2 856 PLN (million)
- Headcount: 2 037

For more information, visit: <http://kghm.com/>

KGHM METRACO S.A. KGHM Metraco S.A. is a trade company established in 1991. The key goal of the operations of the company is the provision of complex services in favor of KGHM Polska Miedź S.A., within the scope of specified raw materials and products, basing on the logistic activity. The Company mission is timely, professional and efficient provision of industrial waste recycling services to our Clients.

- Balance sheet total: 474 PLN (million)
- Net revenues on sales: 2 025 PLN (million)
- Headcount: 256
- **For more information, visit: <http://metraco.pl>**

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

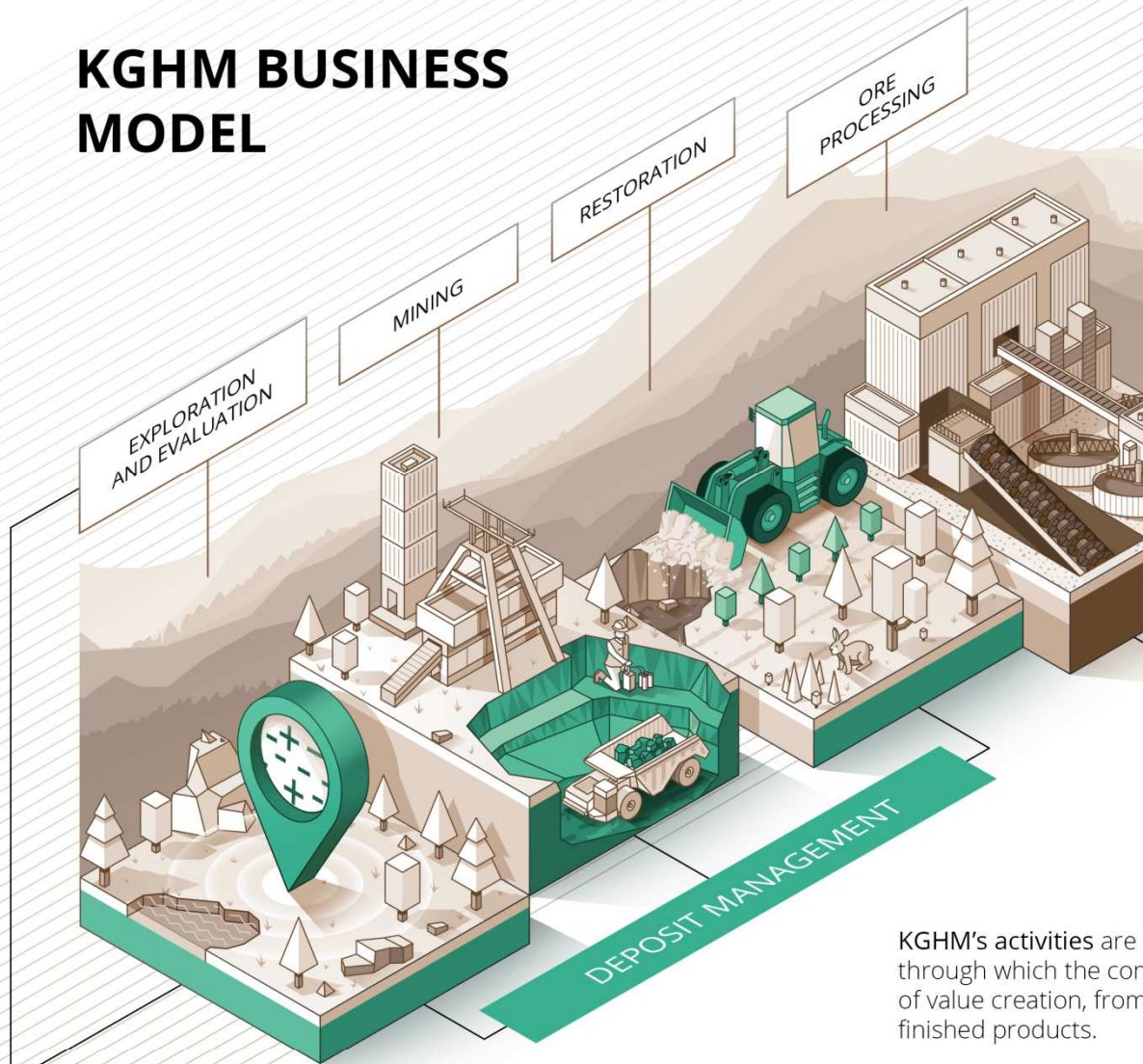
In 2018, the multi-branch enterprise of the Company operating under the business name of KGHM Polska Miedź S.A. consisted of the Head Office and 10 Divisions.

Organizational structure of KGHM Polska Miedź S.A. as at 31 December 2018:

Divisions of KGHM Polska Miedź S.A.			
Mining		Metallurgy	Other
Lubin Mine Division	Concentrators Division	Głogów Smelter/refinery Division	Head Office
Polkowice-Sieroszowice Mine Division	Tailings Division	Legnica Smelter/refinery Division	Mine-Smelter Emergency Rescue Division
Rudna Mine Division		Cedynia Wire Rod Division	Data Center Division

1.5. BUSINESS MODEL OF KGHM POLSKA MIEDŹ S.A.

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.



"Miedziowe Centrum Zdrowia" S.A.

A company providing a broad range of medical services.



„Energetyka” Sp. z o.o.

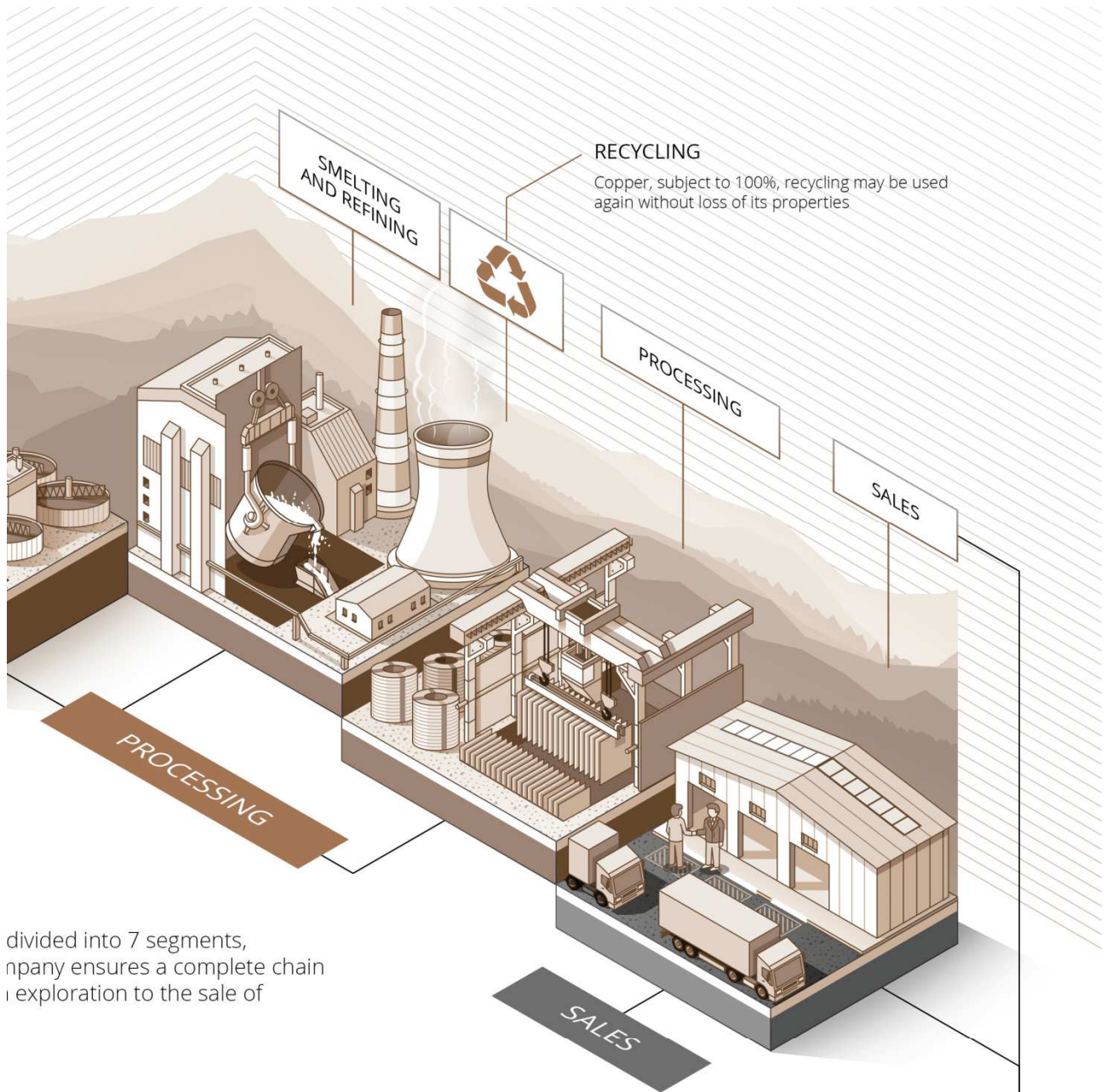
One of the largest providers of heating in Lower Silesia.



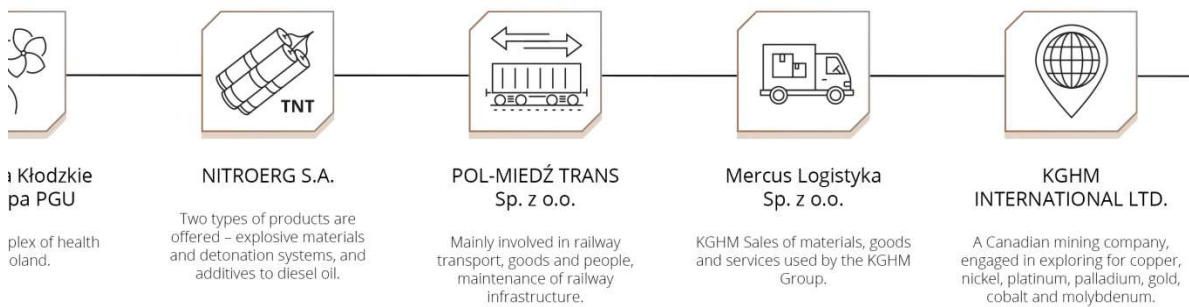
Uzdrowiska S.A. - Gru

The largest com spas in P

Source: KGHM



divided into 7 segments,
 npany ensures a complete chain
 i exploration to the sale of



1.6. CODE OF THE KGHM POLSKA MIEDŹ S.A. GROUP

In order to ensure the optimal model for managing and supervising the business processes of the KGHM Polska Miedź S.A. Group, 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 founded on the KGHM Group's values and the need for having in place a set of formal and legal regulations governing the principles of cooperation within the KGHM Polska Miedź S.A. Group. On this basis, the **Code of the KGHM Polska Miedź S.A. Group** was adopted.

Following are some of the benefits arising from having the Code in place:

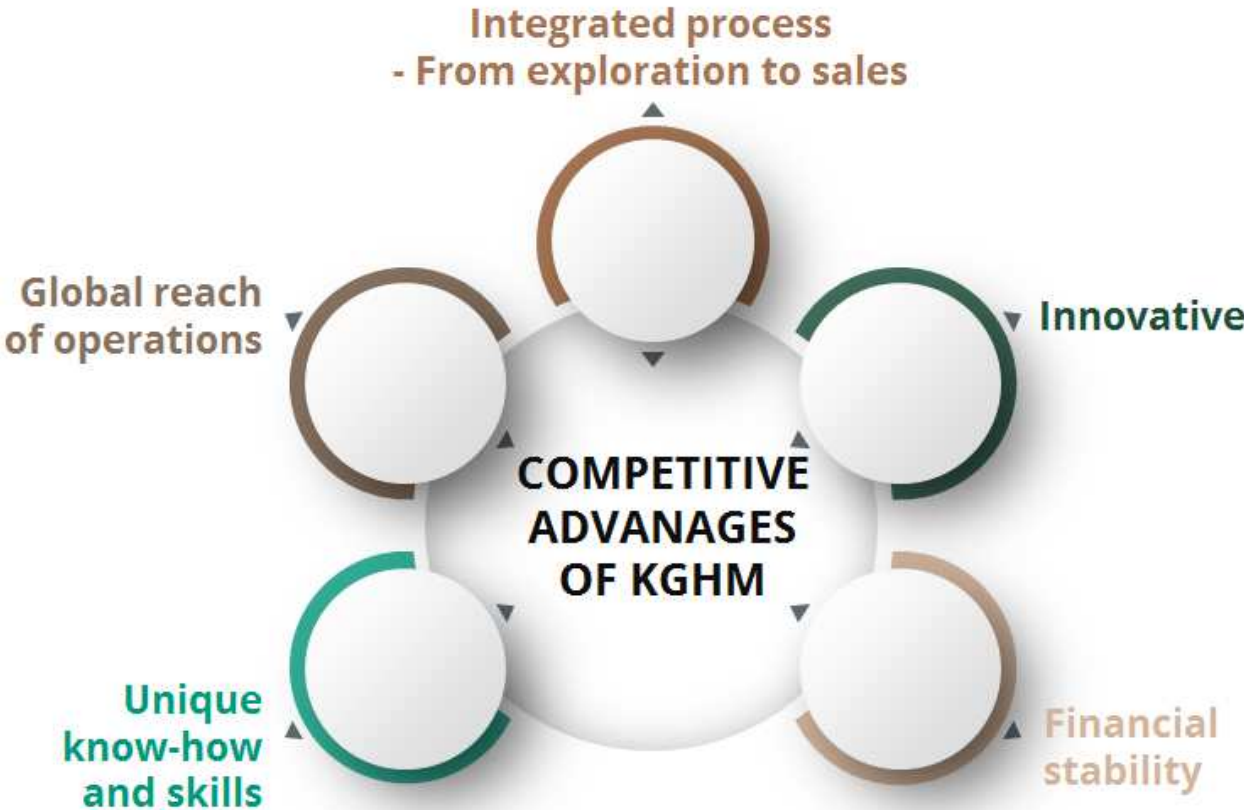
- Outlining the legal basis for a joint strategy of all members of the KGHM Group, making it possible to rest the strategy of each subsidiary on the Strategy of KGHM Polska Miedź S.A. and forcing the requirement to maintain consistency.
- Harmonizing the interests of each company with that of the KGHM Group as a whole.
- Streamlining management in various areas of business.
- 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 the KGHM Polska Miedź S.A. Group's business operations, the unique, on a global scale, comprehensiveness of our mining and processing operations, our pursuit of innovation and maintenance of financial stability along with our extensive in-depth experience allow us to market products that satisfy the expectations of even the most demanding buyers of our products and services.

The KGHM Polska Miedź S.A. Group's competitive advantages are depicted on the following diagram.

Competitive advantages of the KGHM Polska Miedź S.A.



Global reach of its operations

In the 21st century, KGHM Polska Miedź S.A. has become a global miner active on four continents. On one hand, the magnitude of our operations substantially curtails the risk of disturbance in the continuity and quality of production, while on the other hand, it facilitates the continual transfer of knowledge and experience between its various units. Its mobility policy enables it to post the Company's 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 competences and skills

During its more than 60 years of history, KGHM Polska Miedź S.A. has acquired experience, knowledge and skills that have enabled the Company to transform its business from a local miner into an international Group acting as a major player in the global market for non-ferrous metals. The skills developed by our employees 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 the position of Poland as a strong industrial center. Also unique is the KGHM Polska Miedź S.A. 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.

Innovation

Innovation is one of the competitive advantages of the KGHM Polska Miedź S.A. Group. Work on innovative solutions is conducted 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 translate into better performance and greater safety.

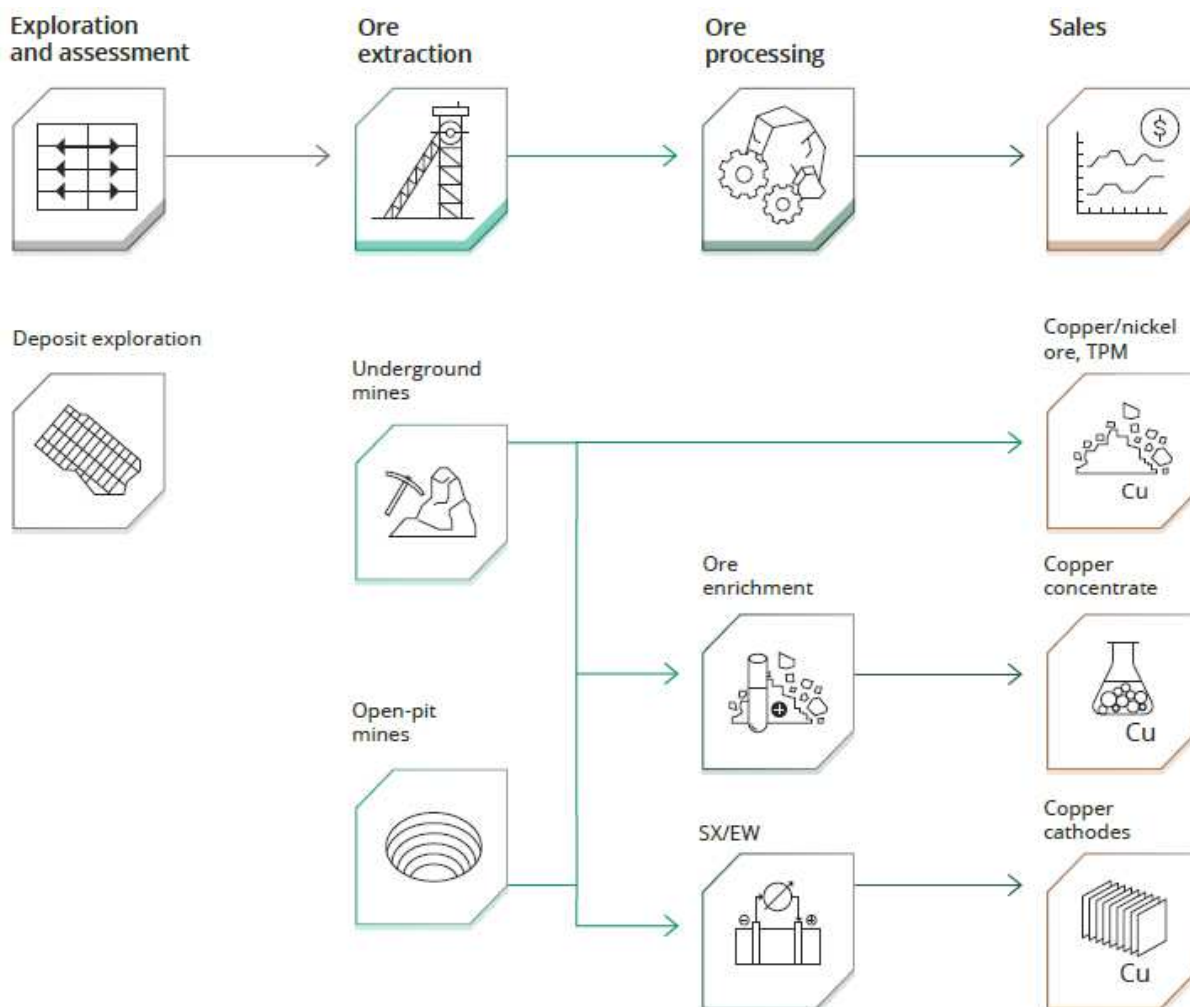
Creating change and innovation should be an everyday practice of each employee of the KGHM Polska Miedź S.A. Group.

The KGHM Polska Miedź S.A. Group's success 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 the future development of the KGHM Polska Miedź S.A. Group.

