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# Integrated Report for 2017






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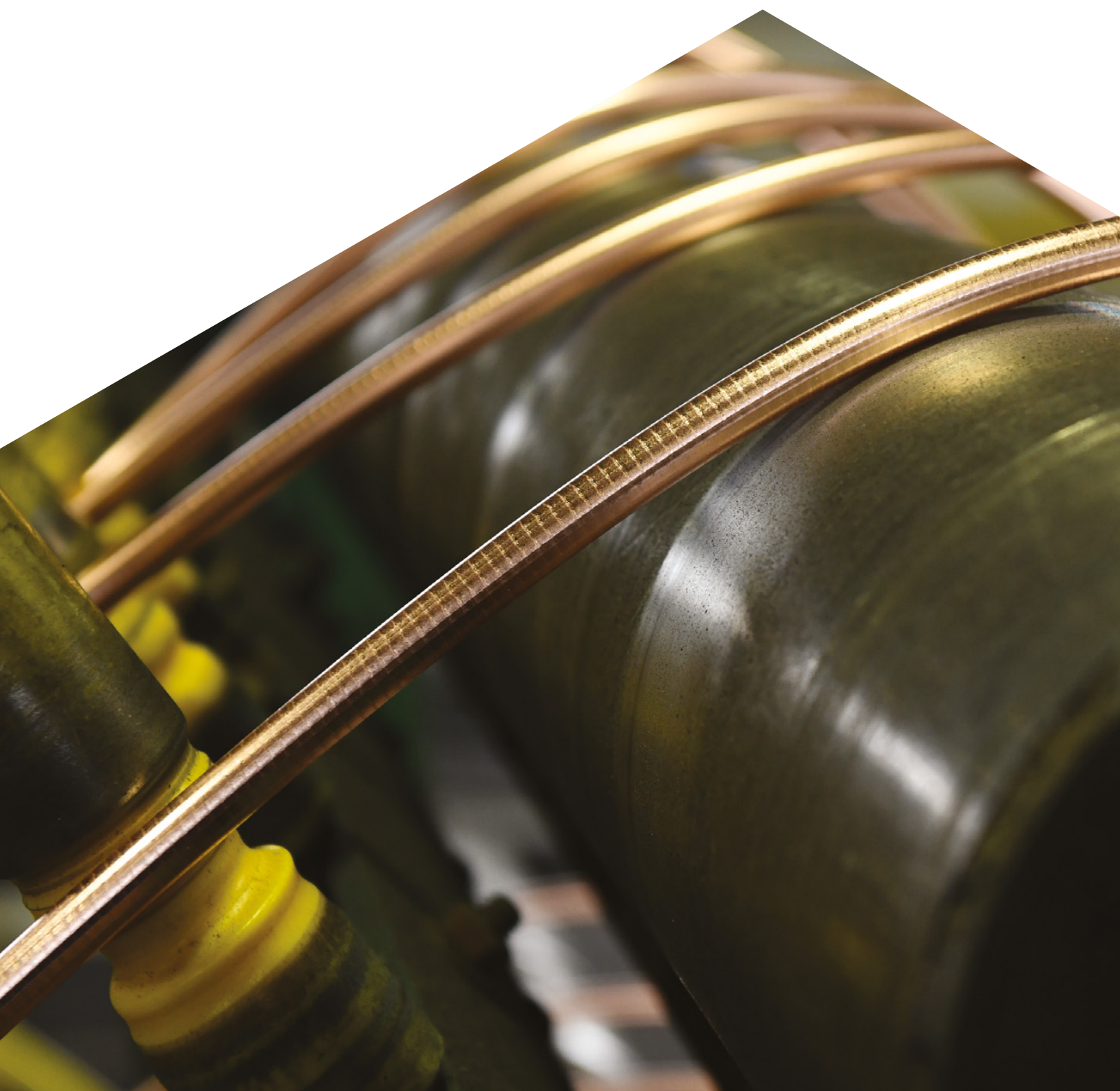
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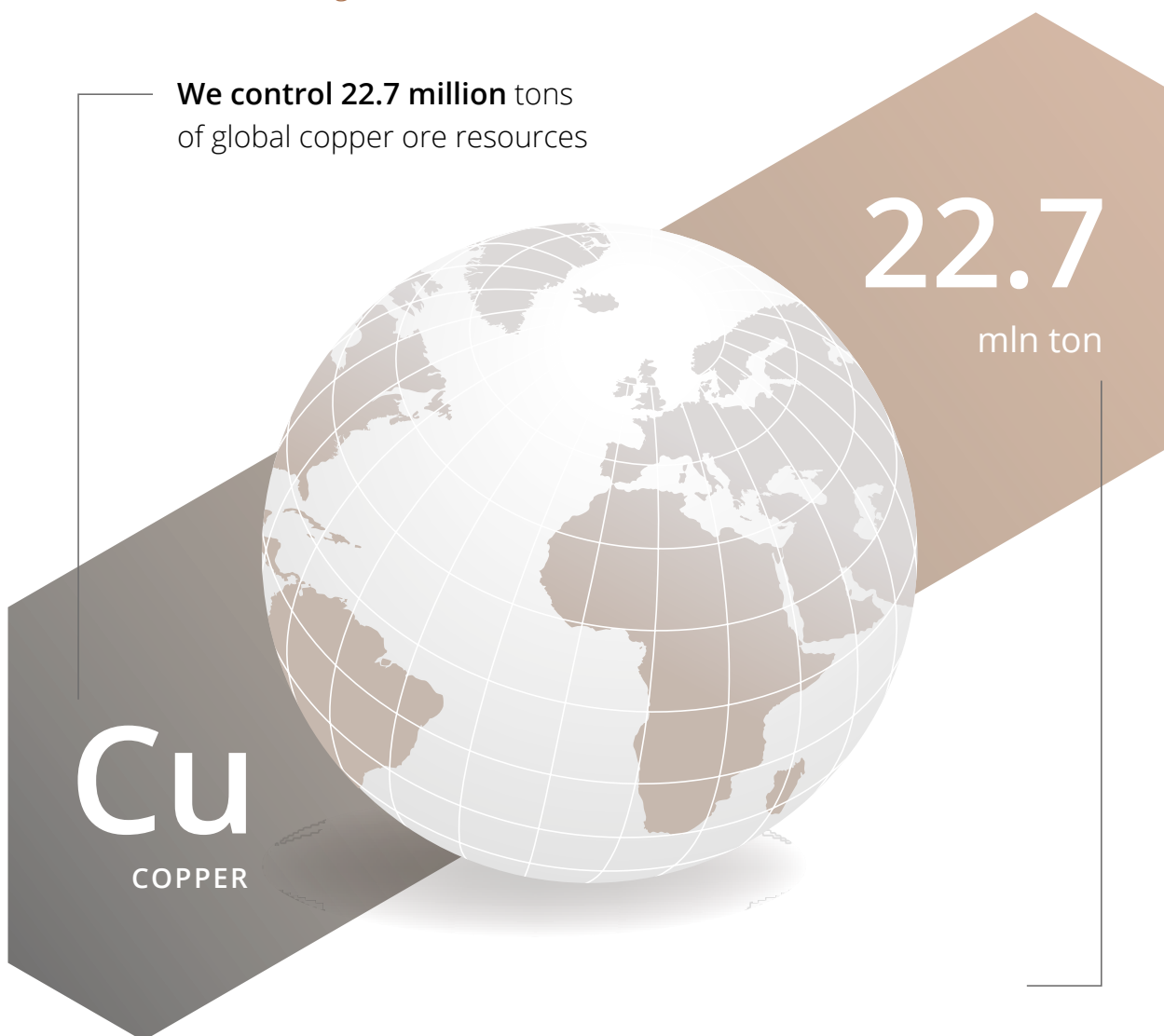
# The KGHM Group in 2017 and its environment

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# 1.1 Who we are, the scope of our operations, the application of copper

**G4-3 G4-6** We are the largest company in Poland and one of the leading companies in the world active in the exploration and extraction of non-ferrous metals. We have nearly 60 years of experience in the mining and processing industry. In Poland we operate one of the largest copper deposits in the world thereby ensuring continuity of production for many upcoming decades. Abroad, our assets are located in Europe, North America and South America. In addition to copper, we also produce silver, gold, molybdenum, lead and rock salt, among others.



For decades we have enjoyed the reputation of being a reliable business partner. We are appreciated for being innovative in our daily activities and for consistently pursuing a sustainable development policy.



G4-9

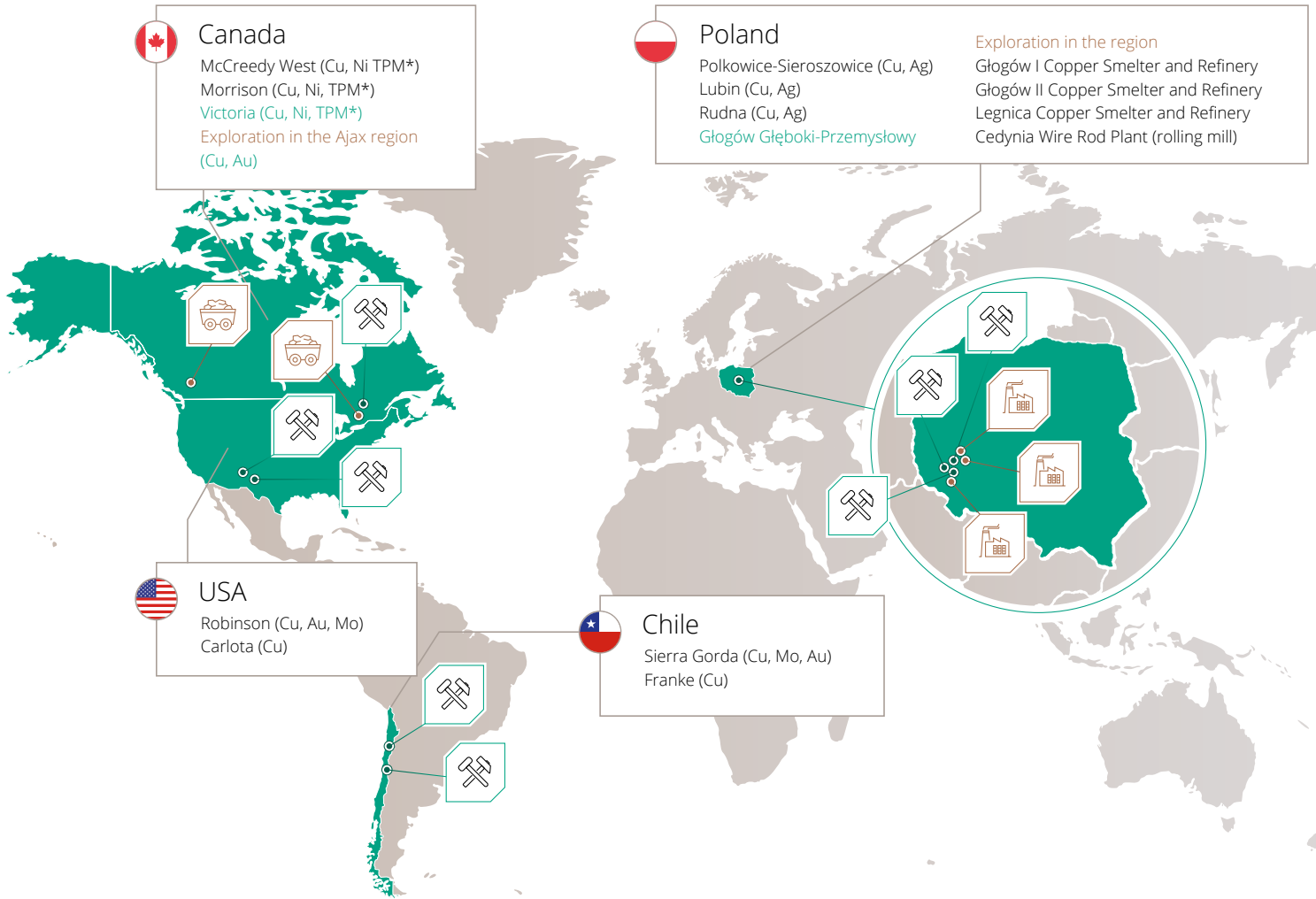
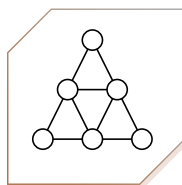


Fig. Location of the KGHM Polska Miedź S.A. Group's mining assets

KGHM Group:



numbers more than

**70**  
ENTITIES



has more than

**33 k**  
EMPLOYEES

The cohesion of such a complex organization is built on a set of common values – **safety, cooperation, focus on performance, accountability and courage**. These values have guided the company for nearly 60 years, demarcating the direction of its development and how it operates on the international market.

**G4-4** The KGHM Group is involved in the following lines of business:

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

The activity of the KGHM Group with respect to 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 belonging to the KGHM INTERNATIONAL LTD. Group for exploration and extraction of raw materials in the USA, Canada and Chile.

KGHM Polska Miedź S.A. is a multi-branch company, comprised of the Head Office and 10 Branches: 3 Mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 copper smelters (Głogów Smelter, Legnica Smelter, Cedynia Smelter), Ore Processing Plants, Hydrotechnical Facility, Mine-Smelter Emergency Rescue Unit and the Central Information Processing Unit.

KGHM Polska Miedź S.A.'s shares have been listed on the Warsaw Stock Exchange since 1997. The Company's core business is:

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

The Company's organizational structure as at 31 December 2017





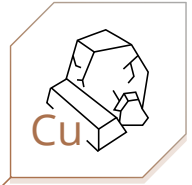
## 1.1.1 Our raw materials

The metals we mine form the foundation for developing the global economy, while the multitude of their applications make it possible for billions of people across the world to lead better lives every day.

### COPPER

In 2017 the KGHM Group produced 656.4 thousand tons of payable copper.

**656.4**  
THOUSAND TONS




Contemporarily, copper is indispensable to live. It is helpful in the supply of electricity and pure water to homes and residential units and is making a material contribution to persistent and sustainable development. For centuries this metal has been present in the history of human progress. In the KGHM Group we are confident that copper's unique properties make it an invaluable part of the future, while its significance for global development will grow. Energy efficiency, renewable energy sources, smart power grids and electrification of transport are merely some of the areas in which the role played by copper will expand, simultaneously make it possible to pursue sustainable development in the global economy.

Payable copper	kt
Group	656.4
• KGHM Polska Miedź S.A.	522.0
• KGHM INTERNATIONAL LTD.	81.0
• Sierra Gorda S.C.M.*	53.4

\* The Group has a 55% equity stake.



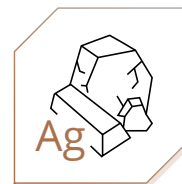
## Usage of copper:

-  electronics and power,
-  industry, health care,
-  architecture,
-  design and art,
-  agriculture and breeding,
-  transport,
-  telecommunications,
-  maritime science.

## SILVER

In 2017 the KGHM Group produced 1,234.1 thousand tons of payable copper.

**1,234.1**  
TONS



From year to year silver is finding ever more applications in modern technologies. As one of the best conductors of electricity and heat, it is the ideal metal for various electricity-related applications, e.g. switches, ceramic condensers, specialist conductive adhesives and films in heated car windows. Silver is also used as a coating material for optical data media, including DVD, as well as in the production of solar panels and mirrors. Silver is widely used in the jewelry and photography industries, too, and by the minters of coins and medals. Silver is increasingly more frequently being employed in medicine because of its natural anti-bacterial properties.

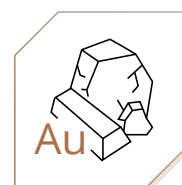
Silver	tons
Group	1,234.1
• KGHM Polska Miedź S.A.	1,218.1
• KGHM INTERNATIONAL LTD.	1.6
• Sierra Gorda S.C.M.*	14.4

\* The Group has a 55% equity stake.

## GOLD

Compared to 2016, the production of metallic gold grew by 3.5 thousand troy ounces, i.e. 3% and for the first time in the history of KGHM Polska Miedź S.A. it hit the volume watermark of 117.3 thousand troy

**117.3**  
THOUSAND TROY



Gold is used in the production of industrial fixtures, in electronics, the jewelry industry and it is treated as a way to invest capital. It is also a way to hedge the real value of paper money (approximately 75% of the extracted resources currently discharge this function). Every year, roughly 9% of the global demand for this metal is linked to applications in new technologies, for the most part in the electronics industry. Gold's superb conductivity and its resistance to corrosion mean that it is the natural choice for the manufacturers of high class components.

Moreover, this metals excellent bio-compatibility means that it can be utilized in dentistry. Gold is also used in the cosmic industry and in fuel cells. Its catalytic properties are also starting to attract the attention of the automotive industry as an alternative to the traditional metals used in catalytic converters.

## MOLYBDENUM

In 2017 we produced 20 million pounds of molybdenum.

**20**  
MILLION POUNDS



From year to year, we are taking an ever stronger position on the global market for molybdenum – a very hard metal with a silver and white hue. Molybdenum is more and more frequently being employed by the world's developing and developed economies alike. Most of the molybdenum produced (65%) is an input in the steel industry – its use in alloys superbly augments its resistance to high temperature and corrosion. When used in a steel alloy, it strengthens it and provides for its endurance in high temperatures (up to 1,900°C) while acting as an anticorrosive. These alloys are used in the air industry, the petrochemical sector, transport and in the construction of pipes. Molybdenum is also utilized in the chemical industry as an additive to grease, a fire resistant material or as a pigment in paints. This material is also used in diet supplements, i.e. multivitamins – the human body contains roughly 0.07 milligrams of molybdenum per kilogram of mass.

Molybdenum	mn pounds
Group	20
• KGHM Polska Miedź S.A.	-
• KGHM INTERNATIONAL LTD.	0.7
• Sierra Gorda S.C.M.*	19.7

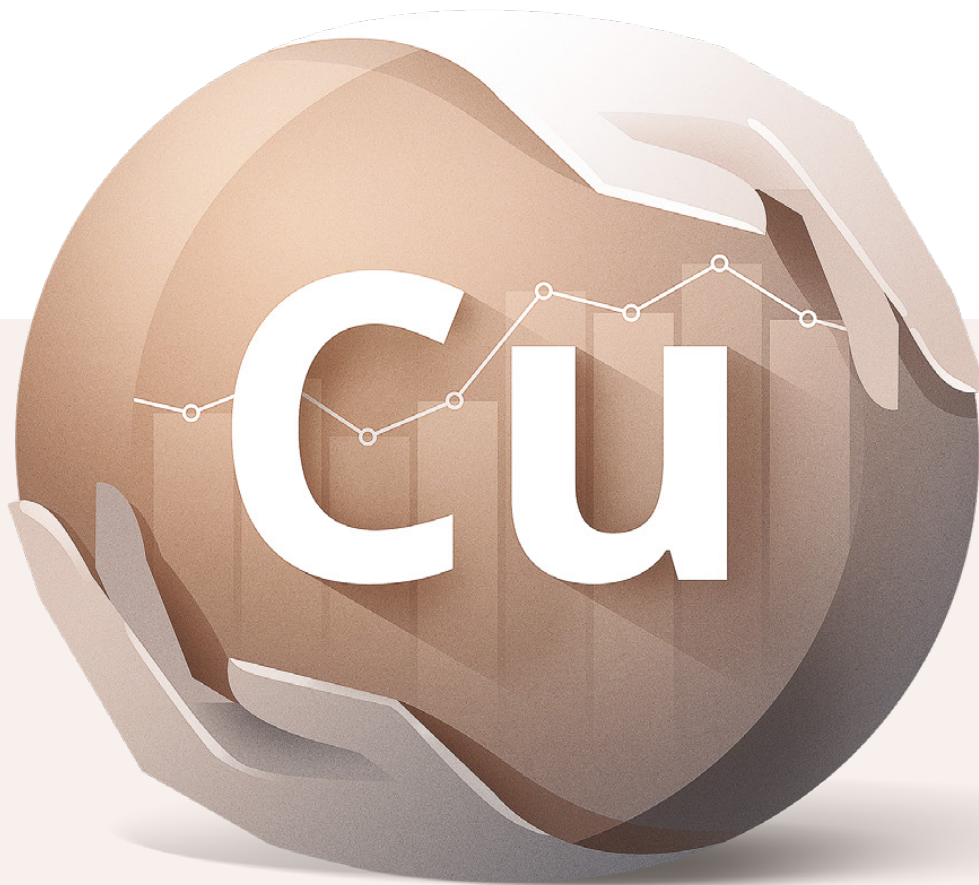
\* The Group has a 55% equity stake.





## 1.2 Our mission, vision and value system

**G4-56** Our mission underpins the vision for the effective utilization of the resources we have to become the leader in sustainable development. We endeavor to conduct gainful operations not only today and for our own good but also for the welfare of future generations.



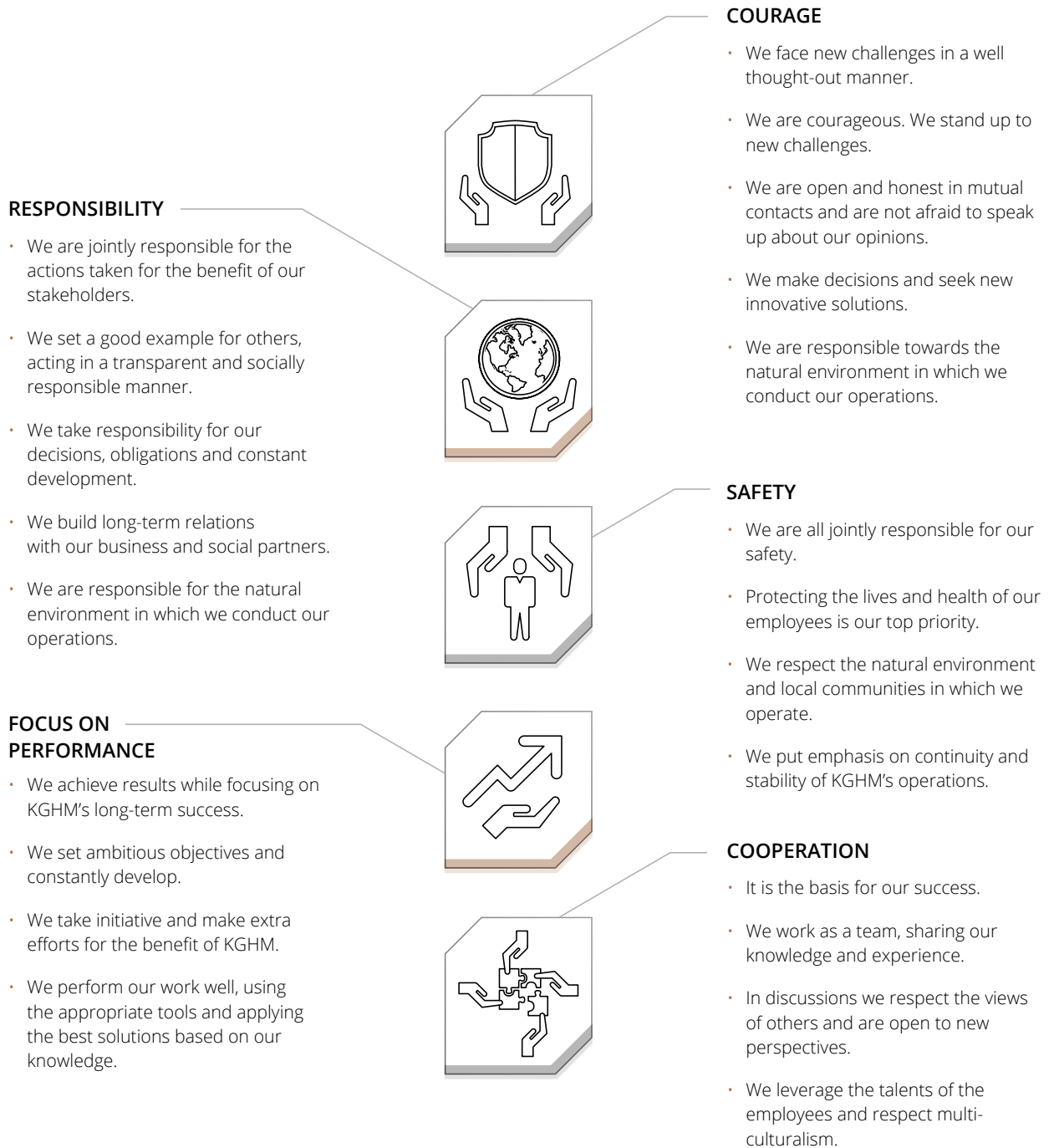
### OUR MISSION AND VISION

## To always have copper

Use our resources efficiently to become the leader in sustainable development.


**G4-56** 1.3.1 Our values


KGHM's values bind all employees, regardless of their position in the organization or nationality, and are a guidepost for all decisions and actions taken. We are building our global position as a reliable producer, trusted business partner and a company pursuing a sustainable development policy. We also base on our values on the KGHM Group's Code of Ethics.







# 1.3 Statement and description of key financial and non-financial data

 <b>PRODUCTION CAPITAL</b> (data pertaining to KGHM Polska Miedź S.A.)		
	2016	2017
C1 cost	<b>1.30</b> USD/pound	<b>1.52</b> USD/pound
Payable copper	<b>535.6</b> kt	<b>522</b> kt
Copper wire rod, OFE wire and CuAg	<b>267.4</b> kt	<b>257.9</b> kt
Round billets	<b>13.0</b> kt	<b>13.7</b> kt
Silver	<b>1 191</b> tonnes	<b>1 218</b> tonnes
Gold	<b>113.8</b> k troy ounces	<b>117.3</b> k troy ounces

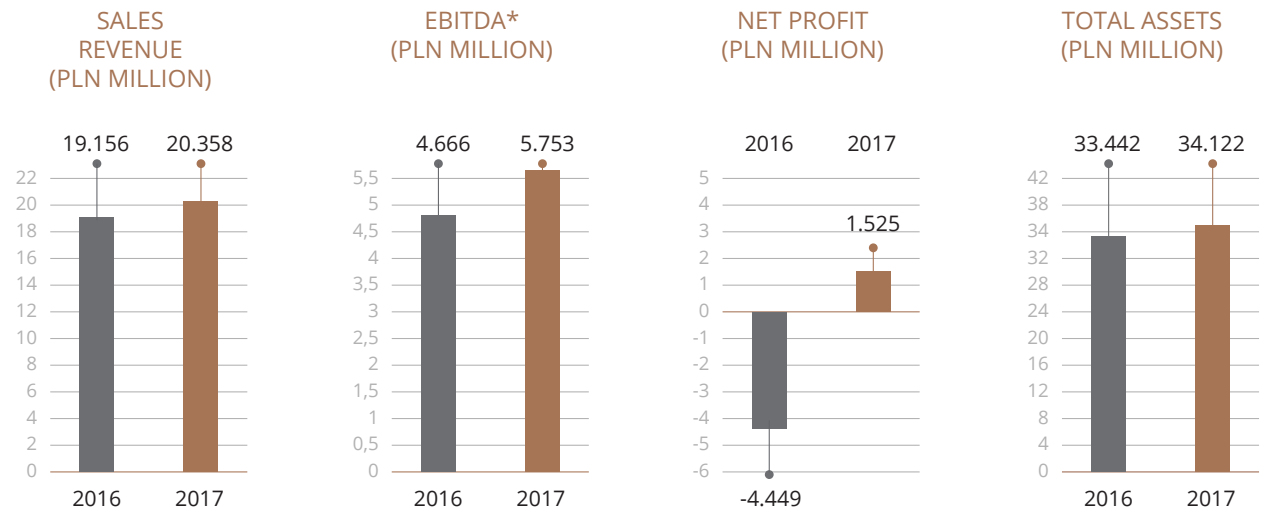
 <b>NATURAL CAPITAL</b>		
	2016	2017
Total direct and indirect green-house gas emissions by mass (equivalents of tons of CO <sub>2</sub> )	<b>3 425 024</b> tCO <sub>2</sub>	<b>3 508 748</b> tCO <sub>2</sub>
Total weight of waste	<b>31.2</b> M t/year	<b>31.6</b> M t/year
Recycled	<b>20.4</b> M t/year	<b>20.3</b> M t/year
Stored in landfills	<b>10.8</b> M t/year	<b>10.9</b> M t/year

 <b>HUMAN AND INTELLECTUAL CAPITAL</b>		
	2016	2017
Total number of employees	<b>18 176</b> employees	<b>18 198</b> employees
Number of employees participating in a single training event	<b>31 133</b> employees	<b>28 387</b> employees
<b>G4-LA6</b> Number of accidents	<b>370</b>	<b>300</b>
Fatal	<b>13</b>	<b>2</b>
Severe	<b>2</b>	<b>4</b>
LIFTR*	<b>12.7</b>	<b>10.4</b>

 <b>SOCIAL CAPITAL</b>		
	2016	2017
Donations made by the KGHM Polska Miedź S.A. Foundation to organizations and institutions	<b>13.2</b> M PLN	<b>14.6</b> M PLN
Expenditures on sponsorship (sports, culture, science)	<b>26.6</b> M PLN	<b>25.6</b> M PLN
Income tax	<b>710</b> M PLN	<b>831</b> M PLN
Minerals extraction tax	<b>1 325.0</b> M PLN	<b>1 488.0</b> M PLN

\* LTIFR – Lost Time Injury Frequency Rates, total number of accidents / total number of hours worked × 1 million

## Key figures – KGHM Group



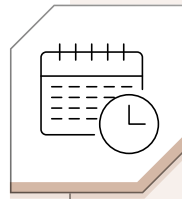
\* The Group defines adjusted EBITDA as the net profit/loss for the period determined according to IFRS, net of income tax (current and deferred), financial expenses, other operating income and expenses, losses on the measurement of joint ventures using the equity method, impairment losses on shares in a joint venture, depreciation and amortization, impairment losses on non-current assets classified as part of the costs of core business.

## Key figures – KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

KGHM INTERNATIONAL LTD.		
	2016	2017
Payable copper	89.8 kt	81 kt
Payable molybdenum	0.8 M pounds	0.7 M pounds
Silver	1.7 tons	1.6 tons
Precious metals (gold, platinum, palladium)	92.1 k troy ounces	74 k troy ounces
Payable nickel	2.1 kt	1.1 kt

SIERRA GORDA		
	2016	2017
Payable copper	51.5 kt	53.4 kt
Molybdenum	12.2 M pounds	19.7 M pounds
Gold	22.9 k troy ounces	28 k troy ounces

# 1.4 Material events in 2017



## Evolution in macroeconomic conditions

2017

The annual average prices of copper, molybdenum and nickel rose 27%, 26% and 8%, respectively while silver prices edged down 0.5%

2017

Changes in the annual average FX rates: USD/PLN down 4%, USD/CAD down 2% and USD/CLP down 4%.

## KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

2017

KGHM Polska Miedź S.A.'s share price rose 20% from PLN 92.48 to PLN 111.20

## Project execution

15 December 2017

Learned that the EA certificate was not awarded to the Ajax copper and gold project located close to Kamloops in British Columbia

## Asset impairment

14 May 2017

Current report advising of completing the underlying work involving asset impairment tests

19 January 2018

Information about the grounds for verifying the recoverable value of foreign mining assets

## Dividend disbursement

21 June 2017

Decision made by the Ordinary Shareholder Meeting of KGHM Polska Miedź S.A. to disburse a dividend of PLN 200 million for 2016

## Significant contracts

27 July 2017

KGHM Polska Miedź S.A. entered into a Framework Agreement for the comprehensive sales of natural gas fuel and signed bilateral individual contracts with Polskie Górnictwo Naftowe i Gazownictwo S.A.

## Other

11 May 2017

Approval, by the Supervisory Board, of KGHM Polska Miedź S.A.'s Business Strategy for 2017-2021 with the outlook until 2040

October 2017

A failure of the heat recovery steam generator at the Głogów I Smelter – the failure occurred on 3 October 2017; the production process was resumed on 30 October 2017.

13 October 2017

Information about the effects of the failure of the heat recovery steam generator at the Głogów I Smelter





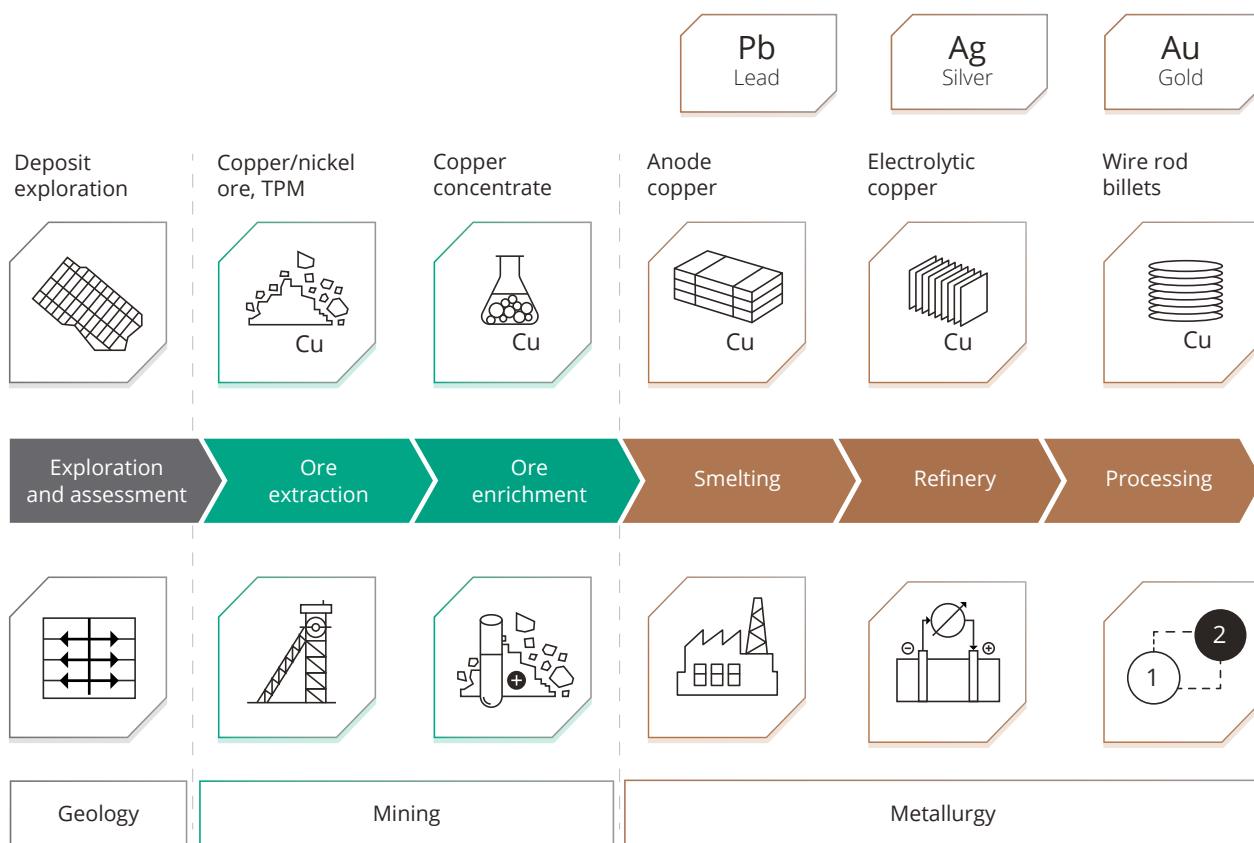
# 1.5 Business model

We are a global, innovative organization involved in technologically advanced exploration, mining and smelting operations. We have a geographically diversified portfolio of mining projects. Our business model is divided into seven segments through which we ensure a full value creation chain – from exploration to sales of finished goods.

## G4-12 Integrated process – from exploration to sales

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

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



**G4-12** The core line of business of the members of the KGHM INTERNATIONAL LTD. Group is the mining of metals, including copper, molybdenum, nickel, gold, platinum and palladium, carried out in both open-pit and underground mines, and the execution of prospecting and exploratory mining projects.

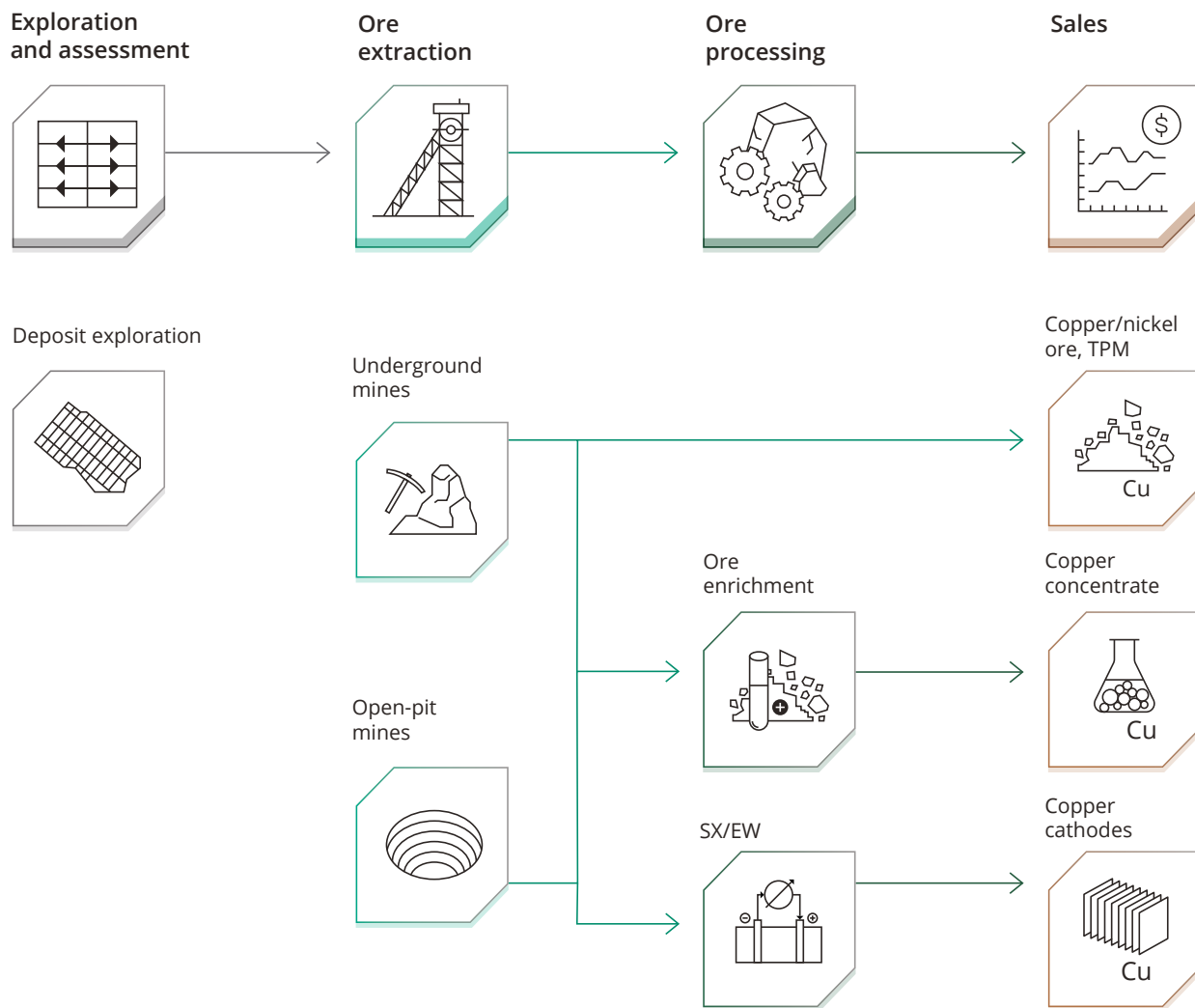
Production at KGHM Polska Miedź S.A. is a fully integrated process whereby the end product of one technological phase forms the input (intermediate product) for the subsequent phase of production. Mining operations at KGHM Polska Miedź S.A. are performed by the following three Mining Divisions: Lubin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



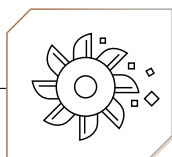
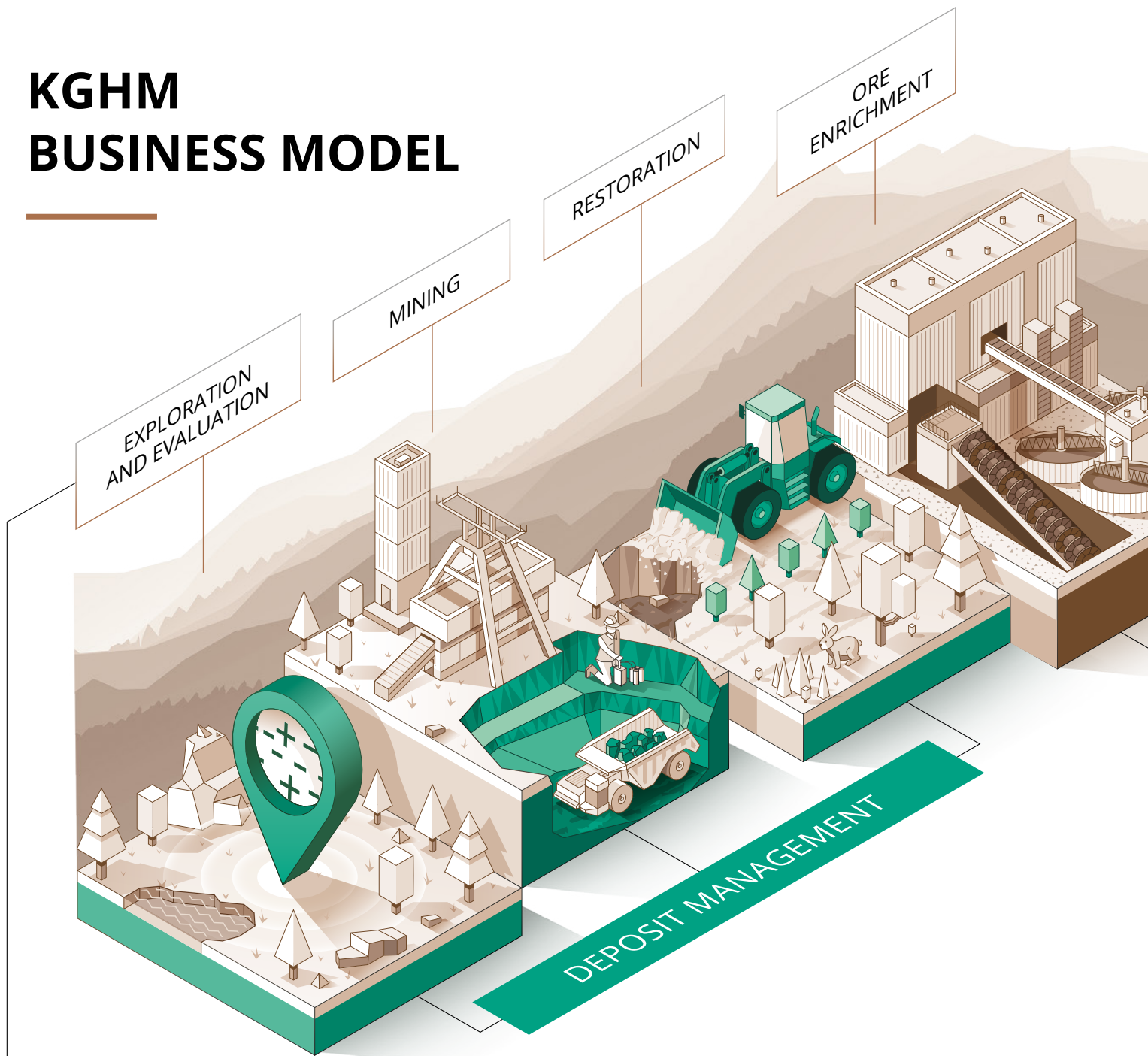
Mine and Polkowice-Sieroszowice Mine. In the next phase, the Ore Processing Plants Branch prepares concentrate for the smelters, and the Hydrotechnical Facility Division is in charge of the storage and management

of waste created during copper ore processing. Within the Parent Company's organizational structure, there are three Metallurgical Divisions: Legnica Smelter, Głogów (I and II) Smelter and Cedynia Smelter (rolling mill).