Integrated process – from exploration to sales

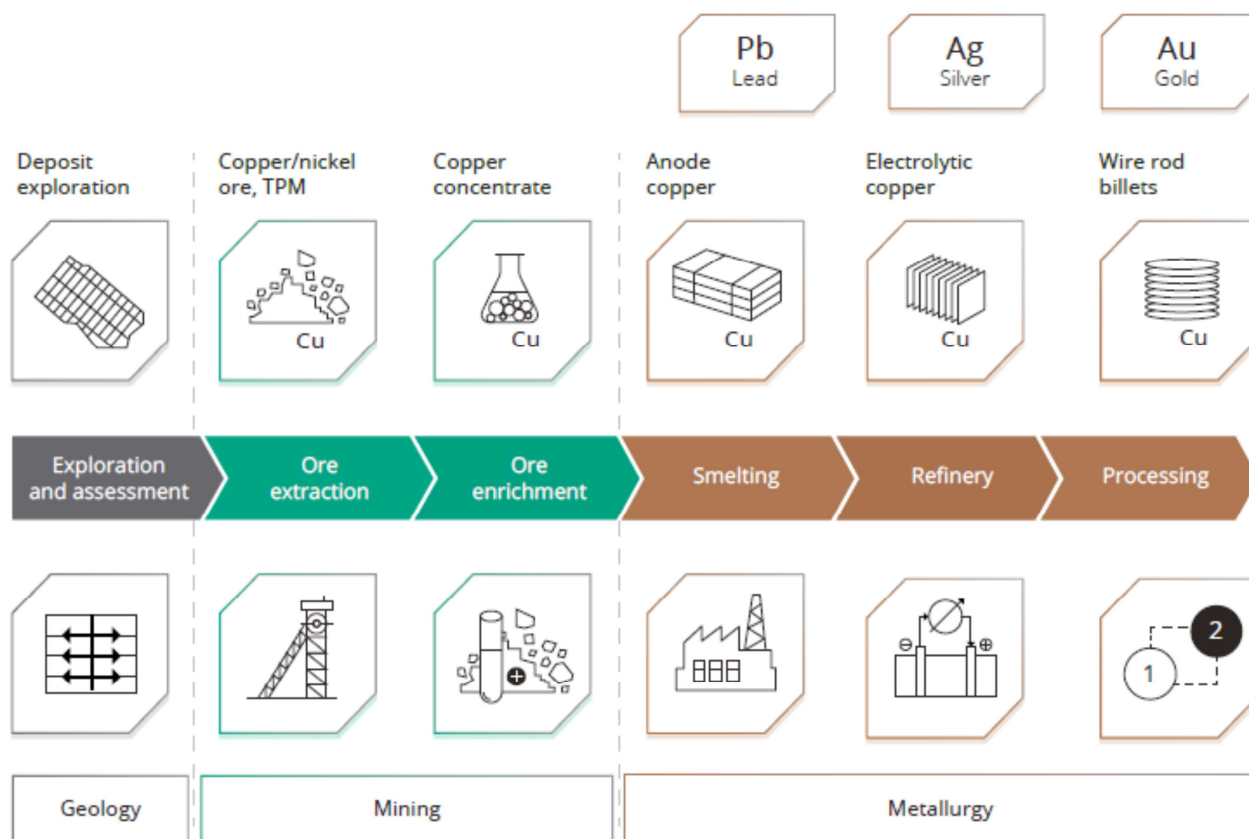
In the KGHM Group, production and production-related processes are executed in accordance with the following two models:

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



The core line of business of the members of the KGHM INTERNATIONAL LTD. Group is the mining of metals, including copper, nickel, gold, platinum and palladium, carried out in both open-pit and underground mines, and the execution of mining and exploratory projects. The above diagram depicts a simplified structure of the KGHM INTERNATIONAL LTD. Group's core business.

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



Production at KGHM Polska Miedź S.A. is a fully integrated production process whereby the end product of one technological phase forms the input (intermediate product) for the subsequent phase. Mining operations at KGHM Polska Miedź S.A. are performed by the following three Mining Divisions: Lubin Mine, Rudna Mine and Polkowice-Sieroszowice Mine. In the next phase, the Concentrator Division prepares concentrate for the smelter/refineries, and the Tailings Division is in charge of the storage and management of waste created in the copper ore enrichment process. Within KGHM's organizational structure, there are three metallurgical Divisions: the Legnica Copper Smelter and Refinery, the Głogów Copper Smelter and Refinery and the Cedynia Wire Rod Plant.

A fact worth noting is that recently, as part of its business, KGHM Polska Miedź S.A. has been rapidly developing and implementing certain elements of the circular economy (closed loop) concept. To this end, it has been making progress in the areas of recycling and further improving the utilization of post-production waste as the so-called secondary sources of raw materials.

1.8. KEY STAKEHOLDERS IN THE KGHM POLSKA MIEDŹ S.A. GROUP

A good relationship with stakeholders based on mutual understanding and trust is of crucial importance to the KGHM Polska Miedź S.A. 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 the social sphere. 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, the process of identifying and mapping 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 covering members of senior management of each member of the KGHM Polska Miedź S.A. Group representing various business areas. During the second stage of this process involving a validation workshop, these same respondents assessed the degree of stakeholders' interest and orientation on the organization and vice versa. Their assessments made it possible to specify four Stakeholder groups. The key stakeholders, forming the KGHM Polska Miedź S.A. Group's most influential and significant stakeholder group, are one of them. During a strategic review performed in 2018, it was concluded that the stakeholder map and the strength of interest and influence determined during the mapping exercise in 2016 remained unchanged for the years 2019-2023. The map is presented in the diagram below.

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



2. STRATEGY

2.1. STRATEGY OF KGHM POLSKA MIEDŹ S.A. FOR 2017-2021 WITH AN UPDATE FOR 2019-2023

Until 19 December 2018, KGHM Polska Miedź S.A. implemented the Business Strategy adopted in May 2017, as published in the document entitled "KGHM Polska Miedź S.A.'s Strategy for 2017-2021 with an outlook to 2040". The structural layout of this strategy is presented in the diagram below.

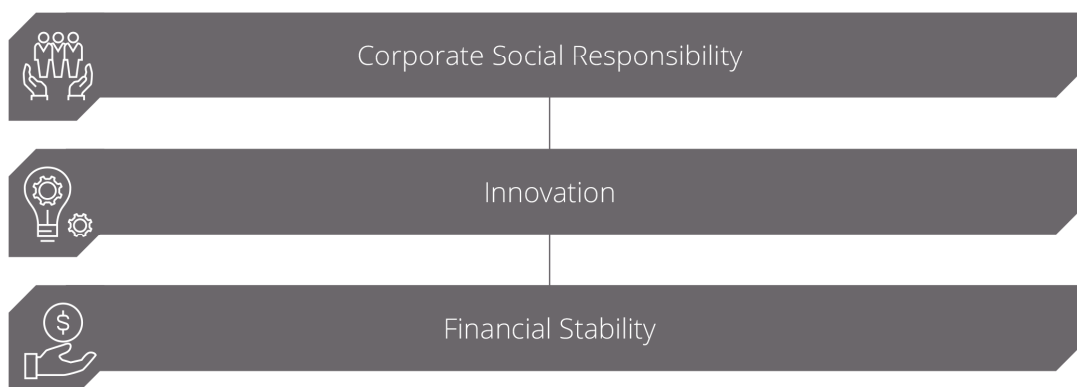
KGHM Polska Miedź S.A.'s Strategy for 2017-2021

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:

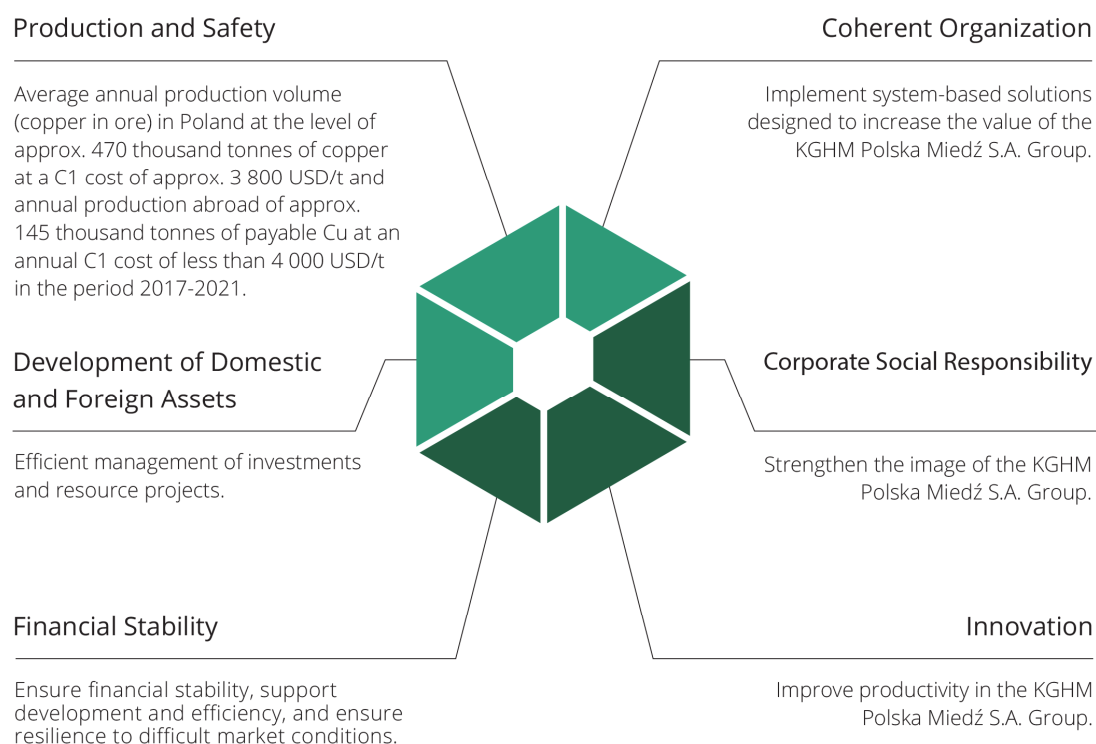


SUPPORT STRATEGIES:



The Strategy's primary objective was based on the achievement of its 6 key pillars, i.e. three executory strategies (Development of Domestic and Foreign Assets, Production and Safety, and Coherent Organization) and three supporting strategies (Corporate Social Responsibility, Innovation and Financial Stability). The objectives of the selected pillars are presented in the diagram below.

Key pillars forming KGHM Polska Miedź S.A.'s strategy and their main objectives for 2017-2021



The Company's strategy was rooted in its mission based on the slogan "To Always Have Copper" and its vision: "Use our resources efficiently to become a leader in sustainable development".

In the face of macroeconomic changes in the mineral resource industry and the strong impact of global megatrends, in Q4 2018 the KGHM Polska Miedź S.A.'s Management Board decided that it was necessary to review KGHM Polska Miedź S.A.'s Strategy. The decision was caused in particular by the following factors:

- rapid changes in the mining and processing industry, caused by macroeconomic, technological and legislative challenges,
- evolving directions of global economic development – megatrends affecting the mining industry, including technological breakthroughs, demographic and social changes, scarcity of natural resources, climate change, power shifts among the world's leading economies, rapid urbanization,
- prioritizing and adapting the Company's investment program to its financial strength,
- partial execution of strategic tasks and initiatives provided for in the Company's Strategy adopted in 2017.

The Strategy, updated due to the said circumstances and developments, has not changed the Company's existing approach to business. KGHM Polska Miedź S.A. upholds its responsible attitude and long-term thinking about the future of its enterprise.

The purpose of the strategic review was to ensure that the Company's Strategy is coherent with the current market environment and the needs of the KGHM Polska Miedź S.A. Group.

On 19 December 2018, the Company's Supervisory Board approved KGHM Polska Miedź S.A.'s Strategy for 2019-2023.

In the adopted Strategy, four strategic directions for the Company's development have been identified as the "4Es", in accordance with the following diagram.



4E stands for:

- **Flexibility** (in Polish: *Elastyczność*) – covering chiefly issues related to industry 4.0, digitalization and electromobility,
- **Efficiency** – in response to increased competition in the manufacturing and mining industries as well as to industry 4.0,
- **Ecology** – based on electromobility, development of environmentally friendly regulations, circular economy and environmentally friendly production,
- **E-industry** – based on robotization, digitization, knowledge-based society and assumptions of industry 4.0.

These directions are reflected in separate strategic areas with the following specific main objectives assigned to each of them:

Strategic area	Main objective	Key performance indicators (KPIs)
Production	Maintenance of cost-effective domestic and international production	<ul style="list-style-type: none"> - Domestic mining production at a level of 450 thousand tonnes of Cu in ore at the average annual cost C1 not higher than 3,800 USD per tonne in the years 2019-2023. - Average annual ore processing in Sierra Gorda at a level of at least 130,000 tonnes/day starting in 2020. - Average annual payable copper production in Poland at a level of 540 thousand tonnes per year in 2019-2023.
Development	Increased efficiency and flexibility of the KGHM Group's Polish and international assets	<ul style="list-style-type: none"> - Ensure the possibility of basing 35% of metallurgical production on purchased copper-bearing materials, including scrap, to 2030. - Increase the share of highly processed copper products (OFE-Cu rod, OFE-Cu granulate and end-application products) in the KGHM Group's total sales to the level of 10% at the end of 2030. - Satisfy 50% of KGHM Polska Miedź S.A.'s demand for electricity from its own sources of energy generation and renewable energy sources by the end of 2030.
Innovation	Improved efficiency of the KGHM Group through innovation-based operations.	<ul style="list-style-type: none"> - Ensure that 100% of innovation projects are realised pursuant to the rules of a coherent model of innovation management and research and development work (R&D) in the KGHM Group, in the years 2019-2023. - Increase expenditures on innovation and R&D work to the level of 1% of KGHM Polska Miedź S.A.'s revenues by 2023. - Allocation of at least 75% of funds for R&D and innovation in the years 2019-2023 to meet the challenges faced by KGHM Polska Miedź S.A. in the Core Business.
Financial stability	Ensuring long-term financial stability and developing mechanisms to support further growth	<ul style="list-style-type: none"> - Basing the KGHM Group's financing on long-term instruments. - Shorter cash conversion cycle. - Efficient management of market and credit risk by the KGHM Group.
Efficient organization	Implementing systemic solutions aimed at increasing the KGHM Group's value.	<ul style="list-style-type: none"> - Ensure the financial stability of the Polish-based KGHM Group companies, on the basis of their own activities, from 2022. - Increase the efficiency of support functions by 20% as a result of centralisation and digitalisation of key back-office processes by 2023. - Achievement of key strategic targets, at the level of at least 80% of the yearly goals assigned to them, in each of the years the strategy is in force. - Flexible reaction to volatile macroeconomic, geological and mining conditions. A halt in the Morrison mine's production in Sudbury is being considered.

People and the Environment	Growth based on the idea of sustainable development and safety and strengthening of the KGHM Group's image as a socially responsible organization	<ul style="list-style-type: none"> - Annual improvement of the Lost-time injury frequency rate (LTIFR – for Polish assets) and the Total Recordable Incident Rate (TRIR – for international assets) by at least 20%. - Maintain a participation budget at the level of 20% of the amount of deductions for donations from the minerals extraction tax by 2020. - Achievement of a 70% level of commitment and satisfaction of the KGHM Group's employees by 2023.
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The new Strategy is available at <https://kghm.com/en/about-us/strategy>

2.2. SUSTAINABLE DEVELOPMENT AT KGHM POLSKA MIEDŹ S.A.

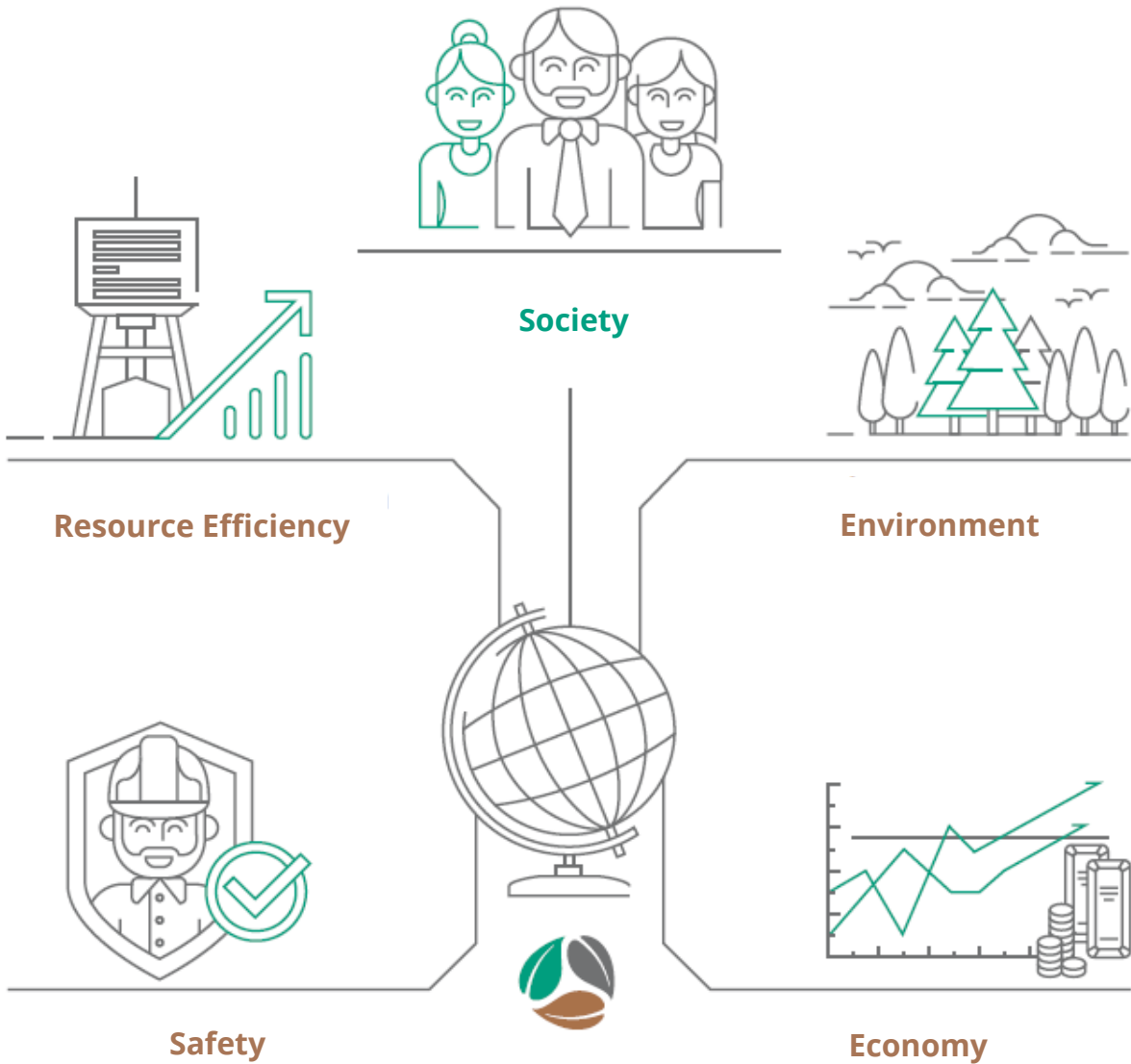
KGHM Polska Miedź S.A. is a global Company, open to development aimed at ensuring its stable operation for many decades to come for the benefit of present and future generations

In the pursuit of its objectives, KGHM Polska Miedź S.A. focuses on creating added value while ensuring solid foundations for its enterprise and employees and achieving long-term success. We aim to invest knowledgeably in new technologies, innovative solutions, best available practices and employee development. We are aware that sustainable development of the mineral resource industry has become a global challenge for the modern world. We are absolutely clear that such development is essential to our mineral resource safety and to ensuring the comfort of life for our employees and society as a whole as well as to protecting the natural environment.

The Company operates based on the principles of sustainable development, in consideration of the following areas in its daily commitments: Society, Environment, Economy, Security and Resource Efficiency.

The diagram below presents the Sustainable Development Areas of KGHM Polska Miedź S.A.

Sustainable Development Areas of KGHM Polska Miedź S.A.



As part of its involvement in sustainable development activities, KGHM Polska Miedź S.A. is a member of the European Technology Platform on Sustainable Mineral Resources (ETP on SMR) in Brussels, where a representative of KGHM has been appointed to serve as the organization’s President. The European Technology Platform on Sustainable Mineral Resources is a think-tank working on solutions to problems facing the mineral resource industry today. The Platform’s main objective is to turn this industry, which is conservative and reluctant to change, into one that is innovative, change-oriented and willing to collaborate with science. The Platform plays an advisory role on policy issues related to the mineral resource industry, which are of paramount importance for KGHM Polska Miedź S.A.’s business.

2.2.1. SUSTAINABLE DEVELOPMENT COUNCIL AT KGHM POLSKA MIEDŹ S.A.

In Q1 2018, as part of the pursuit of its Strategy for 2017-2021, the Company launched some very dynamic activities focused on implementing the Sustainable Development Concept and Management Model at KGHM Polska Miedź S.A. To this end, the Sustainable Development Council was established.