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

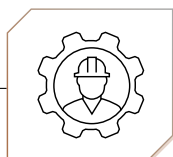


# KGHM BUSINESS MODEL



## KGHM ZANAM S.A.

Manufacturer of machinery and equipment for the mining sector.



## PeBeKa S.A.

Investments in mining projects mine drilling, tunnel drilling, as well as infrastructure all over the world.



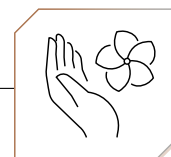
## „Miedziowe Centrum Zdrowia” S.A.

It is a business providing a broad range of medical services.



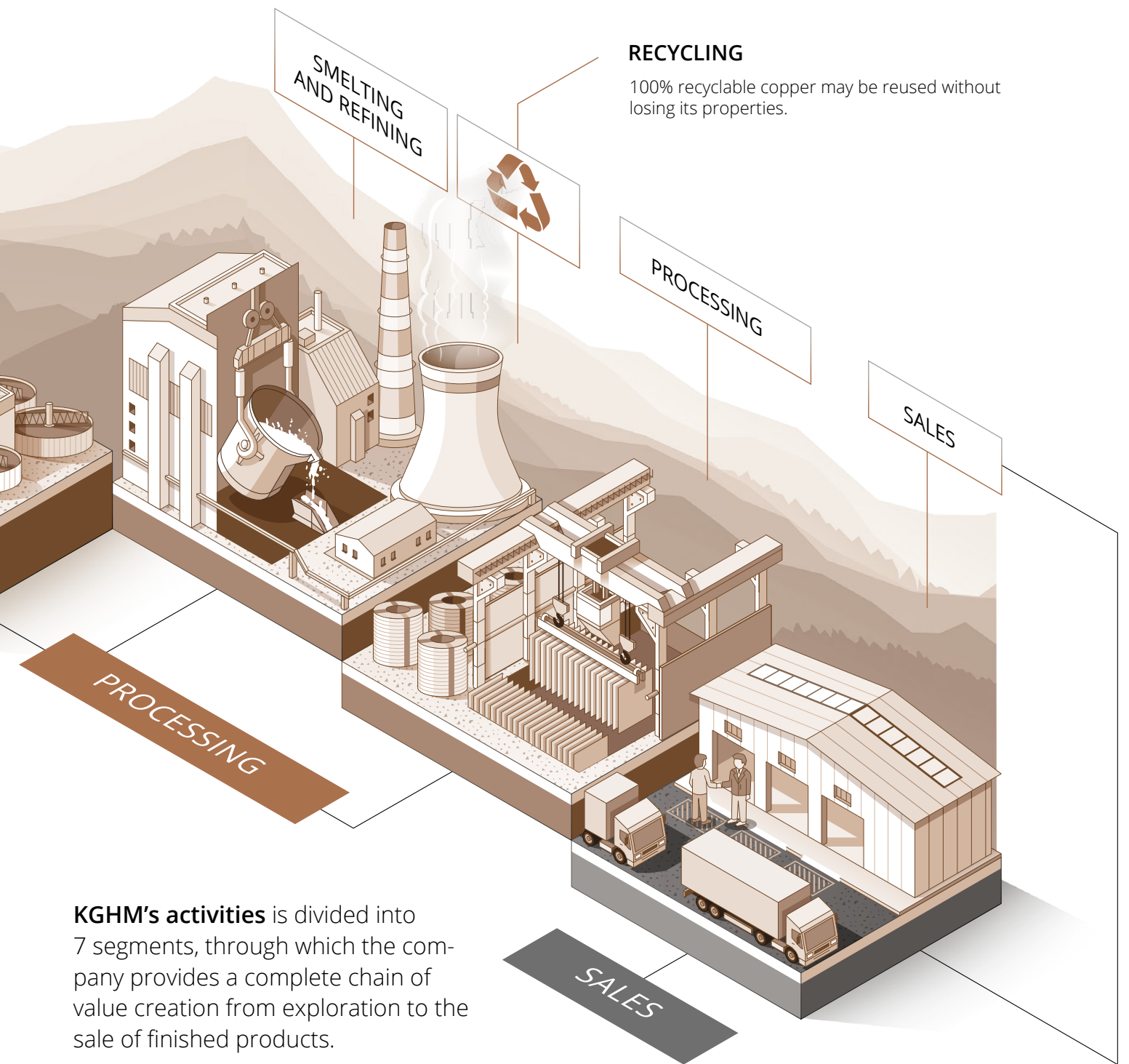
## „Energetyka” Sp. z o.o.

One of the largest heat companies in the Lower Silesia region.

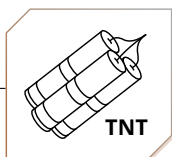


## Uzdrowiska Kłodzkie S.A. – Grupa PGU

The largest spa complex in Poland

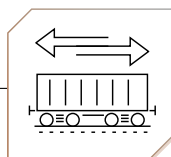


**KGHM's activities** is divided into 7 segments, through which the company provides a complete chain of value creation from exploration to the sale of finished products.



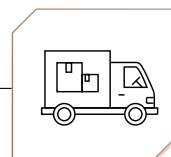
**NITROERG S.A.**

It offers two basic types of products: explosives and initiation systems and a diesel oil additive 2-EHN (NITROCET®).



**POL-MIEDŹ TRANS Sp. z o.o.**

Its activities include mainly relating to railway and passenger transport and rollick stock maintenance.



**Mercus Logistyka Sp. z o.o.**

It sells materials, goods and services traded in woth the KGHM Group.



**KGHM INTERNATIONAL LTD.**

This Canadian company mining industry, engaged in the production of copper, nickel, platinum, palladium, gold, cobalt and molybdenum.

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# Corporate governance

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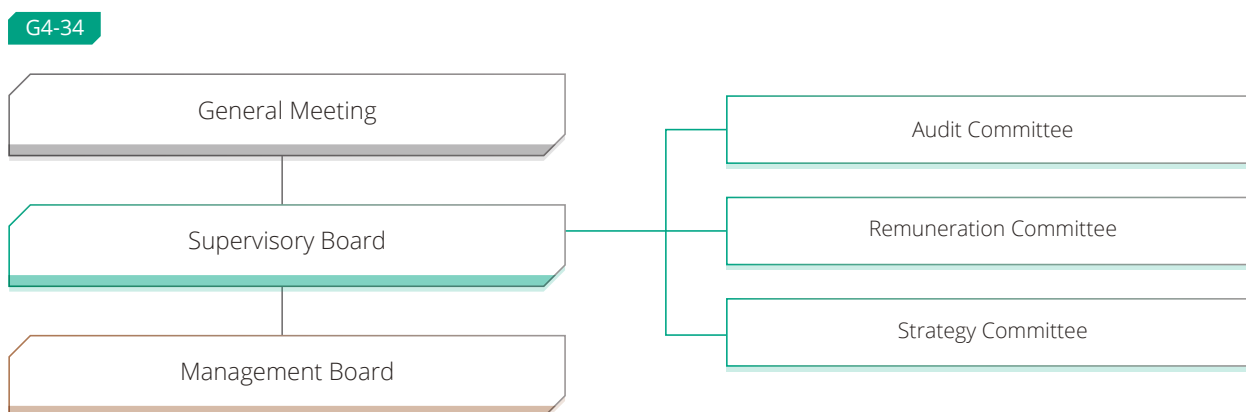
## 2.1 Approach to management

We follow good corporate governance practices and apply the highest management standards at KGHM Polska Miedź S.A. Group. We have been demonstrating for years that we know how to reconcile the interests of the Company with those of shareholders by successfully building our enterprise value. We are a responsible global brand that complies with the legal regulations of all the jurisdictions in which it operates.

We apply the most effective corporate governance tools which have been developed over the years. They are founded on Polish law, the Articles of Association of KGHM Polska Miedź S.A. and the corporate governance principles defined in the “Best Practices of WSE Listed Companies”\*. In 2017, as in previous years, we did not comply with the recommendations of the “Best Practices (...)” to make it possible for shareholders to participate

in the Shareholder Meeting “using electronic means of communication”. In our assessment, the introduction of such a possibility in the case of the KGHM Polska Miedź S.A. Group could jeopardize the efficient conduct of the Shareholder Meeting and, consequently, result in resolutions adopted at it being challenged. We have, however, broadcast General Meetings in real time since 2016.

## 2.2 Organizational structure



Corporate governance structure at KGHM Polska Miedź S.A.

\* The content of the “Best Practices of WSE Listed Companies” is available on the website of the Warsaw Stock Exchange.



## 2.3 Activities of the Supervisory Board of KGHM Polska Miedź S.A.

**G4-34** The Supervisory Board is the standing supervisory body in KGHM Polska Miedź S.A. in all aspects of the Company's operations. It is composed of seven to ten members appointed by the General Meeting, three of whom are elected by the Company's employees.

Supervisory Board members are appointed for a joint term of office of three years. Pursuant to the Articles of Association and the principles set out in the "Best Practices", at least two Supervisory Board members should meet the independence criteria – we satisfied this requirement in 2017.

The Supervisory Board supervises the activities of KGHM Polska Miedź S.A. on a permanent basis. The meetings of the Supervisory Board are held once a quarter, and decisions are taken in the form of resolutions. In order

for them to be valid, all Supervisory Board members must be invited to the meeting and resolutions must be adopted by the absolute majority of votes, in the presence of at least half of the Supervisory Board members.

The powers and rules of operation of the Supervisory Board are defined in, among others, the Company's Articles of Association and the Rules and Regulations of the Supervisory Board. These documents are publicly available at [www.kghm.com](http://www.kghm.com).

Composition of the Supervisory Board of KGHM Polska Miedź S.A.:*	
Full name:	Position:
• Dominik Hunek	Chairman of the Supervisory Board
• Michał Czarnik	Deputy Chairman of the Supervisory Board
• Janusz Marcin Kowalski	From 21 June 2017
• Marek Pietrzak	
• Agnieszka Winnik-Kalemba	
• Jarosław Witkowski	
and the members elected by the employees:	
• Bogusław Szarek	Secretary
• Józef Czyczerski	
• Leszek Hajdacki	

\* Composition of the Supervisory Board as at the date of publication of the report.

The Supervisory Board has three committees whose role is to provide support in preparing evaluations and opinions, and in arriving at decisions.



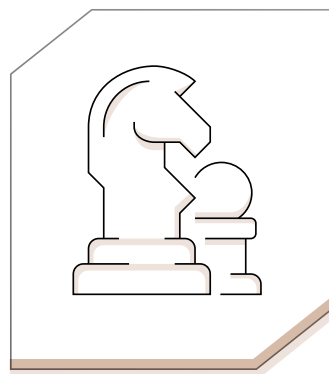
Audit Committee\*

**G4-34** The Audit Committee supervises financial reporting, the internal control system, risk management and internal and external audits.



Remuneration Committee

The Remuneration Committee supervises the enforcement of the provisions of agreements concluded with the Management Board, the system of remuneration and benefits in the KGHM Polska Miedź S.A. Group, training and other services provided by the company, as well as audits carried out by the Board in this respect.



Strategy Committee

The Strategy Committee supervises the implementation of the strategy and annual and long-term operating plans of the Company. The Committee assesses the coherence of these documents and provides its opinions on draft strategies and their amendments presented by the Management Board to the Supervisory Board, and on the Company's annual and long-term operating plans.

\* A detailed description of the tasks of each of the committees can be found in the "Management Board Report on the Activity of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017", available at [www.kghm.com](http://www.kghm.com).



## 2.4 Activities of the Management Board of KGHM POLSKA MIEDŹ S.A.

The Management Board of KGHM is responsible for all aspects of the Company's operations that are not reserved for the Shareholder Meeting or the Supervisory Board. The Management Board of KGHM Polska Miedź S.A. may be composed of one to seven persons, appointed for a joint term of office of three years.

G4-34

The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board and Vice-Presidents. Management Board members may be dismissed by the Supervisory Board before the expiry of the term of office.

The Management Board operates on the basis of laws, the Company's Articles of Association and the Rules and Regulations of the Management Board. For resolutions of the Management Board to be valid, at least two-thirds





of its members must be present. The resolutions of the Management Board are passed by a simple majority of the votes of those present at the meeting. In the case of a tie vote for or against a resolution, the President of the Management Board has the casting vote.

A detailed list of the matters requiring a resolution of the Management Board is presented in the Rules and Regulations of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.

### The composition of the Management Board of KGHM Polska Miedź S.A. as at 1 January 2017 was as follows:

Full name:	Position:
• Radosław Domagałski-Łabędzki	President of the Management Board
• Jacek Rawecki	1st Vicepresident of the Management Board for Supply Chain Management
• Michał Jezioro	Vicepresident of the Management Board for Development
• Stefan Świątkowski	Vicepresident of the Management Board for Financial Matters
• Piotr Walczak	Vicepresident of the Management Board for Production

### Changes in the composition and division of responsibilities of the Management Board in 2017:

-  **On 3 February 2017**
  - Jacek Rawecki resigned from the position of the 1st Vice-President of the Management Board,
  - the Supervisory Board adopted a resolution to appoint Rafał Pawełczak as the Vice-President of the Management Board.
-  **On 31 May 2017**
  - Piotr Walczak resigned from the position of the Vice-President of the Management Board with effect from 13 June 2017.
-  **On 24 July 2017**
  - the Supervisory Board adopted a resolution to appoint Ryszard Jaśkowski as a Management Board member.
-  **On 8 November 2017**
  - the Supervisory Board appointed Ryszard Jaśkowski as the Vice-President of the Management Board for Production.

**The composition of the Management Board as at 31 December 2017 was as follows:**

Full name:	Position:
• Radosław Domagalski-Łabędzki	President of the Management Board
• Stefan Świątkowski	Vice-President of the Management Board for Financial Matters
• Michał Jezioro	Vice-President of the Management Board for International Assets
• Rafał Pawełczak	Vice-President of the Management Board for Development
• Ryszard Jaśkowski	Vice-President of the Management Board for Production

\* Biographical notes of the Management Board members can be found in the "Management Board Report on the Activity of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017", available at [www.kghm.com](http://www.kghm.com).

**Additional information:**

On 10 March 2018, the Supervisory Board dismissed the President of the Management, Radosław Domagalski-Łabędzki and the Vice-President of the Management Board for International Assets, Michał Jezioro from the Management Board of KGHM Polska Miedź S.A. The Supervisory Board decided that the Management Board would consist of three members. The Supervisory Board entrusted Vice-President of the Management Board, Rafał Pawełczak with the performance of the duties of the President of the Management Board until a new President of the Management Board is appointed following an executive search procedure, while the Supervisory Board entrusted the Vice-President of the Management Board for Financial Matters, Stefan Świątkowski with the performance of the duties associated with being the Vice-President of the Management Board for International Assets until a new Vice-President for International Assets is appointed following an executive search procedure. The Vice-President for Production is Ryszard Jaśkowski.

## 2.5 Shareholders of the Group

Shareholders play a special role among the stakeholders of KGHM Polska Miedź S.A. We consider open and active dialogue with this group to be a critical element in effective operation. We make sure that every participant of the Polish or international capital market has equal access to comprehensive information about the company.

**G4-7** KGHM Polska Miedź S.A. was taken public on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the WSE primary market in the continuous trading system and belong to the WIG, WIG20 and WIG30 indices. Since 2009, the Company has continuously been included

in the RESPECT Index of socially responsible companies. The Company's shares belong to the sector index WIG-GÓRNICtwo and the WIGdiv index.

2017 was successful for stock exchange trading in our shares. Our share price rose 20% during the year, from

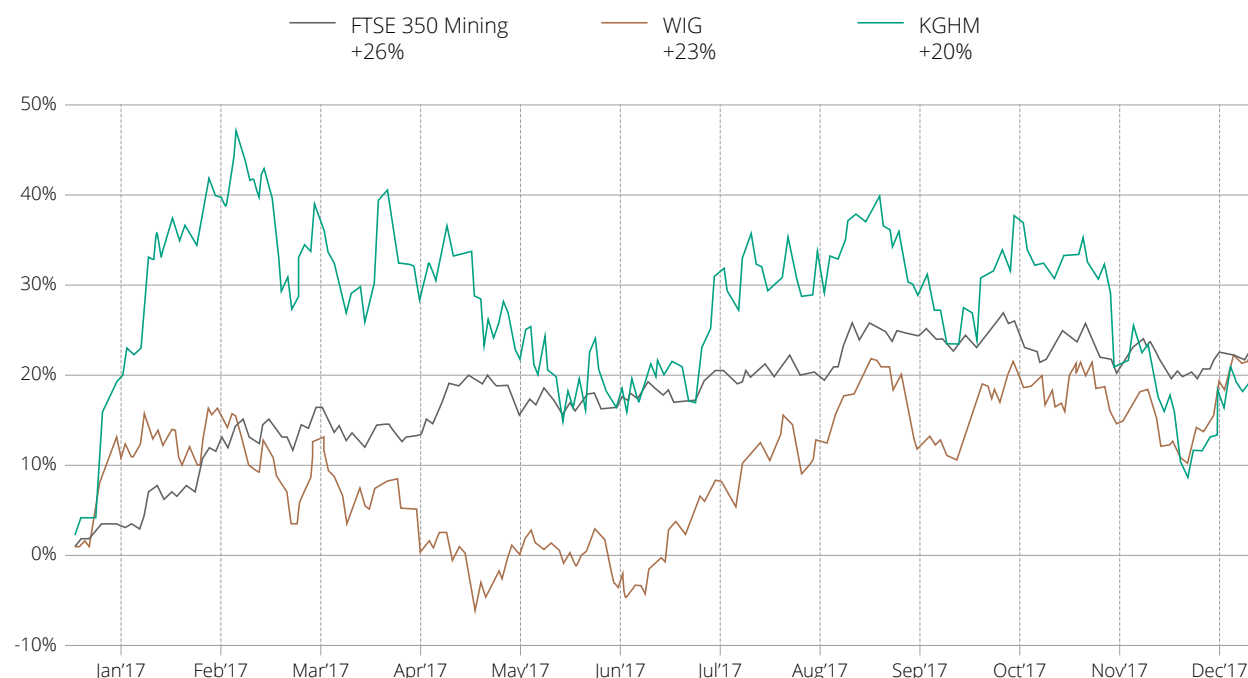


## Corporate governance

PLN 92.48, recorded on 30 December 2016, to PLN 111.20 at the end of 2017. The price of copper – our main product – recorded a 30% increase in the same period, while the dollar to the zloty rate fell by 17%.

On 21 February 2017, the Company's shares reached their annual maximum closing price of PLN 135.50. The minimum closing price of PLN 92.17 was recorded on 2 January 2017.

## KGHM Polska Miedź S.A.'s share price versus the WIG and FSTE 350 indices



We strictly comply with our reporting duties as a public company. We regularly publish current and periodic reports, which we submit via the official reporting system (ESPI). We also communicate with investors by regularly attending conferences and meeting with analysts in Poland and abroad.

Video recordings are available on our website [www.kghm.com](http://www.kghm.com). On the website, in the investor relations tab, we also update the key information and documents on an ongoing basis – they include, among other things, current and periodic reports, information about the shareholder structure and documents related to shareholder meetings and corporate governance.

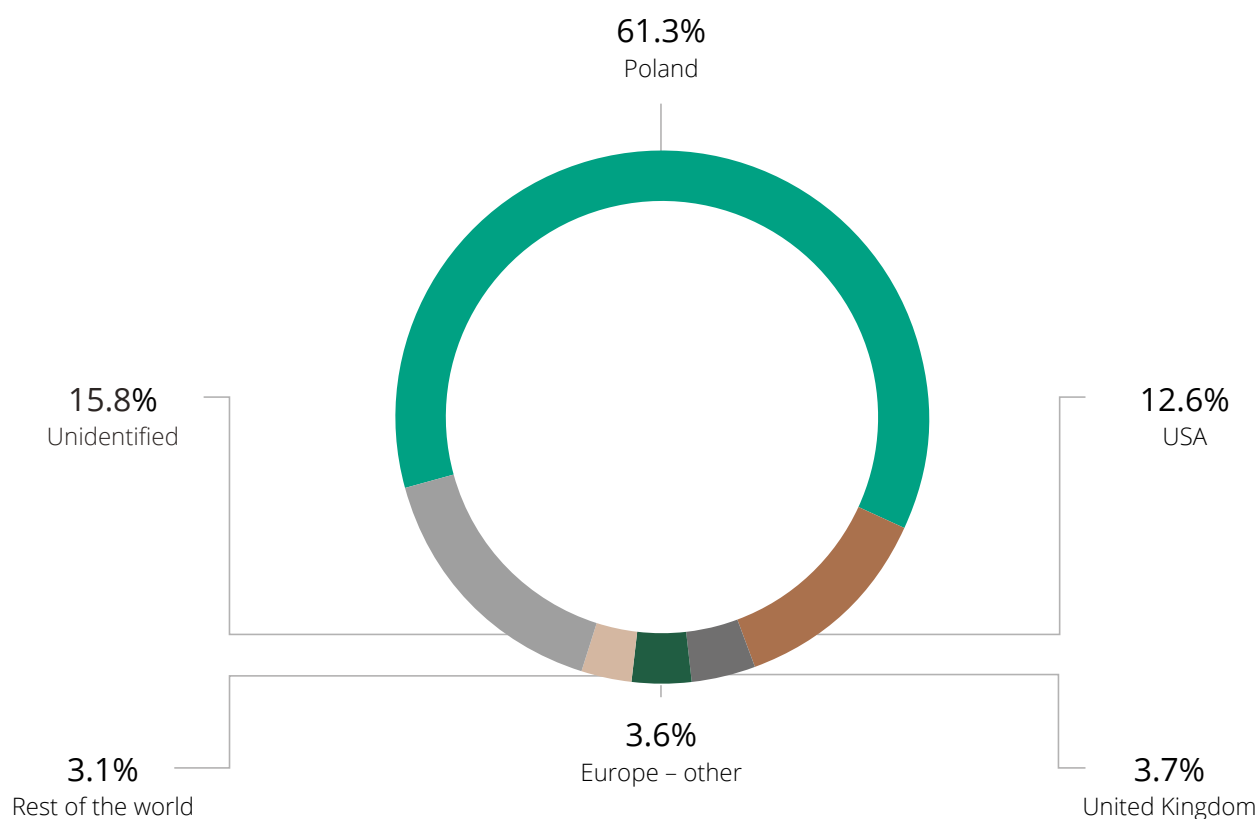
We organize conference calls and video conferences on a regular basis in response to stakeholder needs. We publish our financial results and at the same time hold a conference, which is open to all stakeholders and broadcast live online in Polish and English.

Shareholder	Number of shares/votes	% of the share capital/total number of votes
State Treasury*	63,589,900	31.79%
Nationale Nederlanden OFE**	10,104,354	5.05%
Other shareholders	126,305,746	63.16%
<b>Total</b>	<b>200,000,000</b>	<b>100%</b>

\* Based on the notification of 12 January 2010 received by the Company.

\*\* Based on the notification of 18 August 2016 received by the Company.

Geographic structure of KGHM Polska Miedź S.A.'s shareholders (in %)



No changes in the amount of share capital or the number of shares took place in 2017. At the same time, according to the knowledge of the Company's Management Board, the ownership structure of major holdings in KGHM Polska Miedź S.A. did not change either.

According to the Company's knowledge, the Management Board and the Supervisory Board members did not hold any shares in the related entities of KGHM Polska Miedź S.A. as at 31 December 2017. The Company did not have an employee share program in place either in 2017.

### Best Practice

We celebrated the 20th anniversary of our listing on the WSE at the Łazienki Królewskie Park in Warsaw. We went public in striving for a period of stability and expecting to strengthen the company. And we did not let our shareholders down. With the commitment of our employees, our greatest assets, we will endeavor to be the showpiece of the Polish economy for decades to come – said Radosław Domagalski-Łabędzki, the then President of the Management Board of KGHM Polska Miedź S.A.

The event was attended by the Management Board of KGHM Polska Miedź S.A., representatives of embassies, the Supervisory Board, the Parliament and KGHM Group Companies.

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# Our operating strategy

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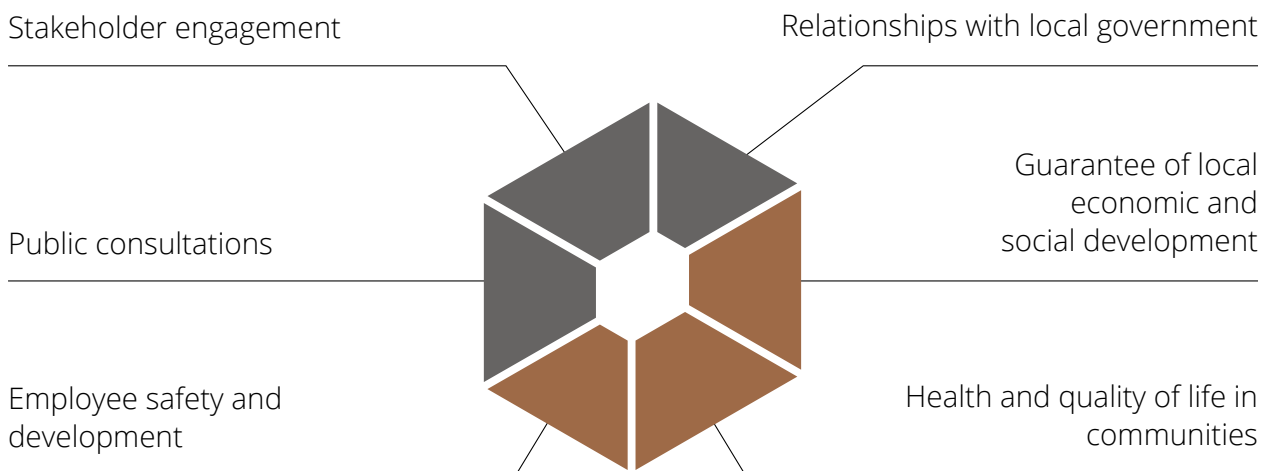
## 3.1 How do we create value?

Our experience and competencies have enabled us to develop a business model in the KGHM Group that consistently and effectively integrates all the stages of value creation for our clients and investors.

We are an international corporation, but we do not forget KGHM's strong roots in Lower Silesia in Poland. In 2017, we celebrated the 60th anniversary of the discovery of copper ore deposits by geologist Jan Wyżykowski. That historical discovery in the chronicles of the national economy became the driving force underpinning the development of the region and Poland alike. We owe not only KGHM Polska Miedź S.A.'s establishment to it, but also Poland's position as one of the copper powerhouses.

Last year we also celebrated the 20th anniversary of the Company being listed on the Warsaw stock market. The great Stock Exchange debut was preceded by an unprecedented transformation from a company operating in a centrally planned economy into a profitable company operating in free market conditions. KGHM's opening share price was PLN 23.50. In turn, two decades later it oscillates around PLN 110. Last year, KGHM's share price posted nearly 20% growth in PLN under the influence of more favorable macroeconomic conditions. We are among the largest listed companies.

Selected social components in the value chain that define our corporate social responsibility model





### 3.1.1 Competencies

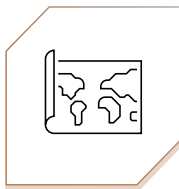
We rely on trained employees and competent management. Their enormous experience and knowledge of the mining and smelting industry enable us to successfully carry out even the most complex mining projects.

We prove our competencies in everyday work. Our experts conduct, among other things, intensive exploration works in regions neighboring production assets, which leads to an increase in the level of documented resources. We are creating a portfolio of assets to guarantee continuous shareholder value creation – we

control 22.7 million tons of the world's copper resources, and the KGHM Group's facilities are located in economically and politically stable countries that support the development of mining.

We are innovative. We undertake research and development projects focused on the development and implementation of innovative technological and organizational solutions improving efficiency and occupational safety and ensuring the continuity of production.

### Why are we valuable in the sector?



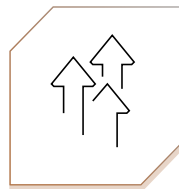
#### We have diversified assets

Our facilities are located in economically and politically stable countries which support the development of mining.



#### We have high quality resources at our disposal

The production assets in Poland (accounting for more than one half of the Group's production) are located on one of the world's largest copper ore deposits with the prospect of many more years of operation (30–40 years).



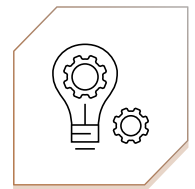
#### We undertake projects with a dynamic profile

Intensive exploration in regions neighboring production assets leads to an increase in the level of documented resources. We are creating a portfolio of assets which guarantee continuous value building for shareholders.



#### We rely on trained employees and competent management

We have significant experience and proven competencies in carrying out projects, and an in-depth understanding of the mining and smelting industry. We also have experienced teams of experts in all areas of mining and smelting, wherever we conduct our operations. They provide us with necessary support in building the Company's value.



#### We are innovative

In 2017, we carried out more than 170 research and development projects and prepared expert scientific opinions for the total value of more than PLN 44 million.



### 3.1.2 Our assets

#### 1. POLKOWICE-SIERSZOWICE MINE

The Polkowice-Sierszowice Mine is located in Lower Silesia, to the west of the town of Polkowice. Currently, it conducts mining works in four mining areas: “Polkowice”, “Radwanice Wschodnie”, “Sierszowice” and in a part of the “Głogów Głęboki – Przemysłowy” (Deep Głogów) deposit. Within the “Sierszowice” deposit, there are also rich deposits of rock salt above the copper-bearing horizon. Mining is conducted using blasting technology together with various room-and-pillar methods with natural room settlement. The Polkowice-Sierszowice Mine’s current production capacity is approx. 12 million tons of ore per year.

Location:	Lower Silesia, Poland
Type of mine:	Underground
Main ore type:	Copper ore
Associated minerals	Silver, lead, rock salt, gold
End product:	Copper ore
Copper in extracted ore in 2017:	204.6 kt

#### 2. RUDNA MINE

The Rudna Mine is located in Lower Silesia, to the north of the town of Polkowice. Primarily, it mines the “Rudna” deposit, but it also develops and operates in the “Sierszowice” and “Głogów Głęboki-Przemysłowy” (Deep Głogów) deposits. The copper orebody in the Rudna deposit ranges from 844 meters to 1,250 meters, and in the Deep Głogów deposit is up to 1,385 meters. The current average production capacity is approx. 12million t of ore per year.

Location:	Lower Silesia, Poland
Type of mine:	Underground
Main ore type:	Copper ore
Associated minerals	Silver, lead, gold
End product:	Copper ore
Copper in extracted ore in 2017:	195.3 kt



#### 3. LUBIN MINE

The Lubin Mine is located in Lower Silesia, Poland, to the north of the town of Lubin. The Lubin-Małomice copper orebody lies at a depth ranging from 368 meters to 1,006 meters. The deposit is mined by blasting technology using the room-and-pillar method with natural roof settlement and with hydraulic backfill in the vicinity of the support pillar of the town of Lubin. The mine’s current production capacity is approx. 8 million t of ore per year.

Location:	Lower Silesia, Poland
Type of mine:	Underground
Main ore type:	Copper ore
Associated minerals	Silver, lead, gold
End product:	Copper ore
Copper in extracted ore in 2017:	66.9 kt





#### 4. GŁOGÓW SMELTER

This complex of metallurgical plants located in Głogów comprises two copper concentrate smelting lines based on the single-stage smelting of concentrate in a flash furnace directly into blister copper. Apart from electrolytic copper, the Głogów Smelter Branch produces crude lead (up to 30 thousand tons annually), silver (approx. 1,200 t), Pt-Pd slime (approx. 80 kg), gold (approx. 2.7 t) and sulfuric acid (over 570 kt).

Location:	Lower Silesia, Poland
Type of metallurgical plant:	Smelter/refinery
End product:	Electrolytic copper
Electrolytic copper production in 2017	406.9 kt



#### 5. LEGNICA SMELTER

The smelter located in Legnica has a current production capacity of 110 thousand tons of electrolytic copper. It has been in operation since the 1950s, using shaft furnace technology. In addition to electrolytic copper, the plant also produces round billets, approx. 30 thousand tons annually of refined lead and 122 kt of sulfuric acid, as well as copper sulfate and nickel sulfate.

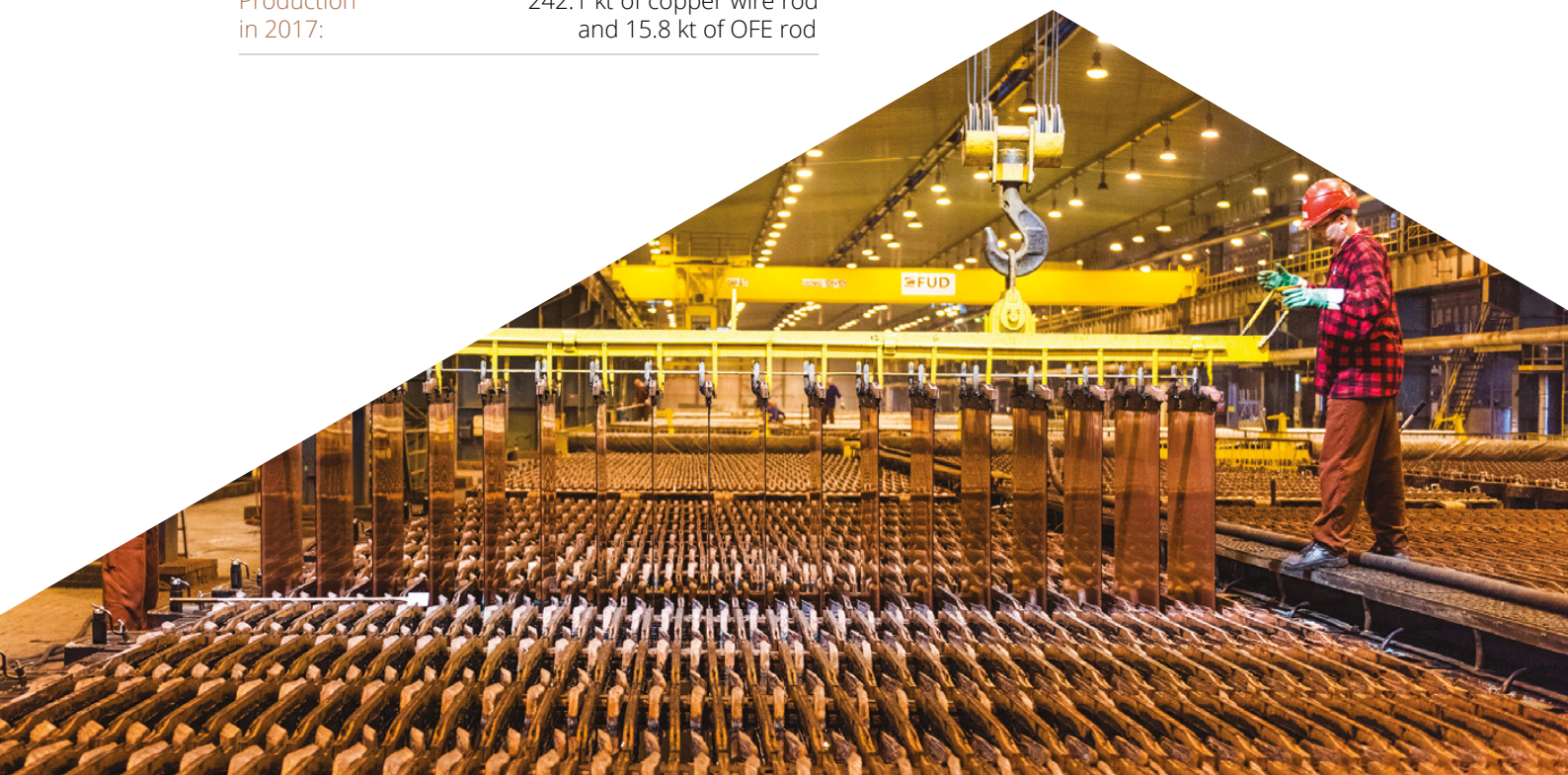
Location:	Lower Silesia, Poland
Type of metallurgical plant:	Smelter/refinery
End product:	Electrolytic copper
Electrolytic copper production in 2017	115.1 kt



#### 6. CEDYNIA SMELTER

Production at the Cedynia Rolling Mill located in the vicinity of Orsk is based on the use of copper cathodes, 75% of which come from the Głogów Smelter and 25% from the Legnica Smelter. The basic product of the Cedynia Smelter is copper wire rod produced in a Contirod line amounting to over 250 thousand tons annually and more than 16 thousand tons annually of oxygen-free copper wire rod (OFE) produced in an UPCAST line, including oxygen-free, silver-bearing copper wire rod.

Location:	Dolny Śląsk, Polska
Type of metallurgical plant:	Processing
End product:	Copper wire rod and OFE rod
Production in 2017:	242.1 kt of copper wire rod and 15.8 kt of OFE rod



 1. ROBINSON MINE

The mine is located in White Pine county, Nevada, USA, approx. 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan range, at an average altitude of 2,130 meters above sea level, near highway no. 50. The mine comprises 3 large pits: Liberty, Tripp-Veteran and Ruth. Currently, Ruth is in operation. The ore is extracted using conventional surface methods and is then processed into a copper and gold concentrate, and separately into molybdenum concentrate in a concentrating plant. Additionally, there is the Carlota mine, located in the western part of the Miami-Globe mining region, approx. 10 km to the west from the city of Miami, on the Gila/Pinal county line in eastern Arizona, USA. Since 2014, the mine's operations have been focusing mainly on leaching the extracted copper ore and on the production of copper cathodes in the SX/EW plant. In 2017, a number of technical tasks were carried out to extend the life of assets by one year while increasing production through the planned exploitation of the Eder South area.

Location: Nevada, USA

Type of mine: Surface

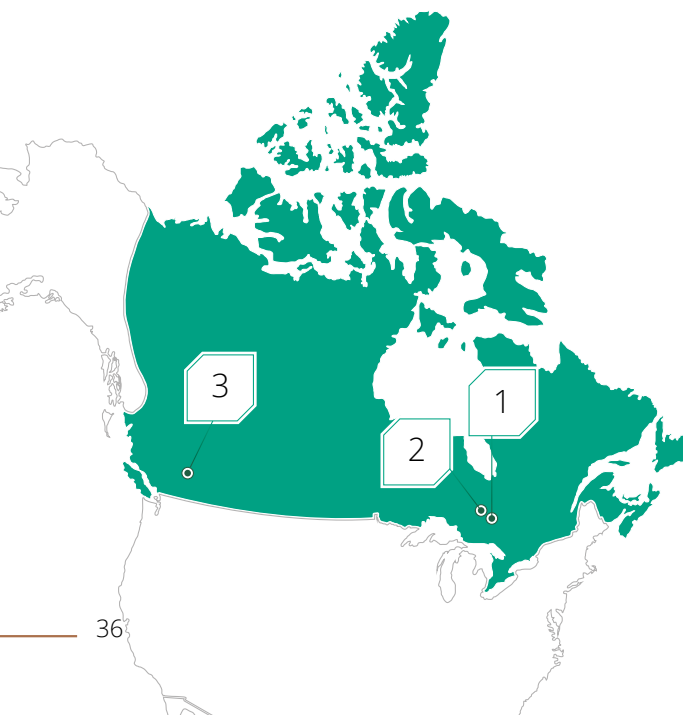
Main ore type: Copper ore

Associated minerals: Gold and molybdenum

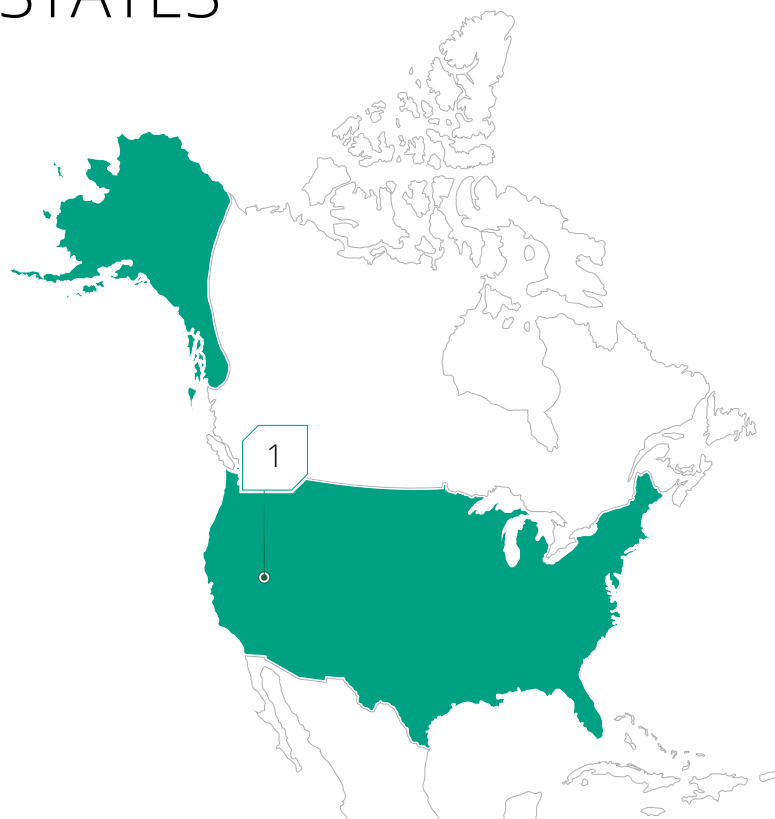
End product: Copper and gold concentrate, molybdenum concentrate

Payable copper production in 2017: 48.8 kt

## CANADA



## UNITED STATES



 1. MORRISON MINE

The mine is located on the edge of the town of Sudbury, Ontario Province, Canada. The ore is accessed and mined with the aid of leased infrastructure of the adjoining Craig mine owned by Xstrata Nickel. Mineralization in the Morrison deposit most commonly occurs in the form of ore veins. Mining is carried out at a level of approx. 1,300 meters using mining techniques adapted to the deposit's geometry – this is mainly a mechanized method of selective extraction using undercutting of successive levels from bottom to top. All of the ore extracted from the mine is processed in the Clarabelle plant in Sudbury, owned by Vale.

Location: Sudbury Basin, Ontario, Canada

Type of mine: Underground

Main ore type: Copper, nickel, platinum palladium and gold ore

End product: Copper and nickel ore

Payable copper production in 2017: 8.5 kt





## 2. VICTORIA PROJECT

This project is located in the Canadian province of Ontario, approx. 35 km west of the town of Sudbury. In 2002, rights were acquired to the mineral deposit in the Victoria area and exploration activities were commenced on this site. All of the ore extracted from the mine is to be processed in the Clarabelle plant in Sudbury, owned by Vale. The current development scenario for the project calls for the sinking of 2 shafts to access the deposit (a production shaft and a ventilation shaft). Exploration work performed so far has confirmed the continuity and characteristics of the mineralization to a level of approx. 2,200 meters below the surface. In 2017, as part of project activities, the project team continued works consisting in securing the existing infrastructure and the project area. Additionally, works aimed at developing the optimum project implementation path were conducted in 2017.

Location:	Sudbury Basin, Ontario, Canada
Type of mine:	Underground
Main ore type:	Copper-nickel ore
Associated metals:	Gold, platinum and palladium
Mine life:	14 years
End product:	Copper, nickel and precious metal ore
Forecast annual production:	16 kt of Ni, 18 kt of Cu



## 3. AJAX PROJECT

The Ajax Project is located in Canada's British Columbia Province, 400 km north-east of Vancouver, near the city of Kamloops. The project assumes the construction of a copper and gold strip mine along with an ore processing plant and the accompanying infrastructure. In January 2012, Abacus Mining and Exploration Inc. prepared a feasibility study, based on which the preliminary economic parameters of this project were described. Due to a substantial risk of not receiving an environmental permit based on the assumed technological parameters of the project, including the siting of the basic mine plant infrastructure, the assumptions of the feasibility study for 2012 were reviewed in terms of the identified risk factors and potential for increasing the project's value. On 13 January 2016, the Updated Feasibility Study was published replacing the earlier version dated 6 January 2012. The Updated Feasibility Study reflects changes to the project, under which the mine's infrastructure was moved farther away from the nearest buildings in the City of Kamloops, technological improvements were incorporated and the processing facility's throughput capacity was increased from 60 to 65 thousand tons of ore per day. In mid-December 2017, the Ministers of Environment and the Ministers of Energy, Mining and Petroleum Resources of the Province of British Columbia (provincial authorities) made a decision to refuse to issue the environmental assessment certificate (EA Certificate) for the Ajax project. The Federal Minister of Environment and Climate Change expressed the view that the project would have considerable adverse effects and sent it back to the Department of Fisheries and

Oceans Canada and to the Natural Resources Canada. The respective departments will review the matter and the federal government (composed of various federal ministers) will finally determine whether the adverse effects of the project are justified, so that the project can be carried out despite its undesirable impact. Decisions were made in the process of environmental impact assessment which included the substantial involvement of provincial and federal government agencies, indigenous people groups and a broad range of stakeholders, including thousands of representatives of local communities. KGHM Ajax Mining Ltd. will consider further steps once it has become acquainted with the reasoning in the decision issued by the Province's authorities. These steps may involve a legal remedy in the form of a court case review.

Location:	Kamloops, British Columbia, Canada
Type of mine:	Surface
Main ore type:	Copper ore
Associated metals:	Precious metals (gold and silver)
Mine life:	19 years
End product:	Copper concentrate
Forecast annual production:	53 kt of Cu, 114 kt of Au



### 1. SIERRA GORDA MINE AND PROJECT

The Sierra Gorda mine is located in the Atacama desert, in the Sierra Gorda commune in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The mine is situated at an altitude of 1,700 meters a.s.l. and 4 km from the town of Sierra Gorda. The ore extracted from the Sierra Gorda mine is processed into copper and molybdenum concentrates. In April 2015, the molybdenum installation commenced production and from 1 July 2015 the Sierra Gorda mine commenced commercial production (since then it has prepared operational statements of profit or loss). In 2017, works relating to the optimization of sulfide ore processing were conducted. The activities were designed to stabilize the ore processing volume and technological parameters, as well to stabilize the work of the processing plant and to increase the level of metal yields. Currently, the works are oriented towards the development of the mine based on the first investment phase along with actions aimed at optimizing the process line as a result of which the production capacities are to be increased. The Sierra Gorda Oxide project aims to process the oxide ore. Under consideration is the recovery of metal in an installation using SX/EW technology. The oxide ore is currently stored for later leaching. In 2017, works relating to the evaluation of alternative project development scenarios, which would enable the reduction of the required capital expenditures, were continued.

Location:	Region II , Chile
Type of mine:	Surface
Main ore type:	Copper ore
Associated metals:	Molybdenum, gold
Mine life:	25 years for the current deposit based on phase I of the project, along with the elimination of bottlenecks. Additionally, it is possible to extend exploitation, including new deposits
End product:	Copper concentrate, molybdenum concentrate
Payable production in 2017:	97.1 kt of copper concentrate, 35.7 million pounds of molybdenum concentrate – data for 100%, KGHM Polska Miedź S.A.'s share is 55%.

# CHILE



### 2. FRANKE MINE

The mine is located in a desert area of northern Chile, in the Altamira region, close to the southern border of the Antofagasta region and the public road connecting the mine with the Pan-American Highway. Mining is conducted by conventional surface methods from two orebodies: China and Franke. Due to the nature of the ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes. An advanced exploration program is implemented in the Franke mine. Technical analyses are being conducted to assess the possibility of extending the asset's life. Since fall 2017 the Franke mine is subordinate to KGHM Chile, which is directly subordinate to KGHM Polska Miedź S.A. After the restructuring, KGHM Chile moved to the new offices in Santiago de Chile shared with Sierra Gorda S.C.M. In 2017, KGHM Chile continued the process of obtaining a positive opinion of the Environmental Commission in connection with the plan to maintain operating continuity for the Franke mine. The Committee for Environmental Assessment, under the guidance of the Environmental Assessment Commission, unanimously issued a positive opinion.

Location:	Antofagasta Region, Chile
Type of mine:	Surface
Type of orebody:	IOCG (iron, copper and gold)
End product:	Copper cathodes
Payable copper production in 2017:	19.6 kt

## 3.2 KGHM Polska Miedź S.A.'s Business Strategy for 2017-2021 with an outlook until 2040

On May 2017 we approved the new Strategy for 2017-2021 with an outlook until 2040 for the Company. The Company's mission is based on the slogan "To always have copper" – and its vision is "To use our resources efficiently to become the leader in sustainable development". The strategy will be executed by following three main strategies and three supporting strategies.

### KGHM Polska Miedź S.A.'s strategy

EBITDA at a level of PLN 7 billion in 2021 and the Group's EBITDA margin above 20% in 2017-2021

#### Main strategies

##### DEVELOPMENT OF DOMESTIC AND INTERNATIONAL ASSETS

The strategy is aimed at the effective management of resource-related projects. Investments and capital expenditures in the KGHM Polska Miedź Group for 2017-2021 have been planned at the level of PLN 15 billion, of which more than PLN 9.7 billion in KGHM Polska Miedź S.A. alone.

##### PRODUCTION AND SAFETY

The strategy assumes the achievement of an average annual Cu production volume (Cu ore yield) of about 470 thousand tons in Poland and the average annual production of payable Cu abroad at the level of 145 thousand tons for the period 2017-2021. One of the main priorities is to ensure a broad scope of safety in work, environment and energy.

##### ALIGNED ORGANIZATION

The strategy's aim is to implement system-based solutions designed to increase the value of the KGHM Polska Miedź Group by devising tailor-made organizational processes, with a view to improving the efficiency and effectiveness of the supply chain.

#### Supporting strategies

##### CORPORATE SOCIAL RESPONSIBILITY

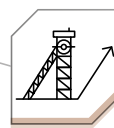
The strategy is aimed to further enhance the positive image of the KGHM Polska Miedź Group and to develop proper relations with the community (stakeholders).

##### INNOVATION

The strategy is oriented towards productivity growth in the KGHM Polska Miedź Group. This will make it possible to maintain the long-term economic effectiveness of the Company's business activity.

##### FINANCIAL STABILITY

The strategy envisages solutions aimed at ensuring financial stability, supporting development and effectiveness and increasing resilience to adverse market conditions. The strategy is designed to ensure the financial security of the Group.



## Our operating strategy

All the main and supporting strategies are interwoven and have a joint goal to achieve the priority strategic objectives. The priority strategic objectives of KGHM Polska Miedź S.A. include the following:

- EBITDA of PLN 7 billion in 2021;
- EBITDA margin of the Group on average exceeding 20% in 2017–2021;
- CAPEX of PLN 15 billion in 2017–2021 – total investments and capital expenditures in the Group in Poland and abroad;
- Stable average annual production from domestic and international assets with costs guaranteeing financial security;
- Operation in accordance with the sustainable development concept for the purpose of harmonizing the joint expectations of stakeholders in terms of the achievement of economic, social and environmental objectives;
- Financial stability with a view to carrying out the intended investment program on time and on budget;
- Focus on innovative solutions with a view to improving productivity;
- Ensuring production maturity with a view to maximizing revenues and rates of return on international investments;
- Using the potential of the KGHM Polska Miedź Group's Companies.

In a long-term perspective, we aim at maintaining a stable level of production from domestic and international assets while ensuring safe working conditions and minimizing the burden on the environment and surroundings. As opposed to previous years' trends, the economic growth paradigm has been replaced by sustainable development. Therefore, in a long-term perspective, the Company will endeavor to create a sustainable system to be understood as the preservation of natural resources and their optimal and effective use in a rational manner, so that they can be handed over to the next generations.



The activities of KGHM Polska Miedź S.A. are based on business practices worked out by it, which ensure growth in the Company's value while taking into account the community's needs. Additionally, the Company will keep identifying potential investment areas, which will enable diversification measures to be implemented as far as possible from the financial point of view.





## 3.3 Strategy execution in 2017

In 2017, we successfully implemented strategic projects relating to the exploration, the Main Process Line, the development of assets and production.

	EXPLORATION PROJECTS
	
Radwanice-Gaworzyce	<p>In February 2017, we received a concession for the extraction of copper ore from the “Radwanice-Gaworzyce” deposit in the Gaworzyce area and we signed an agreement for the establishment of mining usufruct. At the Company’s request to terminate the exploration concession for the “Radwanice-Gaworzyce” copper ore deposit in the “Dankowice” area. The Minister of Environment terminated the concession in a decision of 19 July 2017.</p>
Synklina Grodziecka and Konrad	<p>Technical and economic analyses showed that there was no business case for the investment. Because an important role in the economic assessment of the project is played by the costs associated with, among others, the drainage of the contemplated mine, a decision was made to carry out additional hydrogeological tests. We have obtained a decision extending the term of the Konrad concession for three years. The administrative procedure regarding extension of the Synklina Grodziecka concession is still under way.</p>
Retków-Ścinawa and Głogów	<p>We have obtained a decision allowing us to perform, among others, surface drill holes and underground mine workings significantly supplementing the exploration of the geological and mining conditions. The Minister of the Environment also issued a decision amending the terms of the concession for exploration and appraisal of copper ore deposits in the “Głogów” area, which will make it possible to launch the next stage of geological work.</p>
Exploration projects at the preparation stage:	
Bytom Odrzański Kulów-Luboszyce	<p>In 2017, the Supreme Court of Administration dismissed the cassation complaints regarding the “Bytom Odrzański” and “Kulowa-Luboszyce” concession decisions. Dismissal of the complaints by the Court means that in 2018 the concession applications for these areas may be once again reviewed by the Ministry of the Environment.</p>
Other concessions:	
Puck region	<p>In 2017, the geological structure was reinterpreted and economic and technical assessment for possible development of the potassium and magnesium salt deposits was launched, taking into account the mine model and processing technology. The study confirmed the viability of further geological work. In Q4 2017, the second Parszkowo IG-2 hole was drilled and preparations for drilling of the third hole Mieroszyno IG-11 were started.</p>



KEY DEVELOPMENT PROJECTS AS PART OF THE MAIN TECHNOLOGICAL LINE IN POLAND



<p>Głogów Głęboki-Przemysłowy Deposit Opening Program</p>	<p>In 2017, the GG-1 shaft was deepened (the target depth of the shaft is 1,350 m, with the diameter of 7.5 m). As at the end of the year, 1070 running meters of the shaft was drilled. As for Construction of the Central Air Conditioning System (CACS) in Shaft GG-1, contracts have been signed with the contractor for construction of a tri-generation Surface Air Conditioning Station and for construction of an Ice Water Transmission System for the CACS. In addition, in 2017, preparatory work was continued to obtain a permit for construction of facilities required to dig the GG-2 Shaft ("Odra").</p> <p>In 2017, as part of the project based on the MW technology (using explosives), the total of 46.5 running km of opening and preparatory workings were constructed (in 2016, 32.8 running km of workings were built), up by 42%.</p>
<p>Pirometallurgy Modernization Program at the Głogów Smelter</p>	<p>In 2017, as-built documentation was verified and approved, along with the documents required for obtaining occupancy permits. Completion of work was reported to competent authorities (among others, State Sanitary Inspection, State Fire Brigade, Voivodship Inspectorate of Construction Oversight, County Inspectorate of Construction Oversight). The settlements and final acceptances of the contracts and orders were at the final stage.</p>
<p>Metallurgy Development Program (PRH)</p>	<p>In 2017, construction and assembly works were continued within the key technological hubs as part of the investment tasks of the program, i.e. the construction of the Głogów II Smelter Steam Dryer and the Installation for roasting copper concentrate. Due to the failure to launch the roasting installation by the contractual deadline, i.e. Q4 2017, for technological reasons attributable to the Contractor, the installation delivery deadline currently declared by the Contractor is Q3 2018. In addition, as part of the PRH, projects associated with adaptation of the technical infrastructure to the change of the metallurgical technology in the Głogów I Smelter are continued. Execution of the basic works were completed and the works associated with rectification of the effects of the failure of the heat recovery steam generator at the Głogów I Smelter and supplementary works were continued. The works are pending completion with relevant authorities and occupancy permits are pending issuance.</p>
<p>Expansion of the Tailings Storage Facility (OUOW) "Żelazny Most"</p>	<p>Pursuant to the permit obtained in 2016 to expand the Main Facility to the ordinate of 195 m above sea level and the permit to continue operating the Tailings Storage Facility; the extension of the dams is steadily underway within the scope of the parent company's operating activity. The formal activities to continue the expansion of the "Żelazny Most" (Iron Bridge) tank are in progress to procure the ability to deposit flotation tailings in subsequent years – construction of the Southern Quarter. In 2017 KGHM Polska Miedź S.A. secured an environmental decision for the investment involving the construction of the Southern Quarter making it possible to deposit additionally waste in a quantity of 170 million m<sup>3</sup>.</p>



PRODUCTION



<p>Sierra Gorda Mine in Chile – Phase 1</p> <p>KGHM INTERNATIONAL LTD. Group 55 per-cent Sumitomo Metal Mining and Sumitomo Corporation 45%</p>	<p>In 2017, sulfide ore processing was optimized. The activities were designed to stabilize the ore processing volume and technological parameters, and focused on stabilizing the work of the processing plant and increasing the level of metal yields. We are also working on development of the mine based on the first investment phase along with actions aimed at optimizing the technological line as a result of which the production capacities are to be increased.</p>
<p>Maintenance of production using its own concentrate</p>	<p>In 2017, preparatory work was continued on launch of operation works in the new deposit areas opened as part of the Deposit Opening Program (previously Program GG-P), concessions were obtained for mining copper from the “Radwanice-Gaworzyce” deposit in the Gaworzyce mining area.</p> <ul style="list-style-type: none"> <li>• As part of execution of the Deposit Opening Program, the drilling of the ventilation shaft GG-1 (mine cage and skip compartments) was continued down to 1070 meters. Preparatory work was continued to obtain permit for construction of facilities required to dig Shaft GG-2 (“Odra”).</li> <li>• The construction of the Air Conditioning Station was started at the GG-1 shaft with the cooling capacity of 30 MW and heat recovery for social and technical purposes. Mining pits in the Rudna Mine and Polkowice-Sieroszowice Mine Mining Areas were executed, combined with development of the required technical infrastructure. Their main purpose is to open and prepare new operation fields and inclusion of the GG-1 shaft into the ventilation network, which will significantly improve the conditions for the operations on level 1200 m and below.</li> <li>• As part of opening works, below level 1200 m, a field for the G-28 section at Rudna Mine, was prepared; the section launched operations in January 2018.</li> </ul>
<p>Improvement of the efficiency of the main technological line in Poland</p>	<p>The initiatives to improve the efficiency of resource management in mining and metallurgical plants of KGHM Polska Miedź S.A. were continued, thus allowing for limiting cost increase through:</p> <ul style="list-style-type: none"> <li>• increasing the efficiency of resource utilization (3D deposit modeling),</li> <li>• increasing the extraction and production of copper concentrate,</li> <li>• optimization of mining machinery management,</li> <li>• implementation of the energy saving program,</li> <li>• headcount level optimization.</li> </ul> <p>The initiatives are executed in accordance with the adopted assumptions, except for optimization of mining machinery management, which was disrupted by reduction of expenditures for the purchase of the SMG in 2016 by as much as 40 percent and extension of the machinery useful lives. As a result, the costs of overhaul and maintenance of the mining machinery increased by approx. PLN 20 million.</p>
<p>Improving occupational safety</p>	<p>In 2017, we recorded a decrease in the total number of accidents at work from 370 to 300 injured persons. The significant drop in the accident rate concerned in particular mining plants. In 2017 the number of accidents associated with a high level of rock formation hazard which is associated with copper ore mining in the KGHM Polska Miedź S.A. mines significantly decreased.</p> <p>Compared to 2016, the number of the injured for the above reason declined by 60 percent. The implementation of the long-term “Occupational Safety and Health Improvement Program at KGHM Polska Miedź S.A. until 2020” was continued.</p>





## DEVELOPMENT OF INTERNATIONAL ASSETS



**Victoria Project**  
(Sudbury Basin, Canada) KGHM Polska  
Miedz S.A. Group 100 percent

In 2017, we continued the work related to securing the existing infrastructure and developing the optimal project implementation path.

**Sierra Gorda Oxide**  
(Chile) KGHM INTERNATIONAL LTD. Group  
100 percent Sumitomo Metal Mining and  
Sumitomo Corporation holding an option  
to take up, in total, a 45 percent interest  
in the project.

In 2017, works relating to the evaluation of alternative project development scenarios, allowing for reduction of the required capital expenditures, were continued.

**Ajax Project**  
(British Columbia, Canada) KGHM Polska  
Miedz S.A. Group 80 percent, Abacus Mining  
and Exploration Corp. 20 percent

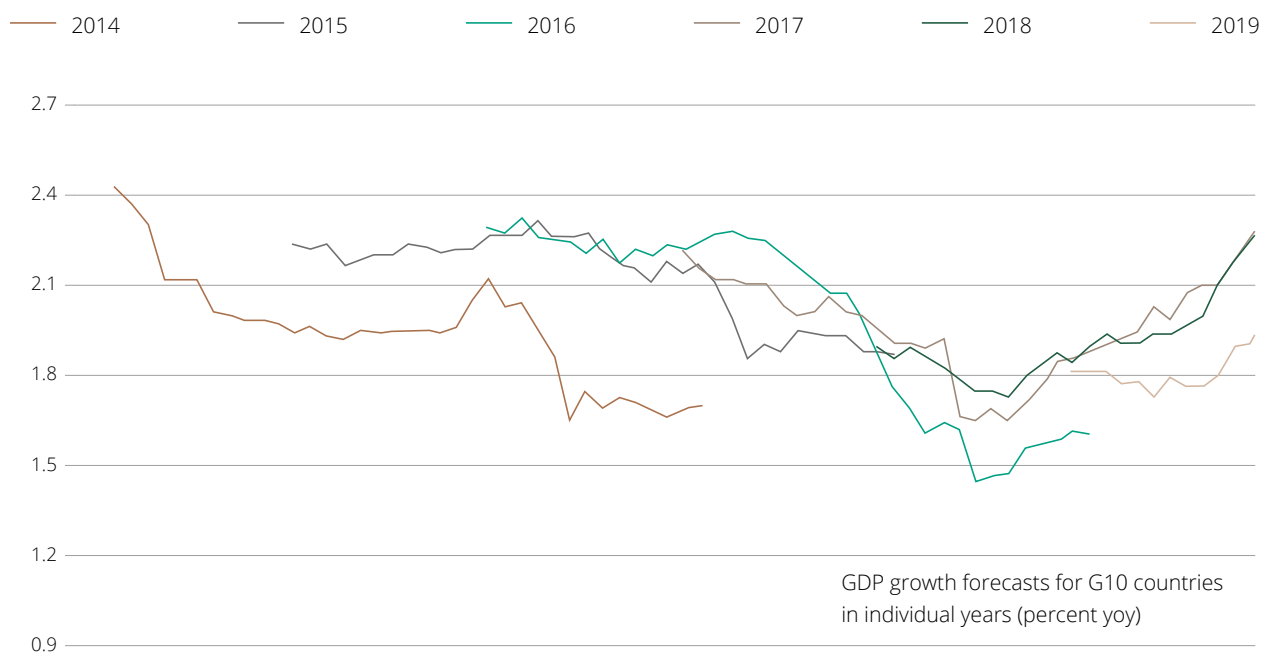
In December 2017, the Ministers of Environment and the Ministers of Energy, Mining and Petroleum Resources of the Province of British Columbia (provincial authorities) made a decision to refuse to issue the environmental assessment certificate (EA Certificate) for the Ajax project. The Federal Minister of Environment and Climate Change expressed the view that the project would have considerable adverse effects and sent it back to the Department of Fisheries and Oceans Canada and to the Natural Resources Canada. KGHM Ajax Mining Ltd. will consider further steps once it reviews the reasoning in the decision issued by the Province's authorities. These steps may involve a legal remedy in the form of judicial review.





## 3.4 Market trends and context

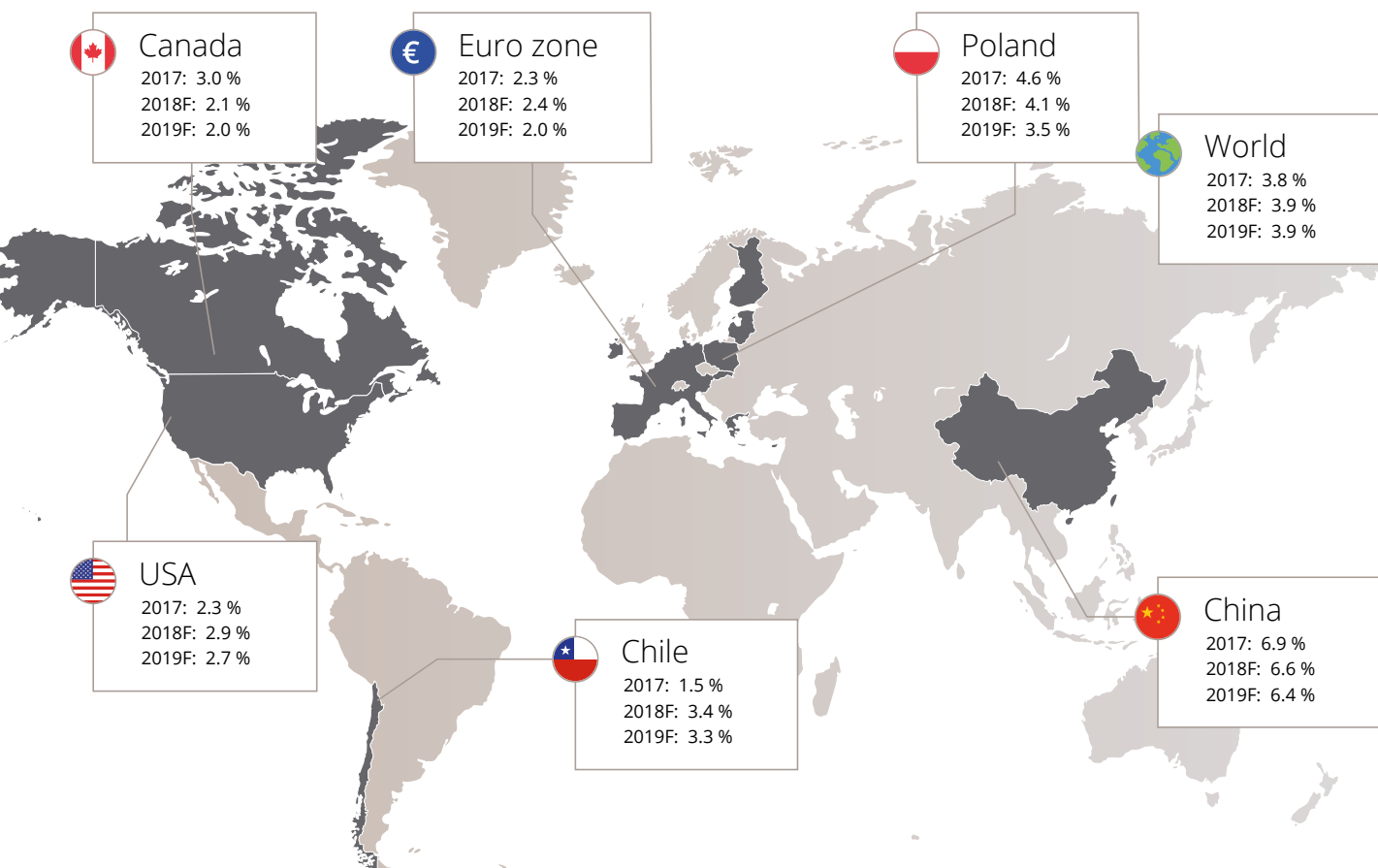
Analyses of OECD and International Monetary Fund presented in 2017 unambiguously indicated that the global economy is in a phase of accelerated, synchronized growth for the first time in many years. It should be noted that the recovery observed in the US is one of the three longest recoveries since the mid-19th century.



Source: Bloomberg, KGHM Polska Miedź S.A.

This trend is confirmed by the latest readings of global GDP growth which, according to IMF estimates, increased in 2017 by 3.8 percent (compared to 3.2 percent growth in 2016). What is important, the dynamic global growth was affected both by the economic performance of emerging and developing economies and developed countries. Approx. 120 economies responsible for three

quarters of global GDP recorded a yoy increase in 2017. IMF expects that dynamic growth of the global economy will be continued in 2018-2019, forecasting a 3.9 percent growth rate per annum.



Source: IMF, KGHM Polska Miedź S.A.

The market enthusiasm observed in 2017 is attributable undoubtedly to the final phase of the accommodative monetary policy, which continued to enable business entities to operate in the environment of negative real interest rates and expanded the balance sheets of central banks on the asset side to the record high of USD 14 trillion. In addition, the increased risk appetite among investors resulted from stabilization of the political environment, which just one year earlier brought numerous uncertainties to the markets. The investors' euphoria does not seem to be shared by analysts, who point to the low increase in work efficiency, the growth level in many cases exceeding the potential of the economies, and increasing risk of investment in individual assets. Among the concerns regarding continuation of the scenario that is positive to global economy, they also mentioned the probable inflation pressure, plans to reduce central banks' balance sheets expanded by the quantitative easing programs, and gradual increase in the interest rates by the world's main central banks.

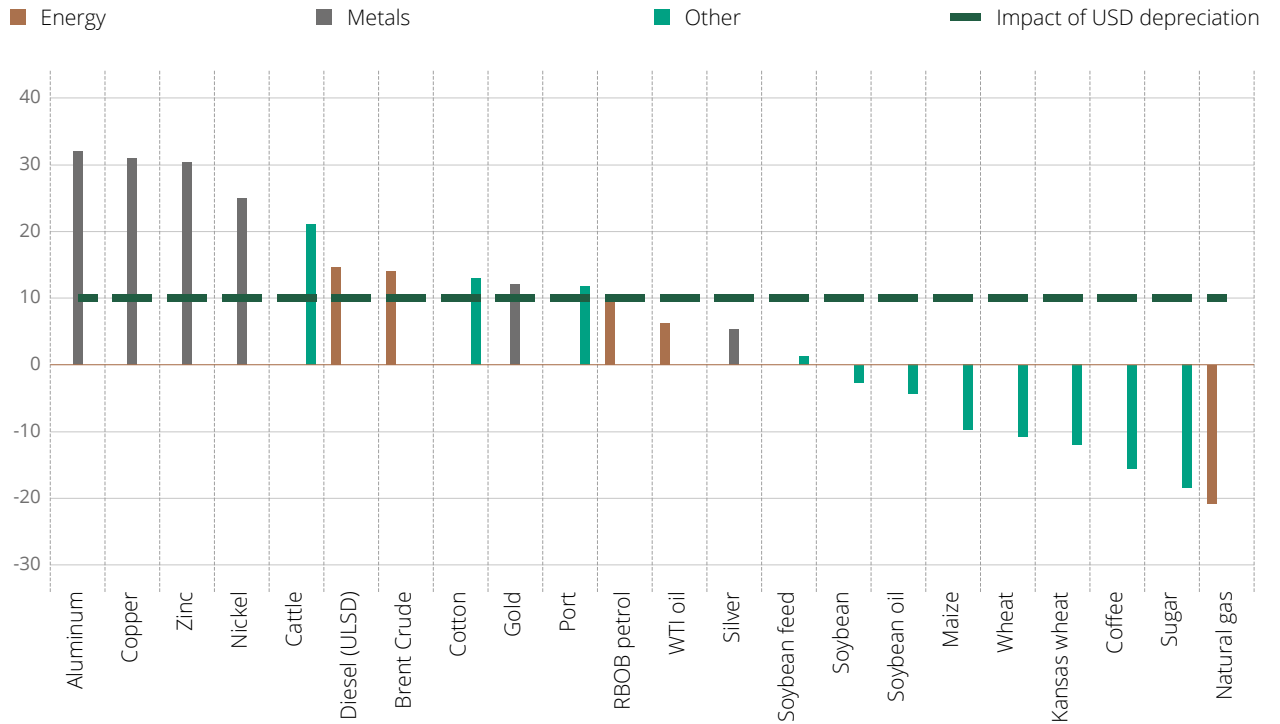
Positive growth readings in the countries of key importance for global economy influenced the consumption forecasts and improvement of the investors' sentiment towards commodity markets. After several years of commodity price drops, which have led to liquidity

problems among a number of companies, forcing them to restructure and revise or suspend their investment plans, 2016 brought a price rebound. The continuation of price increases in 2017 and the solid foundations for market optimism, strengthened the conviction of the investors and the analysts of individual markets that the increases are a sustainable change of the trend rather than a temporary correction of the price declines. The positive moods in the commodity markets were driven both by fundamental factors and by macroeconomic considerations. Insufficient funds earmarked by commodity producers for investments brought the current and future limitations on the supply side. However, the synchronous economic growth in key global economies had positive impact on the consumption of industrial commodities. The next driver of commodity price increases was the weakening of the US currency – the value of the USD against the currency basket (the dollar index) dropped by nearly 9 percent in 2017. The depreciation of the dollar occurred despite factors that usually result in its strengthening, such as: tightening of Fed's monetary policy, rising disparity of interest rates between the US and the world's key economic zones, and the announcements of pro-growth reforms of fiscal policy by the Trump administration.

## Our operating strategy

It should be noted that the synchronization of growth in the global economy and the observed weakening of the US currency had quite diversified impact on the prices of individual commodities. Annually, the general price index, Bloomberg Commodity Index (BCOM) increased

by 1 percent, mainly due to the industrial commodity price (+16 percent) and precious metal indices (+10 percent). The situation in energy commodities (-5 percent) and agricultural products (-12 percent) was different.



Source: Bloomberg, KGHM Polska Miedz S.A.



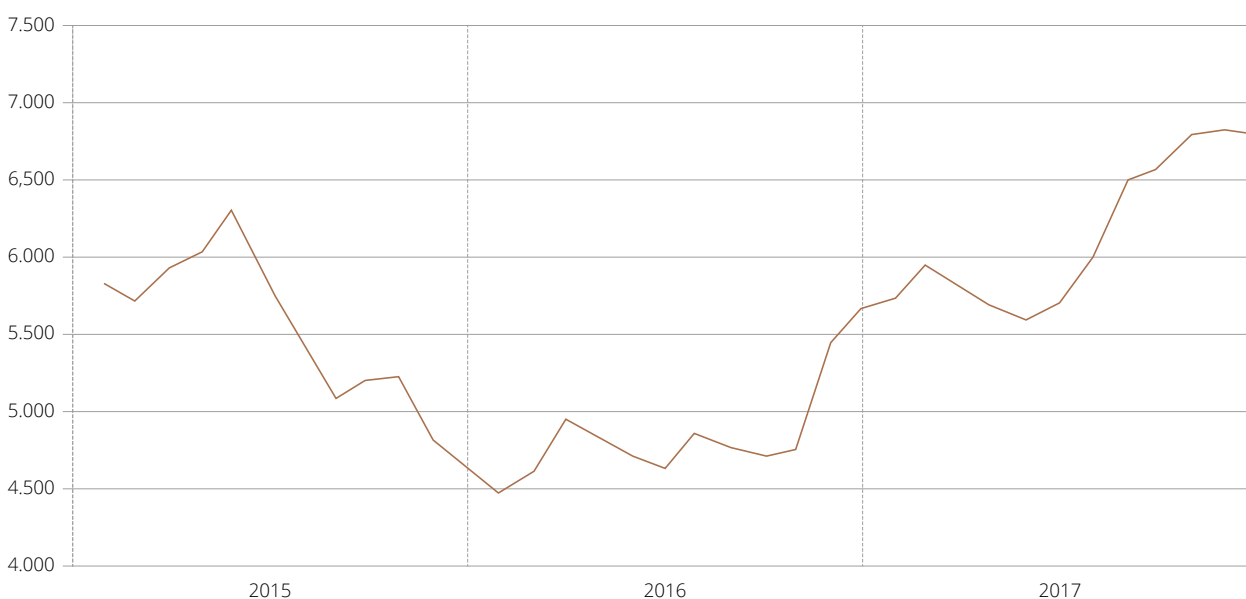
### 3.4.1 The market in 2017

The growth of global economy which usually stimulates consumption of industrial metals, stable demand growth rate in China, delays in mining projects leading to a limited supply growth rate and hopes of the market participants associated with potential demand from the electric car sector supported copper prices in 2017. A significant role in the dynamic price increases was played by the “macro” mutual funds, which base their investment decisions on macroeconomic readings. Following a weaker beginning of the year, in the next

months copper prices started to dynamically increase to stabilize in the last few weeks of 2017 in the range of 7,000 USD/t, far above last year’s levels. As a result, the copper price in USD as at end of 2017 was 30% higher than at the beginning of the year.

The average annual copper prices at the London Metal Exchange (LME) in 2017 were at 6,165 USD/t, 27% below the average price from 2016 (4,862.59 USD/t).

Copper prices at LME (USD/t)



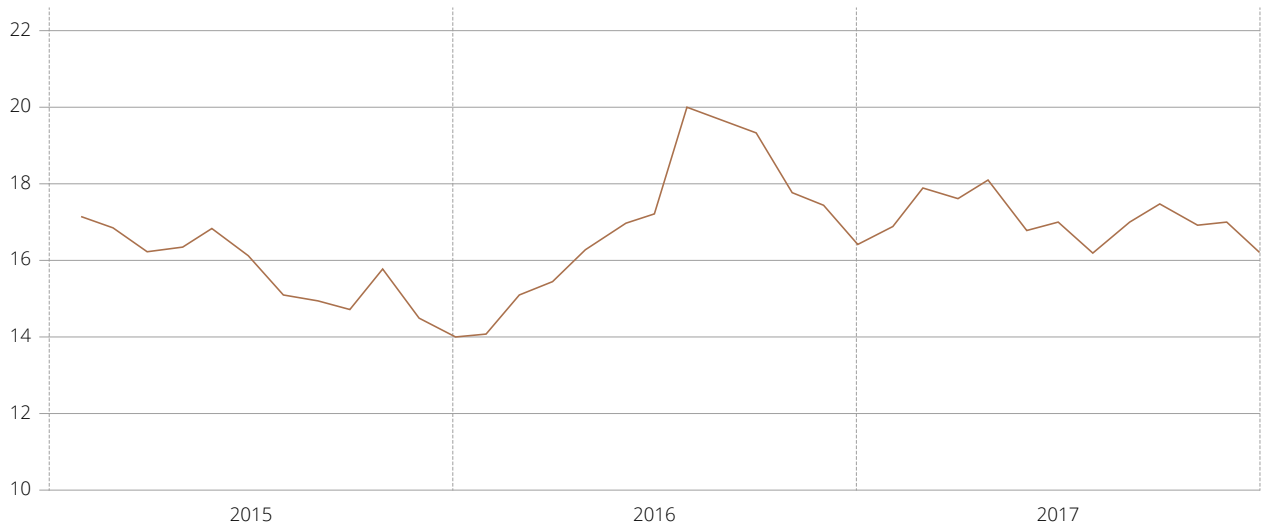
Despite continuing weakening of the US dollar, silver prices have not recorded increases. A less busy political calendar in the world translated into a higher risk appetite among investors, supporting more risky assets (cryptocurrencies, commodities, EM currencies) and decreasing the demand for thesaurization assets (including precious metals). Silver prices in 2017 were moving

sideways, reaching by the end of the year the level of USD 16.87 per ounce.

The average silver price quoted at the London Bullion Market (LBMA) recorded a slight decline in 2017 by 0.5 percent and stood at the average level of USD 17.05 per ounce compared to USD 17.14 per ounce in 2016.