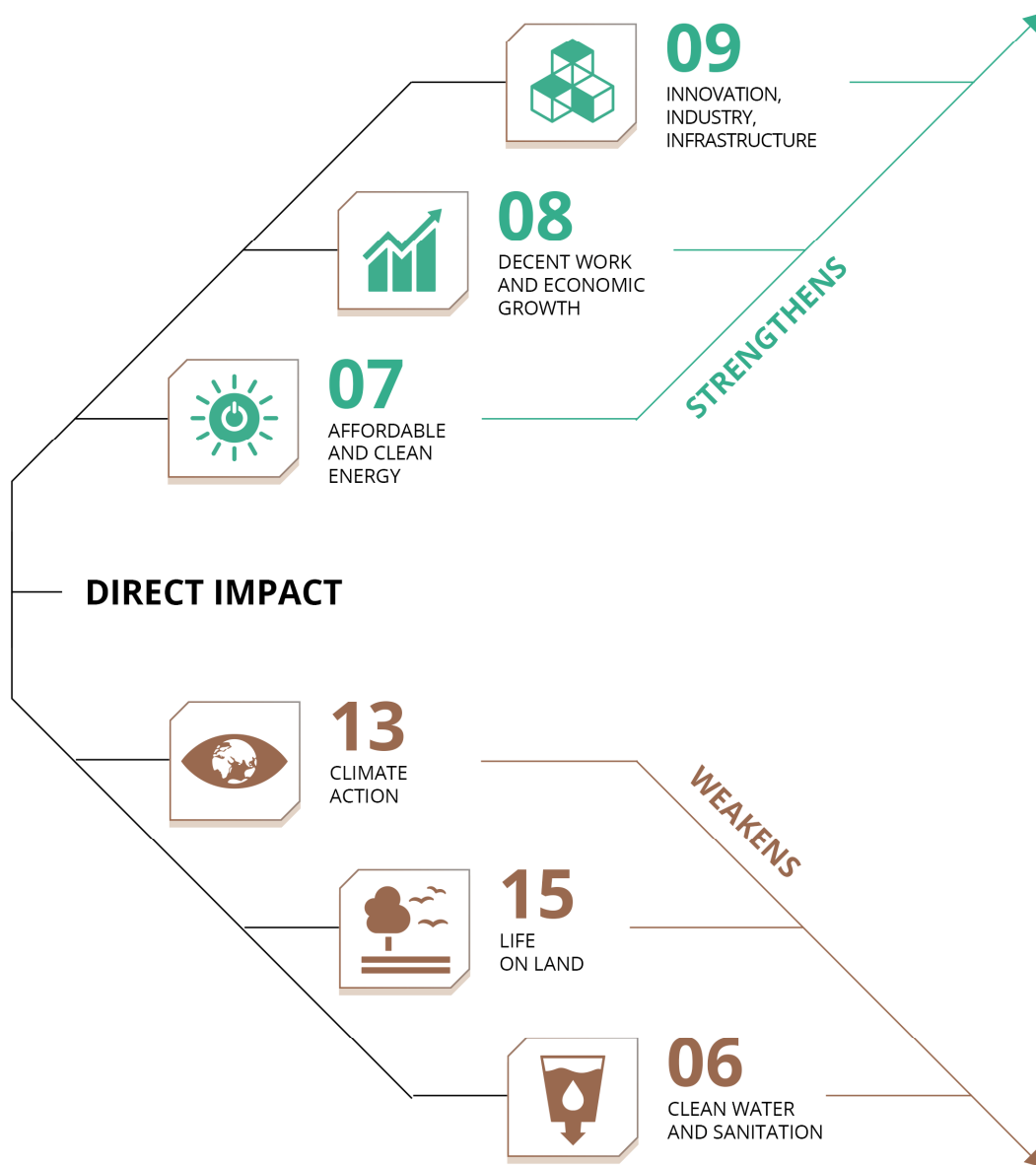
The Sustainable Development Council's key objective stemmed from our business development vision of operating according to accepted standards and canons shaping the future functioning of commodity companies across the world as well as the need for internal information integrity and coherence in the Company's operations. As regards the former issue, the Council's main task was to map KGHM Polska Miedź S.A.'s objectives and activities onto the 17 sustainable development goals set by the United Nations (known as the 2030 Agenda for Sustainable Development). They are presented in the following diagram.

Based on its in-depth analysis of the 2030 Agenda for Sustainable Development, the Sustainable Development Council takes action to increase the positive impact of KGHM Polska Miedź S.A. on the achievement of goals 07 through 09 and weakening the negative impact in the case of goals 06, 13 and 15. These issues are presented in the following diagram.

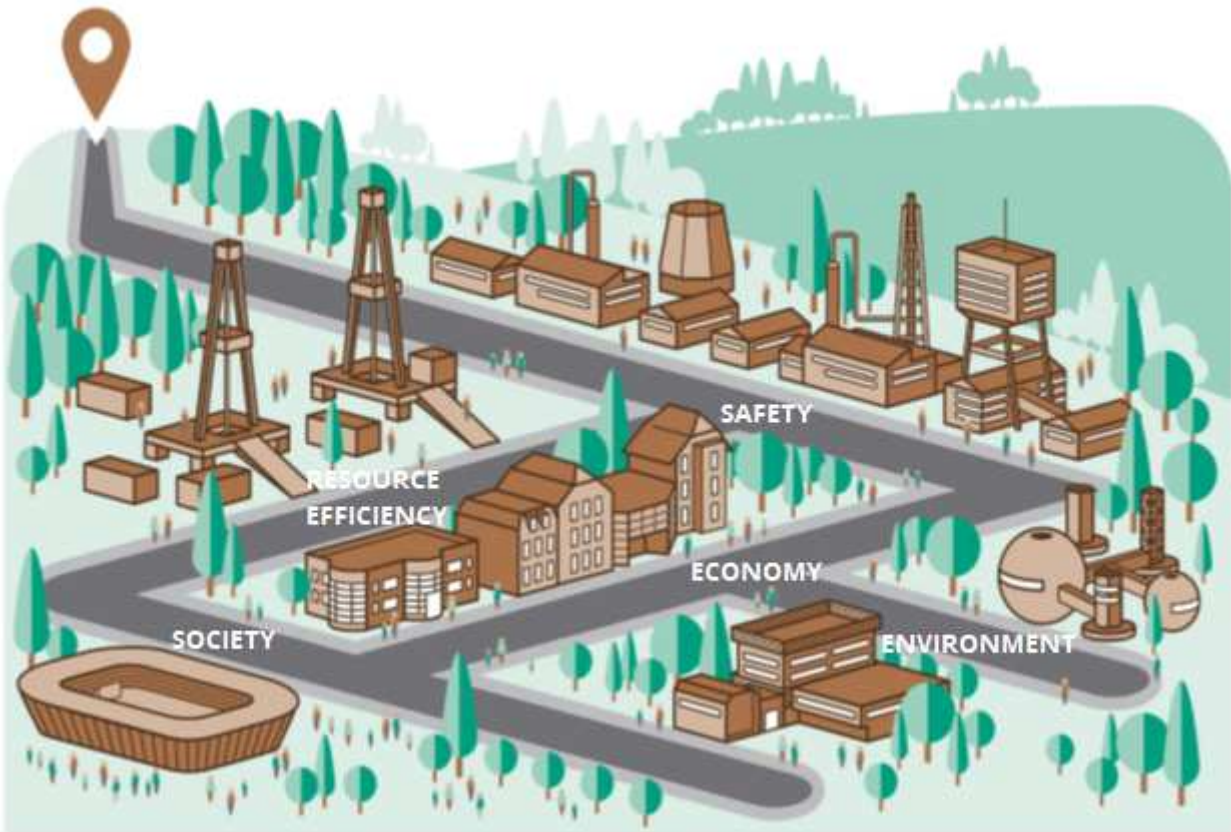
United Nations' sustainable development goals for 2030 (2030 Agenda for Sustainable Development)



IMPACT OF INDIVIDUAL GOALS ON THE MINING INDUSTRY

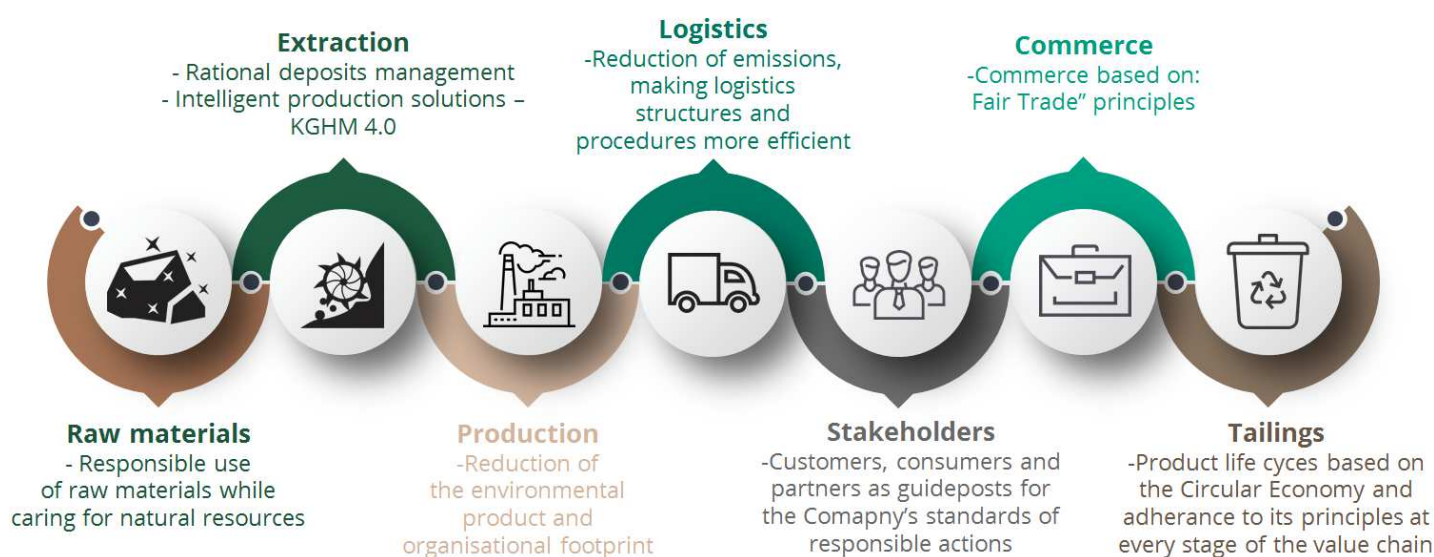


Key Elements of Sustainable Development in Mining



The activities described above resulted in the development of KGHM Polska Miedź S.A. sustainable value chain, as presented in the diagram below.

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



Key non-financial indicators of KGHM Polska Miedź S.A. identified and reported in accordance with the Sustainable Development concept for 2016-2018

Society	2016	2017	2018
Maintaining membership in the RESPECT Index	YES	YES	YES ¹
0% investment activity without a social dialogue policy	n/a	YES	YES ²
Conclusion and maintaining of long-term contracts; achievement of the proper sales structure ensuring long-term relations with customers	n/a	YES	YES ³
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	PLN 29.6 million
Resource efficiency			
Maintaining the term of resource self-sufficiency until 2055 or later	n/a	n/a	n/a
Winnings extraction (the above) per mine employee [tonne]	2,712	2,641	2,558
Production of electrolytic Cu per Company / smelter employee [tonne]	29 / 152	29 / 148	27 / 139
Maintaining Cu yields [%]	98.18	98.23	97.82
Zero harm			
LTIRF_{KGHM} (Lost Time Injury Frequency Rate KGHM)	12.65	10.4	10.3

1. From 2009 to 2018 (and beyond) without any interruption, KGHM Polska Miedź S.A. has been one of the companies listed on the Warsaw Stock Exchange forming 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” regulating such activities. Ultimately, they will be formally spelled out in the Social Dialogue Policy to be developed. In this context, investment activities mean projects to which KGHM 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 2018, nearly 80% of copper sales and over 85% of silver sales took place in the framework of long-term contracts (i.e. longer than 6 months);

2.2.2. CORPORATE SOCIAL RESPONSIBILITY STRATEGY

In 2018, the Corporate Social Responsibility Strategy was pursued. Various initiatives were undertaken with a view to achieving the Strategy’s main objective, namely to “Strengthen the image of the KGHM Polska Miedź S.A. Group”.

The Strategy was based on:

- Results of a review of 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/>).
- Sustainable development reporting standards published as Global Reporting Initiative (GRI) Standards (<https://www.globalreporting.org/>).
- Consultations with senior management, local communities, employees and key partners.
- Best market practices (as applied to global mining enterprises).
- KGHM Polska Miedź S.A.’s corporate values

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 Polska Miedź S.A. Group as friendly to human health and the environment,
- increasing the effectiveness of the KGHM Polska Miedź S.A. 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 for social engagement,
- determining the principles for conducting dialogue with local communities and gaining social approval for running the business ("license to operate") on the basis of best business practices,
- implementing uniform and transparent principles governing charitable activities 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 in response to their needs,
- supporting KGHM's key investment processes at all stages of their development.

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

- extensive promotion of KGHM in domestic and international industry initiatives (scope of sustainable development)
- communication support in maintaining and developing trade cooperation with long-term and stable partners,
- development of cross-sectoral cooperation,
- attaining the rank of the "investor of choice" thanks to compliance with the principles of sustainable development, and development of a relation-based system of cooperation with suppliers,
- respect for human rights and expectations of local communities.

The third objective of the CSR activities is to maintain the rank of a responsible employer. In this area, the Company:

- promotes voluntary service to increase employee engagement at the Group level,
- builds the image of an attractive employer,
- supports communicative implementation of occupational safety policy rules,
- conducts operations based on the highest standards of dialogue with the employees,
- undertakes activities designed to attain a leading position in the industry in terms of occupational health and safety, as well as stability of employment, remuneration, and continuing employee education – "life-long learning",

- promotes transparency based on ethics and corporate governance rules, in particular respect for human rights,
- supports and promotes the education of future human resources.

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

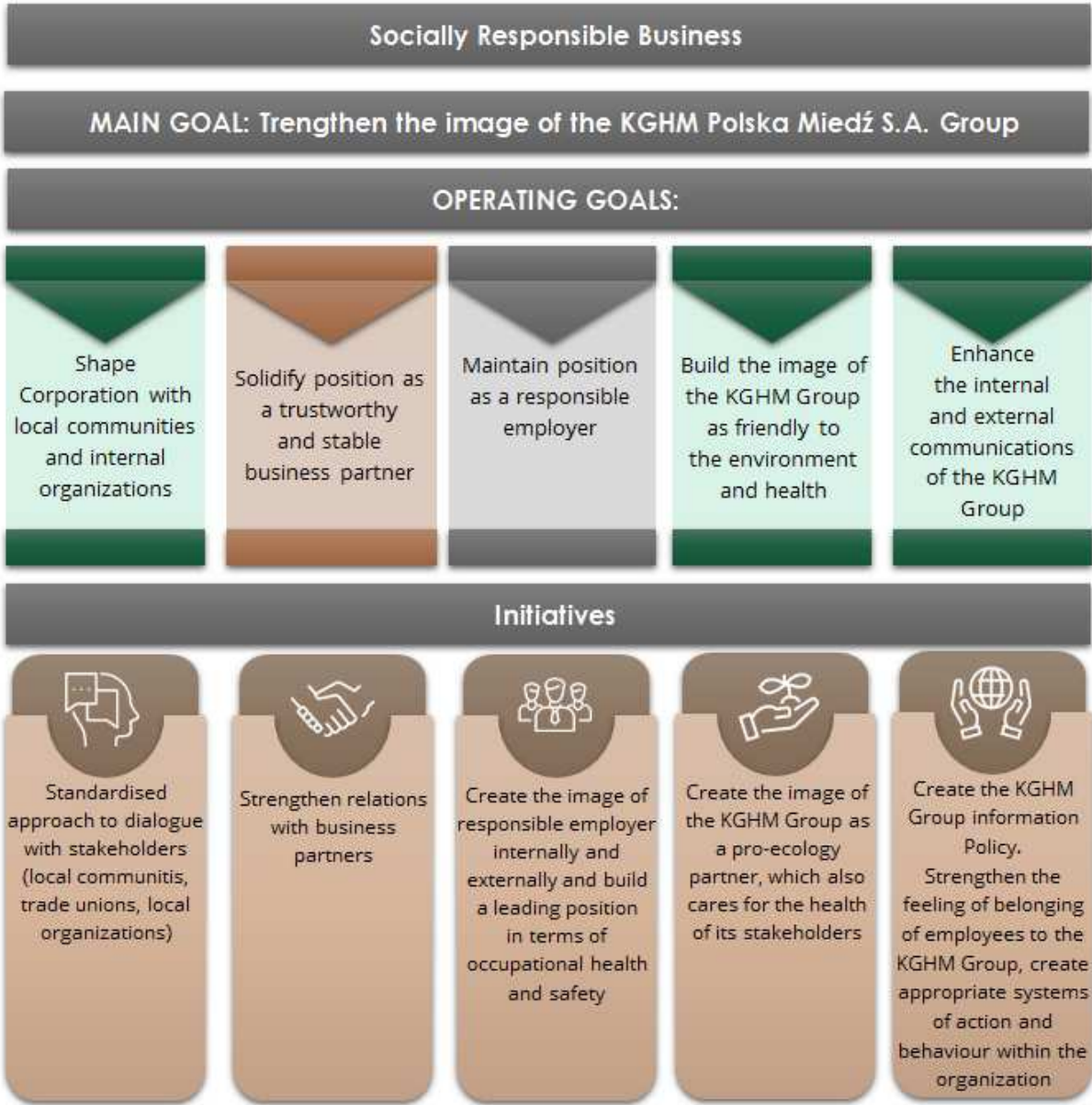
- carries out CSR Programs: of Health Promotion and Prevention of Environmental Hazards - ECO-Zdrowie, and initiatives for innovativeness and natural environment – Strefa Innowacji (Innovation Zone), Employee Volunteers Copper Heart
- strengthens the role and activity of the KGHM Polska Miedź S.A. Group in the area of environmental protection,
- develops programs and initiatives to minimize environmental impact: reduce emissions of greenhouse gases, increase energy efficiency, improve waste management and post-mining reclamation, reduce use of and protect water resources).

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

- standardization of communication rules and behaviors, internally and outside of the KGHM Polska Miedź S.A. Group,
- organization of coordinated PR activities of the KGHM Polska Miedź S.A. 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 of the KGHM Polska Miedź S.A. Group,
- development of an international education system in the area of sustainable development.

The diagram below describes the CSR objectives of the KGHM Group.

CSR objectives of the KGHM Group



The CRS Strategy of the KGHM Group is published on the Company’s website, <https://kgm.com/en/sustainable-development>.

The new Strategy of KGHM Polska Miedź S.A for the years 2019-2023, published in December 2018, comprises 6 strategic areas. One of those areas is “People and the Environment”, which relates to, among others, the Company’s sustainable development. Its major objective is to grow based on the idea of sustainable development and safety and to enhance the Group’s image as a socially responsible organization. The effectiveness of the “People and the Environment” strategic area is measured by:

- a minimum level of annual improvements in LTIFR (for domestic assets) and TRIR (for overseas assets),
- maintaining a participation budget at the level of 20% of the amount of deductions for donations from the minerals extraction tax by 2020,
- the level of the KGHM Group's employees' dedication and satisfaction, based on pre-defined measures being implemented until 2023.

2.3. COMPREHENSIVE RISK MANAGEMENT SYSTEM IN THE KGHM GROUP

The KGHM Polska Miedź S.A. Group defines risk as the impact of uncertainty, inherent in the operations, that may result in both opportunities and threats to attainment of business objectives. We assess the current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities. Based on the assessment, management practices are verified and adapted in response to individual risks.

In the framework of the Corporate Risk Management Policy and Procedures, and the Regulations of the Corporate Risk and Compliance Committee, updated in 2018, the KGHM Group pursues a consistent corporate risk management process. The corporate risk management documents in the individual Group companies are consistent with the corresponding rules of KGHM Polska Miedź S.A. The Company oversees the corporate risk management process in the Group. The corporate risk management process undergoes annual effectiveness review (in accordance with the guidelines: Best Practices of Companies Listed on the WSE 2016).

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 and Compliance, and in terms of financial risk by the division of the Executive Director for Treasury Operations - Corporate Treasurer.

This comprehensive approach to analysing risk factors also comprises the identification of risk factors related to achieving the strategic goals. In 2018, risks were reviewed related to achievement of the strategic goals contained in the Main Strategy and in the Executory and Support Strategies.

Following is the organisational structure of risk management in the Parent Entity as updated in 2018. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

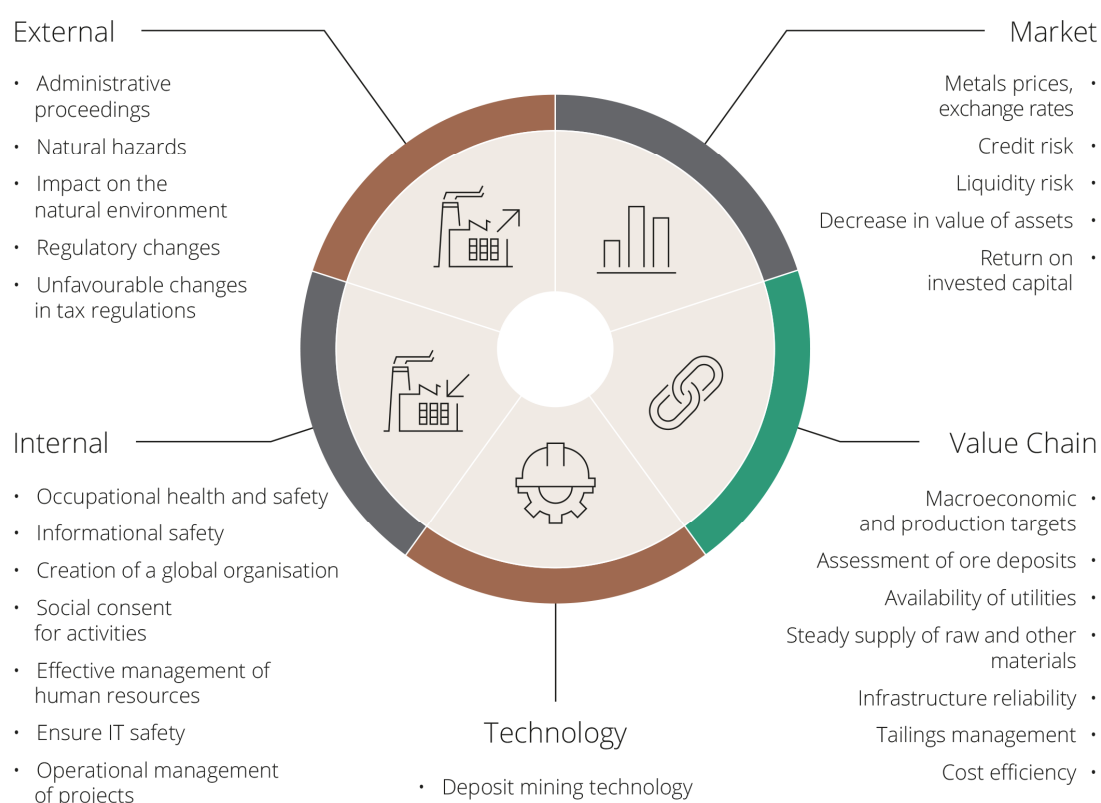
Risk management organizational structure of KGHM Polska Miedź S.A.

Supervisory Board (Audit Committee)					
Carries out an annual effectiveness assessment of risk management, as well as of monitoring the levels of key risks and the methods of addressing them.					
Management Board					
Ultimately responsible for the risk management system and supervision over its individual elements.					
1st line of defense	2nd line of defense				3rd line of defense
Management	Risk Committees				Audit
The management are responsible for identification, assessment and analysis of risks and implementation, as part of their daily duties, of the right response to risk. The management's responsibility is to exercise ongoing supervision over application of appropriate responses to risk as part of the their tasks, to ensure that the risk does not exceed the expected level.	They support effective risk management and ongoing supervision over key risks.				The Internal Audit Plan is based on risk assessment and subordinated to 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	
	Corporate risk management and ongoing monitoring of key risks	Metal price change risk management (among others: copper, silver) and exchange rates and interest rates	Management of the risk of debtor's default	Management of liquidity risk, understood as the ability to timely settle liabilities and raise funds to finance operations	Internal Audit Regulations
	<i>Corporate risk management policy</i>	<i>Market risk management policy</i>	<i>Credit risk management policy</i>	<i>Financial liquidity management policy</i>	
	Corporate Risk and Compliance Management Department	Director General of the Treasury - Corporate Treasurer			Director General for Audit and Control
	Reporting to the Management Board	Reporting to Vice-President of the Management Board for Financial Matters			Reporting to the President of the Management Board

2.3.1. KEY CORPORATE RISKS IN THE KGHM POLSKA MIEDŹ S.A. GROUP - KEY RISKS AND THEIR MITIGATION

For the purposes of risk identification, the KGHM Group uses a tool called a Risks Model. Its structure is based on risk sources and is divided into the following 5 categories: technological, value chain, market, external and internal. At the level of the identified and defined subcategories, there are several dozens of subcategories corresponding to individual areas of 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 KGHM Polska Miedź S.A. and the KGHM INTERNATIONAL LTD Group. In response to the policies and procedures in place in the Group, the risks and their mitigants 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 Polska Miedź S.A. Group's economic environment can be found in the Management Board's Report on the Activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2018, in the chapter "Risk management in the Group": <https://kgm.com/en/investors/reports-and-presentations/financial-reports> .

Most of the aforementioned risks are a result of the macroeconomic situation. The dynamics of changes in the mining sector and the non-ferrous metal industry, as industries associated with market cycles, generate risks which are beyond the Company's control. The Company may, however, hedge against those risks and mitigate their potential negative impact by taking 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 the potential risks for all the areas specified in the Strategy.

Being aware of the potential risks, the Company is better prepared and capable of fast response should they materialize.

3. ETHICAL FOUNDATIONS

The rules, methods and tools presented below are the basic elements in developing a consistent approach to due diligence in the KGHM Polska Miedź S.A. Group and the Parent Company.

3.1. VALUES OF KGHM POLSKA MIEDŹ S.A.

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 nearly 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, in Poland or in other parts of the world. KGHM builds its global position in the world as a reliable producer, trusted business partner and a company pursuing a sustainable development policy. All those values must co-exist, which is reflected in the diagram below.

VALUES of KGHM Polska Miedź S.A.



Rules of conduct based on values developed by KGHM Polska Miedź S.A.

Results driven

We achieve results while focusing on KGHM's long-term success.

1. we set ambitious objectives and develop constantly;
2. we take initiative and make extra efforts for the benefit of KGHM;
3. we perform our work reliably, with due diligence, using the right tools and the best solutions based on our knowledge.

Accountability

We are jointly responsible for the actions taken for our shareholders:

1. we set a good example for others, acting in a transparent and socially responsible manner, abiding by the standards of the Code of Ethics;
2. we take responsibility for our decisions, obligations and constant, stable development;
3. we build long-term relations with our business and social partners.

Zero harm

We are all responsible for the safety of our Company and the environment we impact through our operations:

1. protecting the lives and health of our employees is our priority;
2. we respect the natural environment, in particular the resources we mine in a responsible manner;
3. we care about the local communities in which we operate and maintain a dialogue with;
4. we put emphasis on the continuity and stability of KGHM's operations.

Courage

We face new challenges in a well thought-out manner:

1. We are courageous. We stand up to new challenges;
2. we are open and honest in mutual contacts and are not afraid to speak up about our opinions; we receive constructive criticism with attention and respect;
3. we make courageous decisions and seek new innovative solutions.

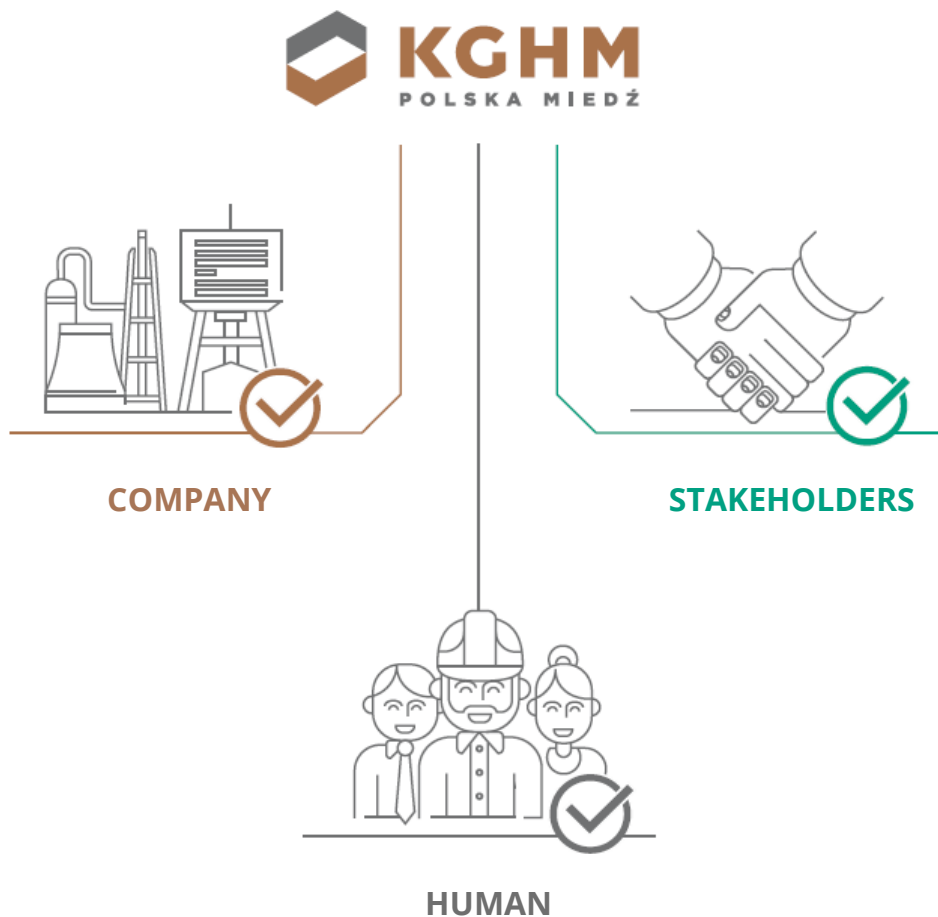
Cooperation

Teamwork is the basis for our successes:

1. we work as a team, sharing our knowledge and experience;
2. in discussions, we respect the views of others and are open to new perspectives;
3. we use the talents and experience of employees;
4. we value diversity and a multi-cultural environment;
5. we prefer constructive cooperation of KGHM Group's companies over superfluous competition, founding our success on the synergy effect.

KGHM Polska Miedź S.A. pursues the values presented above based on ethical standards. The fundamental ethical standards are shown in the diagram below.

Key Ethical Standards translating into principles of conduct in KGHM Polska Miedź S.A.



For the purposes of communication and implementation of the Ethical Standards, KGHM POLSKA MIEDŹ S.A. operates a system of codes, policies and procedures, introduced and maintained by properly trained representatives and committees. Their implementations comply with the global corporate governance standards and increasing expectations of stakeholders.

Based on the best corporate governance practices, the Company operates principles, policies and instructions which implement the global uniform standards adapted to the legal regulations of all the jurisdictions in which KGHM Polska Miedź S.A. operates.

3.2. THE SYSTEM OF SECURITY AND LOSS PREVENTION IN KGHM POLSKA MIEDŹ S.A.

In 2018, KGHM Polska Miedź S.A. started the implementation of a global Security and Loss Prevention System in the KGHM Polska Miedź S.A. Group.

The system is designed to protect the employer's interest by preventing acts that expose the company to material loss and reputational harm, as well as by the optimization of expenses and investments, which generates savings for the KGHM Polska Miedź S.A. Group. The key elements of the system include:

- defined procedures and control mechanisms,
- standardization of procedures and processes in the aforementioned area across the KGHM Group,
- effective prevention of malpractice that can lead to losses for the KGHM Group,
- effective detection of committed malpractices, inspection and control activities and implementation of corrective mechanisms,
- counteracting corruption,
- growing the ethical awareness of employees.

Established in January 2018 in the KGHM Polska Miedź S.A. Head Office, the Security and Prevention of Loss Division is responsible for the implementation, functioning and oversight of the system. Currently, the Division is made up of two Departments:

1. the Security Department, comprising, among others, the Unit of Ethics and Anti-corruption Procedures and the Unit of Security and Loss Prevention,
2. the Department of Supply Chain Security.

In 2018, KGHM's Divisions and Subsidiaries appointed Representatives for Ethics and Anti-corruption, whose work is monitored, supervised and coordinated by the Ethics and Anti-corruption Representative

of the KGHM Group (as per the applicable procedure, the function is discharged by the Director of the KGHM Security Department).

Since 2017, regular anti-corruption training has been organized for the employees of all KGHM entities. In 2018, specialized training was carried out, addressed to the management and the representatives. All the materials and instructions are readily available to all Employees on the internal corporate portal.

3.2.1. THE CODE OF ETHICS OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The primary document of the Security and Loss Prevention System of the KGHM Group is the KGHM Polska Miedź S.A. Group **Code of Ethics**, updated in June 2018. Hence the frequent reference to the Code in this statement.

The KGHM Group **Code of Ethics** is based on the aforementioned values and constitutes a guidepost for all the decisions and actions taken in the Parent Company and the KGHM Group. There are supporting acts regulating the areas of: prevention of corruption, prevention of conflict of interests, security and transparency of procurement processes, verification of external contractors, prevention of employee rights violations, including discrimination and abuse. The KGHM Group's **Code of Ethics** is a collection of rules applicable to the employees of the Parent Company, the KGHM Group and cooperating entities. 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 KGHM Group's **Code of Ethics** aims to ensure that the employees' follow the highest standards based on accepted values. The status of a global leader and international corporation obligates us to keep the highest standards of business ethics. It is also related to the challenges resulting from the richness of the national cultures within which we operate.

3.2.2. KGHM POLSKA MIEDŹ S.A. CODE OF CONDUCT

In keeping with current corporate practice, including in the mineral resource industry, our business partners, suppliers, customers and stakeholders expect companies to have clearly declared ethical regulations.

In June 2018, the Management Board of KGHM Polska Miedź S.A. adopted the KGHM Polska Miedź S.A. Code of Conduct. By this token, the Company has declared its orientation towards sustainable development, based on respect for ethical principles, transparency and good industry practice, and commitment to being a socially and environmentally responsible enterprise. The Code of Conduct is

based on the KGHM Group Code of Ethics. Both documents regulate behavior standards that the Company is guided by. The Codes are an integral, mutually interconnected whole, based on consistent assumptions and values, followed by the Company.

The Code of Conduct is a powerfully practical document. Its purpose is to be a guide and support for the employees, showing where to look for answers and who to approach if in doubt about decisions taken in everyday situations. The Code of Conduct provides an easy to understand presentation of the Company's values to all the employees, regardless of their position.

The adoption and functioning of the Code of Conduct and the **Code of Ethics** was presented to KGHM POLSKA MIEDŹ S.A.'s employees both via the internal portal (intranet: "KGHM to My" at extranet.kghm.com), as well as distributed with monthly payment slips. The Codes are distributed in the printed version during training sessions held by the Ethics and Anti-corruption Representatives in all Divisions and Companies of the Group.

The **Code of Ethics** is published for the general public on www.kghm.com, in the Investors/Corporate Governance/Code of Ethics tab, <https://kghm.com/en/investors/corporate-governance/code-ethics>.

3.2.3. ETHICS COMMISSIONS IN THE KGHM POLSKA MIEDŹ S.A. GROUP

Every KGHM Group Entity establishes an Ethics Committee. The primary task of the Committee is to conduct investigations in response to irregularities reports, dealing with breaches of the ethical standards defined in the Code of Ethics, and recommend corrective and disciplinary actions to the plant Manager.

A report can be filed by:

- 1) Every employee who has been harmed by actions described in the list of issues reportable to the Ethics Committee;
- 2) Every person who has witnessed actions described in the list of issues reportable to the Ethics Committee.

The investigation conducted by the Committee covers issues that require determination of the actual facts of the matter, in other words disputable or having unclear causes. The investigation is not in conflict, nor does it replace, the right to seek claims pursuant to the generally applicable laws.

Members of the Committee are obliged to resolve the breaches of ethical principles given in the KGHM Group **Code of Ethics** in an impartial and efficient manner, giving equal treatment to all parties to the proceedings. The Committee operates pursuant to its Regulations, and observing the generally applicable laws and internal regulations of a given KGHM Group Entity.

The list of issues reportable to the Committee is as follows:

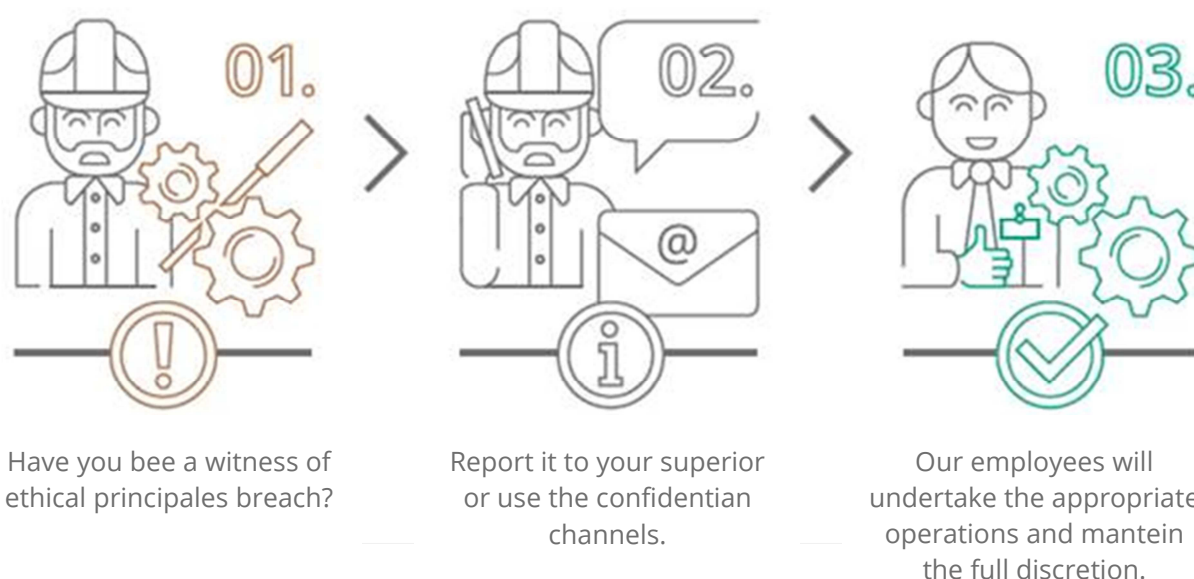
1. Actions displaying features of abuse, discrimination, harassment or other type of unequal treatment of the Company's employee or a group of employees;
2. Breaches of employee duties arising from the Labor Code as well as internal regulations of a given KGHM Group Entity, regardless of the position held;
3. Breaches of the rules of community life;
4. Improper performance of professional duties.
5. Unethical behavior towards other employees and third persons in the work place and outside of the working hours;
6. Exposing the good name of the Company to harm.

3.2.4. THE PROCEDURE OF DISCLOSING IRREGULARITIES AND PROTECTION OF WHISTLE-BLOWERS IN THE KGHM POLSKA MIEDŹ S.A. GROUP

In order to allow for effective detection of breaches, confidential channels for reporting of irregularities by the so called Whistle Blowers have been created, both within the company, as well as from outside of its organization. Persons who report irregularities, and who do so in good faith and non-anonymously (Whistle Blowers) are protected under the KGHM Group Procedure of Disclosing Irregularities and Protection of Whistle Blowers. Anonymous reports are also accepted and followed up. The channels allow reporting without disclosing one's personal details.

The diagram below shows the stages of reporting ethical irregularities in the KGHM Group.

Actions taken in the case of ethical principles breach in the KGHM Group.



3.3. THE ANTI-CORRUPTION POLICY OF KGHM POLSKA MIEDŹ S.A.

The anti-corruption policy of the KGHM Polska Miedź S.A. Group defines detailed standards of conduct in corruption-prone situations and identifies the liability for malpractice.

The KGHM Polska Miedź S.A. Group underscores its commitment to fighting corruption in business, by the way of adopting and uncompromising observance of the “zero tolerance for corruption and bribery” rule. Employees are prohibited to offer or accept any material benefits in relation to the performance of professional duties.

The only exception is giving and accepting business gifts, in line with local norms and cultural customs, provided that the giving and accepting of gifts cannot lead to a situation in which such behavior could be considered as an attempt to exert pressure or persuade the recipient to act against their duties. Detailed rules pertaining to giving and accepting of customary business gifts have been defined as an instruction under the Corruption Threat Prevention Procedure. Employees are required to avoid any actions or decisions in a situation of a conflict of interests.

Particular control under the Policy is over business procurement transactions, including the option of a third party audit, in order to ensure that such transactions meet the highest standards of ethical and transparent business operations.

The Group’s Entities and their employees may be held accountable for actions of persons or entities acting on their behalf or for them.

The Policy also states that the Group’s Entities and their representatives are obliged to observe all statutory provisions, guidelines of administration bodies and other state authorities, as well as domestic and international legal acts designed to fight corruption. The Policy also states that KGHM Polska Miedź S.A. and the Group’s Entities and cooperating entities are obliged to follow international legal acts designed to fight corruption, e.g. the U.K. Bribery Act of 2010, the U.S. Foreign Corrupt Practices Act, Canadian Corruption of Foreign Public Officials Act of 1999 and guidelines contained in international agreements, e.g. the OECD Convention or the guidelines of UN Global Compact as regards responsible business and fighting corruption.