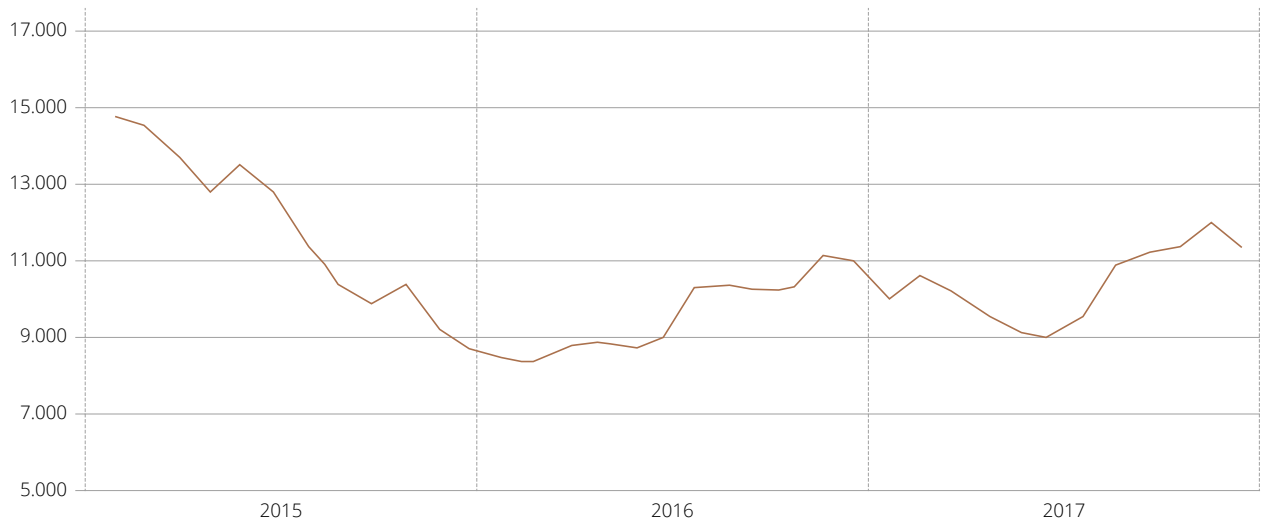
### Silver prices on LBMA (USD/troy ounce)



The average annual nickel price at the LME in 2017 was 10,411 USD/t and was 8 percent higher than the average price recorded in 2016 (9,609 USD/t) reaching at the end of the year 12,260 USD/t. Nickel prices benefited from the robust macroeconomic environment and the weakening of the American currency. In micro terms, investors

noticed the supply limitations in China (as a result of environmental reforms), increasing demand from the steel industry and future prospects of consumption associated with production of batteries. On the other hand, a more dynamic growth rate in prices was hindered by significant global inventories of this metal.

### Nickel prices on the LME (USD/t)

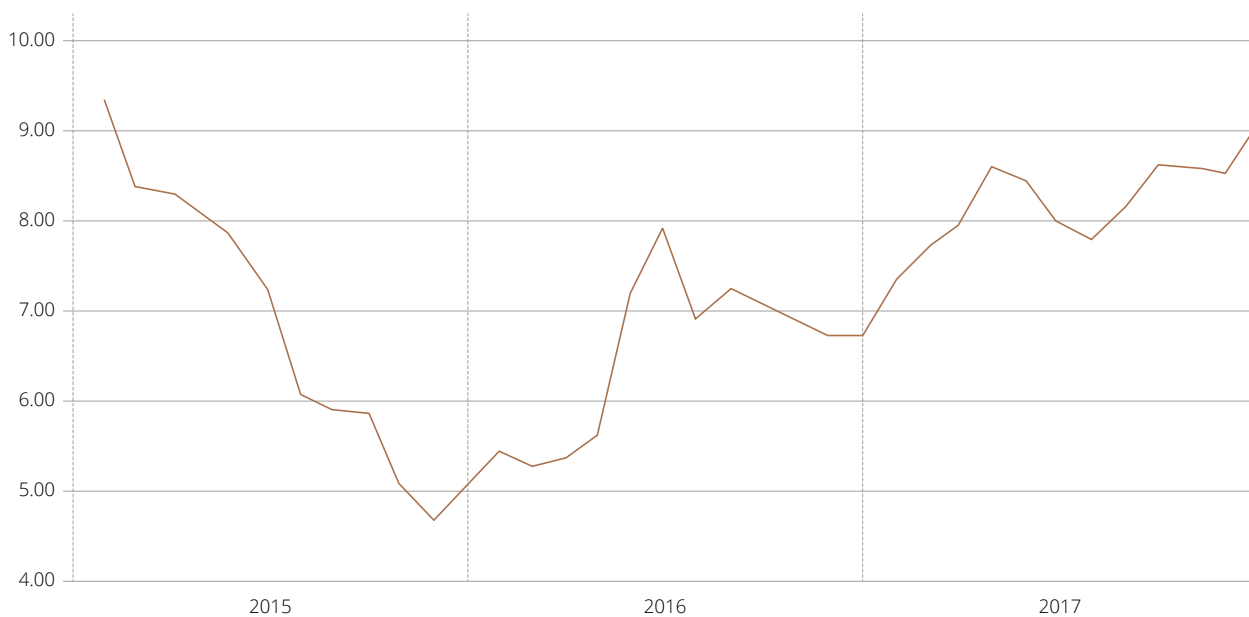


From the beginning of 2017, the molybdenum market saw systematic price increases mainly on the back of the improved fundamental situation in the market. Due to the unexpected stoppage in Chinese mills in Q2 and Q3 2017, production in China significantly dropped. However, the losses associated with the disruptions were offset by higher production in South American countries. However, a significant increase in demand for molybdenum was observed in the steel industry.

The average monthly molybdenum prices during the year ranged from 7.3 USD/lb (January 2017) to 9.0 USD/lb (December 2017).

As a consequence, the average price of the metal in 2017 was 8.2 USD/lb and less than 26% higher than the average price in 2016 (6.5 USD/lb).

## Molybdenum prices on CRU (USD/lb)

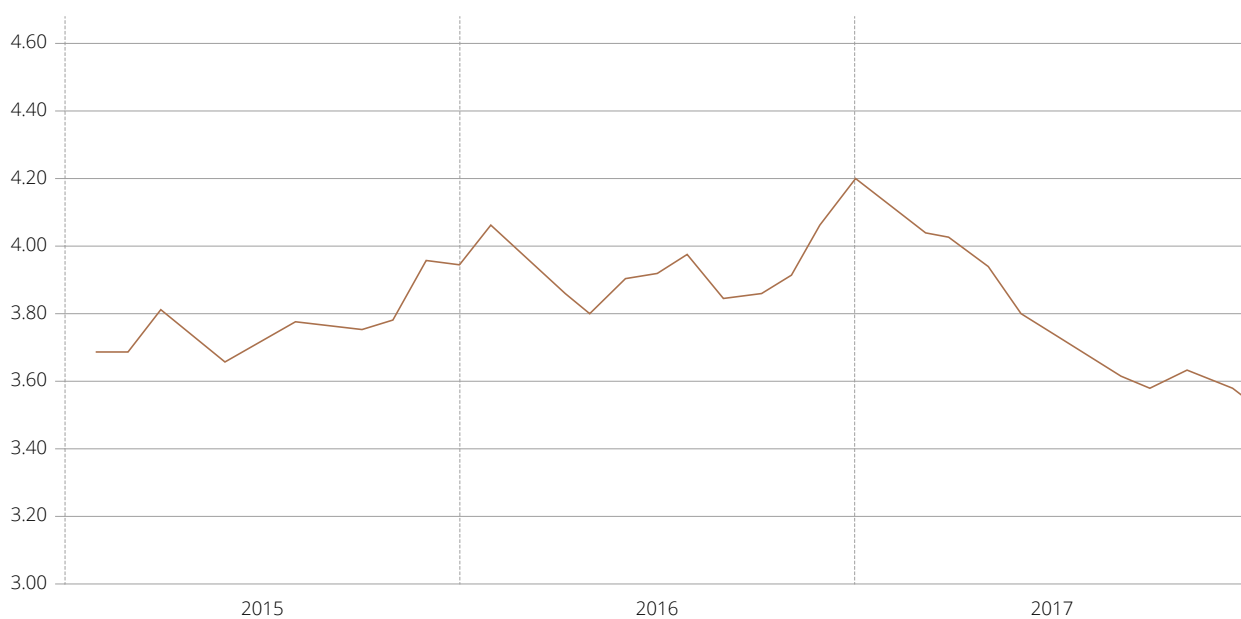


In 2017 the US dollar recorded significant weakening against other currencies – the value of the USD against the currency basket (the dollar index) dropped nearly 9%. The depreciation of the dollar occurred despite factors that usually result in its strengthening, such as tightening of the Fed's monetary policy, increasing disparity of interest rates between the US and the world's key economic zones, and the announcements of growth

the fiscal policy implemented by the Trump administration. The USD/PLN exchange rate after reaching many years' highs (approx. 4.25) by the end of December 2016, fell sharply to approx. 3.48 at the end of 2017.

The USD/PLN exchange rate (NBP) in 2017 stood on average at 3.78 USD/ PLN, down 4.2% compared to the 2016 rate (3.94).

## USD/PLN exchange rate, according to NBP



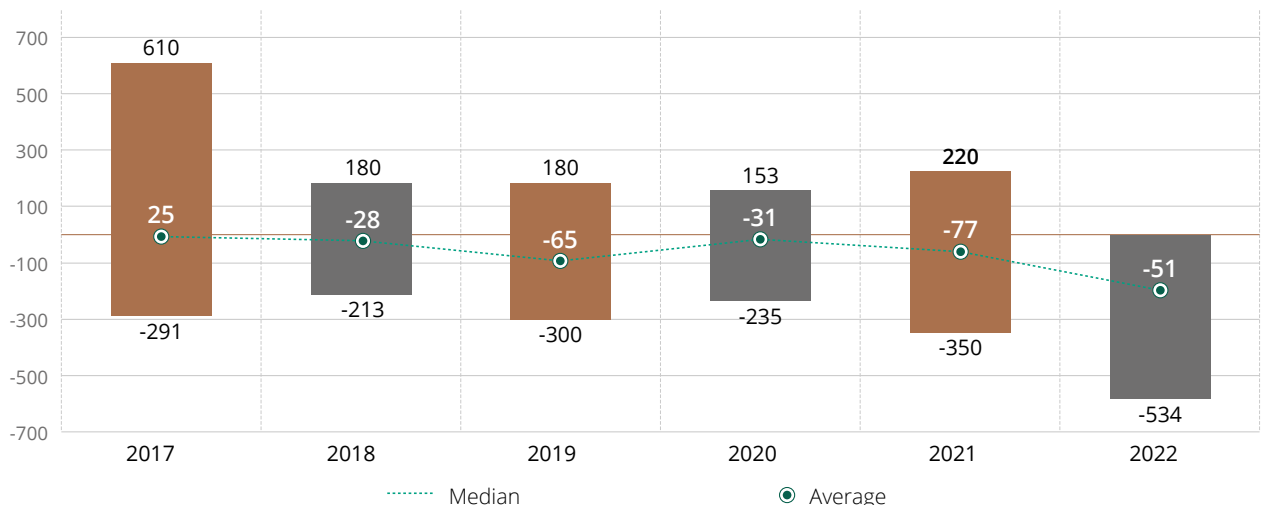
### 3.4.2 Market prospects

The analysis forecast consensus points to continuation of the economic growth in the world's key economies in the upcoming years. This should have positive impact on the commodities traditionally used in industry, such as copper, nickel or molybdenum. In addition, the positive assumptions regarding macroeconomic conditions should also stimulate enthusiasm among institutional investors towards the metal markets. Among the threats to the positive picture of the macroeconomic environment, one should list possible escalation of the trade conflict between the US and China and its expansion to other regions, resulting in limitation of international trade exchange. In addition, continuation of the growth will be threatened by systematic tightening of the monetary policy and reduction of the Fed's balance sheet in the US and the vision of similar measures on the part of other central banks in the world.

Copper prices in the global markets should remain on an upward trend, also due to the fundamentals. The demand for the red metal is as, a rule, positively correlated with the economic growth of the world's key economies. Synchronous growth of developed and developing countries should have positive impact on the consumption of copper. The main concerns in this regard are related to the evolution of the Chinese economy towards a more balanced model based on services and internal consumption. Analysts add, however, that slowdown of the pace of growth in China and lower expenditures on infrastructural investments do

not have to translate into lower consumption of industrial metals, which may find other sources of demand associated with the "green" technology. In accordance with the IDTechEx report commissioned by the International Copper Association (ICA), the increasing number of electric cars will translate into a tenfold increase in copper consumption in this sector over the next decade. The increase in the significance of electric cars in the next decade will take place thanks to the development of technology, reduction of the differences in the prices of hybrid or electric vehicles and those with traditional engines, and increased availability of charging stations. Obviously, the pace of the revolution in the electric car industry is currently hard to estimate. However, it should be noted that production of one electric car uses 2-4 times more copper than in traditional combustion engine vehicles. In addition, the green revolution in the automotive industry will entail the necessity to build the infrastructure required for charging car batteries. On the supply side, the market will face limitations resulting from lack of investments in copper production over the past five years, when the prices of most commodities reached their long-term lows. In the currently observed pricing environment, producers cautiously return to the investment path, but the scale and size of the mining projects being executed is still limited. Additionally, in the short run, analysts point to the significant threat of disruptions in the production of the existing mines due to the rich calendar of renegotiation of employee contracts in Chile in 2018.

Copper market balance forecasts (000s of tons)



### 3.4.3 KGHM Group's market position in 2017

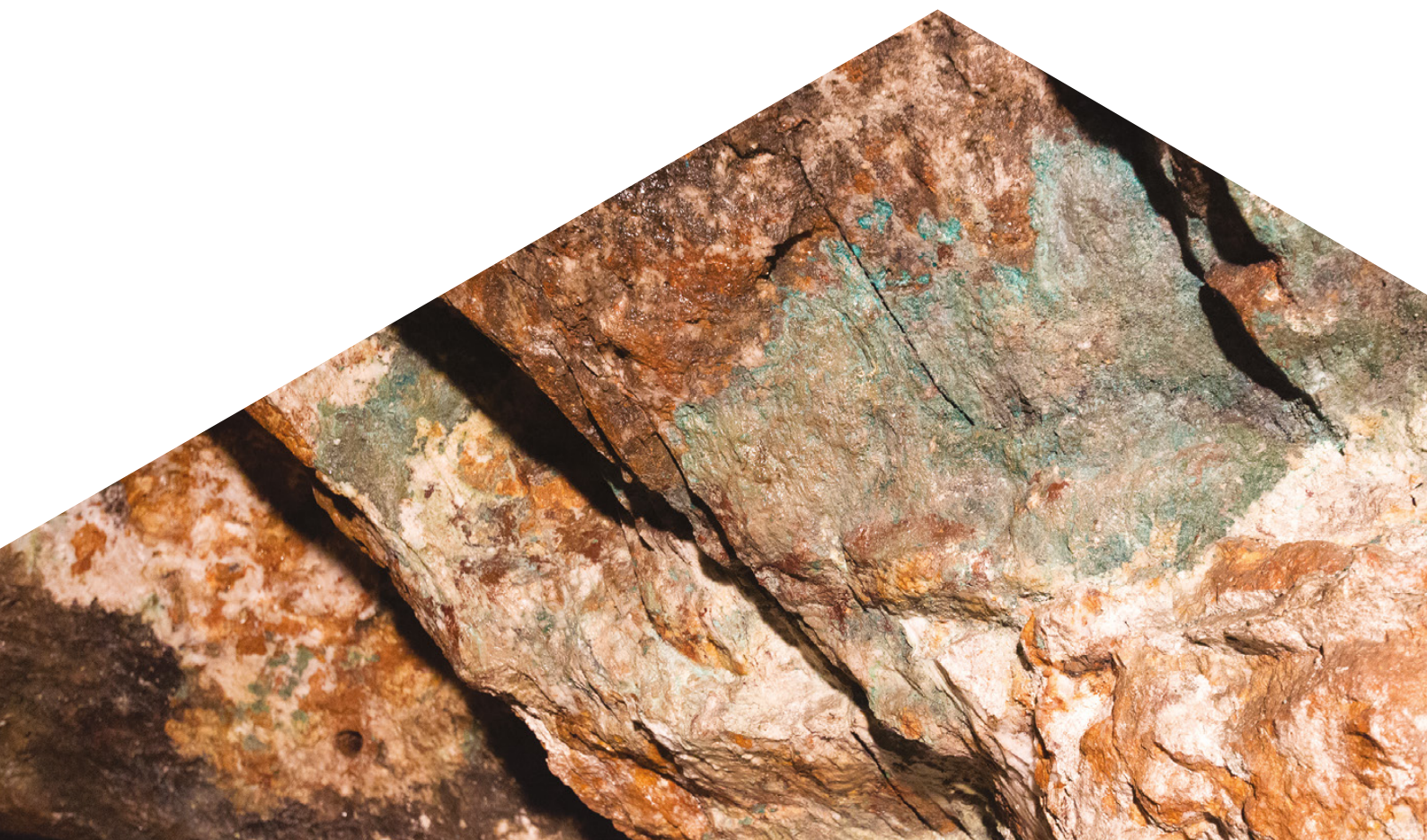
According to CRU International, global copper mining production in 2017 amounted to 20,244 thousand tons. In the same period KGHM Group Companies produced in total 553.6 thousand tons of mining copper, which

is approx. 2.7 percent of the global production. In the ranking of the biggest global mining copper producers, the KGHM Group ranked sixth in 2017.

#### Top 10 – mining copper producers

Place	Producer	Production (kmt)
1	Codelco	1840
2	Freeport-McMoRan	1436
3	Glencore	1247
4	Grupo Mexico	883
5	BHP	796
6	KGHM	553
7	First Quantum	513
8	Rio Tinto	499
9	Antofagasta	486
10	MMG Ltd	445

Source: CRU, KGHM Polska Miedź S.A.





## Our operating strategy

Global production of refined copper, according to CRU projections, amounted to 23,222 thousand tons. Production of refined copper in the KGHM Group Companies stood at approx. 544.8 thousand tons,

i.e. 2.3 percent of the global production and puts the Group outside the top ten producers. In the ranking of the biggest producers of electrolytic copper Poland ranks tenth.

## Top 10 countries – refined copper producers

Place	Producer	Production (kmt)
1	China	8577
2	Chile	2441
3	Japan	1541
4	USA	1021
5	Russia	940
6	Democratic Republic of the Congo	877
7	India	845
8	South Korea	640
9	Germany	591
10	Poland	523

Source: CRU, KGHM Polska Miedź S.A.



## Our operating strategy

In 2017, the global mining output of silver was 823 million troy ounces (estimates according to CRU International). In this period KGHM Group Companies produced in total 48.4 million troy ounces of concentrate silver, approx. 5.9 percent of the global production of this metal.

### Top 10 – silver producers

Place	Producer	Production (mt)
1	Fresnillo plc.	1687
2	KGHM Polska Miedź S.A. (Grupa)	1 244
3	Glencore plc.	1 174
4	Goldcorp Inc.	890
5	Polymetal International plc.	834
6	Cia. De Minas Buenaventura S.A.A.	822
7	Pan American Silver Corp.	777
8	Hochschild Mining plc.	595
9	Volcan Cia. Minera S.A.A.	538
10	Hindustan Zinc Ltd.	526

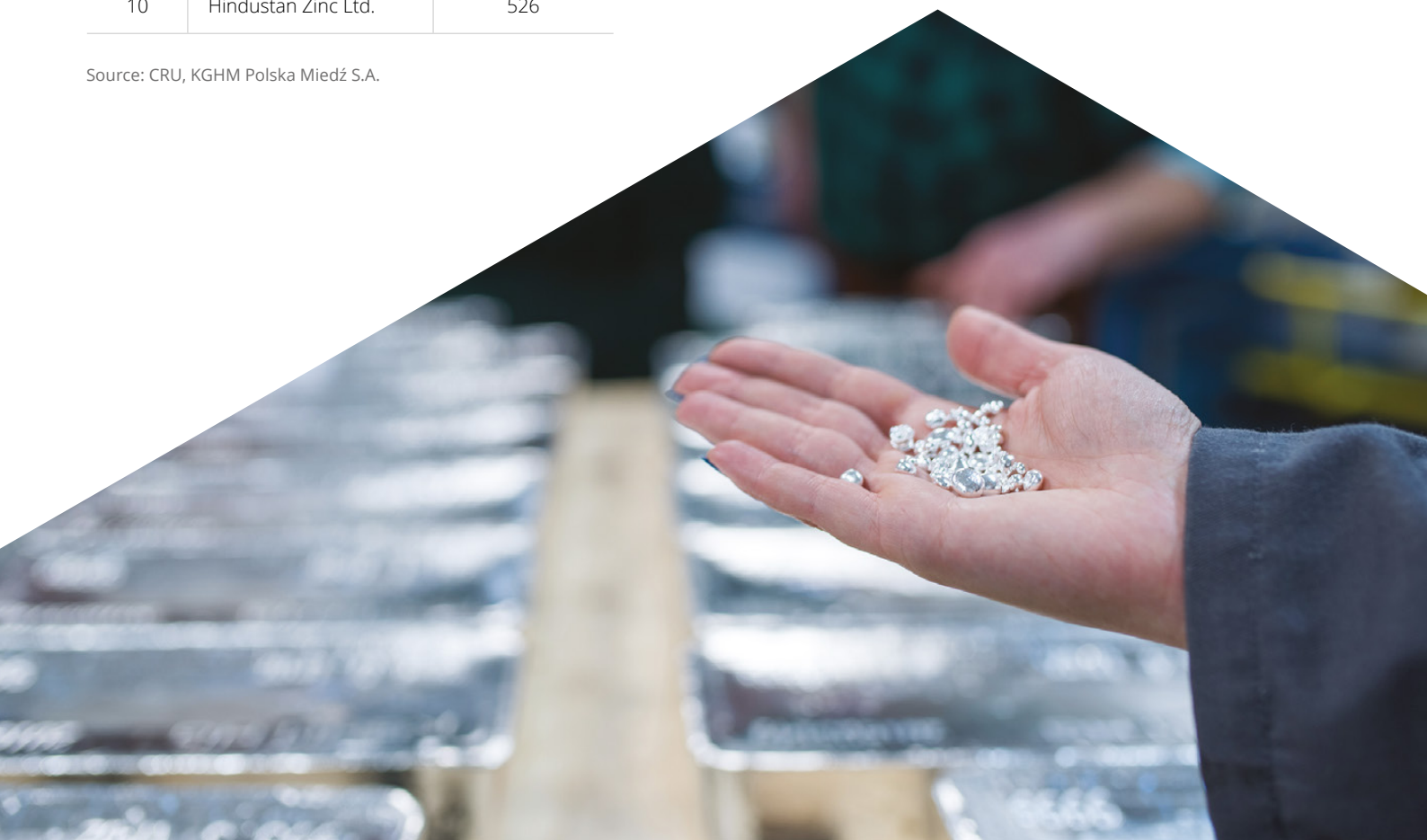
Source: CRU, KGHM Polska Miedź S.A.

According to a survey conducted annually by the World Silver Survey, in 2017, the KGHM Group ranked second globally in terms of the production of metallic silver, and Poland ranked seventh in the ranking of countries producing this precious metal.

### Top 10 – countries producing silver

Place	Producer	Production (mt)
1	Mexico	6108
2	Peru	4587
3	China	3502
4	Russia	1305
5	Chile	1260
6	Bolivia	1243
7	Poland	1227
8	Australia	1100
9	USA	1048
10	Argentina	797

Source: GFMS World Silver Survey, Thomson Reuters, KGHM Polska Miedź S.A.



## 3.5 Risks and opportunities

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**G4-14** Risk is an inherent part of the activity we conduct. According to our definition, risk is the impact of uncertainty on the execution of our business objectives resulting in opportunities and threats. The areas generating risk in the KGHM Group are constantly monitored and effectively managed. Consequently, the Group complies with the principles of due diligence in doing business.

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From the perspective of a global company, we define risk at the KGHM Group level. The execution of our strategic objectives, including corporate social responsibility, has to take risk into account and how to counteract it.



The KGHM Group defines risk as uncertainty, an integral part of business that may result in opportunities and threats alike to attaining business objectives. We assess the current and future, actual and potential impact of risk on KGHM Group's activities. Based on this assessment we verify and adapt the management practices as part of our response to individual risks.

We identify, assess and analyze on an ongoing basis the risks in different areas of the Group's operations in the context of the ability to mitigate them. The key risks in the KGHM Group are subject to an in-depth analysis aimed to work out a Risk Response Plan and Adjustment Measures.

The remaining risks are subject to constant monitoring by the Corporate, Compliance and Business Continuity Risk Management Department, and financial risks, by the Director of Finance and Risk Management.

Our comprehensive approach to risk analysis also entails identifying the risks associated with pursuing our strategic objectives. In 2017 we carried out a review of the risks associated with our strategic objectives in the Master Strategy and in the Main and Supporting Strategies.

Below is the risk management organizational structure in the Parent Company. The division of powers and responsibilities applies the best Corporate Governance practices and the generally recognized three lines of defense model.

RISK MANAGEMENT ORGANIZATIONAL STRUCTURE IN KGHM POLSKA MIEDŹ S.A.						
 Supervisory Board (Audit Committee)						
Carries out an annual assessment of the effectiveness of risk management and monitoring of the level of key risks and the methods of addressing them.						
 Management Board						
Ultimately responsible for the risk management system and supervision over its individual elements.						
1st line of defense	2nd line of defense				3rd line of defense	
<b>Management</b>  The management staff is responsible for identification, assessment and analysis of the risks and implementation, as part of their daily duties, of the right responses to risk. The management's task is to exercise ongoing supervision over application of appropriate responses to risk as part of their tasks to ensure that the risk does not exceed the expected level	<b>Risk Committee</b>  They support effective risk management and ongoing supervision over key risks.				<b>Audit</b>  The Internal Audit Plan is based on risk assessment and subordinated to the business objectives; an ongoing assessment of the level of individual risks and the effectiveness of risk management is carried out	
	Corporate and Compliance Risk Committee	Market Risk Committee	Credit Risk Committee	Financial Liquidity Committee		
	Corporate risk management and ongoing key risk monitoring	Metal price change risk management (among others: copper, silver) and exchange rates and interest rates)	Management of the risk of debtors' default	Management of the liquidity risk understood as ability to timely settle the liabilities and raise funds to finance operations		
	Corporate risk management policy	Market risk management policy	Credit risk management policy	Financial liquidity risk management policy	Internal Audit Bylaws	
	Corporate, Compliance and Business Continuity Risk Management Department	Director of Finance and Risk Management				Internal Audit Department
	Reporting to the President of the Management Board	Reporting to the Vice-President of the Management Board for Financial Matters				Reporting to the President of the Management Board

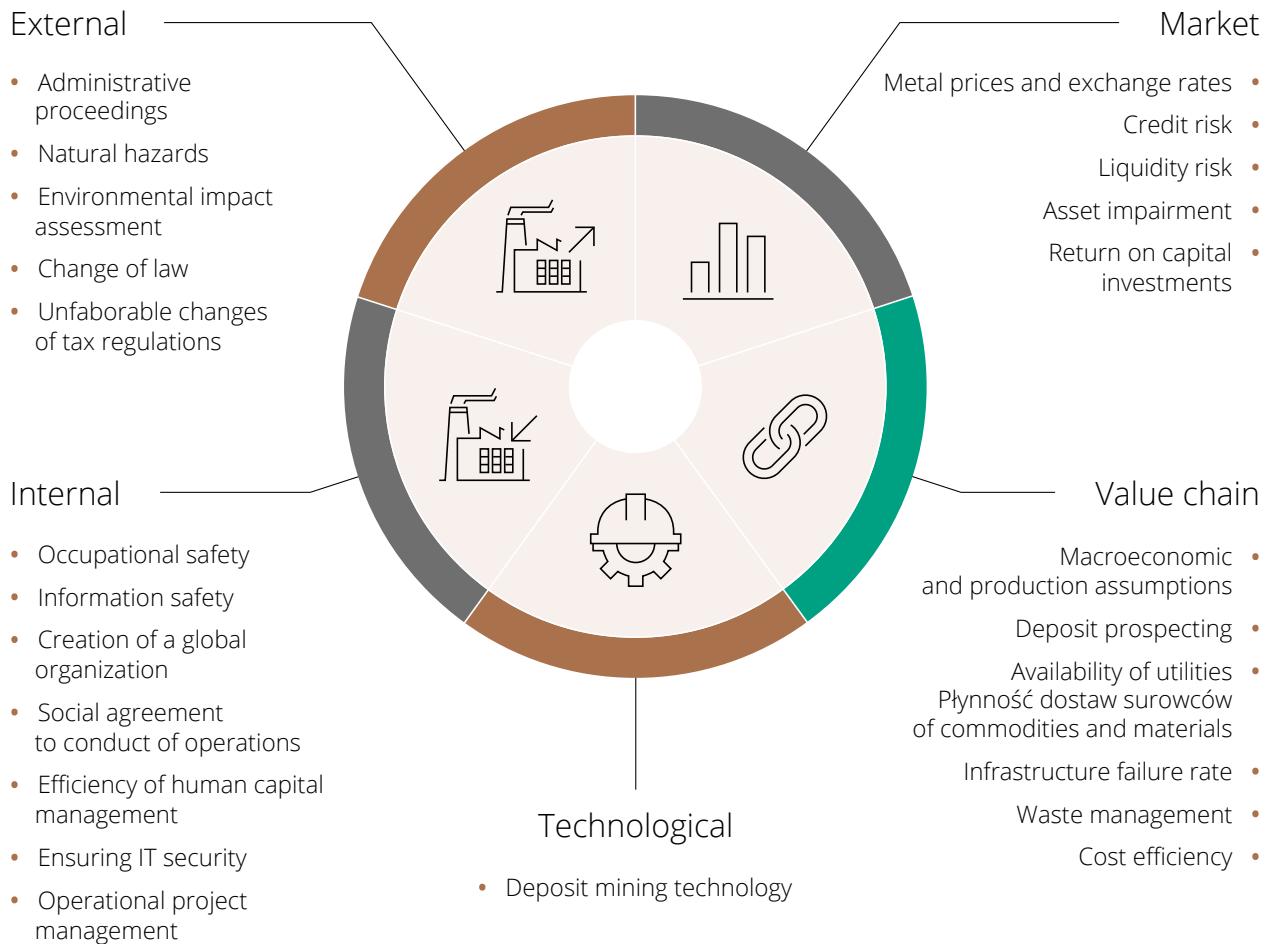


## Our operating strategy

In the risk identification process the KGHM Group uses a tool referred to as the Risk Model. Its structure is based on the risk sources and is divided into the following five categories: technological, value chain, market,

external and internal. On the basis of the identified and defined categories there are several tens of subcategories corresponding to individual areas of operations or management.

## KGHM Polska Miedź S.A.'s strategy



In addition, the KGHM Group has defined the key risks and specified the risks specific to the Parent Company and the KGHM INTERNATIONAL LTD Group. A detailed description of the risks associated with the KGHM Group's economic environment can be found in the "Management Board Report on the Activity of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017", in the chapter entitled "Risk management in the Group": [www.kghm.com/pl/inwestorzy/prezentacje/raporty-finansowe](http://www.kghm.com/pl/inwestorzy/prezentacje/raporty-finansowe).

Each time we look for methods to mitigate or leverage the risks. For key risks, we regularly prepare a Risk Response Plan and Adjustment Measures. The remaining risks are subject to constant monitoring by the Corporate Risk Management and Supervision Standards Division, and financial risks by the Director General on Finance and Risk Management.

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

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

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# **Sustainable development in KGHM**

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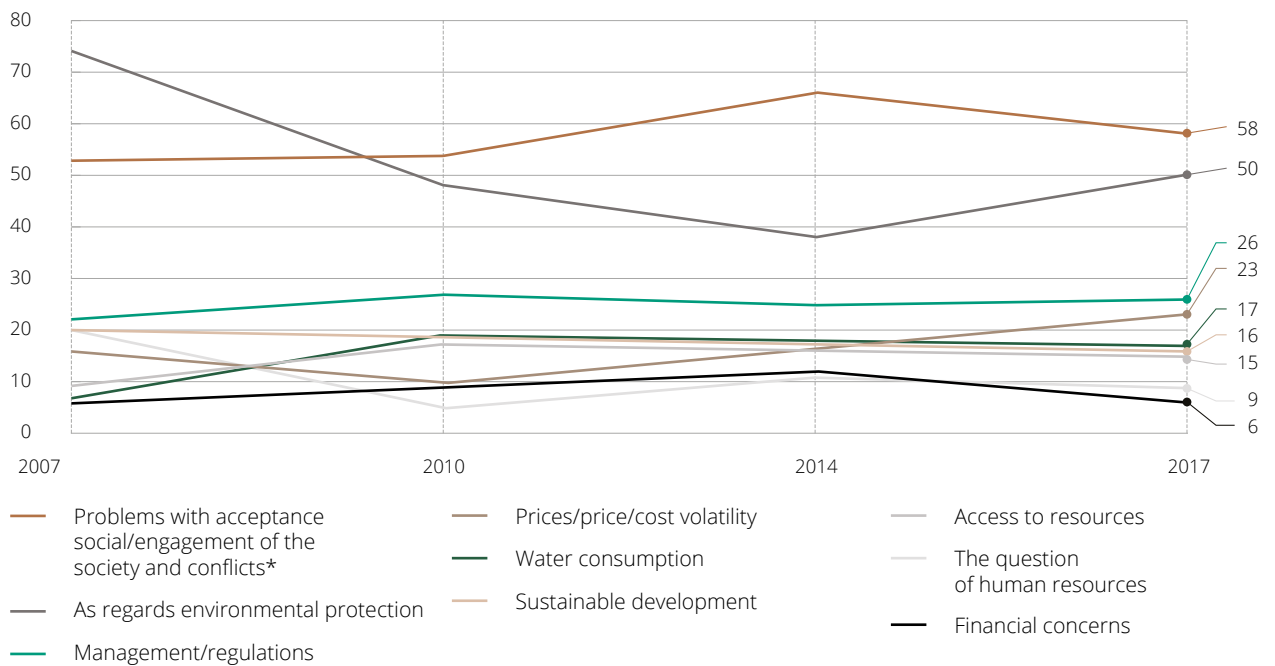
# 4.1 Sustainable development policy

The concept of sustainable development in KGHM Polska Miedź S.A. is based on a firm foundation in the form of the Company's Strategy. Our vision is to use our resources optimally and efficiently to become the leader in sustainable development. We understand the importance of this approach and the necessity of long-term planning. The key dimension of sustainable development for our company is defined in the document entitled Sustainable Development Concept and Management Model in KGHM Polska Miedź S.A. adopted by the Management Board in 2017.

The Sustainable Development Concept and Management Model in KGHM Polska Miedź S.A. has been developed by a specially appointed team of professionals composed of persons representing the areas of the organization's operations. The starting point was the "2030 Sustainable Development Agenda" adopted by the United Nations in 2015, which identifies 17 sustainable development objectives.

The report of the International Council of Mining and Metals (ICMM) on the research conducted in 2007-2017, pointing to the greatest challenges for mining companies, as seen by their shareholders, became an important element of preparation of the Model.

The Greatest Challenges for Mining Companies According to ICMM



\* For historical comparability. Data from 2014 and 2017 pertaining to "environmental issues" comprise climate changes, pollution, bio-diversity. Similarly, the mentions of a social conflict / lack of acceptance and engagement of the community are comprised in the "social acceptance issues".

Three from among UN's 17 sustainable development objectives – environment, economy and society – are perceived as typical of the mining industry. The Sustainable Development Concept and Management Model for KGHM Polska Miedź S.A. adopts also other key areas. These include safety, understood as ensuring full safety

to employees and the environment, and care for the safety of operations of the company and resource efficiency, understood as sustainable work on the deposit, making it possible to mine it in the best way, while preserving the balance in the natural environment.

## Sustainable development



**01**  
END  
POVERTY



**07**  
CLEAN  
AND AVAILABLE  
ENERGY



**13**  
ACTIVITIES  
FOR THE  
CLIMATE



**02**  
NO  
HUNGER



**08**  
ECONOMIC  
GROWTH AND  
DECENT WORK



**14**  
LIFE  
UNDER  
WATER



**03**  
GOOD HEALTH AND  
QUALITY OF LIFE



**09**  
INNOVATION,  
INDUSTRY,  
INFRASTRUCTURE



**15**  
LIFE ON THE LAND



**04**  
GOOD QUALITY  
OF EDUCATION



**10**  
LESS  
INEQUALITY



**16**  
PEACE, JUSTICE  
AND STRONG  
INSTITUTIONS



**05**  
GENDER EQUALITY



**11**  
SUSTAINABLE CITIES  
AND TOWNS AND  
COMMUNITIES



**17**  
GOAL-ORIENTED  
PARTNERSHIPS



**06**  
CLEAN WATER AND  
GOOD SANITARY  
CONDITIONS

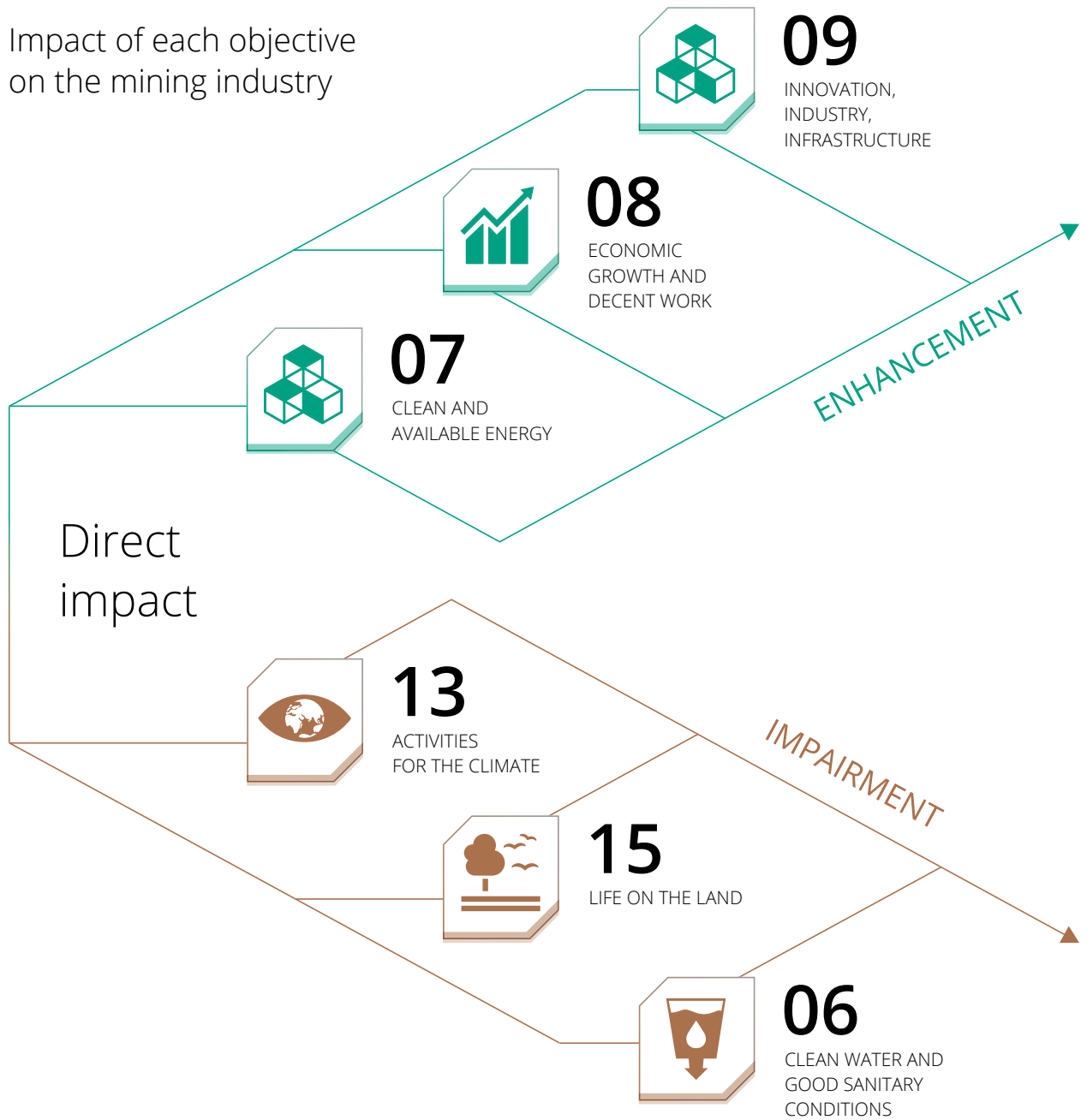


**12**  
RESPONSIBLE CON-  
SUMPTION AND  
MANUFACTURING





## Impact of each objective on the mining industry



# Sustainable development in mining



## Society and economic impact

With pride, we may emphasize that in the regions in which we operate consistently, we reduce social inequalities. The Legnica and Głogów Copper District is a special social and economic driver for the neighboring areas. We improve the quality of healthcare services, we provide attractive jobs and motivate people to take advantage of education. We create sustainable cities, towns and communities.

We understand how important our organization is in the economic growth of the region of our operation. Owing to KGHM Polska Miedź S.A., the Copper Basin, where an industrial center was started to be built nearly 60 years ago, is now the wealthiest part of Lower Silesia. In the period, the population in many places there increased even tenfold. We cooperate with various types of suppliers, business partners, intermediaries, wholesalers.