The document stipulates that employees of the Group and external partners are obliged to report any suspicion of breaches to the Policy and the Corruption Threat Prevention Procedure, directly to the Security Department of KGHM Polska Miedź S.A. or via the dedicated channels of malpractice reporting. Every report is confidential and is followed up with due diligence.

The KGHM Group uses a range of tools to effectively implement the Policy’s objectives, including first of all procedures, instructions, remedies and control mechanisms, which specify in detail the standards of

conduct in corruption-prone situations and situations in which accountability for malpractice may be involved.

The Group's employees and its representatives are obliged to follow and apply both the Anti-Corruption Policy as well as the accompanying documents referred to above, in particular the "Corruption Threat Prevention Procedure".

3.3.1. THE CORRUPTION THREAT PREVENTION PROCEDURE IN THE KGHM POLSKA MIEDŹ S.A. GROUP

The provisions of the Corruption Threat Prevention Procedure are applied in order to minimize the risk of corruption and limiting any corruptive practices that may arise in respect of the functioning of the KGHM Group. The Procedure further elaborates the provisions of the KGHM Group Anti-Corruption Policy.

The rules defined in the Procedure are addressed to all Employees, as well as Representatives, and are applicable in contacts with clients, counterparties and State authorities.

The Procedure stipulates precisely the proper manner of conduct, remedies and control mechanisms, which together with other regulations of the Policy make up the Corruption Threat Prevention System.

The KGHM Group's employees and its representatives are obliged to observe all statutory provisions, guidelines of administration bodies and other state authorities, as well as legal acts of the relevant organizations of which a given KGHM Group Entity is a member, related to anti-corruption rules and actions.

Undertaking, participation in, promotion of, and inciting to any kind of corruptive actions is strictly forbidden. In the KGHM Group, corruptive action is in particular:

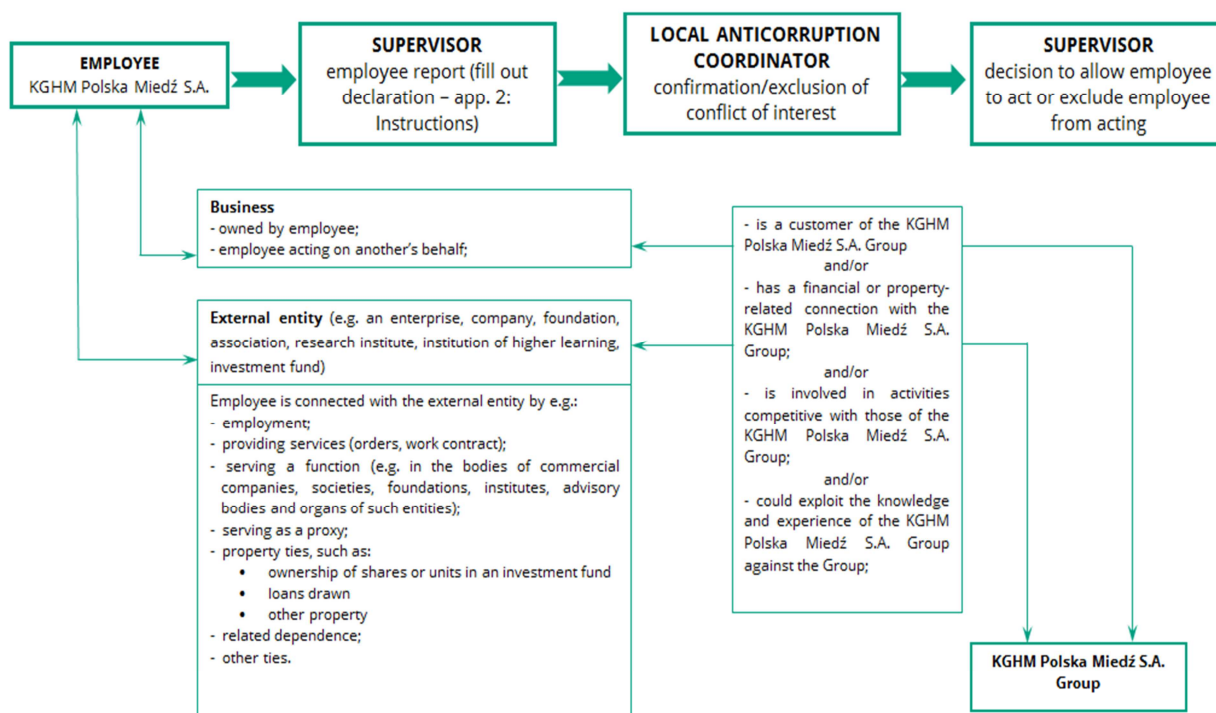
- Bribery;
- Influence peddling;
- Unacceptable preferential treatment - an action leading to putting a counterparty, product or service in a privileged position, extended against the interests of the KGHM Group, in return for provision, or a promise to provide, material benefit;
- Abuse of authority;
- Negligence;
- Receipt of benefits;
- Receipt of a promise;
- Making performance of a professional duty conditional;

- Demand of benefits;
- Conflict of interests;
- Nepotism;
- Cronyism;
- Thwarting or impeding a public tender.

The algorithm for reporting conflicts of interests, including a list of situations that may lead to a conflict of interests, is shown in the diagram below.

The algorithm for reporting conflicts of interests, including a list of situations that may lead to a conflict of interests in the KGHM Group

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



3.3.1.1. BUSINESS GIFTS INSTRUCTION

Attached to the Corruption Threat Prevention Procedure is the Business Gifts Instruction, adopted in 2018. Offering or receiving business gifts is a frequent way of expressing mutual kindness and respect by business partners. Therefore, in principle an exchange of gifts in purely business relations is allowed, provided that:

- the gift is in line with customary business practice,
- the gift is compliant with the law.

Failure to observe the rules laid down in the Instruction may lead to a conflict of interest and undermine confidence in business decisions made by the gift recipients.

The Instruction does not replace the rules laid down in other internal acts of KGHM Polska Miedź S.A. (e.g. the KGHM Polska Miedź S.A. Group Procurement Policy), but rather further elaborates on them; however, if a conflict is discovered between the rules given in this document, and the rules or restrictions laid down in other internal acts, the more restrictive rules should be applied, unless a given internal act explicitly stipulates that within the scope it regulates, the application of the Instruction is excluded.

3.4. PROCUREMENT POLICY OF THE KGHM POLSKA MIEDŹ S.A. GROUP

We are guided by high ethical standards across our procurement process. The Code's main message is to warrant the professionalism and honesty of the persons responsible for the procurement processes. The document also contemplates issues such as preventing conflicts of interest as well as equal treatment of suppliers to ensure compliance with the principles of fair competition.

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

The company audits its suppliers, from the standpoint of compliance with human rights and regulations governing the hiring of minors. External entities are also checked in order to secure the interests of KGHM, in the context of money laundering, breaches of fair competition rules, prevention of conflict of interests, etc.

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

3.4.1. THE PROCEDURE OF COUNTERACTING MONEY LAUNDERING AND PREVENTION OF FRAUD AND EXTORTION IN TRADING TRANSACTIONS REGARDING SALE OF PRODUCTS AND PROCUREMENT OF ORE AND COPPER-BEARING MATERIALS IN KGHM POLSKA MIEDŹ S.A.

KGHM uses a diverse range of external counterparty verification in the procurement, sales and investment processes, which are regulated by a number of consistent and uniform internal policies and procedures. This procedure covers verification methods used for the purposes of trading transactions. In the context of protecting its image and care for the Company's security, KGHM takes measures to prevent the Company from being used by third parties for unlawful purposes they pursue, such as money laundering, financing of terrorism, VAT extortion. The security measures undertaken in this respect consist of:

- Client identification and verification of its identity based on the data provided by the Client, publicly available information and/or reports of credit bureaus;
- Undertaking, with due diligence, actions to determine the ownership as well as organizational structures or the Client's links to other entities, in order to identify the Beneficial Owner of the transaction and verify its identity, using publicly available information and/or reports of credit bureaus;
- Obtaining information on the Client's objective and intended character of the business relationship, using publicly available information;
- Monitoring of the business relationship with the Client, including completed transactions, in order to check if they are consistent with the Company's knowledge of the Client and its business profile, and - if possible - examining the source of funds.

3.4.2. PROCUREMENT PROCESS CONTROL INSTRUCTION OF THE SUPPLY CHAIN SECURITY DEPARTMENT OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The Instruction has been issued as an Appendix to the Internal Control Procedure of the Security and Loss Prevention Division of the KGHM Polska Miedź S.A. Group.

Pursuant to the Organizational Regulations of KGHM Polska Miedź S.A., tasks of the Supply Chain Security Department include: control of the transparency of procurement processes, monitoring of procurement processes with increased risk of malpractice and control of completed procurement processes - if a malpractice is suspected - to verify the correctness of those processes and detect corruption threats.

The document regulates a detailed scope of activities of the Supply Chain Security Department, resulting from the aforelisted tasks, and incorporating the stipulations of the KGHM Polska Miedź S.A. Procurement Policy. The Instruction also applies to procurement excluded from the Procurement Policy which has not been regulated in other internal Company acts - to the extent allowed by the unique specificity of individual procurement processes. For procurement excluded from the Procurement Policy which is regulated by other internal Company acts, the control activities proceed in accordance with those acts.

3.5. ANTI-ABUSE PROCEDURE OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The objective of the procedure is to prevent abuse at work, by the way of implementation of a prevention system and definition of a procedure to be followed if abuse does occur. The procedure is designed to build and enhance an organizational culture based on good interpersonal relations between and among employees.

The procedure describes a catalogue of actions designed to prevent abuse, actions to be taken if abuse does occur, and defines obligations of the employer and employees in this respect. The Procedure applies to all employees of the KGHM Group, regardless of the type of contract or position held. Every employee who believes they have experienced abuse or have witnessed behavior displaying features of abuse, has the right to lodge an Abuse Report. An Abuse Report is lodged under the process defined in the Procedure of Disclosing Irregularities and Protection of Whistle-Blowers, using dedicated channels, provided that, however, in this case the personal details of the reporting employee, the employee/employees who may have been subjected to abuse and the employee/employees who have committed actions or behavior displaying the features of abuse, must be disclosed. The case is examined by the Ethics Committee.

3.6. PERSONAL DATA PROTECTION POLICY IN KGHM POLSKA MIEDŹ S.A.

In 2018, the Management Board of KGHM Polska Miedź S.A. adopted the Personal Data Protection Policy. The Policy lays down the rules of processing and securing personal data in KGHM Polska Miedź S.A., pursuant to the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, "GDPR").

The Policy has been adopted to ensure that data processing in KGHM proceeds in compliance with the GDPR and other personal data protection regulations, and to be able to demonstrate this compliance. The Policy is subject to reviews and updates, in keeping with the rules laid down therein. Under the Policy, the object of protection is personal data, processed in IT systems, as well as recorded otherwise on media, including paper form and electronic media. The places where personal data is so processed must be secured in a manner defined by the Policy. The Policy applies to all the personal data processed in KGHM for the purposes of the Company's activities. The duty to protect personal data processed by KGHM and to apply the Policy covers all persons with access to personal data, regardless of their position, place of work and type of employment relationship. Every person about to have access to personal data may process the data exclusively based on an authorization (delegation). All persons having access to personal data are obliged to familiarize themselves with the Policy and other related documents, and to apply the provisions thereof.

The Policy is consistent with other internal regulations regarding security of information and IT systems applicable in KGHM. Updates to the Policy are supervised by the Personal Data Protection Inspector of KGHM Polska Miedź S.A.

3.7. VERIFICATION PROCEDURE 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. In doing so, it attaches importance not only to respect for human rights, lawful terms of employment, environmental norms, freedom of establishing trade unions, compliance of operations with generally applicable laws, no child labor and no acquisition of production commodities from conflict sources (so-called "conflict minerals"), but also seeks cooperation with business partners who share the same values. For this reason, KGHM's 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 an important factor in business decisions related to opening or declining to open a business relationship with a given partner.

3.8. INTERNAL AUDIT REGULATIONS (FOR ETHICS) IN KGHM POLSKA MIEDŹ S.A.

The Internal Audit Department follows international internal audit standards. The standards cover 14 areas, with ethics being one of them. When performing internal audit tasks, the risk is analyzed of potential fraud, conflicts of interest or other activities which are not compliant with the **Code of Ethics** and other internal regulations. Any areas with increased risk of unethical behavior are consistently identified and taken into account in the development of the annual audit plan.

3.9. INTERNAL CONTROL PROCEDURE OF THE SECURITY AND LOSS PREVENTION DIVISION OF KGHM POLSKA MIEDŹ S.A.

The purpose of the Procedure is to define consistent and uniform rules for conducting Internal Control by the Security and Loss Prevention Division.

The Procedure defines how the Control Process is performed by the Division's units, defines and assigns roles in the Control Process and delineates the framework of cooperation of its participants, as well as listing the scope of activities to be performed in the Process. The scope of control carried out by the Security and Prevention of Loss Division includes: identification and detection of fraud, irregularities, malpractice, corruption, abuse, breaches of the **Code of Ethics** in the Group, as well as threats to IT and information security.

3.10. SELECTED GRI STANDARDS PERFORMANCE INDICATORS REFLECTING ACTIVITIES IN THE AREA OF ETHICAL FOUNDATIONS IN THE KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A. IN 2018

G205-3 – Confirmed corruption cases and actions taken in response thereto

Recorded corruption cases ended in:	KGHM Polska Miedź S.A. Group	KGHM Polska Miedź S.A.
disciplinary dismissal or punishment of employees	1	0
refusal to renew contracts with business partners due to breach of corruption rules	0	0
legal actions pertaining to corruption practices taken against the reporting organization or its employees in the reporting period	0	0
Total	1	0

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

As the key and most important type of capital, people are subject to particular protection and are at the center of attention of the Company's corporate bodies. KGHM Polska Miedź S.A. aims to build an organizational culture whose cornerstone is the development of relationships based on absolute respect for the employee's dignity and personal rights, regardless of the place of work and level of subordination

KGHM Polska Miedź S.A. recognizes, respects and observes human rights - including employee rights. The Company has undertaken to operate in accordance with the UN Universal Declaration of Human Rights. The "Declaration of Human Rights Protection in KGHM" defines our approach to human rights protection. Employee dignity and personal rights are subject to absolute protection, and any mutual relations are based on respect in this regard. As a global Company operating across the world's markets, KGHM applies standards of work and employee relations as stipulated by local law as well as by international institutions, such as the International Labor Organization (ILO) or UN Global Compact. Regulations and policies take account of the interests of employees and mutual relationships, based on best practices, irrespective of the jurisdiction of the Company's place of operation.

KGHM Polska Miedź S.A. applies impartial and fair criteria of employee assessment, being guided by knowledge, professional competencies, social skills and the quality of work.

The Company's culture has created a work environment and venue free from discrimination. No form of discrimination is tolerated, in particular due to gender, race, age, descent, religion, handicap, world view, sexual orientation, social status, marital status, disability, political party and trade union membership and the form of employment.

In the KGHM Group, people - employees - are the most valuable asset

The rules:

- Compliance with the labor laws of the jurisdictions in which the KGHM Polska Miedź S.A. Group operates, as well as with the standards of our internal labor regulations.
- Compliance with the regulations concerning working time and minimum wage.
- Respect for employees' rights to associate in employee organizations and trade unions, and to engage in collective bargaining.

- To foster employee development and support them in improving their competencies through a variety of training forms and possibility to participate in new projects.
- Respect for human rights and impermissibility of any forms of illegal or forced labor, including child labor.

The Third Pillar of the Corporate Social Responsibility Strategy aims at maintaining the rank of a socially responsible employer and promotion of ethics-based transparency and corporate governance, in particular respect for human rights

Headcount:

KGHM Polska Miedź S.A.

At KGHM Polska Miedź S.A., the headcount at the end of 2018 was 18,503 persons and was 0.8% higher compared to the end of the previous year. Annualized average headcount in KGHM Polska Miedź S.A. was 18,331 and was higher by 133 persons from the headcount in 2017. The changes were a result of natural personnel movements.

Average headcount in KGHM Polska Miedź S.A.

	2018	2017	Change (%)
Mines	12,433	12,413	+0.2
Metallurgical plants	3,600	3,529	+2.0
Other divisions	2,298	2,256	+1.9
KGHM Polska Miedź S.A.	18,331	18,198	+0.7

The Group

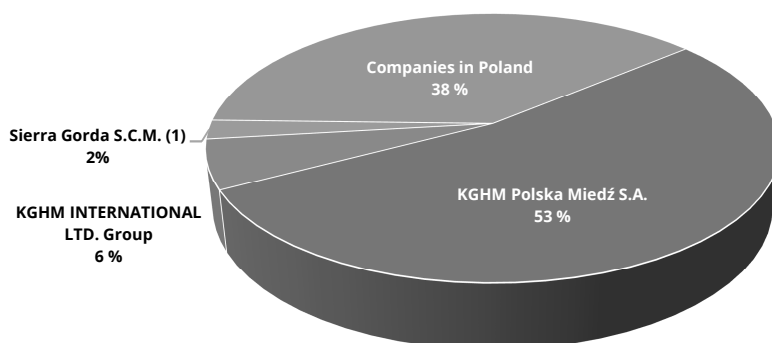
In 2018, 34,386 people were employed in the Group, which represents an increase of 1.3% as compared to the previous year. The headcount structure is presented below:

Average headcount in the Group

	2018	2017	Change (%)
KGHM Polska Miedź S.A.	18,331	18,198	+0.7
KGHM INTERNATIONAL LTD.	2,037	1,695	+20.2
Sierra Gorda S.C.M.*	790	748	+5.6
Group's domestic companies	13,228	13,294	(0.5)
Total	34,386	33,935	+1.3

Sierra Gorda S.C.M. - headcount pro rata to the stake in the company (55%).

Headcount structure by segments in the KGHM Group in 2018 (taking into account 55% of Sierra Gorda S.C.M. headcount, i.e. pro rata to the stake in the company).



4.1. INTERNATIONAL MOBILITY POLICY IN KGHM POLSKA MIEDŹ S.A.

As a result of the acquisition of international 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 due diligence procedure. The delegation of employees to companies in Chile, Canada and the US represents an investment of major significance for the Group. They not only satisfy the local requirement for personnel, but also develop the employee's professional potential. In 2018, four employees were delegated to new international postings, in the areas of IT, geology and production process support. On the other hand, in 2018 ten employees continued in their international postings started earlier. Based on previous challenges and experiences related to employee mobility, an interdisciplinary team has been developing an update of the policy, focusing on achieving greater efficiency of the process.

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

KGHM Polska Miedź S.A. adheres to **work regulations** which define the organization and order in the labor process, as well as the related rights and duties of the employer and the employees. The regulations define the manner and rules of accounting for working time and granting of holidays, as well as the time and manner of remuneration payment. They define rules of occupational health and safety. Moreover, the work regulations describe the practice with regard to rewards and distinctions, as well as penalties for breaches of work order and discipline.

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

An **HR Policy** has been defined for the Parent Company, which underscores that the Employees of KGHM are its most valuable capital – it is they who create the unique corporate culture and build the Company's market position. In order to secure the achievement of its strategic objectives, the Company has for many years consistently invested in the labor market and actively influenced the process of young people's education. The Company acts with due diligence towards its employees, since it is they who play a key role in the development of all areas of the business model, build 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 these 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 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. Recently, the implementation of the HR policy has been modified. A consistent set of key processes and tools have been implemented to support the 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 management systems. In view of this 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 2018, the employees were provided with:

- 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 best people.

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. Working in such a team is also a perfect opportunity to share knowledge and experience within the Company.

4.3.1. HR PROJECTS IN KGHM POLSKA MIEDŹ S.A.

Industry competence

In 2018, KGHM Polska Miedź S.A. started cooperation with schools from Legnica, Lubin, Głogów and Bolesławiec Counties within the framework of the project named "Competence in the mining and metallurgical industry. KGHM – a key partner in vocational training". The project is carried out under the auspices of the Ministry of National Education and includes 57 classes to educate, among others, future staff members of the copper Company.

The project is focused on the following: shaping curricula, expanding the scope and forms of practical vocational training in the real work environment, acquisition of qualifications by students, vocational counselling and motivating students, as well as improving teachers' competence.

As a result, vocational education will be better adjusted to the needs of the labor market, and in particular of KGHM Polska Miedź S.A.

Dual education

On 5 July 2018, KGHM Polska Miedź S.A., Katowicka Specjalna Strefa Ekonomiczna S.A. (Katowice Special Economic Zone) and Głogów County signed a letter of intent to cooperate with respect to organization and implementation of a pilot Model Program of practical vocational education to work as a Technician - Metallurgist, as part of the project PO WER DUAL EDUCATION – A GOOD START IN MINING AND METALLURGICAL INDUSTRY PROFESSIONS.

The objective of the project is to develop a model program for the implementation of practical vocational training to work as a Technician - Metallurgist. The task has been performed in cooperation

with Zespół Szkół im. Jana Wyżykowskiego in Głogów and Głogowskie Centrum Edukacji Zawodowej in Głogów. The project is to be completed in December 2019.

La Serena

KGHM Polska Miedź S.A. strengthens its global position by expanding business and social contacts. The Company strives to be a responsible investor that cares about sustainable development and the local community in every location where it is present.

On 11 December, KGHM signed a declaration on scientific and technical cooperation with the La Serena University in Chile. KGHM Polska Miedź S.A. intends to launch a scholarship program designated for local students. The program will also honor the memory of a famous Pole, Ignacy Domeyko. This Polish geologist, mineralogist, mining engineer, explorer of South America, and in particular of Chile, made a huge contribution to the reform of the education system in Chile and the development of mining science.

eKariera

The existing 'e-Rekrutacja' system is being extended with three new modules:

- Internship Applications,
- Traineeship Applications,
- Provision of materials for writing diploma theses at KGHM Polska Miedź S.A.

As a result of the team's work, a business concept was developed in order to create the 'eKariera' system for the purposes of cooperation between the coordinators from KGHM Polska Miedź S.A. and the external stakeholders: pupils, students, schools. The implementation works will be carried until August 2019.

4.3.2. HR PROJECTS IN THE KGHM POLSKA MIEDŹ S.A. GROUP

In 2018, an Employee Pension Plan was introduced in the Polish companies of the KGHM Polska Miedź S.A. Group. It is one of the elements of the pro-social policy resulting from the strategy of KGHM Polska Miedź S.A. Apart from other typical HR policy tools, it is an important motivational element which enhances employee integration with the Company. The Employee Pension Plan was started in the Parent Company in 2003. It is one of the oldest and largest pension plans in Poland, with the investments funds (to which payments are made) managed by TFI PZU S.A.

In 2018, each of the companies implemented their own HR projects. They concerned areas such as skill development and improvement of work or management efficiency. Facing problems with employee acquisition, the Companies entered into cooperation with vocational and higher education institutions. Moreover, in 2018 various activities were carried out as part of global projects launched in previous years, in the entire Group of the Polish companies, including recruitment via the 'e-Rekrutacja' system.

4.4. 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 delegating 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:

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

Risk validation is conducted quarterly on a five-degree scale using an expert assessment method and it influences the Management Board's decisions.

4.5. 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 in accordance with the 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 completed within the set term, once the candidate enters 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 the lack of possibility to register the application due to Internet failures, server overload, server failures or 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 by KGHM Polska Miedź S.A., in conformity with the Act of 10 May 2018 on Personal Data Protection (Journal of Laws of 2018, item 1000) and the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR).

The Company ensures full confidentiality to candidates who submit applications and reserves the right to contact only selected candidates. No information within the term set in the job announcement means that the application 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 a candidate's data stored therein in conformity with the Act in compliance with the requirements of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data

Protection Regulation, hereinafter: GDPR). 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. Any such action results in disqualification from the recruitment process.

4.6. TRAINING POLICY IN KGHM POLSKA MIEDŹ S.A.

The KGHM Group does not have in place a 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. Nevertheless, a Training Policy has been formulated for the Parent Company.

The purpose of development activities in KGHM in 2018 was to retain and improve human capital and manage the Company's intellectual capital, taking into account the Company's mission and Strategy as well as long-term development plans through:

- Securing fulfillment 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 underground mines which require specialist actions as well as other jobs in the company.
- Improving employees' competencies by organization of training courses and other development activities, with particular focus on linguistic, managerial and interpersonal skills, as well as training on business process orientation in management.
- Improving the qualifications of the Company's employees and changing their education structure by continuing to co-fund graduate and post-graduate studies.

The Company's employees may improve their qualifications in the context of expected organizational and technological changes by participating in training courses, conferences, studies and 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.

When planning our activities, we focus on ensuring that they fit in the best possible way with the implementation of the Company's strategic priorities.

Systemic competence development activities are performed by a centralized unit specialized in this area. Development needs are established regularly 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 registered for purposes of internal and external accounting.

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

In 2018 the number of employees participating in a single training event was 27,756, of which 19,330 in blue-collar jobs and 8,426 in white-collar jobs.

In 2018, 776 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 innovativeness. The Company's employees participated in cyclically organized conferences such as: "Winter School of Rock Mass Mechanics" and "School of Underground Mining" or the "Economic Forum" in Krynica Zdrój.

In 2018, 88 persons benefited from co-funding of their studies. The co-funding comprised graduate, post-graduate and MBA studies. The Company also continued cooperation with the largest Polish universities in opening faculties aligned with the specific needs of KGHM.

379 of the Company's employees benefited from language courses in 2018. 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 implementation of the cooperation and exchange plan for the Polish and international companies within the KGHM Group.

SIGNIFICANT DEVELOPMENT-RELATED EVENTS IN THE AREA OF HUMAN RESOURCES IN KGHM POLSKA MIEDŹ S.A. IN 2018 INCLUDED:

- Trainings in the field of personal data protection related to the changes resulting from implementation of GDPR. The purpose was to raise awareness of new regulations in the area of personal data protection and to share knowledge enabling business owners to update their internal regulations and agreements in accordance with the requirements of GDPR.
- A number of training courses designated for the financial and accounting services. The objective of development activities was to improve the qualifications of employees responsible for the Company's economic areas.
- Training on MS Office, including above all training on Excel, Word, Outlook and Power Point. These training courses were very popular. Efficient use of MS Office contributes to increased performance of employees.
- Implementation of the Toolkit for Managers. The objective of this program was to strengthen the management staff, especially in the area of competence development defined in the

competence model of KGHM. Following an analysis of identification of their development needs, the participants had the opportunity to participate in the following training modules: development of communication skills, operational management, including work planning, delegation, monitoring, motivating, employee development, conflict resolution and team building, managing by values, diversity management, finance, negotiations, process management and optimization, project management.

- Project Management workshops which provided practical knowledge on effective project and program management from the beginning to the end. The participants acquired valuable skills in drafting business rationale and stakeholder management, as well as defining partial products and key results for the implementation of project assumptions.
- Group postgraduate studies in cooperation with AGH University of Science and Technology in Kraków in the field of Processing of Mineral Resources - Processing of Solid Minerals.
- Development activities in the area of Sustainable Development for management staff. The main idea was to follow the path of sustainable development resulting directly from the Company's vision and the tasks set out in the strategy of KGHM Polska Miedź S.A. for the years 2017 - 2021.

4.7. SAFETY POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP

According to the **Code of Ethics**, safety is a fundamental value of KGHM Polska Miedź S.A. The specificity of its operations is related with the risk of loss of health or life of employees. The Company is well aware that all accidents and occupational diseases can be prevented. Employees are required to strictly comply with both the internal safety regulations and the safety requirements in force in the countries where the operations are carried out.

Employees are provided with safe and healthy working conditions, and workstations organized in compliance with the relevant requirements and with the use of the latest technical solutions. Employees are covered by preventive health care and have direct access to health care. KGHM estimates, removes or minimizes occupational risk. It supervises the way the work is carried out, paying particular attention to safety-related issues. Production lines meet quality and safety standards.

Employees' awareness of health and safety at work is constantly raised through dedicated trainings, briefings and educational materials.

In 2018, the Company continued its efforts to perform the tasks compliant with its long-term vision: "Zero accidents due to personal and technical reasons, zero occupational diseases among our employees and contractors."

The health, life and safety of employees are at the top of the hierarchy of values of the KGHM Polska Miedź S.A. Group. The Company has high standards in the area of health and safety at work that apply both to its employees and other companies providing services in the areas of KGHM Polska Miedź S.A. Each of the Company's Divisions has implemented an occupational safety management system compliant with the applicable standards. Risks have been identified for all jobs. The Company has assessed the professional risk and updates it on an ongoing basis. The conditions of work environment are continuously monitored and periodic reviews and assessments of possible hazards, equipment overhauls and required technical inspections and type approvals are conducted. Employees undergo systematic training and continually improve their qualifications.

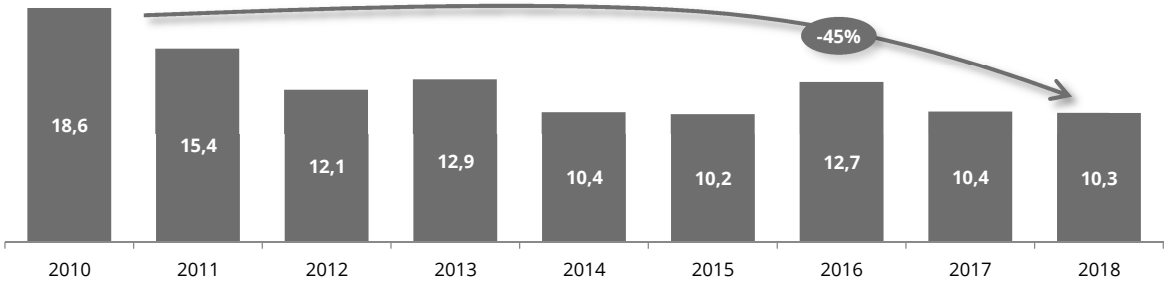
In 2018, the Company recorded a decrease, year on year, in the total number of accidents at work (within the meaning of the Act on Social Insurance against Accidents at Work and Occupational Diseases), from 300 injured persons in 2017 to 297. A majority of the work accidents registered (98.7 percent) was connected with minor injuries and their major causes were, in descending order, hitting or being hit by loose/immobile objects, loss of balance by employees, rocks falling and injuries connected with using working tools.

Natural threats connected with underground mining of copper ore deposits, especially following from the occurrence of mining tremors and their potential consequences, such as bursts and falls, are very important in terms of safety as they may lead to serious or fatal accidents, damages to machinery, equipment, and underground infrastructure, as well as operational downtimes. Extensive activities in the area of burst and fall prevention, such as regular seismic monitoring, assessment of the rock mass condition on an ongoing basis, with marking zones of heightened risk of bursts, are carried out in the mines of KGHM Polska Miedź S.A. Sizes, shape and number of chambers and inter-chamber pillars as well as sizes of protective pillars are selected. Also, the most favorable direction of exploitation and an optimum order of deposit working are determined to minimize local stress concentrations in the rock mass. The so-called active methods for preventing bursts and falls are applied, which involves provoking dynamic events by group shooting at the faces and by stress-reducing shooting in the deposit or at its floor. The Company constantly improves the safety of copper ore deposit exploitation. In 2018, the Company registered in its mines a total of 18 minor work accidents resulting from rock mass hazards. This number represents 7.6% of all accidents at work in mines during this period. KGHM Polska Miedź S.A. enhances the safety of copper ore deposit exploitation on an ongoing basis.

In 2018, the $LTIRF_{KGHM}$ (Lost Time Injury Frequency Rate KGHM) ratio, i.e. the total number of accidents at work (within the meaning of the Act on Social Insurance against Accidents at Work and Occupational Diseases) at the Company, standardized per 1 million hours worked by employees of the technological

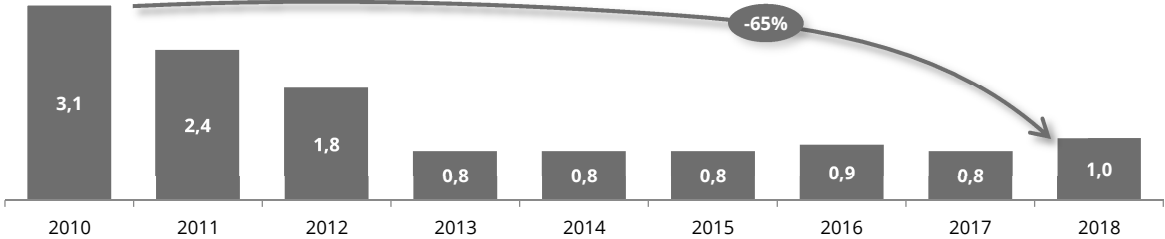
line at KGHM Polska Miedź S.A., decreased by 1.1% as compared to in 2017, reaching the level of 10.3 (2017 = 10.4). It was 45 percent less than in 2010. It is presented in the figure below.

LTIFR_{KGHM} in KGHM Polska Miedź S.A. in the years 2010-2018:



KGHM International Ltd. undertook and has been gradually implementing the Occupational Safety Management System which is based on a systemic approach to identification, assessment, elimination and/or control of threats and risks within the framework of implementation and ongoing improvement of the “Zero Harm” organizational culture, which is also one of the Company’s values. The system covers all companies wholly owned by KGHM International Ltd. or in which KGHM INTERNATIONAL LTD. is the managing partner, account being taken of cultural and legal differences in the activities of the various entities. In North America, the “Zero Harm” occupational safety policy includes both employees and contractors, and local communities. It is a process of ongoing prevention and improvement in counteracting threats in the areas of health and safety at work, as well as in terms of environmental protection. In 2018, in the mines and projects supervised by KGHM International Ltd. in Canada and the United States of America, a total of 51 work accidents were recorded, and the TRIR was 2.90%. In Chile, KGHM Polska Miedź S.A. conducts mining activities via two entities having in place separate occupational safety management systems, adjusted to the legal requirements and conditions established for the mining activity in this country. The systems apply to the employees of both companies, as well as the employees of their subcontractors and focus on the implementation of a long-term “Zero harm” objective. In the case of KGHM Chile SpA which supervises the Franke mine and conducts its own research and other activities, 2 accidents at work were recorded in 2018, and TRIR was 0.22. At the Sierra Gorda SCM joint venture, there were 16 accidents at work in 2018 with a TRIR of 0.38. In 2018, a total of 69 accidents at work were registered in the entities in which KGHM Polska Miedź S.A. conducts mining operations in Canada, the United States of America and Chile. The consolidated TRIR (Total Recordable Incident Rate) of these operations was 1.0. It increased by 0.2 vs. 2017 and, at the same time, decreased by 68 percent from the figure recorded in 2010. It is presented in the figure below.

TRIR in KGHM INTERNATIONAL LTD. in the years 2010-2018:



**TRIR (Total Recordable Incident Rate) the rate calculated according to the adopted methodology as the number of accidents at work that satisfy the conditions for being recorded as defined in the ICMM (International Council on Mining & Metals) standard, jointly for employees and subcontractors of KGHM International LTD., KGHM Chile SpA and Sierra Gorda SCM, standardized per 200,000 hours worked.*

4.7.1. OHS GOLDEN RULES

The KGHM Group has prepared and applied the so-called OHS Golden Rules, as presented in the figure below.

OHS GOLDEN RULES



4.8. OCCUPATIONAL SAFETY COUNCIL OF KGHM POLSKA MIEDŹ S.A.

The Parent Company's employees are represented in the Occupational 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 safety and health. 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 in KGHM Polska Miedź S.A.'s Divisions.

The responsibilities of the Occupational Safety Council include among others periodic assessment of occupational safety and health in the Company, 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 Committees for Occupational Safety and Health perform periodic reviews of the working conditions, assess occupational safety and health and draw conclusions with respect to improvement of the Divisional working conditions. Since 2016, the current occupational safety issues have been discussed at each meeting of the Supervisory Board of KGHM Polska Miedź S.A. In 2017 and 2018, the occupational safety and health issues were analyzed many times and in various modes. An ongoing assessment of occupational safety in the Company is made at weekly meetings of the Vice President of the Management Board responsible for Production and at monthly meetings of the Management Board with the management of all the Divisions.

4.9. 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**). The best facilities are those with the highest level of safety.

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 hazards connected with underground mining of copper ore deposits are among the most important threats to life and health of employees of KGHM Polska Miedź S.A. Specifically, the threats connected with tremors of rock masses and their potential impact in the form of bursts and falls are considered to be very important in terms of safety as they may lead to serious or fatal accidents, damages to machinery, equipment, and underground infrastructure, as well as exploitation downtimes. Since employee safety is our priority, the KGHM Polska Miedź S.A. Group has been taking a number of preventive and protective measures. Regular

seismic observations are conducted in the mining companies based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all the regions and mining areas. The Company has implemented an integrated model of occupational safety and health management. The following entities are involved in it:

- the Company Occupational Safety and Health service;
- the Mine-Smelter Emergency Rescue Unit of proven 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;
- CBR and an accredited laboratory of Centrum Badań Jakości Sp. z o.o.;
- an entity specialized in rescue services equipped with its own medical facilities.

4.10. GOOD COOPERATION PRACTICE WITHIN THE KGHM GROUP

Our employee safety is the top priority of the value hierarchy of the KGHM Polska Miedź S.A. Group as well as one of the pillars of the Corporate Social Responsibility Strategy. Research and development initiatives are focused on the improvement of occupational safety. All standards and legal regulations in the area of occupational safety and health are complied with, and in the selected areas our own, even more rigorous rules, are applied. In view of our business profile, interference in 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 safety conditions. Our focus on respect for life and health improves 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 Safety and Health pertain not only to the Company staff, but to all entities providing services to the KGHM Polska Miedź S.A. Group.

4.10.1. DIVERSITY DECLARATION OF KGHM POLSKA MIEDŹ S.A.

The KGHM Group does not have in place a shared Diversity Policy in written form. In view of the international scope of activities, cultural differences and specific natures of the Group's industries, each company has been performing a number of organized actions in the area of respect for diversity. In view of the above, the independent Diversity Declaration has been defined at KGHM Polska Miedź S.A.

The Company complies with the prohibitions of discrimination and take actions in order to ensure respect of diversity in the workplace. The Company establishes an organizational culture which 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. It aims at ensuring reasonable diversity both in the selection of personnel (including in the recruitment process), with special focus on knowledge, technical competence and social skills.

The Parent Company guarantees the implementation of the diversity principle across the KGHM Polska Miedź S.A. Group, and promotes and popularizes these values among its stakeholders and business partners.

Further information on our approach to diversity in the supervisory bodies is presented in Appendix 1, Statement on Corporate Governance to the Management Board report on the Activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2018.

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

4.10.2. DECLARATION ON HUMAN RIGHTS PROTECTION OF KGHM POLSKA MIEDŹ S.A.

The KGHM Polska Miedź S.A. Group does not have in place a shared Human Rights Protection Policy. In view of the international scope of activities, cultural differences and specific natures of the Group's industries, each company has been taking 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.

KGHM Polska Miedź S.A. declares that it will recognize, respect and promote human rights wherever it conducts its business. The Company does not tolerate any violations of human rights. It undertakes to conduct its business 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 its business activity.

KGHM Polska Miedź S.A. is a global organization, aware of the importance of respect for human rights in the modern world. The Company accepts responsibility for protection and respect for fundamental human rights and implements such standards across the KGHM Polska Miedź S.A. Group. It also assumes 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 Polska Miedź S.A. 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. It supplements and consolidates the human rights issues contemplated in other policies and guidelines of the Company, such as the **Code of Ethics**, the Diversity Declaration, HR and the Responsible Supply Chain Policy.

The Declaration is implemented in the following manner:

- each employee provided with access to a computer receives the adopted declaration electronically, via the Company Document Circulation System,
- employees with no access to a computer for work purposes are informed of the declaration implementation via extranet (accessible to all employees) and by their direct superior.

Infringements are reported as follows:

- 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 Safety and Health Committee,
- the Employee Council and whistleblowers are present,
- the National Labor Inspection (PIP).

4.10.3. 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, mutual obligations of the parties to the Agreement.

4.11. SAFETY-RELATED RISKS IN THE KGHM POLSKA MIEDŹ S.A. GROUP

The KGHM Group has defined the following significant safety risks and mitigation factors:

	RISK	MITIGATION
Natural hazards	(KGHM Group) Risk of loss of employees' life or health, disturbances or limitations in production as a result of seismic shocks and accompanying bursts or rock mass decompressions and occurrence of uncontrolled falls.	Introduction of a series of technological and organizational solutions as well as other methods of active and passive burst prevention to mitigate the effects of dynamic phenomena (bursts or rock mass decompressions) in operating branches. Preparation of reserve fields to take over production on a limited basis.
	(Parent Company) Risk related to gas hazards (methane and hydrogen sulfide).	The existence of gas hazard is identified and rules have been developed for conducting work in conditions of this risk. Individual protection of employees is used as well as equipment and measures to reduce hydrogen sulfide concentration and neutralize nuisance smells.
	(Parent Company) Risk related to climate hazard increasing with the depth of operation.	Building successive ventilation shafts, use of central, work place and personal ventilation, and shorter work time.
Occupational safety	(KGHM Group) Risk of serious accidents at work or occupational diseases due to incorrect organization of work, non-compliance with procedures or use of inappropriate means of protection. Risk of temporary stoppage of a production line caused by a heavy accident.	(In the Parent Company OHS management standards 18001/OHSAS have been implemented); there are systematic training courses on OHS, programs of identification of potential accidents.
Technology	(Parent Company) Technology risk related to exploitation of copper ore deposits at great depths, in conditions of associated natural hazards.	Performance of research and scientific works, and trials of operations alternative to the currently used technologies of excavating copper ore deposits, as well as ventilation, air conditioning and transport, prevention of rockbursts. Comprehensive on-line monitoring of people and mining machines.
	(Parent Company) 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 occurrence of such risk. Individual employee safety measures and equipment, and measures of hydrogen sulfide concentration reduction and odor neutralization.
	(Parent Company) Risk associated with climatic threat, increasing with the depth of exploitation.	Building successive ventilation shafts, use of central, work place and personal ventilation, and shorter work time. Increased automation and mechanization, based on the Industry 4.0 principles.