They include suppliers of raw materials, sub-assemblies, manufacturers of end products, distributors. Our activity also allows our suppliers for stable development.

We are the largest employer in Lower Silesia. We provide direct jobs to over 33 thousand people, and further thousands may develop their businesses by cooperating with KGHM companies. According to estimates, for one mining job, there are further five jobs connected with it. We contribute substantially to reduction of poverty, elimination of hunger and economic development of the areas in the neighborhood of which we operate.

The Jerzmanowa and Polkowice municipalities, where we conduct mining activity are ranked among the wealthiest municipalities in Poland.

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

No.	Municipality Code	Municipality	G Indicator for 2018
1	10 01 04 2	Kleszczów	31,962.75
2	10 09 05 2	Rząśnia	8,634.17
3	02 23 05 2	Kobierzyce	5,808.52
4	20 10 05 2	Mielnik	5,793.09

No.	Municipality Code	Municipality	G Indicator for 2018
<b>5</b>	<b>0 0 0 2</b>	<b>Jerzmanowa</b>	<b>5753.53</b>
6	32 05 07 2	Rewal	5,741.33
<b>7</b>	<b>0 1 0 3</b>	<b>Polkowice</b>	<b>5,593.17</b>
8	14 21 05 2	Nadarzyn	5,508.24
9	30 21 15 2	Suchy Las	5,433.47
10	30 21 17 2	Tarnowo Podgórze	5,020.31

Source: Samorząd.pap.pl

### Health

We take care of the health and quality of life of not only our employees and their families, but also all the region's inhabitants. One example of our operation may be the activity of Miedziowe Centrum Zdrowia ("Copper Health Care Center") and implemented health promotion programs and grants awarded to health care providers.

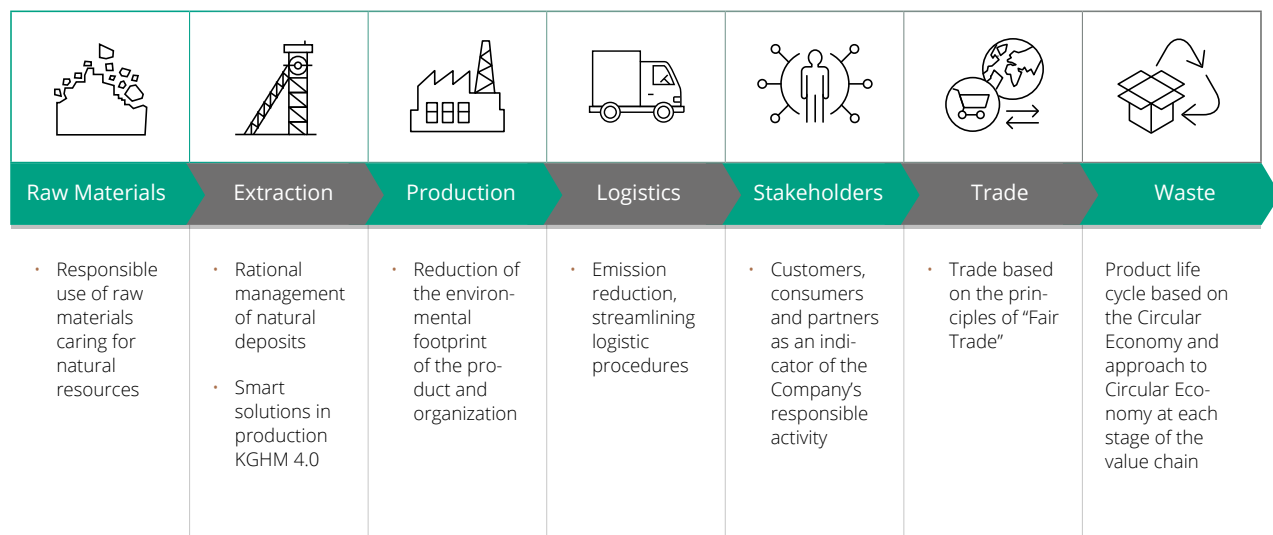
### Education

Attractive salaries and wages, proceeds to the local budgets provided by KGHM Polska Miedź S.A. as well as grants and sponsorship contribute directly to the level of wealth of the region in which we operate. Due to this, many of the inhabitants can afford to attend school, including paying for further education. We also cooperate with many universities and scholars. We encourage our employees to pursue continuous development, offering many attractive paths of competence improvement.

### Responsible consumption and production

We are improving our technological process to make it as optimal, safe and sustainable as possible. We eliminate waste and manage resources rationally, striving to eliminate waste as much as possible. In our production, we apply the Lean Management concept, which allows for using many methods and tools for better resource utilization. Our company is characterized by a unique – and virtually unknown in the resource industry – and highly integrated technological chain. From exploration, prospecting and extraction of raw materials, through mining, production and transport, and finally delivery of products to our customers and stakeholders, we carry out all these tasks ourselves. Managing such complex processes with extremely different characteristics calls for an integrated and sustainable approach.

## G4-12 KGHM Polska Miedź S.A.'s sustainable value chain



## Safety and resource effectiveness

We understand sustainable development as safe development. A natural priority for a mining company is physical safety of its employees – this issue is given the highest priority in our operations. In everyday operations, we attach tremendous importance also to the safety of the environment, energy and resources. Raw materials security is connected with resource efficiency. Considering the industry in which we operate and the integrated technological process, the efficient and rational management of our resources is of key importance to us. We are aware that continual improvement and searching for ways of better resource management at each stage of production may translate into a number of benefits. Even the smallest innovation may lead to greater efficiency or new savings. The concept and program of the Circular Economy are really close to us – we understand how important it is in the world today to move away from a linear concept of the economy conceived as closing the circulation of materials used.

## Partnership

We wish to join forces and intensify the cooperation with institutions who equally cherish the idea of sustainable development. In 2017, at the “Partnership for Sustainable Development” conference organized by the Ministry of Development, representatives of the company signed Partnership Charters for the Implementation of Sustainable Development Objectives. By this token, KGHM Polska Miedź S.A. joined a group of about 40 signatories, i.e. organizations and enterprises which have declared their wish to follow the path of sustainable development.

We are involved in sustainable development also abroad by participating in international organizations. We are participating actively in, among others, the works of the European Innovation Partnership on Raw Materials. In 2017, KGHM also received a mandate on the EIP's High Level Steering Group, which gives us an opportunity to participate actively in the creation of the EU's raw materials strategy and policy. These actions are related, inter alia, to participation in the European Union's Horizon 2020 Framework Program and initiatives and meetings of working groups involved in the active creation of raw materials policy in Europe.

Furthermore, as of 2017 KGHM has its own representative on the European Technology Platform on Sustainable Mineral Resources (ETP on SMR). The implementation of the Platform's objectives will contribute to the medium- and long-term security of stable procurement of raw materials (including key raw materials,

industrial mineral materials and wooden materials) which are indispensable for the fulfillment of the basic needs of any modern society. The Platform also has an advisory role in the creation of the European Innovation Partnership's (EIP's) raw materials policy.

## Sustainable Development Council

We continue our activities relating to sustainable development and we would like to intensify them, so as to achieve our vision and become a leader in sustainable development, not just in Poland. The body supporting these efforts is the Sustainable Development Council established in the beginning of 2018. The key reason for its establishment was the business development vision of operating according to accepted standards and canons shaping the future functioning of raw material companies across the world, as well as the need for the company's internal information integrity and coherence.

The Council's primary goal is to ensure transparent communications and creation of an open forum for knowledge sharing and promotion of activities reflecting the idea of sustainable development. The Council's activities will complement the vision incorporated in the business strategy of KGHM Polska Miedź S.A. and the results of its work will support the strategic directions of the Company's development. Furthermore, the Council serves as a kind of sustainable development incubator, aggregating as well as promoting raw material industry standards accepted in Poland and across the world.

The Council's tasks also include validating and justifying the presentation of specific sustainable development measures in the company's reports. The measures have been developed by a team preparing the Concept and Model of Sustainable Development Management at KGHM Polska Miedź S.A. based on, among others, multi-dimensional comparative analyses of the largest global companies from the industry. Owing to the measures, we are able to report in a clear and transparent manner, the company's current and future position for each sustainable development objective adopted by the company, i.e. resource efficiency, the environment, safety and the economy.



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

	2016	2017
<b>Environment</b>		
SO <sub>2</sub> /Mg Cuel emission ratio at the level of 0.008	0.006	0.002
Dust/Mg Cuel emission ratio at the level of 0.001	0.001	0.001
CO/Mg Cuel emission ratio at the level of 3.0	3.7	2.6
<b>Society</b>		
Maintaining membership in the RESPECT Index	YES*	YES <sup>1</sup>
0% investment activity without a social dialogue policy	no data	YES <sup>2</sup>
Conclusion and maintaining of long-term contracts; achievement of the proper sales structure ensuring long-term relations with customers	no data	YES <sup>3</sup>
Sponsorship and charitable activities in building corporate social responsibility [sponsorship expenses for the purposes of the Company's promotion]	PLN 26.6 million	PLN 25.8 million
<b>Resource efficiency</b>		
Maintaining the term of resource self-sufficiency until 2055 or later	no data	Info <sup>4</sup>
Winnings extraction (the above) per mine employee [ton]	2.712	2.641
Production of electrolytic Cu per Company / smelter employee [ton]	29/152	29/148
Maintaining Cu yields (goal in 2017: no less than in 2016) [%]	98.18	98.23
<b>Safety</b>		
LTIRF <sub>KGHM</sub> (Lost Time Injury Frequency Rate KGHM)	12.65	10.4

\* Investment activities understood as projects to which the company has no legal title (e.g. construction permits).

1. Since 2009, 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" principle regulating such activities. Ultimately, they will be formally spelled out in the Social Dialogue Policy. In this context, investment activities mean projects to which the Company has no legal title, such as a construction permit, etc.

3. In order to foster good, long-term relations with customers and achieve the status of preferred supplier in 2017, over 80 percent of copper sales and over 70 percent of silver sales took place in the framework of long-term contracts (i.e. longer than 6 months); Sales were geographically diversified, relative to the location of demand for Cu and Ag produced by KGHM (Company's Cu and Ag sales revenue split in 2017):

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

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**Employees  
are our priority**

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# 5.1 Headcount

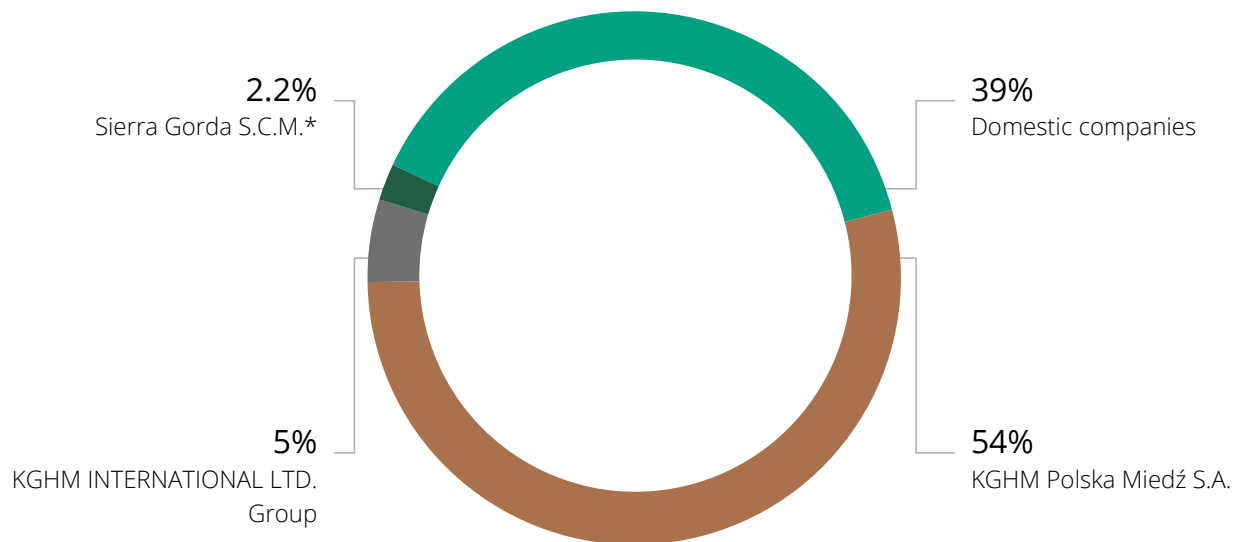
In 2017, 33,935 people were employed in the Group, down 0.4 percent compared to last year.

## Group's average headcount

	2017	2016	Change (%)
KGHM Polska Miedź S.A.	18,198	18,176	+0.1
KGHM INTERNATIONAL LTD.	1,695	1,795	(5.6)
Sierra Gorda S.C.M.*	748	694	+7.8
Group's domestic companies	13,294	13,388	(0.7)
<b>Total</b>	<b>33,935</b>	<b>34,053</b>	<b>(0.3)</b>

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

## Headcount structure in the Group in 2017



\*Sierra Gorda S.C.M. – headcount in proportion to the shares in the company (55 percent).

The average headcount in our domestic companies fell 94 FTEs compared to 2016. What contributed to this decrease was, among others, the sale of WFP HEFRA, and, as a result, its exit from the Group and voluntary departures of employees from KGHM ZANAM. At KGHM

Polska Miedź S.A., the headcount at the end of 2017 was 18,356 persons and was 0.5% higher compared to the end of the previous year. The changes occurred as a result of natural personnel movements.



Employees are our priority

## Average headcount in KGHM Polska Miedź S.A.

	2017	2016	Change (%)
Mines	12,413	12,397	+0.1
Metallurgical plants	3,529	3,530	(0.0)
Other branches	2,256	2,249	+0.3
<b>KGHM Polska Miedź S.A.</b>	<b>18,198</b>	<b>18,176</b>	<b>+0.1</b>

At KGHM INTERNATIONAL LTD., the average headcount fell compared to 2016 in connection with efforts to reduce costs and adjust the headcount size and structure to the scope and work schedule on projects. The

headcount increase at Sierra Gorda S.C.M. in 2017 was driven by, among others, internalization of some external services and employing people to fill vacancies.





## 5.2 Employee safety

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**G4-LA5, G4-LA8** Employee safety is given the highest priority in the activity of the KGHM Group companies. Safety is one of our fundamental values and a key area of the company's sustainable development policy. We strive to minimize any and all threats to our employees, local communities and the environment (Zero Harm Policy). We believe that the facilities with the highest level of safety are the best ones.

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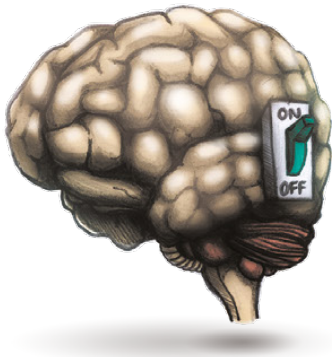
We approach the problems of safety in a comprehensive manner. In the entire KGHM Group, a System of Occupational Health and Safety Management is in force in accordance with 18001/OHSAS. We have identified threats occurring on working positions in our plants and assessed the associated occupational risks. We can state with full responsibility that each position at the KGHM Group has been properly prepared with respect to occupational safety. Employees undergo systematic training and continually improve their qualifications relating to safety. In line with our values, we all feel co-responsible for health and safety – our own and that of our colleagues.

We conduct ongoing monitoring of the work environment and we perform regular reviews of equipment and assessment of possible risks. We take care that equipment used at our company undergoes the required technical inspections and has required type approvals.

We do not tolerate illegal or risk-generating behavior. We encourage reporting any situation which might potentially affect employees' health and safety. The condition of occupational health and safety in KGHM Polska Miedź S.A. is continuously monitored and assessed, and the findings are used on an on-going basis. In order to eliminate or mitigate the risks we use the best available technologies and we develop new solutions. We impose strict safety standards on ourselves and our suppliers and subcontractors alike. Furthermore, in particular branches of our company, Occupational Safety and Health employees perform regular internal audits. In 2017, 7 such audits were performed.

In all of our plants, we promote Golden OSH Principles, which are regularly updated in view of new threats that appear. For employees, we organize, apart from other events, a content of knowledge of the Golden OSH Principles. So far 341 employees have taken part.

# Safety rules in the KGHM Group



I THINK BEFORE I DO  
SOMETHING



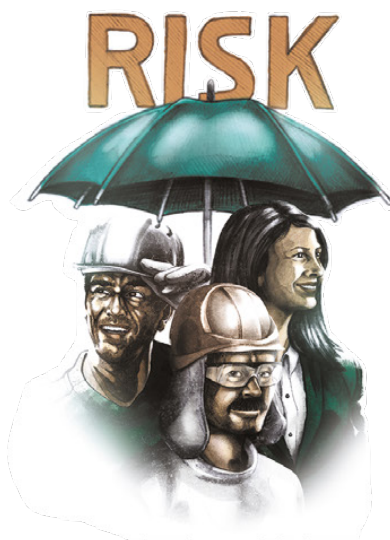
I USE TOOLS, MACHINES AND  
EQUIPMENT THAT ARE IN  
GOOD WORKING ORDER



I REMEMBER ABOUT MY  
FAMILY AND FRIENDS



I COME TO WORK RESTED  
AND SOBER AND NOT  
UNDER THE INFLUENCE  
OF MIND-ALTERING  
SUBSTANCES



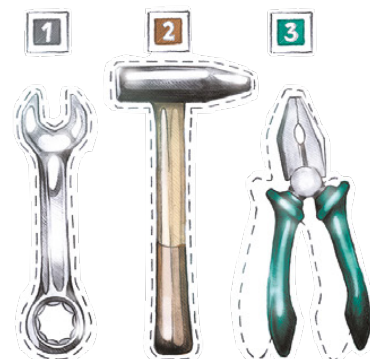
I KNOW OCCUPATIONAL  
THREATS AND RISK



I TAKE THE APPROPRIATE  
SAFETY MEASURES



I REACT WHEN I SEE  
DANGEROUS BEHAVIORS OR  
SITUATIONS



I MAINTAIN MY WORK  
POSITION CLEAN AND IN  
GOOD ORDER

## Employees are our priority

In 2017, we continued works on the implementation of a long-term Program for Improving Occupational Safety and Health at KGHM Polska Miedź S.A., adding to it new initiatives. The program is an element of our updated Strategy of KGHM Polska Miedź S.A. for 2017-2021 with the outlook until 2040. We want to continue the efforts made to perform the long-term vision "Zero accidents

for personal and technical reasons, zero occupational diseases among our employees and counterparties." As part of the program, in 2017, one of our companies – KGHM Cuprum CB-R was performed a "Survey of the key elements of occupational safety culture with preparation of proposed corrective action."

## Key areas of the "Occupational Safety Improvement Program at KGHM Polska Miedź S.A. until 2020"



### BEST PRACTICE

We want to communicate about safety in the most effective way. For KGHM employees, we have launched an OSH intranet Vortal that contains almost 100 articles, infographics and information materials about safety at work. On the website, there are also 36 pictures depicting the "Safety Passport – five minutes for safety" taken at the Polkowice-Sieroszowice Mine.

### G4-LA2 Selected safety-related actions in KGHM Polska Miedź S.A. in 2017:

- With Miedziowe Centrum Zdrowia, we have extended the scope of psychological aid provided to persons involved in accidents at work or potential accidents on the company's premises. At present, we also offer psychological aid to KGHM employees and their families in crisis situations.
- In December, a uniform program for mines "Healthy employee in a difficult work environment" was inaugurated for the profile (health, fitness, overweight, obesity).
- Actions taken to make the employees aware of the hazards which might occur in their work environment include also video reconstructions of selected accidents and dangerous events in the Branches of KGHM Polska Miedź S.A. Four reconstructions, one instruction video and other teaching materials have been prepared to date.
- An assessment was made of the current level of occupational stress at the Head Office of KGHM Polska Miedź S.A. and a preliminary proposal of prevention activities has been presented. The work is performed by KGHM Cuprum CB – R. The assessment process will end in 2018 with a summary of research and workshops which will cover, among others, the issues related to coping with stress.

We perform advanced research and development works on elements that may have beneficial effects on safety improvement. The most important projects performed in 2017 include:

- automatic device for breaking URB/ZS-3 type blocks in underground excavations of copper ore mines,
- self-driving anchoring car KOT-170A with automatic anchoring head,
- innovative system of wireless communication in pillar-chamber excavations in underground mining plants,
- development and implementation of an innovative, comprehensive system to support training of the operators of self-driving mining machines (SMG) for efficient and safe work in underground excavations of copper ore mines,
- development of the wireless communication system in underground excavations with particular focus on communication and data transmission in the area of the operating front in the pillar-chamber system.

We may observe, with satisfaction, that consistent activities aiming to ensure safety do bring results. In 2017, we noted a decrease in the total number of accidents at work year on year, from 370 to 300 injured persons. The significant drop in the accident rate concerned in particular mining plants. The number of accidents at work in our mines reached the level of 235 injured persons in 2017 against 318 events in 2016. Most of the accidents (approx. 98 percent) were connected with light injuries and their major causes were, in descending order, loss of balance by employees, hitting or being hit by loose/immobile objects, rocks falling from an unmined bed and injuries connected with using working tools. The number of accidents at work resulting from a high threat from a rock mass certainly fell down. Compared to 2016, the number of the injured for the above reason declined by 60 percent.

We constantly improve in terms of safe exploitation of copper ore deposits. We are aware how serious are 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. These are events that may lead to serious or fatal accidents, damages to machinery, equipment, and underground infrastructure, as well as exploitation downtimes. Therefore, a broad range of activities are performed in our mines to prevent bursts and falls. They include regular seismic monitoring, assessment of the rock mass condition on an ongoing basis, with marking zones of heightened risk of bursts. Experts from KGHM Polska Miedź S.A. select sizes, shapes and number of chambers and inter-chamber pillars as well as protective pillars. It is also planned to determine the most beneficial direction of progress in exploitation and the optimum order of extracting ore from deposits to minimize local concentration of stresses in the rock mass. We apply active methods for preventing bursts and falls, which involve provoking dynamic events by group shooting at the faces and by stress-reducing shooting in the deposit or at its floor.

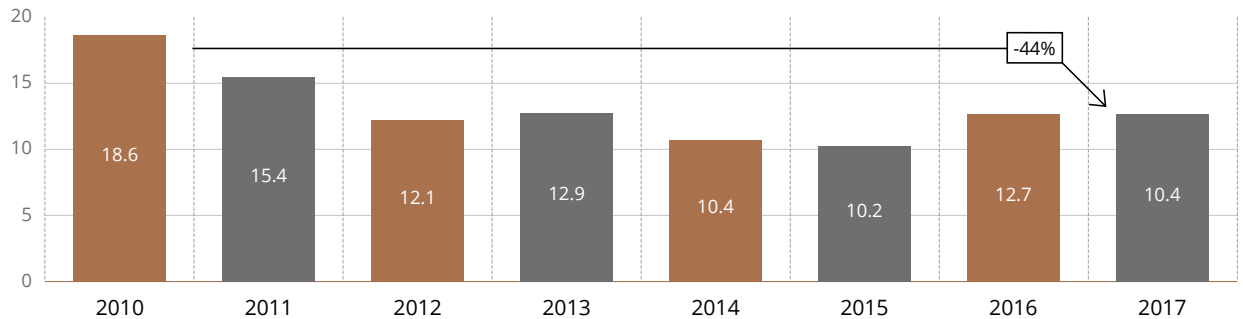
#### BEST PRACTICE

After the tragic collective accident in November 2016, we undertook, among other things, works on preparing uniform rules of designing and maintaining functional chambers in mines, including chambers for heavy machinery.



In 2017, the LTFR1 result ratio fell approx. 18 percent vs. 2016 to 10.4 (2016 = 12.7), meaning it has come down 44% since 2010.

### LTIFR in the Parent company

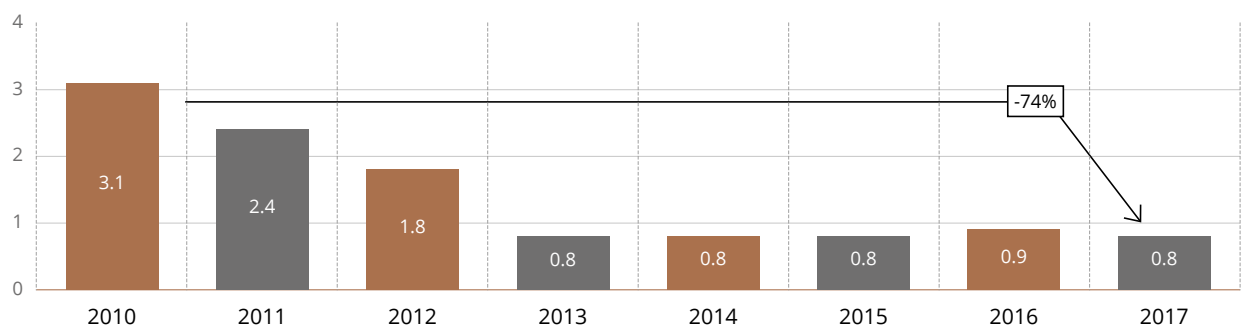


**G4-LA6** At the KGHM INTERNATIONAL LTD. Group, the occupational safety management is based on identification, assessment, elimination and/or control of threats and risks within the framework of performing and continuous improvement of the “Zero Harm” organizational culture, which is also one of the company’s values. The management scope includes all the companies that are wholly owned by KGHM INTERNATIONAL LTD. or in which KGHM INTERNATIONAL LTD. is the managing partner. The “Zero Harm” work safety policy includes both employees, counterparties and local communities and is identified as constant activity to prevent threats in the area of occupational safety and health as

well as in terms of environmental protection. In 2017, KGHM INTERNATIONAL LTD. started works aiming to implement the “Corporate Risk Management Standard in the areas of Health, Safety and the Environment.” The implementation of the solution, which is made up of 14 pillars, is predicted to start in 2018 and to take several years.

In 2017, in the mines belonging to KGHM INTERNATIONAL LTD., a total of 57 accidents at work were recorded. Finally, TRIR (Total Recordable Incident Rate) reached 0.8 and was lower by 0.1 vs. 2016 and, at the same time, lower by 74 percent from the figure recorded in 2010.

### TRIR<sup>2</sup> in the Parent company



KGHM Chile worked for 2,504,237 hours without an accident, which gives 4,838 days of “ZERO HARM” from July 2004.

<sup>1</sup> LTIFR (Lost Time Injury Frequency Rate) the total number of accidents at work standardized per 1 million hours worked by employees of the technological process at KGHM Polska Miedz S.A.

<sup>2</sup> TRIR (Total Recordable Incident Rate) the rate of accident 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., standardized per 200,000 hours worked.

## 5.3 Employee development – unique competences/training

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**G4-LA2** Employees are the most valuable asset of the KGHM Group. The experience and involvement of our staff plays a key role in the development of all areas of the business model, builds our global standing and makes us an integrated organization open to the future.

Safety, cooperation, focus on performance, responsibility and courage of our employees translate into the overall Group's results and position. We are able to ensure an optimum work environment and we continue to invest in employee's professional development and good atmosphere at our plants. We are proud of having built long-term relationships with employees, which is reflected in a high average employment duration.

We recruit the best experts and specialists and use the knowledge and competence of experienced employees. We share knowledge and ideas, relying on involvement

and integrity in day to day work. Such an approach results in effectiveness, the company's achievements and our market position.

We would like to maintain and improve our human capital and the associated intellectual capital. In our activities, we take into consideration the company's mission, vision and long-term plans.

### Selected examples of HR policy at KGHM Polska Miedź S.A.:

- Improving the qualifications of the company's employees and changing their education structure by co-funding graduate and post-graduate studies.
- Securing the 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 which specialist actions are performed in underground mining plants as well as other jobs in the company.
- Improving employees' competencies by organization of training courses and other development activities, with particular focus on managerial and interpersonal skills, as well as training on business process orientation in management.

We offer our employees opportunities for improving their qualifications in the context of expected organizational and technological changes. We provide them with an opportunity to participate in training courses, conferences and graduate and post-graduate studies. To increase the training effectiveness, we use cutting-edge technologies – in 2017, we started work connected with launching PBI training on an e-learning platform.

#### BEST PRACTICE

In 2017, work was started on the IT system to manage practical training, traineeship and provision of materials for writing diploma theses at KGHM Polska Miedź S.A. A business concept was devised and work started on IT solutions for the target e-Kariera system, which will be accessible for users from the Intranet level of KGHM Polska Miedź S.A. and via [www.kghm.com](http://www.kghm.com) for those applying from outside of the company.

The e-Kariera [e-Career] system will consist of 4 modules:

- e-Rekrutacja [e-Recruitment] module (already operates)
- e-Praktyki [e-Practical Training] module
- e-Staże [e-Traineeship] module
- e-Pracdyplomowe [e-Diploma Theses] module

The work is slated for completion in H1 2018.

Training programs are adjusted to business objectives. We study development needs of our employees carefully. These data are collected systemically once a year and constitute the basis for building a training plan and calculation of the resources needed for its performance. The access to development activities is not limited by such criteria as age or gender.

G4-LA9

In 2017, the number of employees participating in a single training event was 28,387, including 19,442 in blue-collar jobs.

Selected development programs for employees – key figures

# 905 persons

took part in industry symposia and conferences in Poland and abroad.

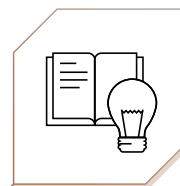


During the meetings, they were able to become acquainted with new technological and organizational solutions, as well as exchange experiences with regard to performance, improvement of production efficiency, human capital management and innovativeness. The company's employees also participated in cyclically organized conferences, including "Winter School of Rock Mass Mechanics" and "School of Underground Mining."

G4-LA10

# 47 persons

took advantage of co-funding of studies. The co-funding comprised graduate, post-graduate and MBA studies.



We continue cooperation with the largest Polish universities in opening faculties aligned with specific needs of KGHM.

# 389 employees

participated in courses to learn English and Spanish.



Enhancing language skills is an important element of the implementation of the plan of cooperation and exchange among Polish and foreign companies within the Group.

# 653 employees

were trained on Lean Management



based on the tools: Waste Elimination, 5S and Waste Analysis as well as Total Production Maintenance (TPM). The purpose of the training was to acquaint the participants with the methodology and overcome barriers related to the change of the manner of work organization used to date.

# 39 our specialists

working in accounting services participated in the 2017 Balance Sheet training course prepared by the Association of Accountants in Poland.



The purpose of the training was to improve the qualifications of the employees responsible for closing and accounting for the 2017 financial year.



## 326 employees

completed training on Integrated Management System, to prepare for acting as auditors and proxies for the Integrated Management System.



## 377 employees

completed training on MS Office, including above all training on Excel, Word, Outlook and Power Point.



The two-day training, very popular among employees, was available at three levels of competence. Efficient use of MS Office contributes to increased performance of the employees who use various IT applications on a daily basis.

## About 260 managers

took part in another edition of the Leadership Study program – development of management competences.



The performance of the program improved managerial skills and contributed to a change of attitudes of the program participants, thereby translating into increased production efficiency, organizational efficiency and improvement of relations with employees.

## For 362 persons

we organized training about the function of Company Social Labor Inspectors.



## Employees are our priority

We understand how important the competences of managers are for our company's operation. We conduct training courses on an ongoing basis, ensuring maintenance and further development of the managers' professional qualifications. Employees may take advantage of the broad conference offering in Poland and abroad, allowing for getting to know new trends and solutions used in business. Support is also provided to employees to improve their education in higher education institutions.

### BEST PRACTICE

In 2017, we launched the program "Toolkit for Managers" for the management staff. To adjust the themes of the training courses in the optimum manner, we started the process of precise identification of development needs based on a uniform competence model.

Many of the offered programs are dedicated to developing managers' "soft skills" in communication and cooperation. They bolster their technical skills and qualifications.



## 5.4 We act in a responsible manner

### Code of Ethics

**G4-56** In every area of our activity, regardless of its location, character and involved persons – we want to act in an ethical way. In the whole KGHM Group, the Code of Ethics is in force as 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 and build our professional identity.

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

Every day we show that this diversity contributes to KGHM's success and allows us to build our brand.

The KGHM Group Code of Ethics comprises a consistent system of values and principles which are close to all employees of the KGHM Group. They constitute our moral commitment towards our collaborators and business partners.

Compliance with the rules set out in the Code of Ethics is of key importance to maintaining efficiency of our processes and assuring our shareholders, suppliers and other stakeholders about our professionalism and

honesty. The Code of Ethics also serves as the basis for our regulations connected with the Procurement Policy – the Code ensures rules and standards of professional conduct of persons participating in procurement processes.

We would like our Code of Ethics to respond to current challenges at all times – if needed, we will update its provisions.

Our Code of Ethics is available at our websites at: [www.kghm.com/en/investors/corporate-governance/code-ethics](http://www.kghm.com/en/investors/corporate-governance/code-ethics)

As a socially responsible company, KGHM Polska Miedź S.A. applies the due diligence procedures – we attach importance to observance of human rights, lawful terms of employment, environmental norms, freedom of establishing trade unions, prohibitions against child labor and extraction of production raw materials from conflict sources (the so-called "Conflict minerals"). We want to cooperate with business partners who share these 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. For us, it is an important element of the business decisions on undertaking cooperation with the given partner.



**G4 PR 5** Principles declared by KGHM Polska Miedź S.A.'s Customer and Supplier

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

### Anti-Corruption Policy

**G4-S05, G4-S03** We conduct our business activity fairly. We do not accept any form of corruption and, in all the company's activities, we require from our employees to comply with the fundamental ethical values. Understanding the importance of the corruption problem, we decided to take broadly planned actions to mitigate the risk.

In 2017, an anti-corruption program was introduced at KGHM Polska Miedź S.A., regulating, among other things, issues of conflict of interest and reporting abuses. The program translates the principles set out in the Code of Ethics into specific actions, and its purpose is to build awareness among all employees, which is indispensable for the employees to identify with the company's ethical conduct.

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



**G4-56** Anticorruption program – selected activities:

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

Our Anticorruption Guidebook is available for each employee via our internal KGHM Corporate Portal. We have appointed local coordinators in KGHM Branches

and the Group Companies to fight corruption, whose role is to train employees. These persons are also authorized to receive information about breaches, if any.

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KGHM Polska Miedź S.A. has in place whistleblowing procedures using a dedicated special telephone line, e-mail address and written correspondence – with a note “personal delivery”.

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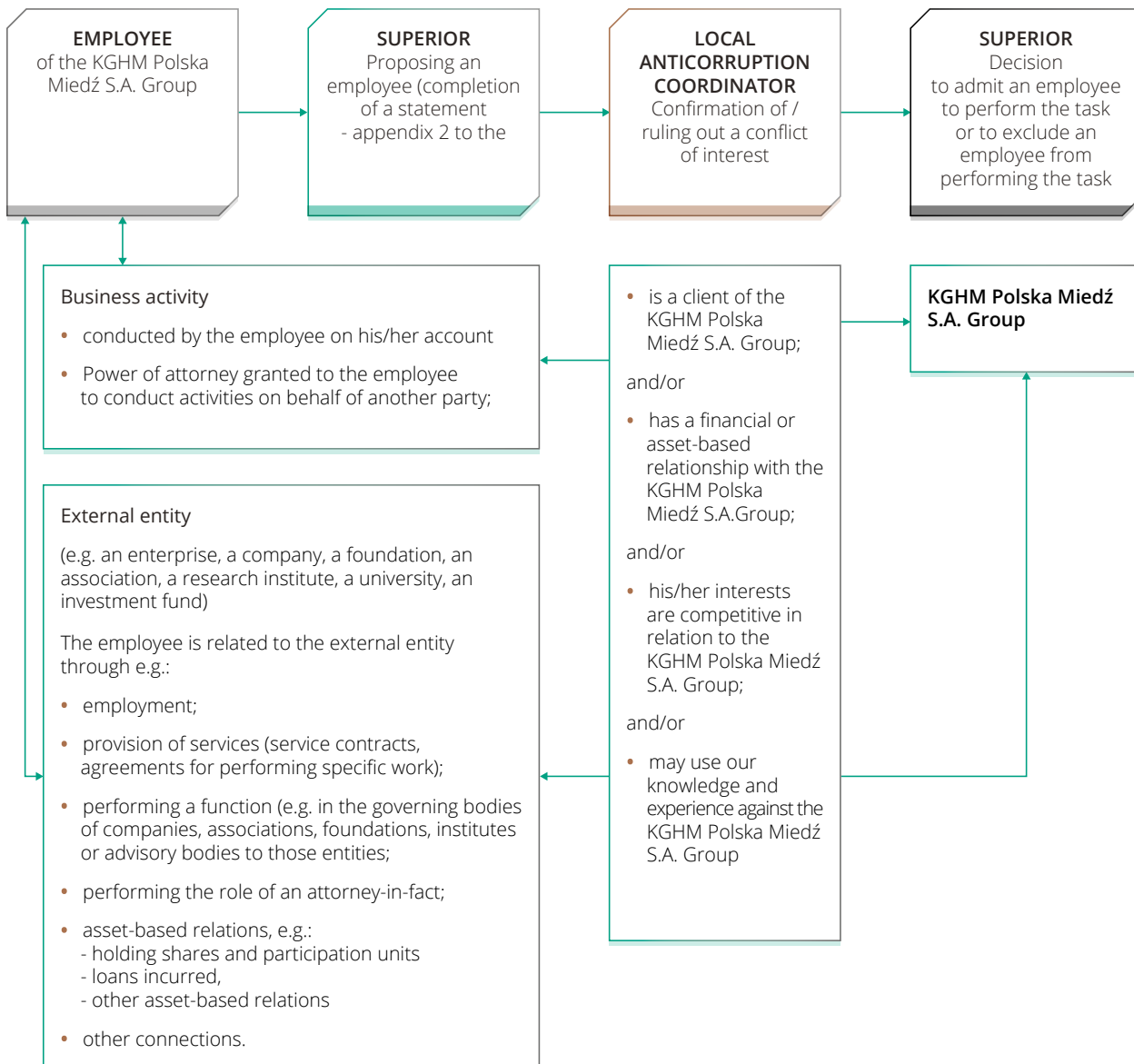
### Anticorruption Instruction

The Anticorruption Instruction contains a more detailed description of the rules found in the Policy and is addressed to the employees of the Polish portion of the KGHM Group. It sets forth, among other things, the rules of conduct in situations in which employees may be offered financial benefits, rules for avoidance of conflicts of interest and rules for offering and accepting customary business gifts.

In 2017, we defined the plan of action for reporting conflicts of interest, together with the specification of situations that may lead to conflicts of interests.



**G4-56** The action plan to report a conflict of interest and a list of possible causes



**G4-15** Diversity declaration

At KGHM Polska Miedź S.A., we strictly comply with the prohibition of discrimination and take actions in order to ensure respect of diversity in the workplace. Our organizational culture is based on mutual respect, equal treatment, access to development opportunities and optimal use of employee talent regardless of, inter alia, ethnic origin, age, gender, nationality, citizenship, religion, political beliefs or trade union membership. We aim at ensuring reasonable diversity both in the selection of personnel as part of the conducted activities, with special focus on knowledge, technical competence and social skills.

There is no common Diversity Policy in written form applicable across the KGHM Group. Taking into consideration the international nature of our activities, cultural differences and specific natures of the Group's industries, each company has been performing a number of structured actions in the area of respect for diversity. KGHM Polska Miedź S.A. – as the parent company – guarantees the implementation of the diversity principles across the Group and promotes and popularizes these values among the stakeholders and business partners.

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

[www.gpw.pl/best-practice](http://www.gpw.pl/best-practice),  
[www.kghm.com/en/investors/corporate-governance/governance-compliance](http://www.kghm.com/en/investors/corporate-governance/governance-compliance)

#### G4-15 Declaration of Human Rights Protection



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

We are a global organization, aware of the importance of respect for human rights in the modern world. We accept responsibility for protection and respect for fundamental human rights and implement such standards across the KGHM Group.

We assume that respect for human rights by other entities is a vital element of mutual relationships.

In compliance with the adopted principles, each employee and collaborator of the KGHM Group is responsible for ensuring that human rights are respected in his/her closest environment 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 considered in the Company's other policies and guidelines, such as the Code of Ethics, the Diversity Declaration, HR and the Responsible Supply Chain Policy.

#### Implementation of the Declaration of Human Rights Protection:

-  each employee provided with access to a computer receives the accepted 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.

#### G4-12 BEST PRACTICE

An internal responsible gold supply chain management system has been implemented at KGHM Polska Miedź S.A. It is comprised of the Responsible Supply Chain Policy in the KGHM Group and the Responsible Gold Supply Chain Audit Procedure in KGHM Polska Miedź S.A. 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.

Additionally, we have set up the e-mail address: [conflict.minerals@kghm.com](mailto:conflict.minerals@kghm.com) for business partners and other stakeholders, at which comments and objections concerning the gold supply chain may be submitted.

## Employee benefits and remuneration

We offer fixed remuneration to our employees. The amount of financial benefits depends on the length of service, experience and the position held.

The following additional benefits provided to employees are also a component of remuneration for work:

- financial benefits from company social benefit funds,
- contributions to the employee retirement scheme,
- the prepaid healthcare package for employees and their spouses funded by the employer,
- employee insurance,
- commuting allowance

KGHM Polska Miedź S.A. is also obligated to pay specific benefits after the end of the employment period (retirement benefits on account of a one-off retirement and disability package, death benefits, a cash equivalent for the coal benefit) and other long-term benefits (in the form of long-service payments) in accordance with the Company Collective Bargaining Agreement.

The level of benefits in the Group's foreign companies varies depending on the country, but in all cases covers insurance required by law, including social security and health insurance. Additionally, employees in Canada and the United States have access to, among other things, dental care and the Employee Family Assistance Program (EFAP) guaranteeing advisory services on a broad range of issues – from psychological and legal assistance, through family matters, to health issues.

### G4-56 International Mobility Policy

In the 21<sup>st</sup> century, KGHM has become a global miner active on three continents. On one hand, such a large magnitude of operation 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 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.

In connection with the acquisition of foreign assets, since 2015 KGHM has conducted an employee mobility program. In view of the international operations of the Group, the International Mobility Policy has been adopted as the basis for action in conformity with the rules of the due diligence procedure. The secondments to companies in Chile, Canada and the US represent an investment of major significance for the Group. They not only satisfy the local requirement for personnel, but also develop the employee's professional capacities. In 2017, 10 employees (including 9 persons from KGHM Polska Miedź S.A.) were seconded to work in foreign assets under the International Mobility Policy. At the same time, 5 persons continued their secondment commenced in previous years.

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

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





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# Corporate Social Responsibility Strategy

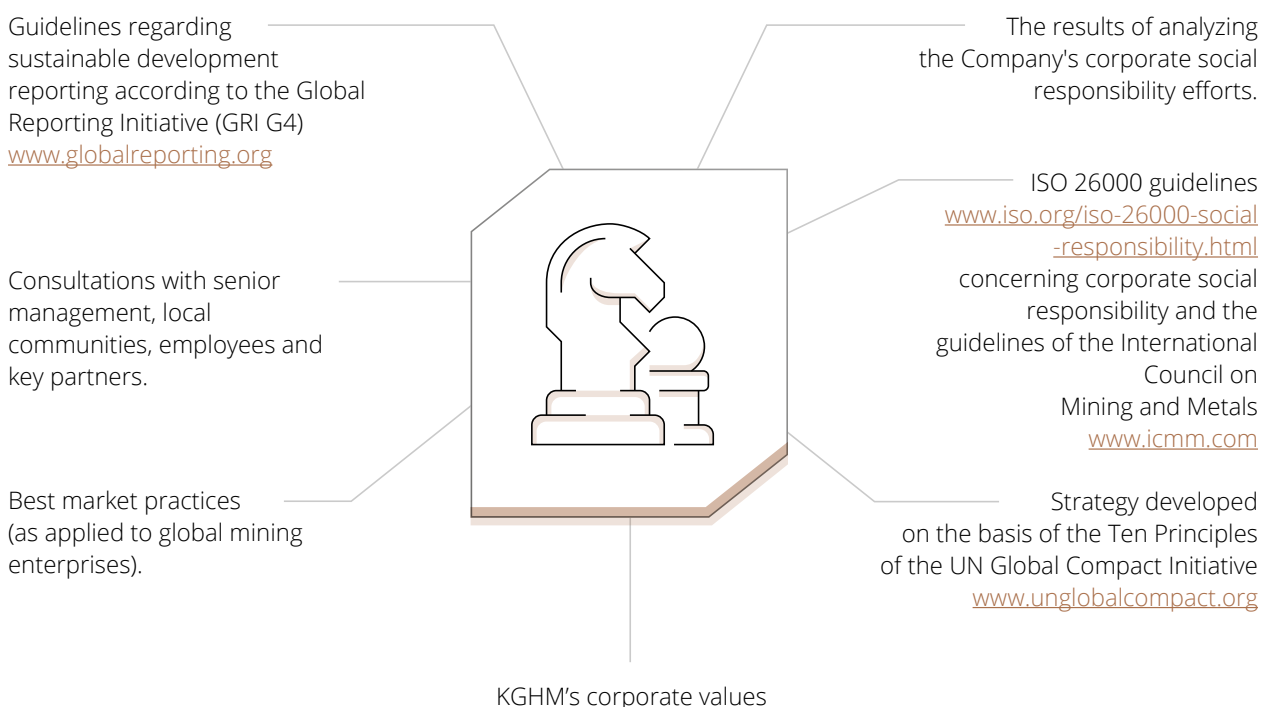
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# 6.1 Corporate Social Responsibility Strategy

**G4-15** In the context of devising the Company's Business Strategy, 2017 saw a revision of the CSR Strategy, which introduced a new primary objective, measures and operating targets. The CSR strategy's individual objectives have been defined so as to support the achievement of the Company's business strategy. These objectives and activities have been assigned tools in keeping with the Global Reporting Initiative (G4) indicators. Units responsible for the implementation of the individual objectives were also appointed.

The Strategy is aimed at the further enhancement of the positive image of the KGHM Polska Miedź S.A. Group with regard to the development of proper relations with the community. The Strategy is based on:



The Corporate Social Responsibility Strategy is an integral part of KGHM Polska Miedź S.A.'s Business Strategy for 2017-2021 with the outlook until 2040. The Strategy is subject to monthly monitoring during the financial year.

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

-  Shaping cooperation with local communities and internal organizations,
  - building the principles of long-term cooperation for social engagement,
  - determining the principles for conducting dialog with local communities and gaining social approval for conducting the activity ("license to operate") on the basis of best business practices,
  - implementing uniform and transparent principles governing well-being 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 on all stages of their development.
  
-  Consolidating the position of a trusted and stable business partner
  - 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, and development of a relation-based system of cooperation with suppliers,
  - respecting human rights and expectations of local communities.
  
-  Maintaining the position of a responsible employer
  - promoting voluntary activities to increase employee engagement on the Group level,
  - building the image of an attractive employer,
  - supporting the communication implementation of the occupational safety policy,
  - conducting operations on the basis of the highest standards of dialogue with the employees,
  - undertaking actions aimed at achieving the position of an industry leader in healthcare and occupational safety as well as stability of employment and employee compensation, and continuing employee education – "life-long learning",
  - promoting transparency on the basis of the code of ethics and corporate governance rules, in particular respecting human rights,
  - supporting and promoting the education of future employees.

 Building an image of the KGHM Group as friendly to human health and the environment

- carrying out CSR Programs: ECO-Zdrowie, and initiatives for protecting innovativeness and the natural environment – Strefa Innowacji, Promotion of Health and Counteracting Environmental Hazards,
- strengthening the role and activity of the Group in the area of environmental protection,
- developing programs and initiatives to minimize the environmental impact, reduce emissions of greenhouse gases, improve energy efficiency, waste management and reclamation of areas after closing mines, and the use and protection of water.

 Increasing the effectiveness of the Group's internal and external communication

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

KGHM Polska Miedź S.A.'s Corporate Social Responsibility Strategy is available at our website [www.kghm.com](http://www.kghm.com).





## 6.2 Social dialogue

G4-MM6, G4-MM9


Wherever we operate or intend to operate, we hold meetings with local authorities. Since KGHM Polska Miedź S.A. operates on several continents, it encounters a variety of cultures and interacts with 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. In every area in which we operate we feel responsible for local communities, and we analyze social and cultural aspects of our impact.


The document regulating the issues concerning relations with local communities, which prevails in the KGHM Group, is the Code of Ethics. Pursuant to this document, we stimulate social and economic development in the places in which we conduct our operations. We are doing this by taking actions as part of the Corporate Social Responsibility Strategy, including actions


related to environmental protection, responsible investing or adding jobs.


When collaborating with local communities, we are building their trust in KGHM and we contribute to strengthening the KGHM brand.

### Our rules:

 We respect the cultures and habits of the countries or regions in which we operate.

 When making business decisions, we keep in mind local communities.

 We are actively listening to the voice of local communities and we take their opinions into consideration.

 We are honest when negotiating with local communities.

In 2017, we conducted talks with local communities as part of collaboration in extension of the „Żelazny Most” Tailings Storage Facility to include Southern Quarters (Kwaterna Południowa). In 2017, the company signed the Memorandums of Agreement with Rudna and Grębo-cice municipalities under which funds will be transferred by 2019 earmarked for projects in the following areas: holidays for children, healthcare, spa holidays for adults, revitalization of parks and leisure areas, cleaning the ditches, securing the 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 Polska Miedź S.A. in the following areas:

- organization and co-funding of summer and winter holidays for children and young people,
- healthcare,
- soil and crops protection,
- seeking alternative thermal energy supply solutions,
- broader access to the Internet,
- improvement of the cover of mobile phone networks,
- ensuring the safety of the local communities directly adjacent to the Żelazny Most Tailings Storage Facility.

#### BEST PRACTICE

In certain municipalities of the Copper Basin, the KGHM Polska Miedź S.A. Health Promotion and Environmental Hazards Prevention Program is carried out. Its purpose 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.

**G4-EC7** In 2017, we also signed the partnership agreement with the Gaworzyce township for the redevelopment of the road in Kłobuczyn which was destroyed during the hail and rainstorm in July 2016. As part of its activities related to corporate social responsibility, the Company helps not only the local governments. In 2017, the Company was involved in helping the victims of severe storms. As part of this assistance, the KGHM

Polska Miedź Foundation contributed PLN 0.5 million to financial donations for individuals affected by the storms in Kujawsko-Pomorskie and Pomorskie Voivodships, to lease residential containers to provide their temporary accommodation and to rebuild a playground for children. In addition, the Company provided building materials for reconstruction of residential buildings destroyed by severe storms in both voivodships.

#### BEST PRACTICE

In August 2017, several people were killed as a result of severe storms that swept through Poland. Two girlscoouts taking part in a scout camp in the Pomerania region were among the casualties. More than ten people were taken to hospital. Thousands of people living in the north of Poland lost everything they owned.

KGHM could not remain indifferent to the fate of those who suffered in the storms. Our Company's representatives visited the most affected municipalities in the Pomerania and Kashubia regions in November, providing financial donations and donations in-kind to victims.

The KGHM Foundation provided funds amounting to PLN 500 thousand and approximately PLN 15 thousand worth of building materials. 16 municipalities in the Pomorskie and Kujawsko-Pomorskie Voivodships benefited from that assistance. The funds were transferred to municipal authorities which subsequently paid them out via their Social Welfare Centers.

#### BEST PRACTICE

In 2017, thanks to KGHM Polska Miedź S.A.'s help, five families from Kazakhstan were able to relocate to Poland and make Poland their home.

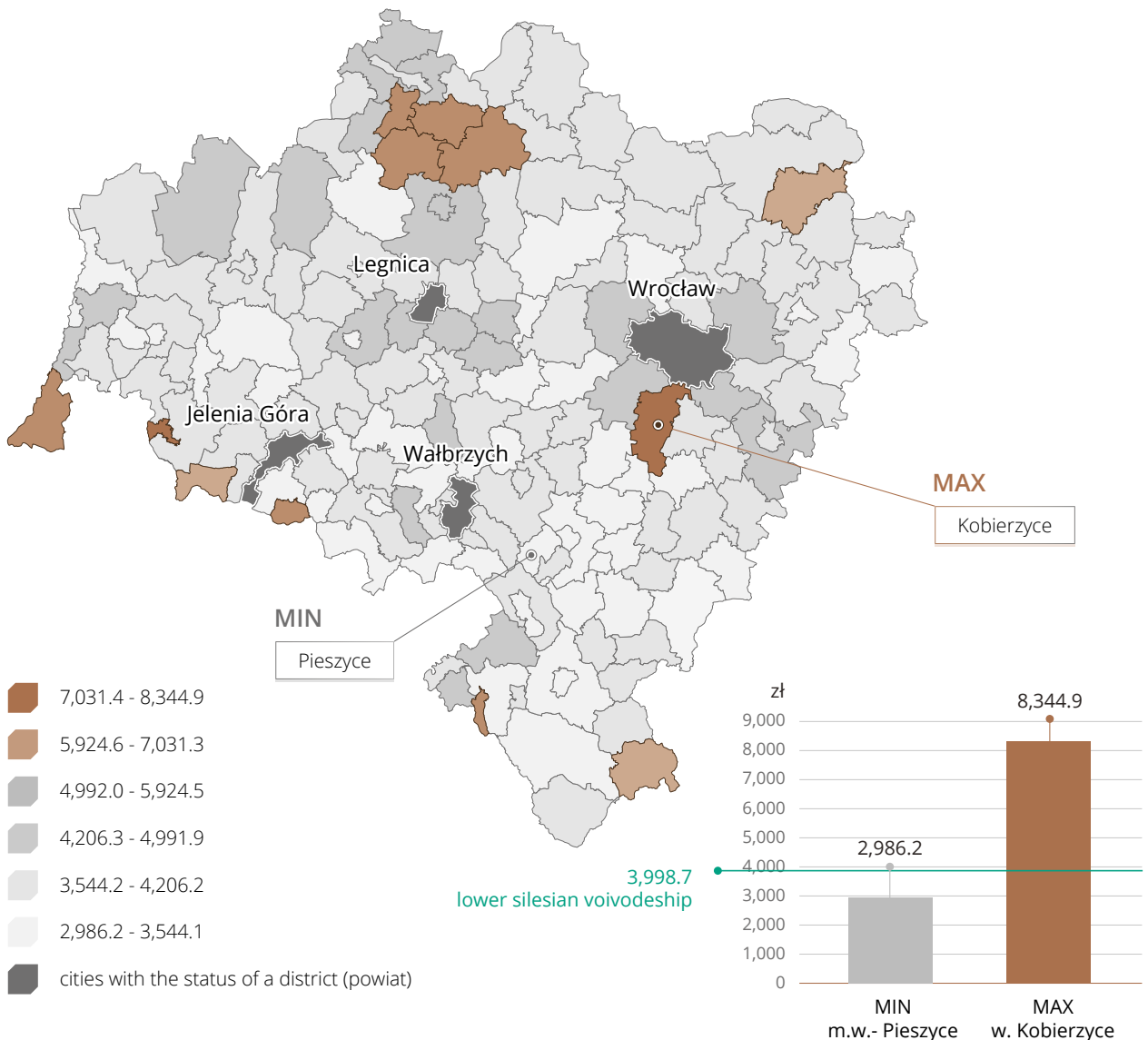
The company offered employment to the repatriates, as well as aid in finding a place to live, daily support in adaptation to Polish conditions and the KGHM Group's work environment, and Polish language lessons.

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

camp (the "Green School" program) or trips to the swimming pool. Social dialogue is embedded in the Company's sustainable development strategy.


In March 2017, KGHM Polska Miedź S.A. established a team for negotiating the agreement between our company and the Żukowice municipality related to planned investment projects. The team's purpose is to take actions to have the consent issued for the change of the local zoning plan and study for construction of the GG - 2 Mine Shaft. The Głogów Głęboki-Przemysłowy mine shaft is the largest deep mining project in Europe in terms of resources. The mining of the deposit will enable KGHM to maintain its current levels of extraction in Poland for several dozen years, and will ensure further increase in the wealth of the Copper Basin residents.

### Budget revenues of municipalities\* per capita in 2016



\* Net of the revenues of municipalities that are cities with the status of a district.

The following significant risks and their mitigations have been defined at the level of the KGHM Group in the social dialogue area:

Stakeholders	Risk	Mitigation
	<p>(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.</p>	<p>Implementation of the CSR Strategy, close collaboration with public administration authorities, meetings and negotiations with stakeholders, information campaigns, conferences, publications. Close cooperation and relations with local communities.</p>

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

in positive and negative categories on the 1-5 scale in terms of reputation and stakeholders.

BEST PRACTICE

**G4-SO1** Cooperation with local communities is very important for us, not only in Poland. In 2017, also the company Sierra Gorda undertook actions aimed at improving the quality of community life. They included, among other things:

- Placing the Community Clean Point in the Antofagasta Events Park – it was financed using the funds of the 20th National Contest of Environmental Protection Fund of the Ministry of Environment and Sierra Gorda S.C.M.
- The Arboriculture Project – an initiative launched by Sierra Gorda S.C.M. in cooperation with the National Forestry Corporation (CONAF)
- Support for regional sports programs
- Participation of the company in the Association of Antofagasta Industrialists Community Program





## 6.3 Assistance and support – KGHM Polska Miedź Foundation

**G4-EC8** KGHM is a “good neighbor and trustworthy investor”. We support local communities, social organizations and institutions related to science, culture and sport. We promote active lifestyle and help people in need.

### KGHM Polska Miedź Foundation

One of the pillars of our efforts in the area of corporate social responsibility is the KGHM Polska Miedź Foundation which is engaged in conducting pro publico bono and charitable activities. It helps in carrying out socially useful projects, and it supports the people who are experiencing hardships. The KGHM Polska Miedź Foundation was established in 2003 to continue long traditions of pro publico bono activities conducted by its Founder – KGHM Polska Miedź S.A., and to implement local and regional initiatives and projects of national and global reach. The Foundation supports important social initiatives and interesting projects in the following four areas: health and safety, science and education, sports and recreation, and culture and tradition.

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

In addition, in 2017, the KGHM Polska Miedź Foundation funded winter and summer holidays and “Green School” program trips for more than 270 children from the Jerzmanowa, Kotla and Żukowice municipalities and from villages located next to the future Southern Quarter of the Żelazny Most Tailings Storage Facility. The Foundation earmarked the total amount of PLN 475,900.00 for that purpose.

In 2017, the key area of the KGHM Polska Miedź Foundation's operations was the promotion of health and

safety. As part of those activities, the Foundation provided financial support to several healthcare institutions and private individuals. Most of the funds were earmarked for the purchase of state-of-the-art equipment and specialist medical apparatuses for hospitals, rehabilitation centers and other healthcare facilities. This resulted in significant improvement of the quality and effectiveness of pro-health prophylactics.

**More information on the activity and projects of the KGHM Polska Miedź Foundation can be found at:**

[www.fundacjakghm.pl](http://www.fundacjakghm.pl)

### Innovation and Cultural Heritage Foundation – Revimine

The Revimine Foundation was established in 2014 by KGHM Polska Miedź S.A. to perform the activities related to the 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 areas that are significant from that standpoint, and restoration of the environment.

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



### 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 is one of the founders of the Polish National Foundation. The Company is to support the Polish National Foundation in the years 2016-2026.

**More information on the activity and projects of the Polish National Foundation can be found at [www.pfn.org.pl](http://www.pfn.org.pl)**

#### G4-EC8 Sponsorship

KGHM Polska Miedź S.A. is a patron of culture and science. It supports both local and nationwide initiatives. We regularly support a number of sports initiatives addressed to both children and adults. We provide financing for professional and amateur sports activities. In 2017, we cooperated with tennis player Łukasz Kubot and swimmer Radosław Kawęcki. KGHM Polska Miedź S.A. is also the main sponsor and owner of Zagłębie Lubin – a Polish premier league football team. We also

support 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 Commission. Decisions issued by the Commission 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 Commission.

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



**G4-SO1 EKO-zdrowie [ECO-Health]** – a KGHM program launched 4 years ago under corporate social responsibility. The health-promoting activities of the program include cyclic Nordic Walking activities for adults and swimming lessons for children from the Copper Basin. The Nordic Walking project is addressed to people over 40 years of age. It assumes cyclic activities with the participation of qualified and experienced instructors in various cities and towns of the Copper Basin. The most recent training cycle that took place in the fall of 2017 lasted for more than 2 months and included ten sessions of 1.5 hour each, with about 150 participants. The participants acquire or improve the basic skills of walking with the poles and take part in lectures on Nordic Walking techniques and principles of healthy nutrition. So far, 6 editions of the project have been held in which more than 1,000 people participated. On the other hand, the swimming teaching program assumes cyclic basic swimming classes for children aged 5-10. The classes are held in indoor swimming pools in several cities and towns of the Copper Basin (Lubin, Legnica, Głogów, Polkowice and Rudna). In 2017, 300 children participated in the classes (60 children from each city or town) to learn basic skills of moving in water under the supervision of qualified instructors from swimming clubs of the region, holding licenses of the Polish Swimming Association. Children's participation in swimming pool activities organized by KGHM Polska Miedź S.A. is not only about learning, playing and getting used to water, but also provides many people with the opportunity to have their children learn with

experienced professionals, where such classes would otherwise exceed the family budget. So far, 6 editions of the swimming learning activities have been held in which over 1,300 children participated. MEASURES: 150 adult participants in 2017 300 children participants in 2017

**Strefa Innowacji [Innovation Zone]** – KGHM's success today depends on the innovativeness, involvement and collaboration of thousands of employees with diverse knowledge and experience. Identifying talented people and building their individual career paths adjusted to the possibilities and needs of the organization is the key for a further development of the company as a whole. Of particular significance here is the Innovation Zone, or a tool for creating leaders to meet the challenges of efficient management of the company at the international level. The objective of the program is to build an innovation culture at KGHM. We encourage our employees effectively to seek new technological solutions. Due to this, many of them are inventors who determine the company's innovative character.

In 2017, under the Innovation Zone, support was granted to a nationwide project "Safe Hospital of Tomorrow" aiming to raise the awareness and increase the frequency of application of antimicrobial copper on touch surfaces, marked with the sign Cu+, in healthcare facilities.



List of donations from the KGHM Polska Miedź Foundation to natural persons by area:

Purpose of the donation	Donations		Number of donations	Location of donations		
	Granted gross amount in PLN	%		Copper Basin	Dolnośląskie Voivodship (without the Copper Basin)	Other voivodships (without the Copper Basin and the Dolnośląskie Voivodship)
Healthcare	911,295.99	93	155	97	21	37
Social assistance	64,400.00	7	6	5	0	1
<b>Total</b>	<b>980,695.99</b>	<b>100</b>	<b>161</b>	<b>102</b>	<b>21</b>	<b>38</b>

A comprehensive summary of donations granted by the Foundation in a given year is presented in the Annual Report on the Foundation's activities, which is available at [www.fundacjakghm.pl](http://www.fundacjakghm.pl)

List of donations from the KGHM Polska Miedź Foundation to institutions in 2017, by areas:

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

A detailed list of donations granted to institutions is presented at [www.fundacjakghm.pl](http://www.fundacjakghm.pl)

A list of sponsorship activities taken by KGHM Polska Miedź S.A. by area:

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

The KGHM Group (net of KGHM Polska Miedź S.A.) spent the following amount on sponsorship in 2017: **PLN 6,526,617.00.**





KGHM's values seen through the eyes of children







## Mining and smelting industry holidays

We are proud to cultivate mining industry traditions at KGHM. Every year, we organize the celebrations of the mining industry's holiday – Saint Barbara's Day. The celebrations of the name day of Saint Barbara, the patron of miners, started on 4 December 2017 with miners' reveillies in Lubin, Głogów and Polkowice. Miners' bands

woke the Company's management already at 6.00 a.m., reminding the residents of the Copper Basin about the miners' holiday. Central celebrations started with the conferment of state awards, including miner's epees, miner's dirks or long service distinctions – more than 70 employees of Polska Miedź received them in 2017.

### BEST PRACTICE

In 2017, 1,600 runners completed the 32th Saint Barbara's Miner's Day Run, of which 360 were KGHM employees. The main 10 kilometers run was accompanied by, among others, the steiger's mile run, the 4x400 meters inter-company relay and directors' 4x100 meters relay. As every year, also youth runs were held, in which nearly 200 children from Lubin's schools took part.

Our Volunteers also marked their presence in the Saint Barbara's Run. They conducted a collection for a sick boy – son of an employee of the Lubin Mine Division.

A number of other celebrations and events were held at KGHM as part of Saint Barbara's Day. They included ceremonies of conferring awards and miner's epees in individual company's branches, church services,

meetings with miners' mothers, trips down the mine and traditional feasts and banquets. Over 80 special meetings were held as part of the Miner's Day festivities in 2017.

### BEST PRACTICE

A few days before Saint Barbara's Day, we honored the memory of 8 employees of the Company who died tragically in November 2016 in a rock burst accident. On the first anniversary of the accident, a plaque

commemorating all employees of KGHM Polska Miedź S.A. who died in accidents at work was unveiled in the Rudna Mine in Polkowice. To honor their memory, the Management Board set 29 November as the Day of Remembrance of Victims of Accidents at Work at KGHM.

The ceremony was held in the presence of the families of employees who died in accidents at KGHM. The ceremony was also attended the management and employees of KGHM, members of the parliament, representatives of local authorities, trade unions and the KGHM Group companies.

Every year we celebrate the Metallurgy Worker's Day falling in May, on the day of Saint Florian who is the patron of metallurgy workers and firefighters. It is traditionally celebrated by the Legnica, Głogów and Cedynia smelters.

In 2017, the central celebrations of the Metallurgy Worker's Day were hosted by the Legnica Copper Smelter and Refinery. In the morning on that day, the Management Board was greeted by workers' brass band and in the afternoon several dozen metallurgy workers from

our plants were conferred state awards and long service distinctions.

The celebrations of the Metallurgy Worker's Day included accompanying events, such as Bridge Tournaments, Festivals, Fishing Competitions and the Kaczawskie Mountains Rally of Metallurgy Workers. Workers also took part in inter-branch table tennis and bowling competitions.

#### BEST PRACTICE

We have been organizing New Year's Concerts for over ten years. In 2017, another New Year's Gala was organized by KGHM. It included two concerts – in Lubin and in Legnica – at which artists from the Song and Dance Ensemble "Śląsk" sang.

The concert program included the most beautiful Polish Christmas carols and patriotic songs. The "Śląsk" Ensemble was accompanied by a duet of singers: Katarzyna Moś, a talented young generation artist who was among the finalists of the Eurovision Song Contest last year, and Paweł Skaluba, an outstanding opera tenor.





## 6.4 KGHM Polska Miedź S.A.'s Environmental Policy

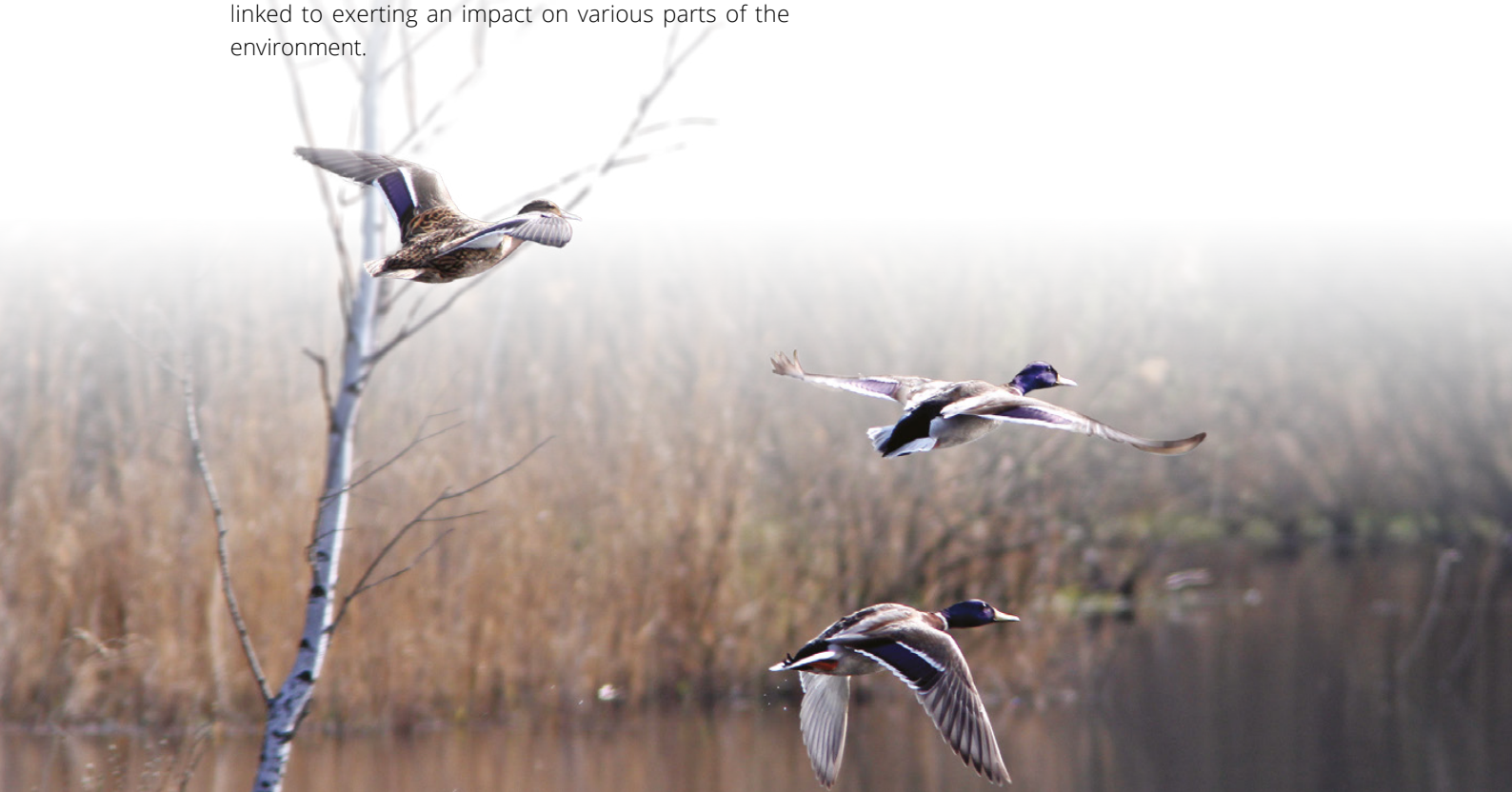
Care for the natural environment is entrenched in our business model in which we apply standards in all our segments ranging from exploration to reclamation to ensure that operations are conducted in a safe and environmentally-friendly manner.

### G4-15 Main tenets of KGHM Polska Miedź S.A.'s Environmental Policy

- ✦ maintenance of fully operational equipment protecting the environment,
- ✦ following up technical developments to reduce the environmental impact of the industry and applying new solutions as required 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 our responsibility for the environment. The extraction and subsequent processing of copper ore at all stages of production is inextricably linked to exerting an impact on various parts of the environment.

Compliance with stringent legal standards is possible due to the systematic modernization of existing installations and the construction of new ones which reduce and minimize the impact on the environment.



The Group has identified material environmental risks and how to mitigate them.

	Risk	Mitigation
Natural environment and climate changes	(KGHM Group) The extraction of copper ore 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 <sub>2</sub> emissions.	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 the Parent Company, a CO <sub>2</sub> Emissions Management System and ISO 14001 environmental management standards have been implemented.
	(Parent Company) The risk associated with the assessment of air quality in the Dolnośląskie Voivodship (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 inability to store flotation tailings	Operation, construction and expansion of the storage facility in accordance with the operating manual. Cooperation with the Team of International Experts (Międzynarodowy Zespół Ekspertów – ZEM) 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 keep the facility being built/operated. Introduction of the LCA model and circular economy.
Availability of materials and utilities	(KGHM Group) Risk related to 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 LTD. 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 taking an active part in legislative processes. Take preemptive measures to adapt to changes with 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. Risk data are analyzed in positive or negative categories on the scale of 1-5 in the Natural Environment dimension.



## KGHM INTERNATIONAL LTD.

We also care for the environment in our international operations. In the Robinson mine (USA), we thoroughly monitor the quality of the air and water, we manage waste and remediate mining areas – we spent approx. PLN 32.2 million for those purposes.

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 5.9 million.

Also, the Franke mine (Chile) conducted activities related to dust control, waste management and environmental impact monitoring, with total expenditures of approximately PLN 2.6 million.

There is no system of environmental emission fees in Chile. Expenditures in other operations amounted to roughly PLN 1.0 million.



#### G4-EN5 Energy Policy of KGHM Polska Miedź S.A.

We are the largest electricity consumer in Poland. We consume nearly three terawatt hours per year – we know how to implement a rational energy economy while ensuring security of energy supply to facilities and installations within the production process.

Since November 2016, the Energy Policy of KGHM Polska Miedź S.A. has been implemented in the Company. The Policy assumes, among other things, the standard of management of energy utilities in accordance with ISO 50001.

In our energy policy we undertake to accomplish the following:

- ✎ 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 management requirements,
- ✎ 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,
- ✎ develop 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.

The tenets of the Energy Policy embraced by KGHM Polska Miedź S.A. are implemented by all our employees. The application of the Energy Policy has resulted in introducing several regulations and taking actions to ensure that energy management is rational and complies with legal requirements.

They include for example:

- rules of conduct in the investment and procurement process,
- energy reviews carried out at KGHM Branches and the Head Office in accordance with the approved methodology.

#### G4-EN6 Energy Management System (EMS)

In 2017, we implemented the Energy Management System complying with the ISO 50001 standard in KGHM Polska Miedź and in Energetyka. As a result of the implementation of SZE and application of the Energy Policy,

the costs of energy audits are avoided, which must be performed pursuant to the Energy Efficiency Act if no certified Energy Management System is in place.

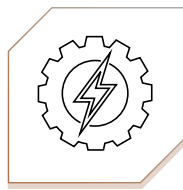
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KGHM Polska Miedź S.A. is the largest company in Poland which has received an Energy Management System Certificate complying with the ISO 50001 standard.

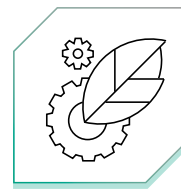
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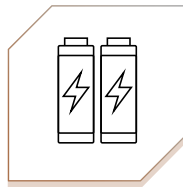
## Energy Management System:



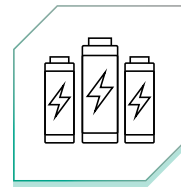
**52 goals set**  
as part of improving energy efficiency



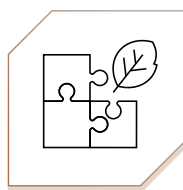
**72 key tasks**  
related to energy



**78 GWh**  
of saved energy in 2017



**230 GWh**  
of planned energy savings until 2020



**Defined key**  
energy performance measures

The Energy Management System enables us to reduce the emission of greenhouse gases and the costs of purchase of CO<sub>2</sub> allowances. By implementing standards and improving procedures, we are also improving occupational safety and increasing the competence of our employees.

## Water and the use of soil

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

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

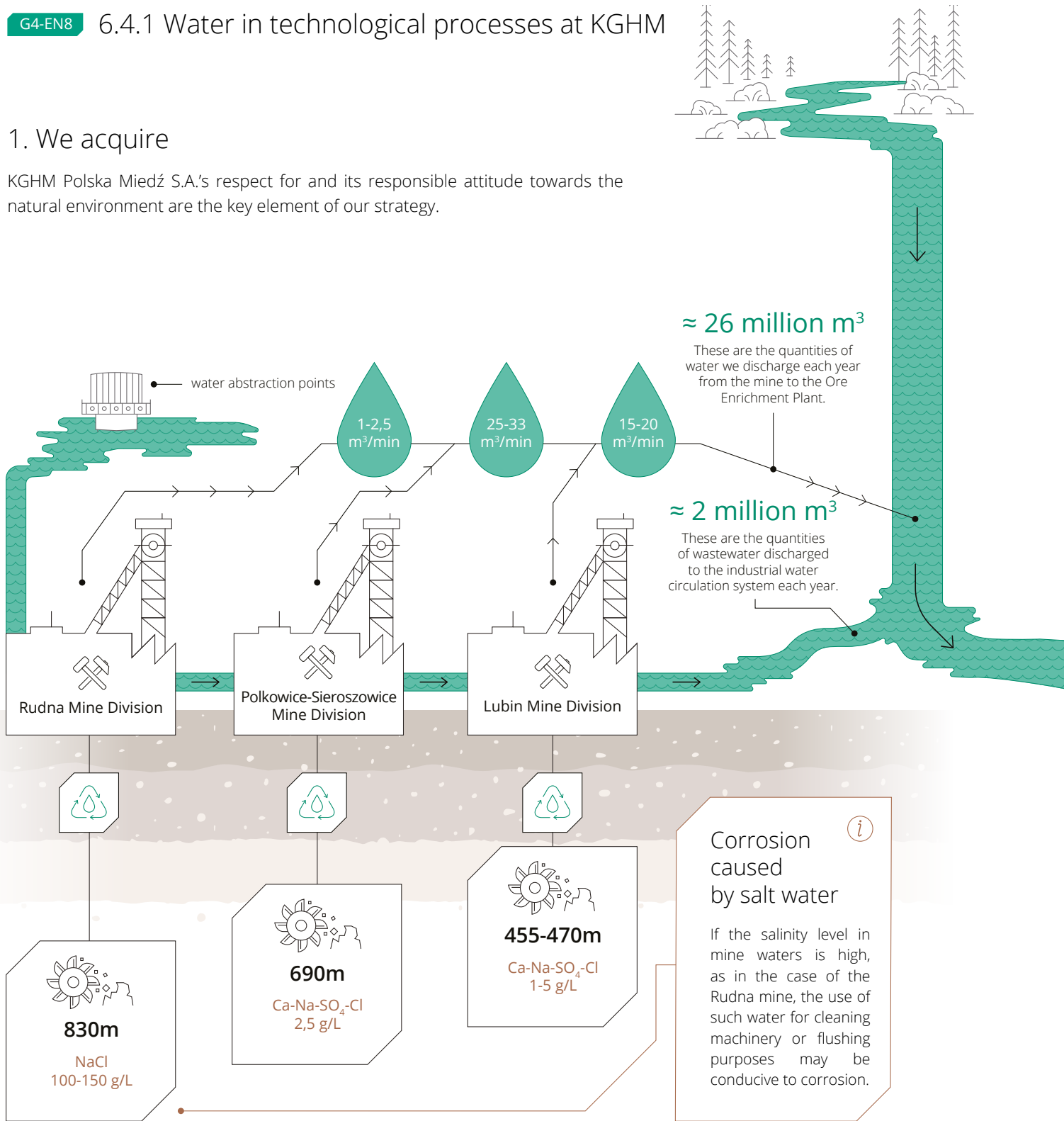
The Żelazny Most Tailings Storage Facility is the only place where copper ore flotation tailings from all KGHM Polska Miedź S.A. Mines can be deposited. It is one of the best monitored, also in terms of environmental protection, facilities of this type in the world, as evidenced, among others, by the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

This process has been developed and implemented in cooperation with scientific entities and in accordance with the requirements of the Water Law Act. The research shows that the discharge of mine and technological waters to the Oder river does not cause changes affecting the proper functioning of aquatic ecosystems.

**G4-EN8** 6.4.1 Water in technological processes at KGHM

1. We acquire

KGHM Polska Miedź S.A.'s respect for and its responsible attitude towards the natural environment are the key element of our strategy.



**Mines**

Waters captured in the drainage process carried out in the Mines are used in various technological processes, in particular:

- for hydraulic backfill,
- for flushing in drilling equipment,
- in the pipeline network of the fire-extinguishing system.

**Energetyka Sp. z o.o.**

The company manages water supplied for consumption and sanitary purposes in the branches of KGHM Polska Miedź S.A.:

- management of water intakes,
- collection of wastewater.

## 2. We use

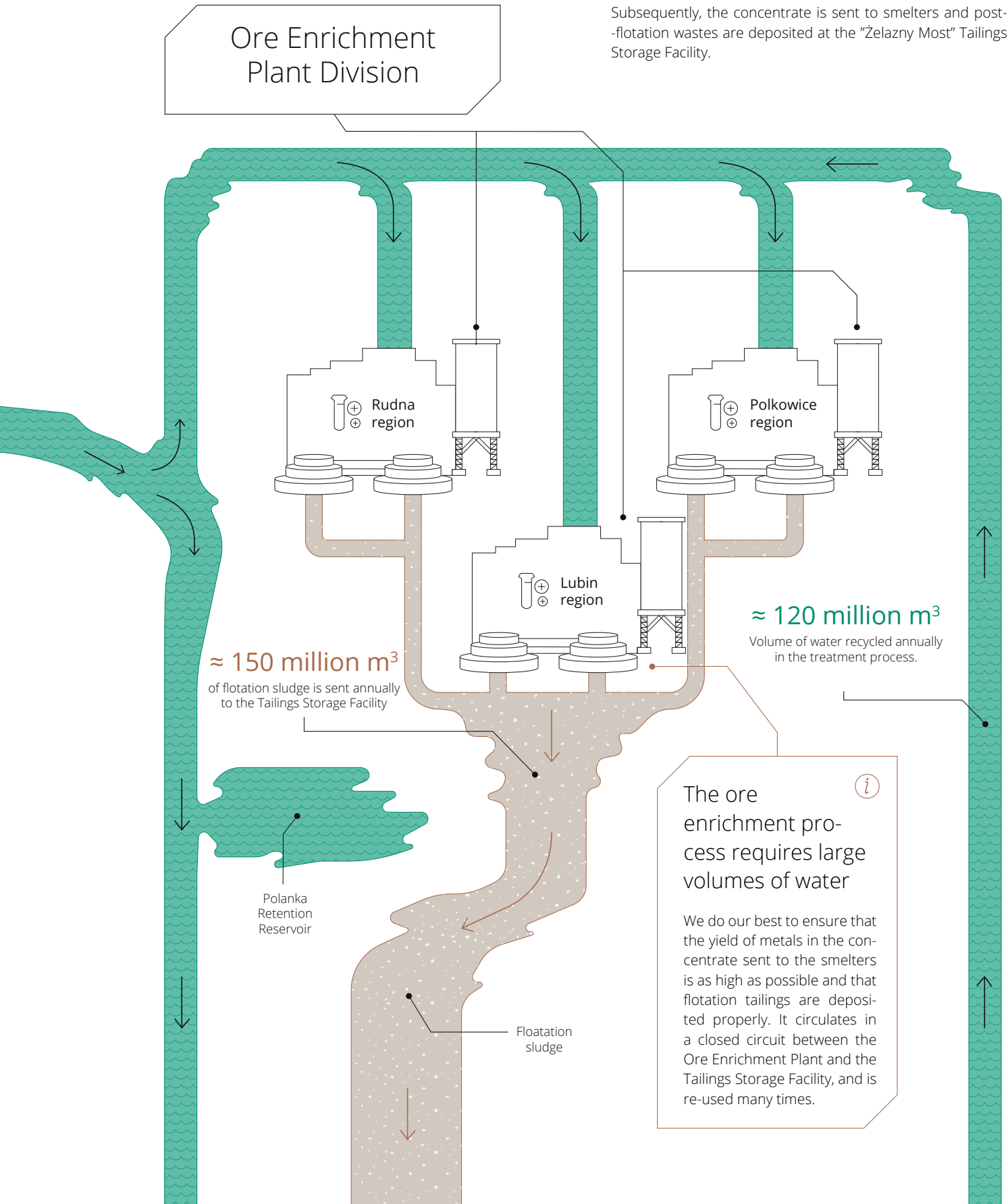
Water is used in a number of technological processes, the most important one of which is the ore enrichment process.