Risk validation is conducted quarterly on a five-degree scale using an expert assessment method and it influences the Management Board's decisions.

4.12. VALUES OF SELECTED GRI STANDARDS PERFORMANCE INDICATORS SHOWING OPERATIONS IN THE AREA OF HR AT THE KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A.

Total number of employees

Total number of employees (head count)	Number of employees	
	KGHM Group	KGHM Polska Miedz S.A.
Total	34,386	18,331

Number of new hires and employee departures

New hires in 2017:	Total number of employees (head count) broken down to:	Number of employees (head count)		Number of new hires		Percentage of new hires (head count)	
		KGHM Group	KGHM POLSKA MIEDŹ S.A.	KGHM Group	KGHM POLSKA MIEDŹ S.A.	KGHM Group	KGHM POLSKA MIEDŹ S.A.
Total		34,249	18,500	2,723	1,135	7.95%	6.14%
Employee departures in 2017:	Total number of employee departures (head count) broken down to:	Number of employees (head count)		Number of employee departures (head count)		Percentage of employee departures	
		KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.	KGHM Group	KGHM Polska Miedz S.A.
Total		34,249	18,500	2,254	988	6.58%	5.34%

Number of work-related accidents by gender

	KGHM Group		KGHM Polska Miedź S.A.	
	Women	Men	Women	Men
Total number of work accidents (incidents)	115	558	2	295
Number of fatal accidents (incidents)	0	3	0	2
Number of severe accidents (incidents)	3	20	0	2
Number of minor accidents (incidents)	106	537	0	293
Total number of people injured in accidents	673		291	

Average number of hours of training during the year per employee

	Total number of training hours	
	TOTAL	
	KGHM Group	KGHM Polska Miedź S.A.
Total number of training hours	662,066.50	501,352.00
Number of employees	34,249	18,500
Average number of training hours	19.33	27.10

5. ACTIVITIES RELATED TO SOCIAL ISSUES

The KGHM Polska Miedź S.A. Group is a global Company with rich mining and metallurgy traditions, open to new directions of development. At the present moment, due to its size, the KGHM Polska Miedź S.A. Group affects the well-being of communities, regions and even countries, and our values allow us to achieve the foregoing objectives in a wise and responsible manner.

In its relations with clients, employees, external partners and local communities, the KGHM Polska Miedź S.A. Group complies with the laws which are in effect in the countries where it carries out its operations. The Group also complies with voluntary obligations resulting from ISO and ASTM standards as well as from membership in international organizations such as the 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 domestic organizations, including: the Polish Association of Listed Companies, Stowarzyszenie Inżynierów i Techników Metali Nieżelaznych [Association of Non-Ferrous Metals Engineers and Technicians], Economic Chamber of Non-Ferrous Metals and Recycling, Polish Committee of the World Mining Congress, Polish-Canadian Chamber of Commerce, Polish Chamber of Commerce for High Technology, and the Employers' Organization of Polish Copper. The KGHM Polska Miedź S.A. Group does not participate in undertakings which involve breaking the law and putting its reputation at risk.

The rules:

- Compliance with the regulations of the commonly binding law as well as the internal regulations in effect in KGHM.
- Compliance with both the obligations contemplated in the agreements, and verbal promises made to our clients, suppliers and social partners.
- Reliable performance of assigned duties.
- The KGHM Group does not offer or accept bribes or other material or personal benefits; and does not enter into cooperation with companies of doubtful reputation.

The KGHM Polska Miedź S.A. Group takes responsibility for the quality of its products and services

Pursuant to its **Code of Ethics**, KGHM complies with the principles of ethical conduct in the relationships with its partners. The KGHM Polska Miedź S.A. Group requires compliance with high ethical standards not only by own employees, but also by its business partners who are provided with and obliged to abide by the **Code of Ethics**, the Anticorruption Policy and the principles of accepting/giving gifts, gratuities, business invitations.

The KGHM Polska Miedź S.A. Group requires observance of the “zero tolerance for corruption” principles in mutual relationships. It puts special focus on transparency of transactions. It monitors the supply chain and product life. Business partners of the KGHM Polska Miedź S.A. Group are evaluated with regard to corruption risk. Business is conducted only with entities of proven reputation.

Thanks to appropriate procedural arrangements, the KGHM Polska Miedź S.A. Group prevents money laundering and the financing of criminal activities, including terrorism.

It specifically protects the personal data of its partners as well as commercial, technical or organizational information entrusted to it. The KGHM Polska Miedź S.A. Group is guided by the principles of fair competition.

The Corporate Social Responsibility Strategy regulates the KGHM Polska Miedź S.A. 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 the principles of sustainable development,
- respecting human rights and expectations of local communities.

5.1. KGHM GROUP’S COMPETITION LAW POLICY

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

5.2. RESPONSIBLE SUPPLY CHAIN POLICY IN THE KGHM GROUP

The KGHM Group complies with the highest standards of production and business ethics. 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) and silver, is of key importance for conducting operations oriented towards sustainable development. The foregoing issues are regulated in the Responsible Supply Chain Policy. Its purpose is not only to guarantee the selection of only responsible suppliers, especially with respect to the so-called conflict minerals (gold, tin, tungsten and tantalum) and silver, 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 Company has fully implemented the internal responsible gold and silver supply chain management system which is comprised of the Responsible Supply Chain Policy in the KGHM Group and the Responsible Bullion Supply Chain Audit Procedure in KGHM Polska Miedź S.A. The 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 the due diligence principles, the KGHM Group has implemented the internal system of responsible supply chain management which is comprised of the scope of the system's application, the system's organization, the participants of the process, the criteria for acknowledging a business relationship as being a high risk relationship, the supply chain audit process (taking into account the procedure of business partner reliability assessment), transaction monitoring, documentation storage and employee training. The management of the process has been entrusted to the Corporate Risk and Compliance Management Department Head, reporting directly to the Company's Management Board. KGHM has also set up an e-mail address 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 2018, all suppliers passed the Responsible Ore Supply Chain Audit Procedure with a positive result.

5.3. RESPONSIBLE SUPPLY CHAIN RISK IN THE KGHM POLSKA MIEDŹ S.A. GROUP

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

	RISK	MITIGATION
Logistics and supply chain	(KGHM Group) Risk of limited access to transportation infrastructure, impacting the regularity of supplies of commodities and materials necessary for production and acceptance of finished products.	Management of liquidity of supplies and the minimum levels of inventories of commodities and materials necessary for production. Development of own logistical base.

Risk validation is conducted quarterly on a five-degree scale using an expert assessment method and it influences the Management Board's decisions.

5.4. SOCIAL DIALOGUE AND COOPERATING WITH LOCAL COMMUNITIES AT KGHM POLSKA MIEDŹ S.A.

Approach to management in the area of relations with market stakeholders – wherever 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 running the business ("license to operate") on the basis of best business practices,
- implementing uniform and transparent principles governing charitable activities 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.

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

As part of the social dialogue, KGHM Polska Miedź S.A. cooperates with the municipalities of the Copper Basin in, among others, their development strategies, it supports their growth through payment of taxes or hiring residents of adjacent towns and implements a number of social Agreements aimed at improving the living standard of the residents. The Company's representatives participate in meetings and sessions of city and town Councils, and in events organized by local governments. Every year, the mayors of municipalities, towns and cities participate in festivities organized to commemorate Miner's Day and the Metallurgy Worker's Day. The parent company sponsors events organized by municipalities, grants support from the budget of the KGHM Polska Miedź Foundation, finances children's summer and winter holidays, sponsors environmentally-oriented camps (the "Green School" program) and trips to the swimming pool.

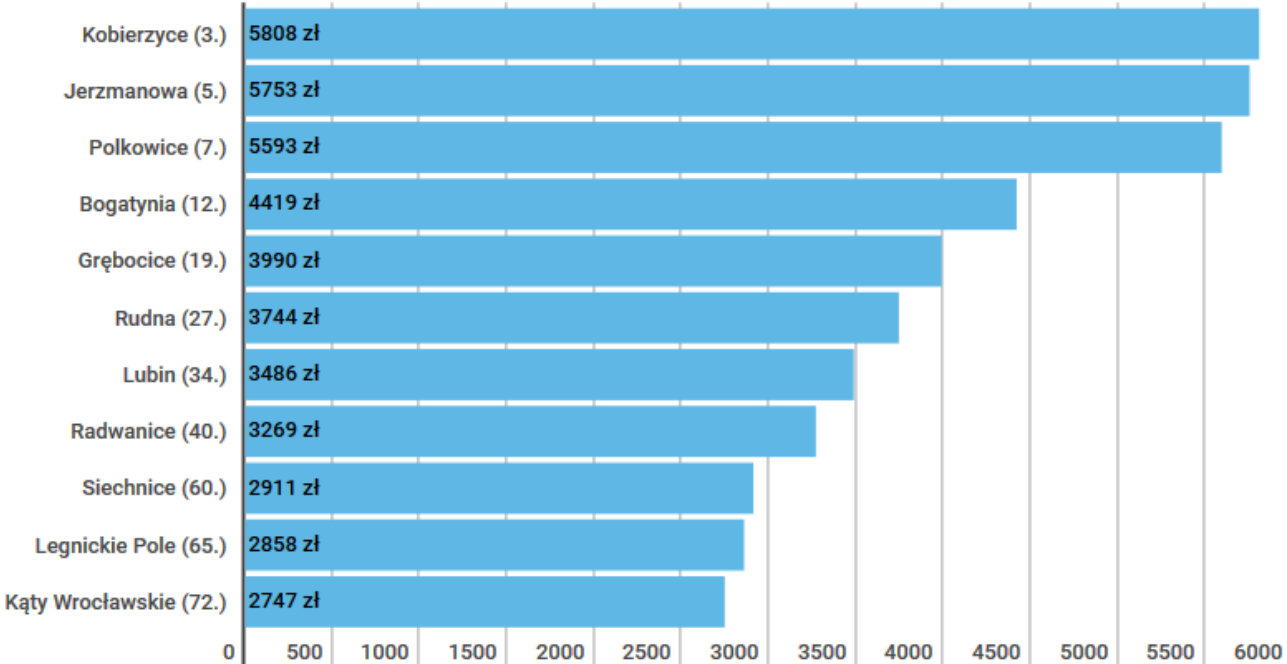
In 2017, as part of our collaboration in the extension of the Żelazny Most Tailings Storage Facility to include a Southern Quarter, we signed Memoranda of Agreement with the municipalities of Rudna and Grębocice, which provide for funding until 2019 tasks in the following areas: children's holidays, healthcare, spa holidays for adults, revitalization of parks and leisure areas, cleaning ditches, securing rivers, protection of soil and crops from harmful impacts of the industry, and protection of cultural heritage sites. A Memorandum of Agreement was signed with the Polkowice municipality for cooperation with KGHM in the following areas: organization and co-funding of summer and winter holidays for children and youth, healthcare, protection of soil and crops, identifying alternative heating solutions, wider Internet and mobile telephony access, support in preparation of recruitment processes conducted by KGHM and ensuring safety of the local communities directly adjacent to Żelazny Most.

In March 2018, a tripartite Memorandum of Agreement was signed between KGHM, Miedziowe Centrum Zdrowia (a health care center) and the Municipality of Głogów for conducting specialist research among residents with an increased level of arsenic.

Since 2017, negotiations continued with the Municipality of Żukowice regarding the construction of the GG-2 shaft. In October 2018, a memorandum of agreement was signed in which, in addition to financial resources for the development of the municipality, KGHM will provide health care to residents and recreational cards.

This figure shows the results of the above activities.

The richest municipalities of Lower Silesia (ranking in Poland given in brackets):



source: <https://wroclife.pl/nasze-miasto/najbogatsze-gminy-dolnego-slaska-2017/>

In June 2018, the Government of Canada, through the Governor-in-Council (Cabinet), issued a negative decision regarding the implementation of the Ajax project due to its anticipated significant adverse environmental impact.

Decisions were made in the process of environmental impact assessment which included the substantial involvement of provincial and federal government agencies, indigenous groups and a broad range of stakeholders, including thousands of representatives of local communities.

In 2018, work related to necessary monitoring and security of existing infrastructure were carried out.

5.5. SOCIAL DIALOGUE RISK BORNE BY THE KGHM POLSKA MIEDŹ S.A. GROUP

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

	RISK	MITIGATION
Stakeholders	(KGHM Group) Risk of a negative image campaign conducted in the media, and risk of the development and exploration works not being accepted by the local communities, local authorities and other stakeholders.	Implementation of the CSR Strategy, close cooperation with public administration authorities, meetings and negotiations with stakeholders, information campaigns, conferences, publications. Close cooperation and relations with the local communities.

Risk validation is conducted quarterly on a five-degree scale using an expert assessment method and it influences the Management Board's decisions.

5.6. FOUNDATIONS, SPONSORSHIP AND CSR ACTIVITIES IN THE KGHM POLSKA MIEDŹ S.A. GROUP

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 pro publico bono and charitable activities. It helps in performance of socially useful projects, and it supports people who are experiencing hardships.

5.6.1. KGHM POLSKA MIEDŹ S.A. 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.

After three years' of operation, it obtained the status of a public benefit organization, while in 2008 it expanded its activities to include donations for natural persons, previously supported by the Charity Committee of KGHM.

A determinant of the Foundation's day-to-day activities are the values held by the Founder, which include security, cooperation, results orientation, responsibility and courage. The basis for the operation of the KGHM Polska Miedź Foundation are financial and material donations granted to:

- individuals in the field of health protection and assistance to victims of natural catastrophes and disasters;
- Institutions for project execution

In 2018, the Foundation supported many valuable activities, and yet it was not able to meet the growing needs of the environment and society. The level of aid granted to the institutions accounted for 29% of all applications registered, and in the case of support for individuals, it was 23%.

The projects planned for 2019 are a natural continuation of the Foundation's activities to date and the result of program changes determined in the course of mutual arrangements between the Management Board and the Foundation Council and the authorities of KGHM Polska Miedź S.A. – the Founder. The assumptions are based on an analysis taking into account the needs of the inhabitants of the Copper Basin, Lower Silesia and all of Poland as regards health and safety, sports and recreation, culture and tradition and science and education.

The activity of the KGHM Polska Miedź Foundation in 2019 will continue to focus on granting donations and controlling their spending as well as on running programs and courses. The commitments undertaken by the Foundation will be carried out with the utmost care, thorough analysis of the submitted requests and with a detailed consideration of the capacity to help.

As in previous years, applications for donations will be accepted by the Foundation Office, while they will be examined at meetings of the Foundation Board.

The most important result values related to the statutory activity of the KGHM Polska Miedź Foundation in 2018 are as follows:



Health and safety are the strategic area of operation for the KGHM Polska Miedź Foundation. In 2018 funding was provided for the implementation of **74** projects, amounting to **PLN 3,686,410.00** and **175** individuals were granted donations amounting to **PLN 1,499,880.67**.



Sports and recreation is the area of operation for the KGHM Polska Miedź Foundation which was the most popular one among the Foundation's beneficiaries in 2018. **PLN 4,570,032.10** was spent for the implementation of **171** projects.

The Foundation considers sport and recreation an important field of social life and therefore intends to continue activities promoting an active and healthy lifestyle.



The Foundation respects the cultural heritage of previous generations. In 2018 alone funding was provided for **150** projects in the area of culture and tradition, in total amounting to **PLN 8,263,551.65**.

In 2019, the Foundation intends to support projects consisting in commemorating and promoting Polish cultural or historical heritage as well as strengthening local cultural identity and participation in culture at the local, regional, national and global level.



Science and education is the area of operation for the KGHM Polska Miedź Foundation for which in 2018 **PLN 2,565,532.33** was spent for the implementation of **74** projects.

In 2019, the Foundation intends to conduct comprehensive activities supporting the development of education, science as well as the industry and higher education sector. It will promote innovation in education and the need for education in line with trends observed in the labor market.

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

5.6.2. REVIMINE – INNOVATION AND CULTURAL HERITAGE FOUNDATION

The Revimine Foundation was established in 2014 by KGHM Polska Miedź S.A. to perform the activities related to protection of cultural heritage as well as mining and metallurgy traditions of the Copper Basin. The Foundation supports the undertakings and initiatives aiming at technological, environmental

and social revitalization of post-industrial areas that are no longer used for industrial purposes, and other process-relevant areas, as well as the restoration of the environment.

See more information on the Revimine Foundation at <http://www.revimine.com/>

5.6.3. POLISH NATIONAL FOUNDATION

Since 2016, KGHM Polska Miedź S.A. along with a dozen or so other largest Polish enterprises from key sectors of the economy, namely 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 is to support the Polish National Foundation in the years 2016-2026.

See more information on the activity and projects of Polish National Foundation at <http://www.pfn.org.pl>.

5.6.4. SPONSORSHIP

The Parent Company is a patron of culture and science. It supports both local and nationwide 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 the cooperation of KGHM Polska Miedź S.A. with swimmer Radosław Kawęcki.

The Parent Company is the major sponsor (owner) of Zagłębie Lubin – a football team from Ekstraklasa, the top Polish professional league, but the company also supports handball or 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 Committee. Decisions issued by the Committee are recorded in a report, which is approved each time by the President of the Management Board of KGHM Polska Miedź S.A.

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

Amounts granted in 2018 by KGHM Polska Miedź S.A. as part of its Sponsorship per area:

Area	Amount granted in PLN
Sports	22,289,270.00
Culture	5,514,214.75
Science	1,826,500.00
Total	29,629,984.75

The amount granted in the KGHM Group (without the Parent Company) as part of its Sponsorship activity in 2018 was: **PLN 5,409,972.**

5.6.5. KGHM POLSKA MIEDŹ S.A. CSR PROGRAMS

EKO Zdrowie [ECO Health]

Social responsibility and sustainable development are important elements of business operations today. A Company that cares for the development of its own organization must take into account activities aimed at achieving a balance between its profitability and the broadly understood social interest.

The CSR is particularly important in the mining industry. Due to the specificity of their operations, Companies like KGHM have a special responsibility for the implemented projects.

In implementing the mission of social responsibility, the Company is aware that a stable and prosperous future is marked by good relations with all its stakeholders. Hence the need for a continuous dialogue with our stakeholders, which allows renewing the “operating license”, so important for the Company, and manifested by the social acceptance of its business activity. The EKO-Zdrowie program was launched over 4 years ago as part of the Company’s social responsibility efforts.

Pro-health projects implemented as part of the EKO-Zdrowie program are addressed to the largest possible number of recipients of different age. By such a wide range of program activities, KGHM is striving to achieve a balance between the business interest and the social interest of the environment in which the company operates.

The health-promoting activities of the Program include cyclic Nordic Walking Activities for adults, recreational gymnastics for Seniors 60+ and swimming lessons for children.

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.

Measure: so far, the 7 editions of the activities gathered over 1,000 participants.

In the autumn of 2018, the next edition of swimming lessons in five towns of the region took place. The swimming learning program offered regular lessons of swimming basics for children aged 5-10. Classes were held in indoor swimming pools in several towns of the Copper Basin. Over 350 children participated in them, developing their basic swimming skills under the supervision of qualified instructors from swimming clubs in the region, licensed by the Polish Swimming Association.

Measure: so far, the 7 editions of the swimming classes gathered 2,000 children.

In addition to the above projects, in autumn 2018 KGHM Polska Miedź S.A. implemented a recreational gymnastics class for Seniors 60+, in which specialist hammocks were used. The project gathered 90 people in two cities: Lubin and Legnica (45 people each), from October to December.

Measure: so far, 1 edition of the class has been held, which gathered 90 participants aged 60+.

Strefa Innowacji [Innovation Zone]

Today KGHM's success depends on the innovativeness, involvement and collaboration of thousands of employees with diverse knowledge and experience. Talent scouting and building their individual career paths adjusted to the possibilities and needs of the organization is the key for a further development of the Company as a whole.

In 2018, the Innovation Zone program offered support for a nationwide project "Safe Hospital of Tomorrow" aiming to raise the awareness and increase the frequency of application of copper touch surfaces in a company from the KGHM Group - Miedziowe Centrum Zdrowia [Copper Health Centre] and in health care centers in Poland.

5.7. SELECTED GRI STANDARDS PERFORMANCE INDICATORS REFLECTING ACTIVITIES RELATING TO SOCIAL ISSUES AT THE KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A.

Selected GRI Standards indicators for 2018 presenting actions in the area of social issues:

List of donations from the KGHM Polska Miedź Foundation for institutions in 2018, by areas

No.	Areas	Donations	
		Amount awarded (gross) PLN	Number of projects
1.	Health and Safety	3,686,410.00	74
2.	Science and education	2,515,532.33	73
3.	Sports and recreation	4,041,192.10	166
4.	Culture and tradition	8,263,551.65	150
Total		18,506,686.08	463

List of donations from the KGHM Polska Miedź Foundation for individuals in 2018, by areas

Purpose of the donation	Donations		Number of donations	Location of donations		
	Amount awarded (gross, PLN)	%		Copper Basin	Voivodship of Lower Silesia (without the Copper Basin)	Other voivodships (without the Copper Basin and the Voivodship of Lower Silesia)
Health care	1,480,963.67	99%	172	131	17	24
Social aid	18,917.00	1%	3	0	1	2
Total	1,499,880.67	100%	175	131	18	26

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

6. ACTIVITIES AIMED TO PROTECT THE NATURAL ENVIRONMENT

“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 the respect for the natural environment, is one of the most significant values which determine the Company’s activity

We care for the natural environment, minimizing our adverse impact

KGHM is aware that its involvement in exploration, production and metallurgy on a global scale directly affects the natural environment. The environmental policy of KGHM confirms the Company's concern for the area in which it operates. In line with the directions set out in the CSR Strategy and the Business Strategy, KGHM undertakes a number of activities in the scope of limiting its environmental impact.

KGHM compensates for its environmental impact by, among other things, modernization, allowing a reduction in the amount of pollutants emitted, investing in innovative and renewable energy sources, effective waste management, reclamation and preservation of biodiversity in post-mining areas, reforestation of protection zones around steel mills, investing in activities in the field of environmental protection in the areas of its operation, and it engages in local, national, industry and international initiatives for the environment. It constantly monitors data related to the environmental impact of its operations. It complies with the requirements resulting from regulations and standards and good practices in the field of environmental protection.

Environmental protection and minimizing the impact associated with its functioning is the Company's priority. Thanks to the implemented environmental policy, KGHM sets the highest ecological standards.

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

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

KGHM Polska Miedź S.A.'s Environmental Policy includes:

- maintenance of fully operational equipment protecting the environment,
- tracing 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 the local community and authorities for the benefit of the environment,
- cooperation at the level of the Ministry of Environment in the implementation of the state's environmental policy,
- cooperation with the European mining and non-ferrous metal 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.

KGHM's production plants have implemented an environmental management system according to ISO 14001, which means that their operations are safe to the employees and the environment. In 2018, the system was re-certified in connection with the coming into force of the new edition of the standard, therefore all Divisions of KGHM Polska Miedź S.A. comply with the 2015 standard.

6.1.1. MEASURES REDUCING ENVIRONMENTAL FOOTPRINT OF THE KGHM POLSKA MIEDŹ S.A. GROUP

In 2018, the Company spent nearly PLN 143 million on environmental investments, including the largest expenditures of over PLN 32 million for the modernization of the carbonate removal installation in the flotation process in the Polkowice Concentrator.

In 2018, the support program for farmers cultivating agricultural land in the areas of impact of the Company's installations was continued. Support was offered in the form of a donation intended for the purchase of lime fertilizer necessary for liming soils in order to reduce the acidity and immobilization of heavy metals in agricultural soils. The program covered farmers from the municipality of Grębocice, which received PLN 0.8 million for soil liming, according to the resolution of the Management Board and the Supervisory Board.

Domestic companies of the KGHM Group operate in compliance with environmental regulations. The companies that are obliged to do so have valid environmental permits, with one exception. The company Uzdrowiska Kłodzkie S.A. – PGU Group does not have a water and legal permit for discharging bathing waters from the Natural Medicine Centre in Polanica Zdrój. The company incurs fees increased

by 500% for the discharge of sewage into waters. There is also no water permit for the discharge of excess mineral waters from intakes "Pieniawa Józefa I" and "Pieniawa Józefa II". However, the discharge of those waters into the river is not subject to fees. The company is in negotiations with relevant authorities to normalize this state of affairs. In Q4 2018, the total phosphorus and total nitrogen loads were exceeded in sewage discharged into the stream from the Mineral Water Treatment Plant no. III in Jeleniów. The company has taken preventive measures to improve the required parameters. The exceeded load will be reported to the Voivodeship Inspector for Environmental Protection in Wrocław, Branch Office in Wałbrzych.

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 2018. They were more than PLN 3.8 million and were related mainly to charges for water consumption and sewage disposal (over PLN 2.9 million) and emissions of pollutants into the air (PLN 0.8 million). In 2018, the Company implemented investments aimed at limiting atmospheric emissions, including: EC-3 Głogów - construction of water gas boilers, EC-4 Legnica - modernization of steam boiler, EC-1 Lubin - construction of exhaust gas treatment installation.

Given the specificity of production (explosives, initiating systems, fuel additives), the company NITROERG S.A. also has an impact on the environment. The amount of environmental fees incurred by the company in 2018 amounts to PLN 0.5 million. In 2018, the Company implemented investments aimed at limiting the environmental impact, such as: sewage treatment plant, construction of a new installation for the production of a fuel additives which will enable the re-use of concentrated acids in the production process.

Cuprum Development Sp. z o.o., which owns land property in the center of Wrocław, is in dispute with the General Directorate for Environmental Protection regarding the enforcement of the remediation decision issued for the land owned by the Regional Directorate for Environmental Protection in Wrocław (18 June 2015). In May 2018, the Company received from the Voivodship Administrative Court in Warsaw copies of judgments along with justifications, rejecting its appeals against the decisions of the General Director for Environmental Protection.

KGHM Polska Miedź S.A. is part of the global vision of a closed-circuit economy. In order to achieve this goal, it created the Department of Closed-Circuit Economy. It also participated in the European Committee's activities regarding recommendations on the application and communication of common methods for measuring environmental performance in the life cycle of products and organizations, as finally defined in the European Committee Recommendation 2013/179/EU. They are based on the methodology of calculating the environmental footprint (so-called LCA). KGHM played its role in developing the LCA documentation for the copper production sector. Another important step in the above direction is also the RCR furnace investment started in 2018 (in the Legnica Copper Smelter and

Refinery), where KGHM Polska Miedź SA will engage in industrial-scale copper scrap processing, thus significantly increasing the role of recycling in the Group's production process.

6.1.2. MEASURES REDUCING THE ENVIRONMENTAL IMPACT OF KGHM INTERNATIONAL LTD.

In 2018, entities of the KGHM INTERNATIONAL LTD. Group also conducted activities related to protection of the environment. In the case of the Robinson mine (USA), the activities focused on monitoring air and water quality, managing waste and rehabilitating mining areas; approximately PLN 25 million was spent for these purposes, including PLN 1.8 million on account of the environmental permits granted, including PLN 0.2 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 the expenditures for this purpose amounting to about PLN 4 million, including PLN 0.2 million in the form of emission fees.

In the Sudbury mines (Canada), the focus was on modernizing the wastewater treatment system. PLN 0.6 million was spent for that purpose.

In the Franke mine (Chile), the activities focused on obtaining the necessary permits and monitoring the state of the environment. In total, PLN 3 million was allocated for those purposes.

6.2. ENERGY POLICY OF KGHM POLSKA MIEDŹ S.A.

The primary objective of KGHM Polska Miedź S.A. in respect to energy management is to implement a rational energy economy while ensuring 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 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 activity in the area of energy management. In performance of its guidelines, we are committed to:

- provide all the resources required to achieve the planned objectives and tasks in the energy management area,
- operate in accordance with legal regulations and other energy requirements relating to energy management,
- developing desirable attitudes, building energy awareness and constantly improving competences of the Company's employees and business partners who carry out tasks for the benefit of KGHM Polska Miedź S.A.

- prevent waste in the area of energy consumption,
- cooperate with partners and suppliers in procurement of material goods and services having regard to 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 at KGHM Divisions and the Head Office in accordance with the approved methodology,
- approved objectives and tasks approved,
- 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.

6.2.1. ENERGY MANAGEMENT SYSTEM (EMS) IN KGHM POLSKA MIEDŹ S.A. AND ENERGETYKA SP. Z O.O.

In 2017, the Parent Company and Energetyka Sp. z o.o. implemented the ENERGY MANAGEMENT SYSTEM (SEZ) compliant with the norm PN-EN ISO 50001:2012.

As a result of the implementation of EMS 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 and further improvement of the energy consumption optimization process.

The first supervision audit by the external certifying unit UDT Cert carried out in June 2018 at KGHM Polska Miedź S.A. confirmed that KGHM Polska Miedź S.A. has implemented and maintains an EMS compliant with ISO 50001 and upheld the Certificate granted in September 2017, which is shown in the figure below.



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As a result of the conducted energy reviews, 46 energy efficiency improvement targets have been set. 46 energy tasks were defined and the key energy performance measures were specified. The implementation of EMS also reduces the costs related to the purchase and consumption of power utilities. In 2017, related savings amounted to approx. 34 GWh of energy. By 2020 we are planning to achieve further savings of 230 GWh of energy (700 GWh of primary energy). At the same time, we are reducing greenhouse gas emissions, thus lowering the cost of purchasing CO₂ 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. 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 the respect for the natural environment, is one of the Company's key values. Extraction of copper ore and its subsequent processing at all production levels is inextricably associated with affecting particular components of the natural 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 2018, the Company spent nearly PLN 143 million on environmental investments, including the largest expenditures of over PLN 32 million for the modernization of the carbonate removal installation in the flotation process in the ZWR Polkowice Region.

In 2018, the support program for farmers cultivating agricultural land in the areas of impact of the Company's installations was continued. Support was offered in the form of a donation intended for the purchase of lime fertilizer necessary for liming soils in order to reduce the acidity and immobilization of heavy metals in agricultural soils. The program covered farmers from the municipality of Grębocice, which received PLN 0.8 million for soil liming, according to the resolution of the Management Board and the Supervisory Board.

6.3.1. ENVIRONMENTAL USAGE FEES

Environmental usage fees incurred by KGHM Polska Miedź S.A. Divisions in 2018 amounted to PLN 14 million. The amount of fees paid has remained at such a low level for two years thanks to the system implemented in the copper ore mines monitoring chloride load and sulfates load, which allows us to annually reduce the fee for the discharge of over-water from OUZW Źelazny Most by about PLN 22 million. In the previous year, the largest expenditure in the structure of fees was the fee for emission of dust and gas into the air: PLN 5 million. The next largest cost item, over PLN 4 million, is the landfilling fee.

6.3.2. FORMAL AND LEGAL SITUATION AND PLANS REGARDING INTEGRATED PERMITS

KGHM Polska Miedź S.A. operates ten installations, which pursuant to the Environmental Protection Law Act, require an integrated permit. Following the entry into force of Committee Implementing Decision (EU) 2016/1032 establishing best available techniques (BAT) conclusions for the non-ferrous metals industry, we were obliged to amend the permits for metallurgical installations. In 2018, we completed the procedure and we currently have new decisions for Głogów Smelter, Legnica Smelter and Cedynia Smelter.

Furthermore, our Hydrotechnical Facility has a permit to operate Żelazny Most Tailings Storage Facility and the sectoral permits required by law. Mines operate on the basis of current sector permits in the field of air emissions and waste management.

The installations at the Głogów Smelter and the Legnica Smelter and the combined cycle units in Polkowice and Głogów also hold permits for the participation in the CO₂ emissions trading system, as KGHM Polska Miedź S.A. has participated in the obligatory EU Emissions Trading System (EU ETS) since 2013.

In 2018, the previous (2017) year emission in the amount of 1080 thousand Mg CO₂ was covered by free allowances (approx. 950 thousand Mg CO₂) supplemented with purchases of allowances (EUAs – EU emission allowances and CERs – certified emission reduction units).

In 2018, it is expected that emissions of about 1.15 million Mg of CO₂ will be set off by free allowances for the Głogów Smelter and the Legnica Smelter and additional allowances for the Polkowice and Głogów Combined Cycle Units (approx. 930 thousand Mg CO₂) and allowances from previous years and purchases of allowances (EUAs and CERs) amounting to PLN 10 million.

The most significant pending environmental projects include:

- completion of the construction of a concentrates roasting plant in the Głogów Copper Smelter and Refinery,
- update of the integrated permit for the currently implemented investment at Legnica Copper Smelter and Refinery – the WTR furnace,
- oversight of the CO₂ emissions trading system,
- works related to the safety of the Żelazny Most Tailings Storage Facility, including loading of dumpsite walls,
- continuation of the health promotion and environmental hazards prevention program targeted at the population living in the nearest vicinity of metallurgical installations,
- construction of the southern quarters of the Żelazny Most Tailings Storage Facility.

6.3.3. ACTIVITIES TO COMPLY WITH THE REACH REGULATION

KGHM is a member of six international consortia established to meet the requirements of Regulation (EC) No. 1907/2006, also referred to as the REACH Regulation. In 2018, cooperation with the consortia involved adaptation of the companies to the changing REACH requirements for registration dossiers, substance classification, evaluation and authorization. These changes are to be implemented on an ongoing basis and therefore REACH consortia will continue to operate. In 2018, KGHM's the costs of cooperation with consortia amounted to EUR 202 thousand and GBP 7 thousand. It is expected that the current cooperation with REACH consortia will amount to approx. EUR 140 thousand per year.

6.3.4. UPDATE OF THE BREF DOSSIER

BREFs are an EU requirement and contain descriptions of techniques used in different industries, indicating environmentally best practices to serve as a reference for Member States for issuing environmental permits.

The work is conducted by the Joint Research Centre - Institute of Prospective Technological Studies (JRC-IPTS) in Seville, in cooperation with the Technical Working Groups (TWGs), composed of representatives of the Member States, organizations and the industry (including KGHM).

In 2018, the work was completed on the update of the BREF document for the Management of Waste from Extractive Industries, MWEI BREF. The document was published in December 2018.

6.4. 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 School" 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.

The program has been implemented for two years in cooperation with an external company. Only in 2018, the amount of **PLN 528,840.00** was allocated for its implementation and **259** children from the municipalities of: Jerzmanowa, Kotla, Polkowice and Żukowice were covered by it. It is intended to counteract the potential impact of industry on people, in particular children living in the counties of:

Głogów, Legnica, Lubin and Polkowice. It provides financing for preventive and health trips for children and adolescents aged 6-16 to mountain or coastal health resorts. Given the great interest of both the participants and the local community, the Foundation intends to continue it in 2019.

6.5. ENVIRONMENTAL IMPACT RISK BORNE BY KGHM GROUP

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

	RISK	MITIGATION
Natural environment and climate changes	(KGHM Group) The extraction of copper and its subsequent processing at all production levels is inextricably associated with affecting particular components of the natural environment. The risk associated with prices and the granted limit for CO ₂ emissions.	Compliance with strict environmental standards following from laws is possible due to the systematic modernization of installations for protecting the environment, both those constructed in the past and the new investments in this area. (In the Parent Company, a CO ₂ Emissions Management System and the ISO 14001 environmental management standards have been implemented).
	(Parent Company) Risk associated with assessment of air quality in the Voivodship of Lower Silesia (exceeding the annual average target level for arsenic in PM10 particulate matter).	Performance of the duties resulting from Air Protection Programs.
Waste management	(Parent Company) Risk of impossibility of storing flotation tailings	Operation, construction and expansion of the storage facility in accordance with the operating manual. Cooperation with a Team of International Experts (TIE) and the General Designer, introduction of the Observation Method in the period of expansion recommended by ZEM based on the evaluation of geotechnical parameters obtained through evaluation of monitoring results that offer the ability to request to

		<p>keep the facility being built/operated.</p> <p>Introduce the LCA model and circular economy.</p>
Availability of materials and utilities	(KGHM Group) Risk associated with the unavailability of the necessary utilities (electricity, natural gas, water).	Ensure that emergency supply systems are in place for key utilities and conduct ongoing evaluation of security of grid power supply. Conduct several investment projects to strengthen energy security
Production and infrastructure	(KGHM INTERNATIONAL Group).	Geotechnical risk in open pit mines (stability of slopes) and in underground mines. Risk of failure to achieve the assumed leach extraction performance parameters.
Law and regulations, taxes	(KGHM Group) Risk of changes in legal regulations in the area of e.g.: geological and mining law, environmental and energy regulations.	Monitor legal developments at the level of individual jurisdictions and take an active part in legislative processes. Take preemptive measures to adapt to changes in respect to organization, infrastructure and technology. Implement the energy management system in KGHM Polska Miedź S.A. based on the ISO 50001 standard.

The risk is validated on a quarterly basis on a five-degree scale using an expert method and influences the Management Board's decisions.

6.6. SELECTED GRI STANDARDS PERFORMANCE INDICATORS REFLECTING ACTIVITIES RELATING TO ENVIRONMENTAL ISSUES AT THE KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A. IN 2018

Selected GRI Standards indicators for 2018 presenting actions in the area of environmental issues:

G302-1 - Direct and indirect energy consumption by the organization

1	Total consumption of non-renewable raw materials (own or purchased) in Joules or a multiple thereof, broken down by type of raw material	Values (MWh)	
		KGHM Group	KGHM Polska Miedź S.A.
Non-renewable	coal	1,622,525.91	-
	natural gas	2,276,181.32	2,156,781
	heating oil	6,315.65	-
	diesel fuel	2,505,506.34	-
Total	Total consumption	6,410,529.21	2,156,781
2	Total consumption of renewable raw materials (own or purchased) in Joules or multiples thereof, by type of raw material	Values (MWh)	
		KGHM Group	KGHM Polska Miedź S.A.
Renewable	biomass	-	-
	biofuels	-	-
	wind energy	-	-
	solar energy	302.03	-
	geothermal energy	168	-
	hydro energy	-	-
	Other (t)	-	-
Total	Total consumption	470.03	-
3	Total consumption of energy produced or purchased, by electricity, heat in Joules or multiples thereof	Values (MWh)	
		KGHM Group	KGHM Polska Miedź S.A.
	electricity	4,237,058.47	2,852,918
	heat (including consumption of steam, consumption of cooling energy)	190,336.23	-
Total	Energy consumption	4,427,394.77	2,852,918

4	Total energy sales: electricity, heat, cooling and steam, in Joules or multiples thereof	Values (MWh)	
		KGHM Group	KGHM Polska Miedź S.A.
	Total sales of electricity	428,394.24	340,574
	Total sales of heat (net)	1,584,845.74	-
	Total sales of cooling energy	-	-
	Total sales of steam	-	-
Total	Sales	2,013,239.98	340,574
5	Total energy consumption within the organization according to the formula	8,825,154.03	4,669,125

G305-2 - Indirect greenhouse gas emissions

Indirect emissions, by source	Greenhouse gas emissions (tCO ₂ e)	
	KGHM Group	KGHM Polska Miedź S.A.
Emissions resulting from electricity purchased for own needs	24,680,643.96	1,847,663
Emissions resulting from heat purchased for own needs	520,271.10	199,981
Emissions resulting from cooling energy or steam purchased for own needs	11,697.10	-
Total indirect emissions	25,212,612.12	2,047,644

G306-2 – 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 2018 [Mg]			
		non-hazardous waste		hazardous waste	
		KGHM Polska Miedź S.A.	Group	KGHM Polska Miedź S.A.	Group
1	Re-use of waste	33,379.42	14,594.01	0	0
2	Recycling (including organic recycling, e. g. composting)	3,367.62	1,816.73	1,049.40	15.28
3	Recovery (including recovery of energy)	19,589,369.92	19,465,505.68	102,066.52	102,039.32
4	Incineration (or use as fuel)	31.39	0	217.67	0
5	Storage in landfills	30,351,832.32	10,310,972.89	77,173.43	73,867.20
6	Dumping in deep wells	0	0	0	0
7	Storage on site	234,949.63	228,400.11	78,543.83	77,466.91
8	Other	1,438.63	211.44	38,979.37	38,826.95
	TOTAL	50,214,368.92	30,021,500.86	298,030.21	292,215.67

G307-1 – Monetary value of fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Among the evidence confirming the effectiveness of environmental protection initiatives and less onerousness of the business carried out, there was no non-financial sanction in the KGHM Polska Miedź S.A. Group and the Parent Company.

Information on administrative and judicial sanctions imposed on the organization for non-compliance with environmental legislation		
Total value of fines for non-compliance with environmental laws and regulations [PLN]	KGHM Group	KGHM Polska Miedź S.A.
	0	0
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.	0	0

This report was authorised for issue on 13 March 2019.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Katarzyna Kreczmańska-Gigol

Vice President
of the Management Board

Radosław Stach