## Ore Enrichment Plants

The Ore Enrichment Plant Division uses water as part of the ore enrichment process for the following purposes:

- grinding and grading of mine output,
- flotation,
- concentrate drainage (compacting, filtering and drying).

Subsequently, the concentrate is sent to smelters and post-flotation wastes are deposited at the "Zelazny Most" Tailings Storage Facility.





### 3. We treat

Water is clarified at the Tailings Storage Facility and pumped to Ore Enrichment Plants to be reused.

#### Želazny Most Tailings Storage Facility

Tailings from the Ore Enrichment Plants are carried with water to the Tailings Storage Facility. Solid phase sedimentation takes place here, and clarified water is redirected to the Ore Enrichment Plants.

**496 million m<sup>3</sup>** **20-26 million tons**

approximate volume of tailings stored here.

of flotation tailings a year remain in the storage facility.

**≈ 120 million m<sup>3</sup>**

This amount of water is reused annually after treatment.

#### Infiltration of water from Želazny Most

Water containing flotation tailings flows to Želazny Most, where it is clarified and flotation tailings fall to the bottom. Our responsibility is to ensure that soil is not polluted.

#### Quality of water discharged to the Oder river

Excess water is discharged to the Oder river. We must ensure that it does not present an environmental hazard and complies with all the terms and conditions of the integrated permit, concerning, among other things, salinity.

#### Hydrotechnical Plant

The Plant is responsible for:

- environmental management,
- technological water management,
- waste water and sludge management,
- discharging excess water to the Oder river.

#### Cuprum Sp. z o.o. – CBR

This company monitors ground water and surface water for KGHM Polska Miedź S.A.

#### CBJ Sp. z o.o.

At all stages of the process water quality and content are controlled. The Quality Assessment Centre (CBJ) is responsible for this.

#### BEST PRACTICE

The system for monitoring chloride and sulfate loads in mine waters developed by KGHM employees won an award in the national Champion in Technology competition. The system for monitoring pollution loads collected with waters taken in for technological processes is used in the Mines and the Hydrotechnical Facility. Expenditures for the projects did not exceed PLN 1 million. After two years, the company did not have to pay fees for using the environment for chloride and sulfate loads discharged to the Odra river any longer. Owing to this, over PLN 28 million was saved in 2017.

### Environmental activity of KGHM Polska Miedź S.A.

KGHM Polska Miedź S.A. is the largest company in Lower Silesia and, being socially responsible, we cannot and do 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 our key values. The extraction and subsequent processing of copper ore at all stages of production is inextricably linked to the impact on the individual components of the environment. Compliance with stringent environmental standards following from the law is possible due to systematic modernization of installations for protecting the environment, both those built in the past and new investments in this field. In 2017, the company spent nearly PLN 369 million on environmental investments, including the largest expenditures of over PLN 72 million for the Pyrometallurgy Modernization Program at the Głogów I Smelter.

Pursuant to the sustainable development agreement signed in 2013 between the Management Board of the Głogów County and the Management Board of KGHM Polska Miedź S.A., a soil liming campaign was carried out in the Pełcaw township in 2017. Pursuant to the resolution adopted by the Management Board of KGHM Polska Miedź S.A., the Pełcaw township received the financial resources that allowed it to conduct liming soils used for agricultural purposes on an area of 1,370 ha where, according to an expert opinion, it was needed and necessary.

Environmental usage fees incurred by KGHM Polska Miedź S.A. Divisions in 2017 amounted to PLN 14 million. It was over PLN 10 million less than in 2016. Such a significant reduction of fees was achieved following the launch of a system for monitoring chloride and sulfate loads at the copper ore mines, which lets them calculate the fee for discharge of surface water from the Żelazny Most Tailings Storage Facility reduced by the chloride and sulfate loads measured in the collected water. Last

year, the landfill fee of PLN 7 million – constituted the largest part of the fee structure. The next largest cost item amounting to more than PLN 4 million, is the fee for the air emission of dusts and gases.

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 the decision of the European Commission (EU) establishing best available techniques for the non-ferrous metals industry, we reviewed the existing integrated permits from the point of view of their compliance with the applicable law and submitted requests to amend these decisions.

Our Hydrotechnical Facility Branch has a license to operate the "Żelazny Most" Tailings Storage Facility and the sectoral permits required by law. In December 2017, the Mayor of the Rudna Township issued a decision on environmental conditions for the construction of the southern quarters of the Tailings Storage Facility. Other Branches of the company hold sectoral administrative decisions allowing them to use the environment. 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 CO<sub>2</sub> emissions trading system, as KGHM Polska Miedź S.A. has participated in the obligatory EU Emissions Trading System (EU ETS) since 2013.

In 2017, the previous year emission in the amount of 767 thousand tonnes Mg CO<sub>2</sub> was covered by free allowances (597 thousand tonnes Mg CO<sub>2</sub>) supplemented with purchases of allowances (EUAs – EU emission allowances and CERs – certified emission reduction units). In 2017, it is expected that emissions of about 1.1 billion tonnes Mg of CO<sub>2</sub> will be covered by free allowances for the Głogów Smelter and the Legnica Smelter and additional allowances received for the Głogów Combined Cycle Unit for 2016 and 2017 (total amount of 580

thous. Mg CO<sub>2</sub>) and purchases of allowances (EUAs and CERs) for more than PLN 15 million. The largest pending environmental projects are as follows:

- construction of a concentrates roasting plant in the Głogów Smelter,
- update of the integrated permit for the planned construction of the WTR furnace in the Legnica Copper Smelter and Refinery,
- oversight of the CO<sub>2</sub> 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 quarter of the Żelazny Most Tailings Storage Facility.

KGHM Polska Miedź S.A. is a member of six international consortia established to meet the requirements of the REACH Regulation. In 2017, cooperation with the consortia involved adaptation of the companies to the changing REACH requirements for registration dossiers, substance classification, evaluation and authorization.

**G4-EN3** 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	KGHM Polska Miedź S.A.	
		2017	
		Values (MWh)	Values (GJ)
Non-renewable	Coal	-	-
	Natural gas	1,998,376.06	-
	Heating oil	-	-
	Diesel fuel	-	-
<b>Total</b>	<b>Total consumption</b>	<b>1,998,376.06</b>	<b>-</b>
2	Total consumption of energy produced or purchased, by electricity, heat in Joules or multiples thereof	KGHM Polska Miedź S.A.	
		2017	
		Values (MWh)	Values (GJ)
	Solar energy	2,843,054.84	-
	Heat (including consumption of steam, consumption of cooling energy)	-	1,196,842
<b>Total</b>	<b>Energy consumption</b>	<b>2,843,054.84</b>	<b>1,196,842</b>

3	Total energy sales: electricity, heat, cooling and steam, in Joules or multiples thereof	KGHM Polska Miedź S.A.	
		2017	
		Values (MWh)	Values (GJ)
	Total sales of electricity	177,661.40	-
	Total sales of heat (net)	-	104,781
	Total sales of cooling energy	-	-
	Total sales of steam	-	-
<b>Total</b>	<b>Sales</b>	<b>177,661.40</b>	<b>104,781</b>
5	<b>Total energy consumption within the organization</b>	<b>4,663,769.50</b>	<b>4,460,884</b>

**G4-EN16** Indirect greenhouse gas emissions

Indirect emissions, by source	Greenhouse gas emissions (tCO <sub>2</sub> e)
	KGHM Polska Miedź S.A.
	2017
Emissions resulting from electricity purchased for own needs	1,879,943
Emissions resulting from heat purchased for own needs	195,132
Emissions resulting from cooling energy or steam purchased for own needs	-
<b>Total indirect emissions</b>	<b>2,075,075</b>



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

No.	Total weight of hazardous and non-hazardous waste, by treatment method	Weight of waste in 2017 (Mg)	
		KGHM Polska Miedź S.A.	
		Waste other than hazardous waste	Hazardous waste
1	Re-use of waste	1,990.02	0.00
2	Recycling (including organic recycling, e.g. composting)	1,617.59	11.60
3	Recovery (including recovery of energy)	20,319,920.93	43,257.71
4	Incineration (or use as fuel)	0.00	0.00
5	Storage in landfills	10,721,329.78	142,211.81
6	Discharge to deep wells	0.00	0.00
7	Storage on site	227,981.00	63,981.45
8	Other	145.34	41,069.95
	<b>Total</b>	<b>31,272,984.66</b>	<b>380,255.71</b>

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

Information on administrative and judicial sanctions imposed on the organization for non-compliance with environmental legislation	
	KGHM Polska Miedź S.A. for 2017
Total value of fines for non-compliance with environmental laws and regulations [PLN]	PLN 8,204.00
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.	-

**G4-11** Relations with trade unions

There are 15 trade unions active in KGHM Polska Miedź S.A. which form 48 trade union organizations. 88.6 per cent of all employees are members of trade unions. The mutual rights and obligations of the employees

and our Group, including primarily the remuneration conditions and other benefits connected with work at KGHM Polska Miedź S.A., are governed by a collective labor agreement.

In 2017, the following major events took place regarding relations with trade unions:

Date	Event
21 February 2017	Additional Protocol No. 20 to the Collective Labor Agreement for KGHM Polska Miedź S.A. Employees was signed, amending Appendix No. 2, or the table of monthly rates of base remuneration.
11 April 2017	The Trade Union of Copper Industry Employees initiated a collective dispute about the issues of remuneration and social conditions as well as improvement of occupational and safety at work. As a result of negotiations and mediations, on 17 August 2017, an agreement was signed ending the collective dispute.
10 August 2017	Additional Protocol No. 21 to the Collective Labor Agreement was signed, on the basis of which all the positions defined in the table of rates constituting Attachment No. 1 to the collective agreement were reclassified to one category higher.



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# Our business results

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## 7.1 Mining and metallurgical production

The best utilization of the Company's resource base and production capacity and optimization of the copper content in the extracted ore and concentrates were the main goals in 2017 in mining and smelting production.

In 2017, we extracted 31.2 million tons of ore, with the dry weight of 0.8 million tons, which is less than in 2016. The decrease in the extracted volume follows from the reduction of working hours in days off work because of lower amount of processed concentrates than planned in Głogów I Smelter and optimization of concentrate supplies in copper smelters.

The average content of copper in the extracted ore was 1.5 percent and was at a similar level as in 2016. The content of silver in the ore extracted was at a level higher by 3 percent, amounting to 47.8 g/ton.

As a result, the copper quantity in extracted ore was lower by 13.2 thousand tons than in 2016, reaching

466.8 thousand tons. The volume of silver in the ore extracted increased by 8 tons and was 1,490 tons.

In 2017, our plants processed 31.5 million tons of ore on a dry weight basis (246 thousand tons less than in 2016). The lower extraction level in the mines had a direct impact on the quantity of copper concentrate, which was 419.3 thousand tons.

The concentrate production (dry weight) decreased against 2016 by 33 thousand tons (a decline from 1,866 to 1,833 thousand tons). The volume of silver in concentrate was higher than in 2016 by 25 tons (an increase from 1,265 to 1,290 tons).

### G4-EN1 Mining production of KGHM Polska Miedź S.A.

	unit	2017	2016	Change (%)
Ore extraction (wet weight)	million tons	32.8	32.6	+0.6
Ore extraction (dry weight)	million tons	31.2	32.0	(2.5)
Copper content in ore	%	1.50	1.50	-
Copper quantity in ore	kt	466.8	480.0	(2.8)
Silver content in ore	g/ton	47.8	46.3	+3.1
Silver quantity in ore	tons	1,490	1,482	+0.5
Production of concentrate (dry weight)	kt	1,833	1,866	(1.8)
Copper content in concentrate	kt	419.3	424.3	(1.2)
Silver content in concentrate	tons	1,290	1,265	+2.0



## Smelting production

The production of electrolytic copper fell by 13.6 thousand tons, i.e. 2.5% compared to 2016. The lower production of electrolytic copper follows from recovery of full production capacity of Głogów I Smelter and a failure of the heat recovery steam generator on 3 October 2017. (the production process at Głogów I Smelter was resumed on 30 October 2017). Supplementing copper from own concentrates by purchased copper-bearing materials, in the form of scrap, blister and imported concentrates, allowed for effective use of the existing technological capacities.

The production of the remaining smelting products (silver, wire rod, OFE wire and billets) derives from the production scale of electrolytic copper and depends on the type of raw materials used and, most importantly, on market demand. Compared to 2016, the production of metallic gold grew by 3.5 thousand troy ounces, i.e. 3% and for the first time in the history of KGHM Polska Miedź S.A. it hit the volume watermark of 117.3 thousand troy ounces. The production of metallic silver was higher by 27 tons, closing the annual result at the level of 1,218 tons.

### G4-EN1 Smelting production of KGHM Polska Miedź S.A.

	unit	2017	2016	Change (%)
<b>Electrolytic copper, including:</b>	<b>kt</b>	<b>522.0</b>	<b>535.6</b>	<b>(2.5)</b>
• production from own concentrates	kt	358.9	376.0	(4.5)
• production from external concentrates	kt	148.0	159.6	(7.3)
• production from processing	kt	15.1	-	×
Copper wire rod, OFE wire and CuAg	kt	257.9	267.4	(3.6)
Round billets	kt	13.7	13.0	+5.4
Metallic silver	tons	1,218	1,191	+2.3
Metallic gold	k troy ounces	117.3	113.8	+3.1
Refined lead	kt	30.0	30.1	(0.3)



## 7.2 Production results

In 2017, we produced 656.4 thousand tons of payable copper – 3 percent less than in 2016. The decrease in production results from lower production of cathodes at KGHM Polska Miedź S.A. caused by the accident at the Głogów Smelter and Refinery in the second half of the year and lower production at KGHM INTERNATIONAL LTD., mainly because of lower quantities of processed ore in the Robinson and Sudbury mines, which also resulted in a lower production of precious metals as compared to the previous year.

### Production results in the Group

	2017	2016	Change (%)
Payable copper (thousand tons)			
Group	656.4	677.0	(3.0)
• KGHM Polska Miedź S.A.	522.0	535.6	(2.5)
• KGHM INTERNATIONAL LTD.	81.0	89.8	(9.8)
• Sierra Gorda S.C.M.*	53.4	51.5	+3.7
TPM – precious metals (thousand troy ounces)			
Group	219.4	228.8	(4.1)
• KGHM Polska Miedź S.A.	117.3	113.8	+3.1
• KGHM INTERNATIONAL LTD.	74.0	92.1	(19.7)
• Sierra Gorda S.C.M.*	28.0	22.9	+22.3
Silver (tons)			
Group	1,234.1	1,207.0	+2.2
• KGHM Polska Miedź S.A.	1,218.1	1,191.1	+2.3
• KGHM INTERNATIONAL LTD.	1.6	1.7	(5.9)
• Sierra Gorda S.C.M.*	14.4	14.1	+2.1
Molybdenum (million pounds)			
Group	20.3	13.0	+56.2
• KGHM Polska Miedź S.A.	-	-	×
• KGHM INTERNATIONAL LTD.	0.7	0.8	(12.5)
• Sierra Gorda S.C.M.*	19.7	12.2	+61.5

\*The Group has a 55% equity stake.

## Mining production

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. They include: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

We are one of the world's leaders in the metallurgic industry. The production capacity of our copper smelters in the Lower Silesia region is 570 thousand tons of electrolytic copper and 1,300 tons of silver per year.

## Major reporting segments of the KGHM Polska Miedź Group

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. joint ventures of KGHM INTERNATIONAL LTD. and companies from the Sumitomo Group
Core business	Mining and smelting production of metals – Cu, Ag, Au	Mining production of metals – Cu, Ni, Au, Pt, Pd	Mining production of metals – Cu, Mo, Au, Ag
The most important production assets	Underground mines <ul style="list-style-type: none"> <li>• Lubin Mine</li> <li>• Polkowice-Sieroszowice Mine</li> <li>• Rudna</li> </ul> Mine Copper smelters <ul style="list-style-type: none"> <li>• Legnica Smelter</li> <li>• Głogów Smelter and Głogów Smelter II Cedyňa Smelter Rolling Mill</li> </ul>	<ul style="list-style-type: none"> <li>• Robinson Mine in the US (surface)</li> <li>• Morrison Mine (underground) in the Sudbury Basin in Canada</li> </ul>	<ul style="list-style-type: none"> <li>• Sierra Gorda Mine in Chile (surface)</li> </ul>
Main development projects	Głogów Głęboki-Przemysłowy Pre-production and exploration projects in south-west Poland	Victoria project in the Sudbury Basin in Canada – construction of an underground copper and nickel mine  Sierra Gorda Oxide project in Chile	

From among the remaining companies which do not belong to the core segments, several main groups of companies may be distinguished:

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





## Metallurgy

Our smelters produce electrolytic copper from own concentrates or purchased copper-bearing materials (copper concentrates, copper scrap, blister copper).

The Legnica Smelter follows a multi-stage process whose main stages are as follows:

- preparation of concentrate for smelting,
- reductive smelting in a shaft furnace to the form of copper stone,
- refreshing in converters to converter copper with the content of approx. 98.5% of Cu,
- fire refining in an anode furnace to anode form with the content of 99.2% of Cu,
- electrorefining – the final product is electrolytic copper in the form of cathodes with the content of 99.99% of Cu.

Głogów Smelter uses a single-stage technology of processing concentrate in flash furnaces, based on a license from the Finnish company Outokumpu. The concentrate dried to moisture content 0.3% of H<sub>2</sub>O is smelted in a flash furnace into blister copper with the content of approx. 98.6% Cu, which is fire refined in anode furnaces. On the other hand, suspension slag, containing about 14% of copper is directed

to decopperization in an electric furnace, and the obtained alloy CuPbFe is taken to converters, from which copper also goes to refining in anode furnaces. The anodes obtained in the process of fire refining are subjected to the process of electrorefining whose final product is electrolytic copper in the form of cathodes with the content of 99.99% of Cu.




About 45% of the electrolytic copper produced by KGHM smelters is processed in the rolling mill of the Cedynia Smelter Branch, where copper wire rod is produced using the method of continuous dipping, casting and rolling, OFE rod and low-alloy OFE copper with the addition of silver based in the UPCAST technology. Sludge left over in the electrorefining processes in the KGHM smelters contain precious metals and serves as raw material for producing refined silver, gold, platinum-palladium concentrate and selenium. On the other hand, the electrolyte withdrawn from circulation after decopperization is directed to the production of raw nickel sulfate.

Lead-bearing dusts and sludge generated from dust removal from technological gases of all the smelters are smelted with decopperized converter slag from the suspension line to the form of raw lead with the content of 99.3% of Pb. Raw lead is subjected to the refining process at the Legnica Smelter, as a result of which the final product is obtained – refined lead with the content of 99.85% of Pb.





## KGHM smelters:

 <p>Głogów Smelter</p>	 <p>Legnica Smelter</p>	 <p>Cedynia Smelter – Rolling Mill</p>
<p>In our smelters and refineries, we use various types of solutions for technological processes:</p>		
<p>In the Głogów Smelter, copper is smelted based on the cutting-edge technology of single-stage suspension smelting – the first of its kind in the world. The smelter also includes Precious Metals Division producing silver and gold</p>	<p>The Legnica Smelter produces copper in the form of cathodes using the traditional technology of shaft furnace in the process of electrorefining</p>	<p>Cedynia Smelter is, on the other hand, a copper rolling mill, processing electrolytic copper produced in the above two smelters. The process involves modern installations for the production of wire rod using the Contirod method, without the use of billet, as well as the production of the Upcast wire rod</p>

## Metallurgy

We systematically build our position as a global company and as one of the leading silver and copper producers worldwide.

We are the sole producer of rhenium and ammonium perrhenate from our own resources in Europe. We

would like to join the group of largest multiple raw materials producers in the world. Our Polish deposits are estimated at approx. 17.5 million tons of metal in usable resources of copper and will enable us to maintain the exploitation of copper ore at the current level for the next 40–50 years.

According to assessments, the largest global copper resources are in the following countries:



Our business results

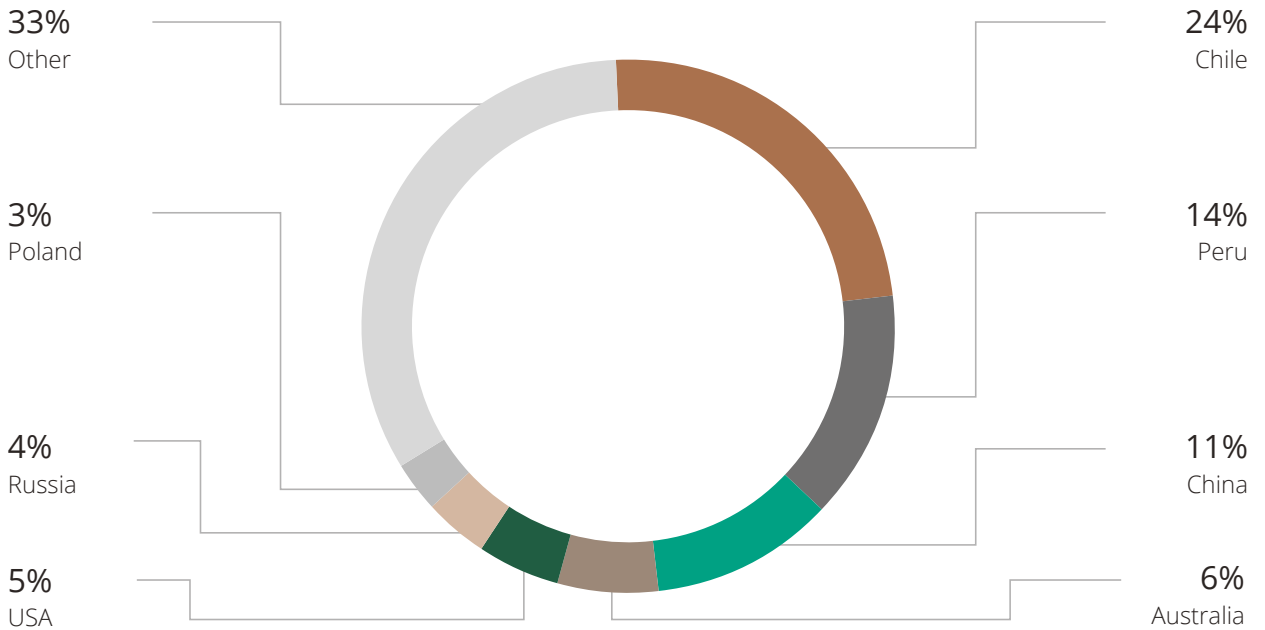
One of the areas which builds our position on the global market is the share in the global market of copper concentrates. Companies from the KGHM Group participate in the market mainly by selling concentrate of Sierra Gorda from Chile and Robinson from the US. At the same time, KGHM purchases copper concentrates with appropriate properties on the market to make it possible to use the production capacities of the smelters in Poland more effectively.

KGHM Group companies produced in total 531 million thousand tons of copper concentrate, which is approx. 3.3 percent of the estimated global production in 2017.

Copper concentrate is a product generated while processing copper ores which usually has a relatively low metal content and is not fit to be used directly in the metallurgical process. The copper content in concentrate is in most cases between 20 and 40 percent, which makes it possible to process it further in copper smelters. Delivery costs of products with lower copper content in practice eliminate them from the global market trade.

The major actors of the concentrate market are copper mines which deliver the product to the market and copper smelters for which the concentrates are raw materials to produce copper and by-products of the processing (including mainly precious metals). The total global copper production in Cu concentrates in 2017 is estimated (according to CRU) at 16.1 million tons.

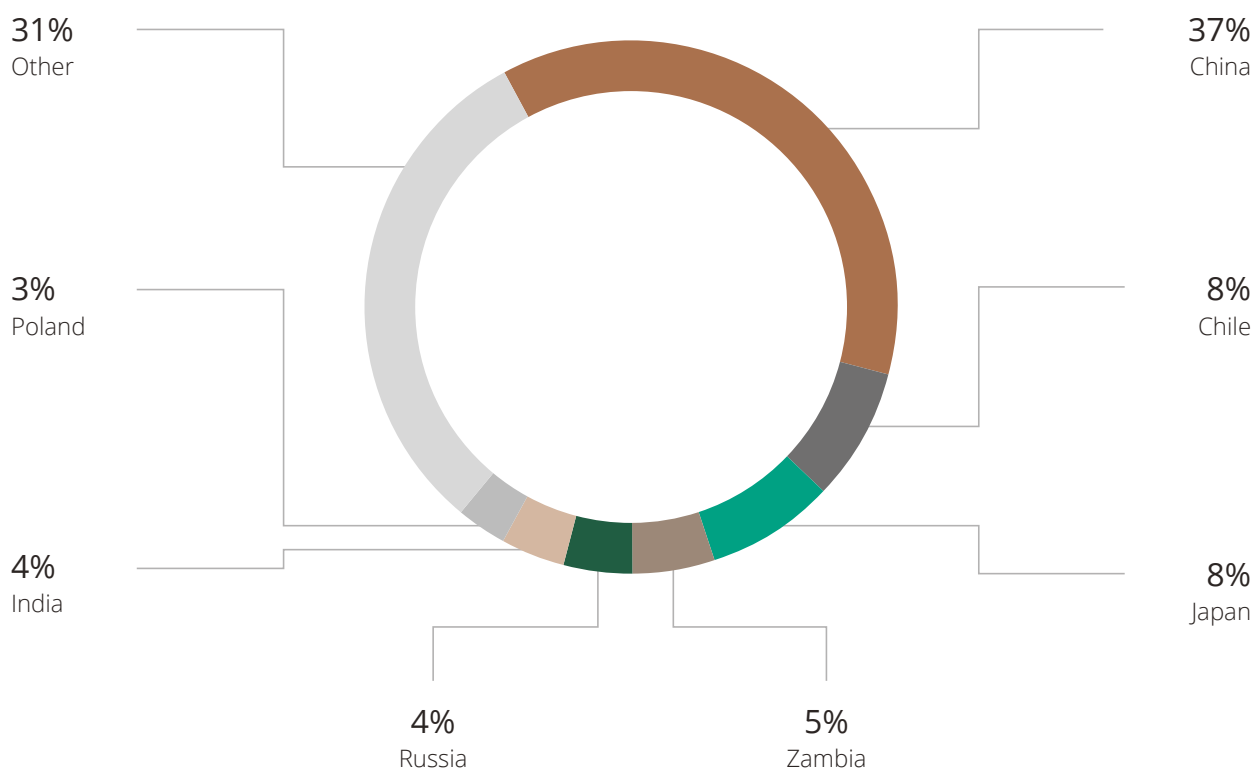
The geographical structure of Cu concentrate production in 2017



Source: CRU, KGHM Polska Miedź S.A.



The geographical structure of copper blister production from Cu concentrates in 2017



Source: CRU, KGHM Polska Miedź S.A.

Cu concentrates require processing to the form of refined copper, which involves incurring processing costs and incomplete recovery of metals at each stage of the production process. Therefore, the transaction price should include a number of discounts from the prices listed by stock exchanges for refined copper. The benchmark of discounts (regarding treatment charge and refining charge, TC/RC) on the market is determined in negotiation by the major concentrate producers (Freeport McMoRan, Antofagasta, BHP Billiton) and its recipients (mainly Chinese and Japanese metallurgical plants).

## Efficient resource utilization

Optimal use of resources is one of the overarching goals of the daily operations of our plants. Initiatives to improve the efficiency of resource management in mining and metallurgical plants translate not only into real savings, but also into improved production output.

The 2017 increase in efficiency was possible, among others, thanks to the extension of the scope of exploitation within the "Głogów Głęboki-Przemysłowy" Mining Area. Thanks to the work of our experts, we have managed to improve the deposit selection technology, to improve the efficiency of extraction while increasing

occupational safety. Important elements of those works included the adaptation of the geometry of exploitation systems to local geological and mining conditions, appropriate waste rock management within the fields of exploitation and the launch of a new G-51 extraction unit at the Polkowice-Sieroszowice Mine.

In the field of ore enrichment, we have adjusted the production capacity of individual Ore Enrichment Plant Areas to the quantity and quality of the spoil delivered. The production of concentrates in the quantity and quality necessary for the optimal use of production capacity of the fire parts of the smelters was maintained.

## Our business results

We also continued the Pirometallurgy Modernization Program. Assembly and start-up works were completed. In 2017 as-built documentation was completed and taken over along with documents for obtaining occupancy permits. The works are pending completion with relevant authorities and occupancy permits are pending issuance.

Also the Metallurgy Development Program is continued. Construction and assembly works are continued within

the key technological hubs as part of the investment tasks of the program, i.e. the construction of the HM Głogów II Smelter Steam Dryer and the Installation for roasting copper concentrate. In the Głogów I Smelter, the implementation of projects adjusting the technical infrastructure for the change of metallurgical technology and the increase of copper yields in the basic production sequence of the flash furnace is in progress.

## Initiatives to improve the efficiency of resource management in mining and metallurgical plants of KGHM Polska Miedź S.A.

☞ increasing the efficiency of resource utilization (3D deposit modeling),

☞ increasing the extraction and production of copper concentrate,

☞ optimization of mining machinery management,

☞ implementation of the energy saving program,

☞ employment level optimization.

## Development of the Resource Base in a global perspective

Access to geological resources is for us an element of securing exploitation opportunities, first of all in areas adjacent to the areas where mining takes place. We conduct geological work on documented copper ore deposits and activities related to obtaining a license for the exploration and appraisal of new deposits.

The mining industry knows two ways of acquiring new geological resources. The first one is to acquire new resources through activities on the M&A market and related acquisitions of mining entities that have assets with economically attractive geological resources.

## Criteria for the assessment of new resource projects

RESOURCES	Projects potentially exceeding <b>1.5 million tons</b> of copper equivalent
C1 COST	Assets with low production cost – <b>below the 65th percentile</b> on the cost curve, preferably below the 50th percentile
SAFETY	Economically and socially <b>stable, mining-friendly countries</b>
OPERATION	The operating period should be <b>at least 10 years</b> , preferably 15
OBJECTIVE	Creation of a portfolio of projects at various stages of advancement, so that it is possible to continuously increase the output and value of the company





The second way to increase the resource base is to carry out exploration work in areas where the company has the appropriate concessions to carry out exploration and appraisal work. In the case of this method of expanding the resource base, it should be noted that each of the significant mining producers performs a series of exploratory works, i.e. exploration and geological appraisal. They are carried out in three basic areas:

- greenfield exploration – prospecting new deposits;
- brownfield exploration – appraisal of resources which have been partially surveyed and documented;
- in-mine and near-mine exploration – appraisal of areas adjacent to the currently exploited assets in order to extend the exploitation period.

At KGHM Polska Miedź S.A., in accordance with our Business Strategy, we strive to expand our resource base and product portfolio. We are developing many prospective mining and exploration projects.

Eventually, they will reduce copper production costs and increase the company's competitiveness, as well as strengthen KGHM's position as a global multi-source leader, producing copper, silver, molybdenum, nickel, lead, gold, platinum, palladium, rhenium and selenium. The most important investments developed by KGHM outside of Poland are:

- Ajax in Canada, which was the first foreign deposit bought by KGHM,
- Victoria – a project developed in the Canadian Sudbury Basin, called the world capital of nickel. In 2017, as part of the project activities, the project team continued its work related to securing the existing infrastructure and project area. In addition, in 2017 work continued on developing the optimal path of project implementation.

The most important mining project that we conduct in Poland is ensuring the availability of new copper ore resources from the Głogów Głęboki-Przemysłowy deposit, which will allow us to maintain the current level of domestic extraction for several dozen years to come.

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# Financial results

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## 8.1 Financial stability

In 2017, KGHM Polska Miedź maintained financial stability and debt ratios at a safe level. The overriding objective of the liquidity management policy was to provide financing in both the short, medium and long term in such a way that the continuity of operations and the implementation of the Group's strategy are secured, in particular the continuation of the initiated investment projects.

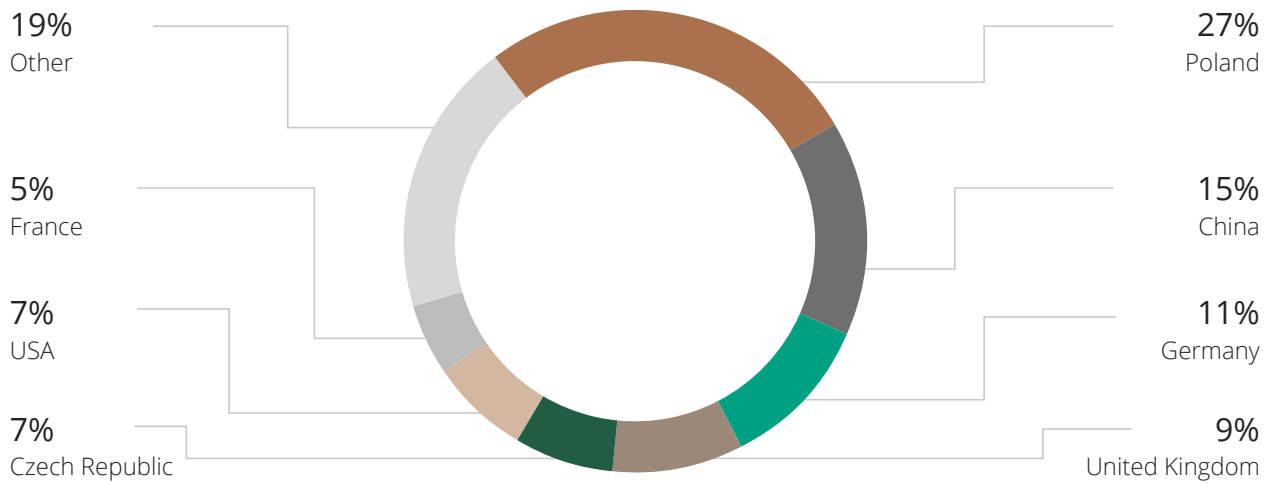
### Financial results of the Group (PLN million)

Earnings before tax	2017	2016	Change (%)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Revenue from sales	20,358	19,156	+6.3	5,871	4,774	4,802	4,911
Basic operating costs	(16,547)	(16,612)	(0.4)	(4,801)	(3,910)	(3,999)	(3,837)
<b>Net profit on sales</b>	<b>3,811</b>	<b>2,544</b>	<b>+49.8</b>	<b>1,070</b>	<b>864</b>	<b>803</b>	<b>1,074</b>
• Results from engagement in joint ventures	(155)	(4 961)	(96,9)	(180)	79	(136)	82
• Other operating revenue (expenses)	(2,377)	(802)	x3,0	(1,315)	(204)	(432)	(426)
• Financial revenue (expenses)	1,020	(582)	x	288	48	383	301
<b>Earnings before tax</b>	<b>2,299</b>	<b>(3,801)</b>	<b>x</b>	<b>(137)</b>	<b>787</b>	<b>618</b>	<b>1,031</b>
• Income tax	(774)	(648)	+19.4	3	(182)	(274)	(321)
<b>Net result</b>	<b>1,525</b>	<b>(4,449)</b>	<b>x</b>	<b>(134)</b>	<b>605</b>	<b>344</b>	<b>710</b>
<b>Adjusted EBITDA*</b>	<b>5,753</b>	<b>4,666</b>	<b>+23.3</b>	<b>1,476</b>	<b>1,414</b>	<b>1,282</b>	<b>1,581</b>
<b>EBITDA Margin</b>	<b>26%</b>	<b>23%</b>	<b>+13.0</b>	<b>23%</b>	<b>26%</b>	<b>25%</b>	<b>29%</b>

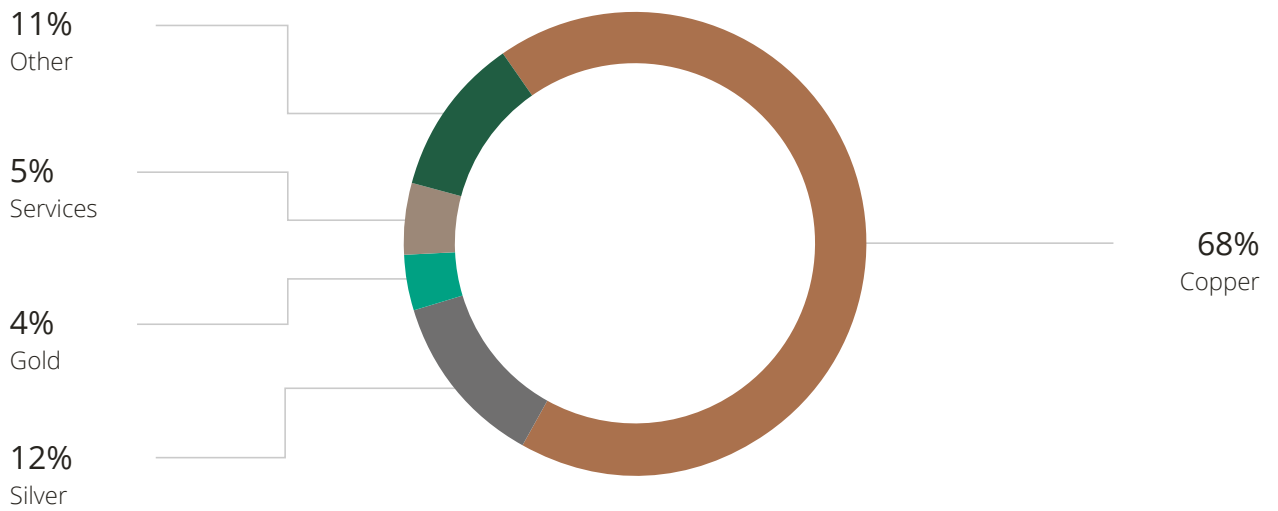
\* Adjusted EBITDA = EBIT + depreciation (included in the net result) + write-down (-reversed write-down) for impairment loss of non-current assets included in the costs of the main operating activity in accordance with Part 2 of the consolidated financial statements – along with Sierra Gorda S.C.M.

\*\* Ratio between adjusted EBITDA and revenue on sales. For the purposes of calculation of the Group's EBITDA margin, consolidated sales revenue was increased by revenue from the sale of the Sierra Gorda S.C.M. segment.

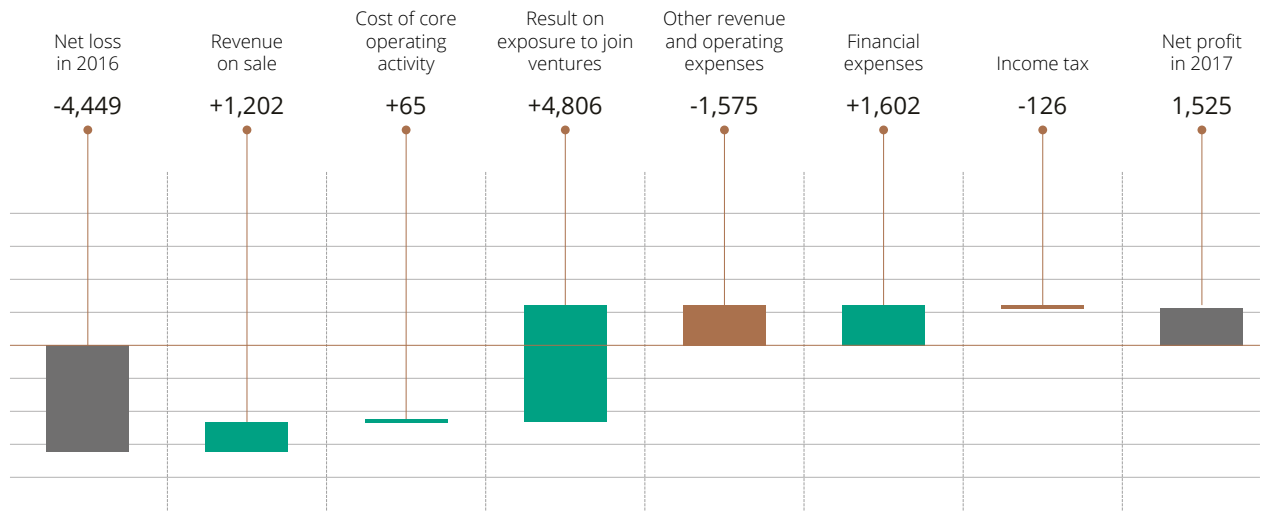
**G4-8** Geographical composition of the Group's sales



Composition of the Group's sales by product



Change in the Group's financial result in 2017 (PLN million)

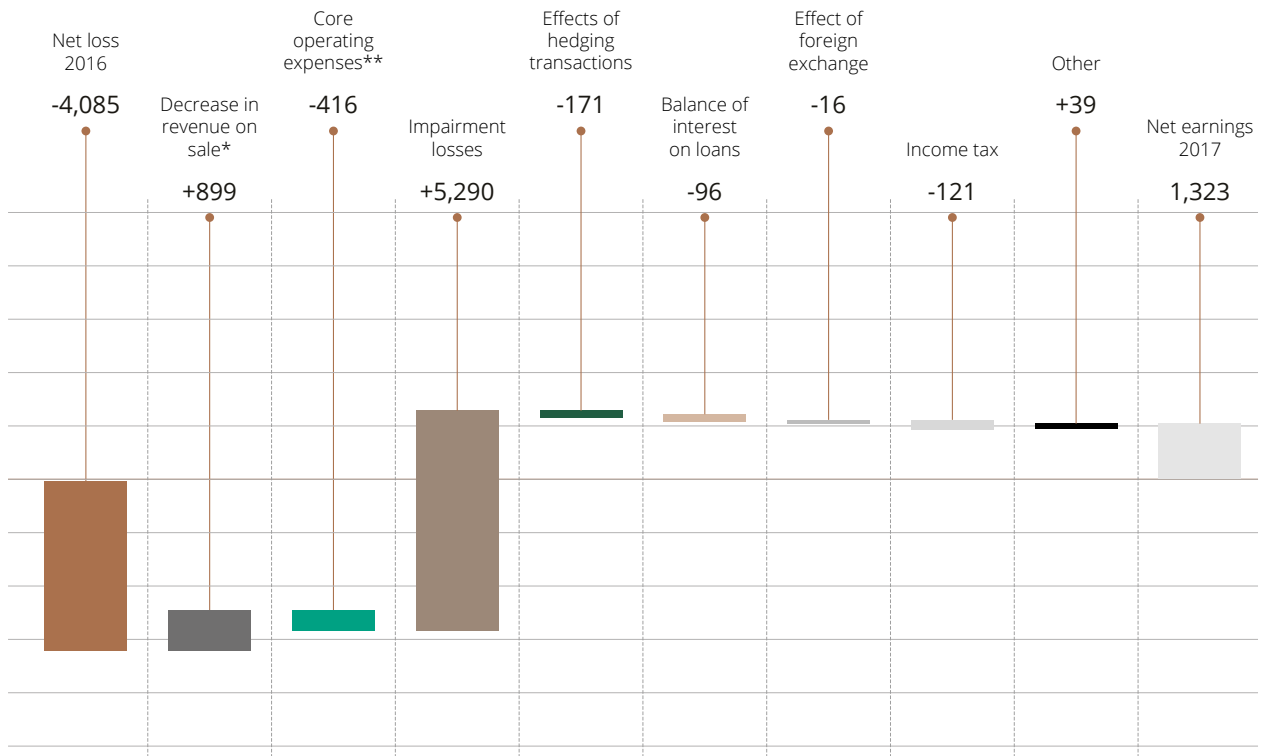




## Financial results

In 2017, KGHM Polska Miedź S.A. reported a net profit of PLN 1,323 million, which was affected, among others, by impairment losses on assets in the amount of PLN 966 million.

### Change of net result of KGHM Polska Miedź S.A.



\*Excluding adjustment for hedging transactions.

\*\*Excluding items included in core operating expenses.

\*\*\*Including commissions and fees.



## 8.2 Sales results

Total revenue on sale of KGHM Polska Miedź S.A in 2017 totaled PLN 16,024 million, up 6% compared to 2016 (PLN 15,112 million), mainly due to higher copper prices in PLN.

Revenue on the sale of copper in 2017 totaled PLN 12,213 million and were higher than the level of sale in the previous year by 10% (PLN 11,064 million in 2016). Revenue on the sale of metallic silver in 2017 amounted to PLN 2,447 million and were lower by 6% compared to the level of sale in 2016.

Revenue on the sale of gold were reported at the same level as in 2016 (PLN 556 million). The decrease in revenue on the sale of silver was mainly caused by the drop in the quotations of this metal expressed in PLN, compared to 2016.

### Revenue on sales by KGHM Polska Miedź S.A (PLN million)

	2017	2016	Change (%)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Cathodes and parts of cathodes	5,541	4,937	+12.2	1,836	1,259	1,217	1,229
Copper wire rod and OFE wire	6,276	5,293	+18.6	1,603	1,545	1,514	1,614
Payable copper concentrate*	86	574	(85.0)	15	18	11	42
Other copper products	310	260	+19.2	86	78	73	73
<b>Total copper and copper products</b>	<b>12,213</b>	<b>11,064</b>	<b>+10.4</b>	<b>3,540</b>	<b>2,900</b>	<b>2,815</b>	<b>2,958</b>
Metallic silver	2,447	2,596	(5.7)	720	507	660	560
Payable silver in concentrate**	(6)	202	x	-	(1)	(1)	(4)
Metallic gold	556	556	-	134	134	135	153
Refined lead	273	230	+18.7	71	66	62	74
Other products and services	356	316	+12.7	89	86	84	97
Goods and materials	185	148	+25.0	37	40	50	58
<b>Total revenue on sale</b>	<b>16,024</b>	<b>15,112</b>	<b>+6.0</b>	<b>4,591</b>	<b>3,732</b>	<b>3,805</b>	<b>3,896</b>

\* Value of payable copper reduced by the value of processing premium (TC), Cu refining premium (RcCu) and other deductions affecting the value of Cu concentrate (except the value of Ag refining premium).

\*\* Payable silver value reduced by the value of Ag refining premium (RcAg), negative values resulting from the settlement of contracts from the previous year.

## 8.2.1 Conditions of sale

In 2017, compared to 2016, in KGHM Polska Miedź S.A. we reported a decrease in the volume of sales of copper products by 53.8 thousand tons (10%), which was associated with a reduction in the production of **electrolytic copper**. The volume of cathode sale dropped by 12.9 thousand tons (5%) and copper wire rod and OFE wire by 5.2 thousand tons (2%).

Sale of metallic **silver** in 2017 amounted to 1,185 thousand tons and was similar to the previous year's level. The volume of sale of **gold** in 2017 amounted to 117.1 thousand troy ounces, which was an increase by 4% compared to 2016.

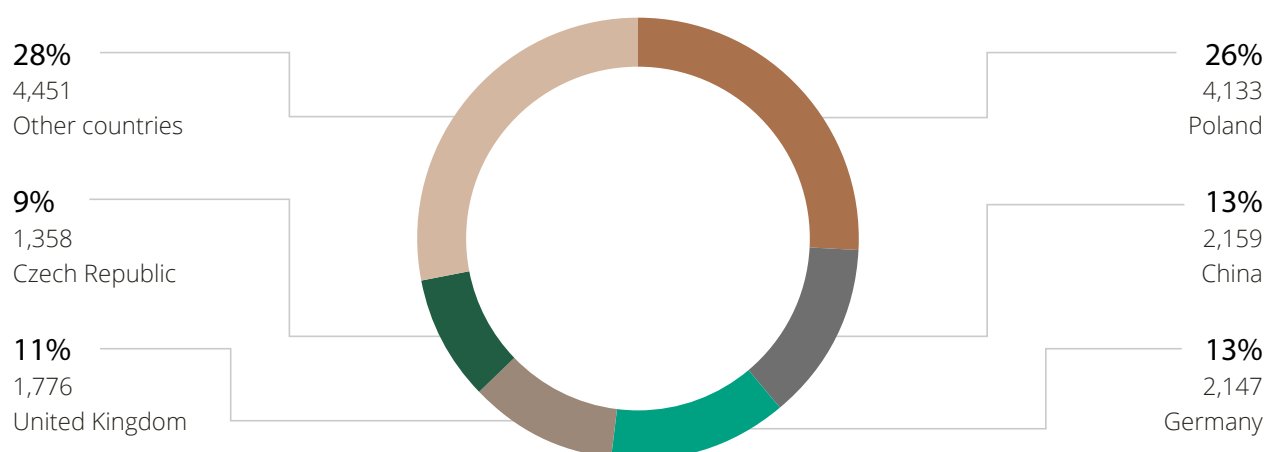
### Volume of sale of basic products of KGHM Polska Miedź S.A.

Metallic silver	unit	2017	2016	Change (%)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Cathodes and parts of cathodes	kt	233.5	246.4	(5.2)	73.9	53.2	55.4	51.0
Copper wire rod and OFE wire	kt	259.9	265.1	(2.0)	63.2	64.3	66.8	65.6
Payable copper in concentrate*	kt	(0.3)	35.2	x	-	-	-	(0.3)
Other copper products	kt	12.9	13.1	(1.5)	3.4	3.2	3.3	3.0
<b>Total copper and copper products</b>	<b>kt</b>	<b>506.0</b>	<b>559.8</b>	<b>(9.6)</b>	<b>140.5</b>	<b>120.7</b>	<b>125.5</b>	<b>119.3</b>
Metallic silver	tons	1,185	1,189	(0.3)	372	258	308	247
Payable silver in concentrate	tons	-	91	x	-	-	-	-
Metallic gold	k troy ounces	117.1	112.5	+4.1	29.2	29.2	27.8	30.9
Refined lead	kt	29.6	29.7	(0.3)	7.5	7.5	7.0	7.6

\* Negative values result from the settlement of contracts from the previous year.

26% of sales revenue obtained by KGHM Polska Miedź S.A. in 2017 came from the Polish market. The largest remaining recipients of the products, goods and services offered by the company were China, Germany, the United Kingdom and the Czech Republic.

## Revenue on sale of KGHM Polska Miedź S.A by market



### BEST PRACTICE

For 20 years KGHM Polska Miedź S.A. has been selling copper cathodes to China, where their main recipient is China Minmetals Corporation. We have already sent to the Middle Kingdom nearly 881 thousand tons of this resource for 5 billion dollars. Cathodes from KGHM is 60% of all Chinese imports from Poland. The current framework contract, signed in 2016, provides for exports from 250,000 up to 600,000 tons of cathodes in 2017-2021, worth (depending on the level of orders) from 1.2 billion to 2.8 billion dollars.

Revenues of the KGHM INTERNATIONAL LTD. segment in 2017 amounted to USD 695 million, and thus increased by USD 56 million (+9%), compared to 2016, mainly due to more favorable macroeconomic conditions whose positive impact was partially limited by a reduction in metal sales volumes. As a result of a decrease in the volume of sale of precious metals by 21.7 thousand troy ounces (-23%) their sales declined by USD 4 million (-4%).

## Volume and revenue on the sale of KGHM INTERNATIONAL LTD. (USD million)

	unit	2017	2016	Change (%)
<b>Revenue on sale, including*</b>	<b>USD million</b>	<b>695</b>	<b>639</b>	<b>+8.8</b>
• Copper	USD million	454	381	+19.2
• Nickel	USD million	12	21	(42.9)
• TPM – precious metals	USD million	99	103	(3.9)
Copper sale volume	kt	80.0	90.2	(11.3)
Nickel sale volume	kt	1.1	2.1	(47.6)
TPM sale volume	k troz	72.6	94.3	(23.0)

\*Including processing premiums



## 8.2.2 Cost structure

At KGHM Group, we manage our financial capital so as to generate returns for shareholders and bring benefits to other stakeholders. We are able to adapt to ongoing changes and continuous investments in people and resources.

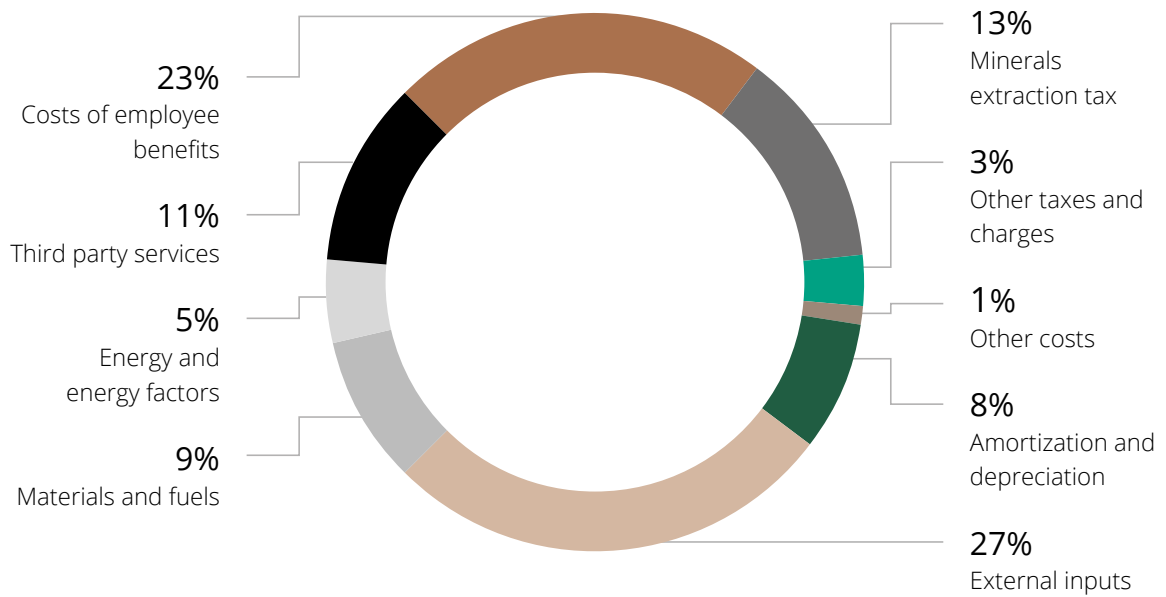
The costs of the Company's core operations (including production costs of products sold, value of goods and

materials sold, selling and general management costs) in 2017 totaled PLN 12,899 million and were up 3% compared to the same period of 2016, mainly due to the higher cost of the mining tax for some minerals and the higher value of used external services. The cost composition by type in 2017 was very similar to 2016.

### KGHM Polska Miedź S.A. – costs by type (PLN million)

	2017	2016	Change (%)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Depreciation of fixed assets and intangible assets	1,072	993	+8.0	280	261	262	269
Costs of employee benefits	3,210	3,023	+6.2	864	782	813	751
Consumption of materials and energy, including:	5,831	5,482	+6.4	1,447	1,596	1,417	1,371
• external inputs	3,750	3,469	+8.1	932	1,059	906	853
• energy and energy factors	775	745	+4.0	196	222	190	167
External services	1,531	1,392	+10.0	456	362	360	353
Taxes and charges, including:	2,154	1,725	+24.9	535	540	506	573
• Minerals extraction tax	1,765	1,338	+31.9	456	438	405	466
Other costs	126	161	(21.7)	37	29	40	20
<b>Total costs by type</b>	<b>13,924</b>	<b>12,776</b>	<b>+9.0</b>	<b>3,619</b>	<b>3,570</b>	<b>3,398</b>	<b>3,337</b>

## Cost structure by type in 2017



The level of operating costs is influenced to a significant extent by production costs of electrolytic copper (before subtracting the value of by-products), whose share is about 94 percent. **Production costs of copper in concentrate - C1\*** was 1.30 USD/pound and 1.52 USD/pound in 2016 and 2017 respectively. The value of the costs was influenced by the strengthening of the Polish zloty against the US dollar, a higher minerals extraction tax and lower production of own minerals.

\* Production costs of copper concentrate - C1 is a unit cash production cost of payable copper concentrate, taking into account the costs of extracting and processing the winnings, transport costs, minerals extraction tax, administrative costs of the mining phase and treatment charge and refining charge (TC/RC), decreased by the value of by-products.



## 8.3 C1 cost line item

C1 cost, or cash production cost of payable copper, taking into account the costs of extracting and processing ore, tax on minerals, transport costs, administrative costs of the mining phase and treatment charge and refining charge (TC/RC), decreased by the value of the Group's by-products against the quantity of sold payable Cu, was higher by 12.8 percent in 2017 as compared to the data from 2016.

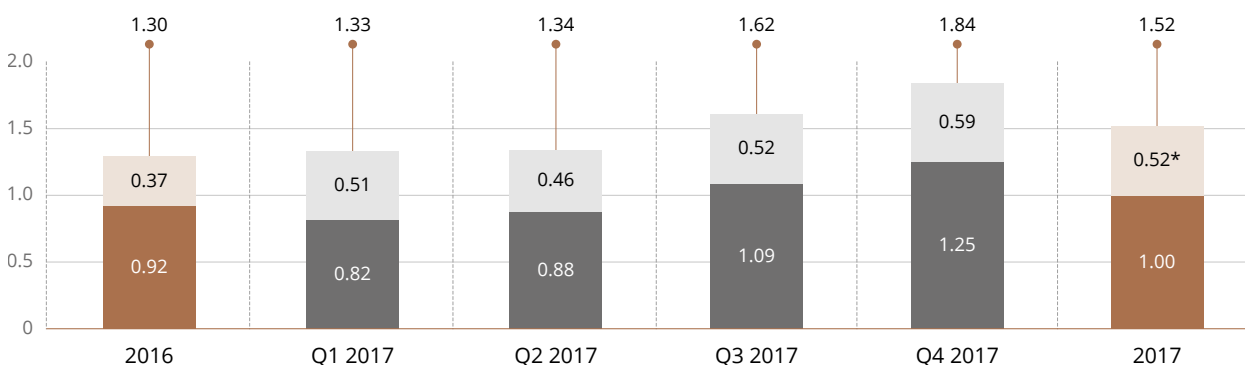
### Production costs of copper concentrate C1\* in the Group (USD/GBP)

	2017	2016	Change (%)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Group	1.59	1.41	+12.8	1.79	1.65	1.43	1.53
• KGHM Polska Miedź S.A.	1.52	1.30	+16.9	1.84	1.62	1.34	1.33
• KGHM INTERNATIONAL LTD.	1.92	1.63	+17.8	1.81	1.90	1.72	2.35
• Sierra Gorda S.C.M.	1.67	1.96	(14.8)	1.44	1.62	1.66	1.94

\* Production costs of copper concentrate – C1 (a unit cash production cost of payable copper concentrate, taking into account the costs of extracting and processing the winnings, transport costs, minerals extraction tax, administrative costs of the mining phase and treatment charge and refining charge (TC/RC), decreased by the value of by-products).

At KGHM Polska Miedź S.A., production costs of copper concentrate – C1 was 1.52 USD/pound in 2017. The value of the costs was influenced by the strengthening of the Polish zloty against the US dollar, a higher minerals extraction tax and lower production of own minerals.

### Production costs of copper concentrate – C1 (USD/pound)



\*including the minerals extraction tax.

## Financial results

At KGHM INTERNATIONAL LTD., the average weighted unit cash cost of copper production for all the operations was 1.92 USD/pound in 2017, which is higher by 18 percent against the previous year. The increase in C1 cost was caused by the decline in the volume of copper sales and achievement of lower revenues on the sales of by-products (which reduce the cost).

In the Sierra Gorda segment, the increase in the prices and growth in the sales of molybdenum contributed to reduction of cash cost of copper (C1) production by 15 percent (revenues on the sale of Mo, with other

accompanying metals are subject to deduction in the calculation of C1). A favorable impact on the above was also exerted by the increase in the volume of sold copper by 4 percent.

In Q4 2017, Sierra Gorda made changes to the method of calculating the C1 cost by including in the calculation the change in the balance of inventories and production in progress of materials used in the process of molybdenum concentrate enrichment by an external counterparty.

### Costs (before impairment losses for fixed assets) and unit cost of copper production (C1) at Sierra Gorda S.C.M.

		2017	2016	Change (%)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Basic operating costs	USD million	898	938	(4.3)	226	266	214	192
Basic operating costs for the segment (share of 55%)	PLN million	1,849	2,048	(9.7)	443	535	446	425
<b>C1* unit cost</b>	<b>USD/pound</b>	<b>1.67</b>	<b>1.96</b>	<b>(14.8)</b>	<b>1.44</b>	<b>1.62</b>	<b>1.66</b>	<b>1.94</b>

\* Unit copper production cost C1 – cash production cost of payable copper, taking into account the costs of extracting and processing the winnings, tax on minerals, transport costs, administrative costs of the mining phase and treatment charge and refining charge (TC/RC), decreased by the value of by-products.



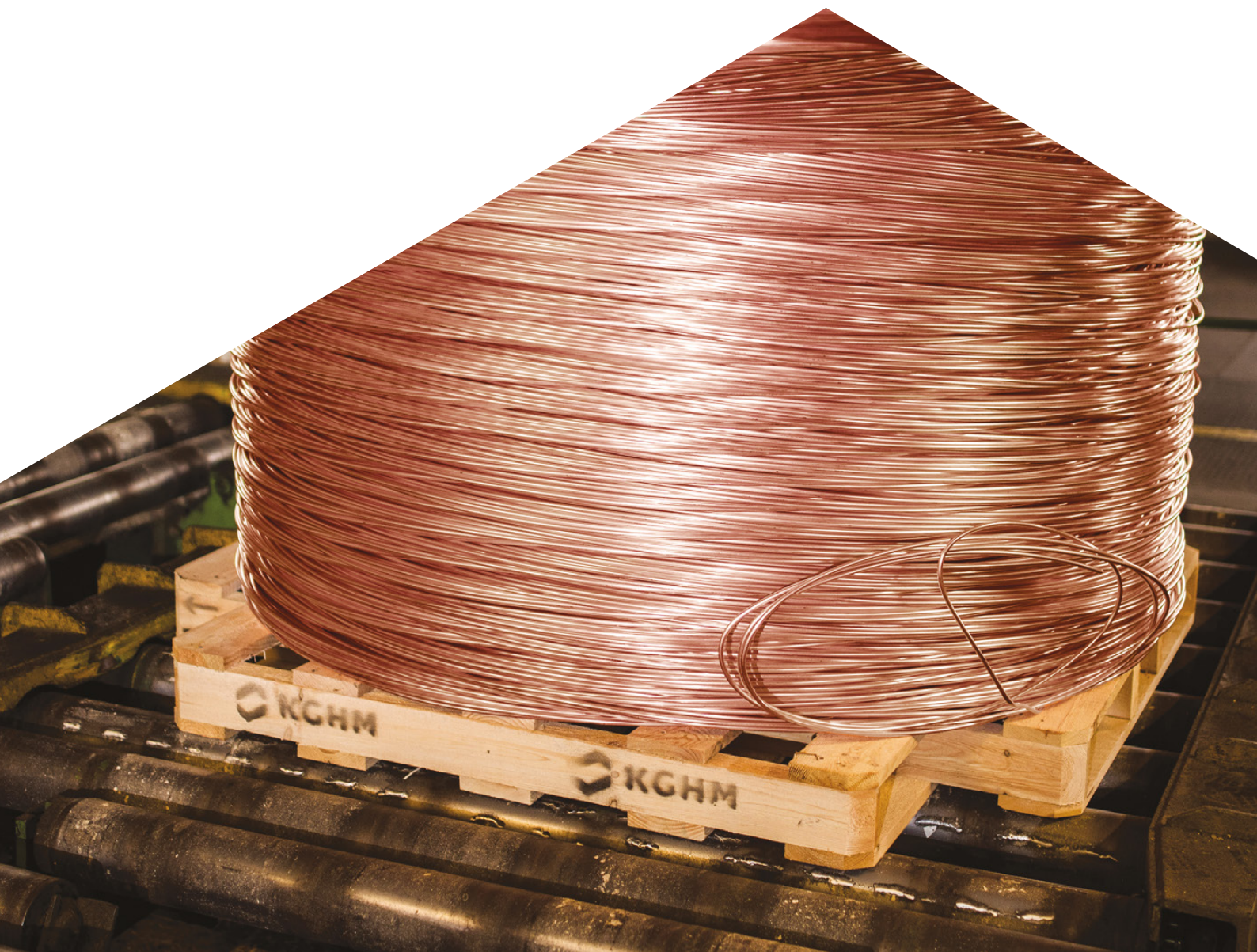


## 8.4 Financial liquidity

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Asset management in the KGHM Group aims to secure funds for development and ensure an adequate liquidity level. KGHM Polska Miedź S.A. – Parent Company in the Group – manages financial resources based on the adopted Financial Liquidity Management Policy. Its overriding aim is to make it possible to maintain business continuity by securing availability of cash required to perform the Group’s business objectives while optimizing the costs incurred. Financial Liquidity Management involves ensuring an adequate amount of funds in the form of cash and available credit facilities in a short-, medium and long-term horizon. The entity supporting the Management Board in performing this Policy is the Financial Liquidity Committee.

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## 8.5 Group's net debt

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The total debt of the KGHM Group on account of credit and loans as at the end of 2017 was PLN 7,156 million and decreased as compared to the end of 2016 by PLN 942 million (11.6 percent) mainly because of the fall in the USD/PLN exchange rate. The Group's funds are short-term in nature and, in 2017, they were kept first of all in current account linked within the Cash Pool service, which allows for optimizing revenues and interest expenses in the Group.

Under bilateral agreements executed with banks, the Group uses working capital loans and current account overdrafts with maturities up to 2 years. In connection with successive extensions of the availability of financing under bilateral contracts for further periods, the liquidity risk associated with received short-term loans is assessed by the Group to be low.

As at 31 December 2017, the Group had open credit facilities and loans with the total balance of available financing equivalent to PLN 15,009 million, from which PLN 7,177 million was used.

The sources of financing worth mentioning include in particular:

- Unsecured renewable consortium loan for USD 2,500 million received by KGHM Polska Miedź S.A. based on a financing agreement entered into with a consortium of banks in 2014, with maturity on 9 July 2021. The funds received within the granted

loan are earmarked for financing general corporate objectives, including continued performance of investment projects.

**Available financing amount: PLN 8,703 million**  
**Used amount: PLN 3,483 million**

- Loans, including investment loans, granted to KGHM Polska Miedź S.A. by the European Investment Bank

**Available financing amount: PLN 2,906 million**  
**Used amount: PLN 1,967 million**

- Bilateral loans for financing working capital, which are tools supporting financial liquidity management and helping finance the investment projects performed by the Group

**Available financing amount: PLN 3,400 million**  
**Used amount: PLN 1,727 million**





## Structure of the Group's net debt (PLN million)

	31 Dec 2017	31 Dec 2016	Change (%)	30 Sep 2017	30 Jun 2017	31 Mar 2017
Liabilities on account of:	7,156	8,098	(11.6)	7,225	7,134	7,674
Bank loans*	5,179	6,391	(19.0)	5,133	5,008	6,065
Loans	1,967	1,684	+16.8	2,079	2,110	1,590
Other	10	23	(56.5)	13	16	19
Available cash and its equivalents	579	836	(30.7)	400	428	618
<b>Net debt</b>	<b>6,577</b>	<b>7,262</b>	<b>(9.4)</b>	<b>6,825</b>	<b>6,706</b>	<b>7,056</b>

\* Presented taking into account the paid preparatory commission reducing the financial liabilities under received loans.

## Net debt structure of KGHM Polska Miedź S.A (PLN million)

	31 Dec 2017	31 Dec 2016	Change (%)	30 Sep 2017	30 Jun 2017	31 Mar 2017
Liabilities on account of:	7,168	7,932	(9.6)	7,242	7,211	7,521
Bank loans*	5,067	6,253	(19.0)	5,017	4,888	5,936
Loans	1,941	1,679	+15.6	2,065	2,096	1,585
Cash pool	160	-	x	160	227	-
Available cash and its equivalents	231	481	(52.0)	122	105	344
<b>Net debt</b>	<b>6,937</b>	<b>7,451</b>	<b>(6.9)</b>	<b>7,120</b>	<b>7,106</b>	<b>7,177</b>

\* Presented taking into account the paid preparatory commission reducing the financial liabilities under received loans.



## 8.6 Capital expenditures

In 2017, capital expenditures for investments in property, plant and equipment at KGHM Polska Miedź S.A. amounted to PLN 2,053 and were lower than in the previous year by 22 percent. Together with the incurred expenditures for uncompleted development works, the capital expenditures amounted to PLN 2,057 million.

Structure of expenditures for property, plant and equipment and intangible assets of KGHM Polska Miedź S.A (PLN million)

	2017	2016	Change (%)	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Mining	1,286	1,164	+10.5	486	353	244	203
Metallurgy	735	1,435	(48.8)	248	165	167	155
Other activity	32	25	+28.0	21	3	4	4
Development works - not completed	4	6	(33.3)		1	3	
<b>Total</b>	<b>2,057</b>	<b>2,630</b>	<b>(21.8)</b>	<b>755</b>	<b>522</b>	<b>418</b>	<b>362</b>
· including costs of external financing	61	90	(32.2)	26	11	14	10

Investment activity included the performance of replacement, maintenance and development projects.

**Replacement projects** – to maintain production assets in undeteriorated condition make up 29 percent of total incurred expenditures.

**Maintenance projects** – to maintain mining production at a level defined in the approved Production Plan (expansion of infrastructure according to the progress of mining works) make up 25 percent of total incurred expenditures.

**Development projects** aiming to increase the production volume of the technological process, implement technical and technological activities optimizing the use of the existing infrastructure, maintain production costs and adjust the company's activity to the changing standards, legal norms and regulations (adjustment projects and those connected with environmental protection) make up 46 percent of total incurred expenditures.





### Replacement projects:

- replacement of the machinery in the mines
- reconstruction of the infrastructure



### Maintenance projects:

- reinforcement of the mining areas
- purchase of machines for the VCP Program
- construction of shaft SW-4
- “Želazny Most” project, expansion of the Tailings Storage Facility ensuring the capacity to store flotation tailings after 2016



### Development works:

- program of Providing Access to Deposit
- changing the function of shaft L-VI to install a mine cage and skip compartments
- excavating preparatory drifts using a set of roadheaders
- modernization of classification systems at the Ore Enrichment Plant
- Pirometallurgy Modernization Program
- Metallurgy Development Program
- Increasing manufacturing capacity up to 160 thousand Mg of copper cathodes per year in the Branch of Legnica Smelter (HML160)

Capital expenditures of the KGHM INTERNATIONAL LTD. segment in 2017 amounted to USD 147 million, and thus increased by USD 39 million (+36%), compared to 2016. Nearly 80 percent of the expenditures were incurred in the Robinson mine and were mainly connected with removing overburden. The increase in the expenditures compared to the previous year concerned works of providing access to the deposit for further exploitation as well as drainage of the Robinson mine.

Expenditures of KGHM INTERNATIONAL LTD. connected with projects in 2017 amounted to USD 10 million, including USD 5 million for the Victoria project (works connected with protecting the existing infrastructure), USD 3 million for the Ajax project and USD 2 million for the Sierra Gorda Oxide project. In Q2 and Q4, KGHM INTERNATIONAL LTD. co-financed the Sierra Gorda mine in the total amount of USD 127 million to repay the debt incurred for the construction of the mine.



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# Industries and organizations

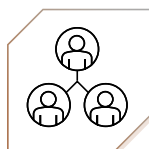
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## 9.1 Industries and organizations with which we cooperate

We contribute to the development of our industry and share our knowledge and experience with other entities on the market. We participate actively in many organizations, both Polish and foreign ones. In the mining and metallurgical sector, we are a reliable and valuable partner.

### G4-16 National organizations:



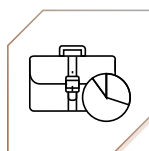
#### **Związek Pracodawców Polska Miedź**

(Employers' Organization of Polish Copper) monitors and gives opinions on draft legislation important for the economy, protects the rights and represents the interests of employers in the copper industry.



#### **Stowarzyszenie Emitentów Giełdowych**

(Polish Association of Listed Companies), as a representative of companies listed on the Warsaw Stock Exchange, provides Stock Exchange issuers with knowledge and advice in respect of stock exchange market regulations, as well as the rights and duties of participating companies.



#### **Zachodnia Izba Gospodarcza**

(Western Business Chamber), a local government economic organization which associates business entities operating in Lower Silesia. Currently, the Chamber comprises more than 300 enterprises from various industries.



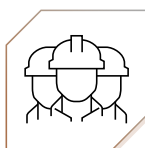
#### **Polska Izba Ekologii w Katowicach**

(Polish Environmental Chamber in Katowice), a local government economic organization representing the economic interests of associated entities, in particular before the state and local government authorities, with regard to broadly understood environmental protection and sustainable development principles.



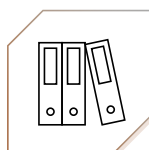
#### **Krajowa Izba Sportu**

(National Sports Chamber), a local government economic organization representing enterprises connected with sports.



#### **Stowarzyszenie Inżynierów i Techników Metali Nieżelaznych**

(Association of Non-Ferrous Metals Engineers and Technicians), an independent organization of a scientific, technical and managerial nature, which associates engineers and technicians of all specializations and related professions whose activities are connected with the non-ferrous metals industry.



#### **Stowarzyszenie Księgowych w Polsce Oddział Okręgowy w Legnicy**

(Accountants Association in Poland, Local Branch in Legnica) which, among other activities, provides specialist support for financial and accounting structures.





### **Izba Energetyki Przemysłowej i Odbiorców Energii**

(Industrial Energy Sector and Energy Recipients Chamber) associates entities which generate, trade in and consume electricity and heat energy throughout Poland. The Chamber gives its opinions on all planned amendments to the Energy Law and on respective secondary legislation.



### **Polsko-Kanadyjska Izba Gospodarcza**

(Polish-Canadian Chamber of Commerce) is an entity supporting the promotion of economic, commercial and cultural relations between Poland and Canada.



### **Izba Gospodarcza Zaawansowanych Technologii**

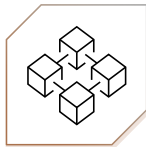
(Polish Chamber of Commerce for High Technology), an entity which stimulates the development of knowledge-based entrepreneurship and assists in ensuring commercial success in respect of innovative projects in the area of high technology.



### **Izba Gospodarcza Metali Nieżelaznych i Recyklingu**

(Economic Chamber of Non-Ferrous Metals and Recycling), an autonomous and voluntary organization which supports the development of non-ferrous metals and recycling industries in Poland.

## Organizacje zagraniczne:



### **International Copper Association (ICA)**

Responsible for staking out directions for further activities, strategy and financing of international undertakings and promotional activities related to copper and its applications.



### **Euromines**

Represents and promotes the interests and views of the European metals and minerals mining industry in European Union institutions.



### **European Copper Institute**

An organization promoting the use of copper.



### **International Copper Study Group**

A group which prepares statistics related to production, consumption and trade in copper.



### **Eurometaux**

Eurometaux constitutes an interlink between the European nonferrous metals industry and the authorities of the European Union as well as other international and inter-governmental organizations. It mainly focuses on monitoring legal regulations which can affect the situation of the non-ferrous metals industry.



### **European Precious Metals Federation**

Represents the interests of its members before European institutions, in particular with regard to processing safety, waste management, trade, customs administration, taxes and competition.



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# Driven by the strength of innovation

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# Innovation

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Innovation is one of the competitive advantages of the KGHM Group. We work on innovative solutions at various business levels, drawing on cooperation with independent entities while appreciating the potential and ingenuity of our own employees.

More and more modern technologies as well as cooperation with scientific milieus support the development of our resources, assets and production and help us increase employee safety. We wish to propel our development based on an increasingly more efficient use of our resources with an awareness of their scarcity and unique nature.

At KGHM, we understand that it is the employees who are the most familiar with our specific needs and are able to identify areas and solutions that will translate into better results and greater safety. We know that the KGHM Group's success currently hinges on the innovation, commitment and collaboration of many thousands of employees representing diverse knowledge and experience. We believe that the creation of change and innovation should be an everyday practice of each employee.

Initiatives for development of knowledge and innovation at KGHM Polska Miedź S.A.

## MAJOR RESEARCH AND DEVELOPMENT INITIATIVES

- New regulations relating to principles of planning and performing research and development activity were implemented for use at the Company, together with uniform contract templates connected with innovative activity. The new principles were also implemented in the Group's companies.
- Research and development projects are continued focused on the development and implementation of innovative technological and organizational solutions making it possible to improve efficiency and occupational safety and ensuring the continuity of production. Analyses of intersections of the technological line is conducted on an ongoing basis, including also the needs in the area of research and development.
- KGHM Polska Miedź S.A. with CUPRUM Sp. z o.o. – CBR participates in the governmental acceleration program Start-In Poland – Scale Up project. The aim of the project is to develop start-ups in KGHM Polska Miedź S.A. and the Group's Companies. Cooperation is going on with start-ups selected in two rounds of the acceleration with the aim to verify and develop the proposed technology. At the same time, in cooperation with KGHM CUPRUM Sp. z o.o. – CBR, the Corporate Acceleration Program for the Group is being prepared.
- Within the framework of the Horizon 2020 Program, KGHM Polska Miedź S.A. participated in three research projects (DISIRE – completed on 31 December 2017). In addition, in September 2017, an Agreement was signed with the National Contact Point aiming to strengthen the cooperation of KGHM, the Group's Companies and collaborating scientific institutions and to jointly perform H2020 projects in 2018-2020.
- The AMCO project is continued, performed within EIT KIC Raw Materials and aiming to produce and launch on the market an innovative, inexpensive and user-friendly, automatic microscope system for analyzing ores to improve geometallurgical efficiency.

#### CUBR PROGRAM

##### G4-EC4

- Within the CuBR Joint Venture, co-financed by the National Research and Development Center, 21 Research and Development Projects are performed with the total value of PLN 150 million.
- Works are going on to start the 4th CuBR competition. The competition will concern Circular Economy (CE). The rules of the competition and its thematic scope are prepared.

#### IT TECHNOLOGIES NECESSARY TO ACCUMULATE AND TRANSFER KNOWLEDGE IN THE GROUP

- Reactivation of the Central Repository of Research and Development Works and expert opinions on scientific and technological issues, with extending CRPBR II to the Group's Companies conducting R+D activity.
- Building and implementing CRPW (Central Repository of Invention Projects) archiving invention projects performed at KGHM.
- Development of an information search system – SEARCH KGHM, with the application extended to the Group's Companies conducting R+D activity.
- Implementing the WIEDZA IT platform, covering the areas of research and development, innovation and intellectual property and, finally, Knowledge Management.





## BEST PRACTICE

In 2017, we signed an agreement on close cooperation with the National Contact Point of Research Programs of the European Union, which provides for, among others:

- actions to increase the activity and participation of companies from our Group in projects of the Horizon 2020 Framework Program,
- promoting the program and the company's potential,
- informing broadly about results of the performed projects,
- providing support at the stage of filing applications, searching for consortium partners and performing projects.

The Horizon 2020 Framework Program is the largest program of the European Union in the area of scientific research and innovation performed in 2014-2020. The budget of the Horizon 2020, nearly EUR 80 billion, is to strengthen the role of science and innovation and to use and exploit them, e.g. in industry. The aim of the program is to create world-class science and technology in Europe, which will stimulate economic growth in the countries of the European Union and in the countries associated with the program.

KGHM Polska Miedź S.A. participates in three projects performed within the Horizon 2020 program: Bio-MOre, DISIRE and InMet – all of them are focused on an effective raw materials economy.

The BioMore project is dedicated to the concept of alternative mining – extracting metals from deep deposits without the need to transfer ore to the surface by using biotechnology. The installation is tested now at the Rudna Mine. Results will be known between the end of 2017 and the beginning of 2018.

Over 20 companies from all over the world are involved in the project. KGHM has the prestigious role of project coordinator. The project's budget is EUR 8.5 million.

The major assumption of the DISIRE project is that a new method will be developed for assessing and controlling the production process based on the properties of raw materials and required product parameters. The metals industry is interested in the project. Its aim is to increase the effectiveness of industrial processes. 15 international entities participate in the program and the project is planned to be completed in Q1 2018. The project's budget is EUR 5.9 million.

The main task of the InMet program is to apply hydrometallurgical processes in the area of the mines to process concentrates, considerably increasing the effectiveness and the yield of raw materials (copper, zinc, lead) by over 60 percent as compared to the selective floatation method used now. The aim of the activity is to maximize the effective recycling of metals and minimize the consumption of energy and the environmental impact. 12 international entities participate in the program and the project is planned to be completed in Q1 2019. The project's budget is nearly EUR 8 million.



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# About the report

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# Number of key issues

This 2017 Integrated Report contains data and measures pertaining to KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., Sierra Gorda S.C.M. and KGHM Chile.

G4-13 G4-17 G4-18 G4-19 G4-20 G4-21 G4-22 G4-23

G4-24 G4-25 G4-26 G4-27 G4-28 G4-29 G4-30 G4-33

The report has been prepared in accordance with the baseline (core) level of version GRI G4 of the Global Reporting Initiative (GRI) guidelines. The reporting process in the KGHM Group is carried out on an annual basis. In 2017, there were no significant changes in the structure, ownership or value chain.

This document has not been subject to external review. In accordance with the reporting duties of KGHM Polska Miedź S.A. and the good market practices of mining companies, corporate governance is presented for the parent company only.

## Reporting methodology

In accordance with the guidelines of the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI G4), the work on drafting the Report was divided into three stages:

**Stage 1.** Identification of business and sustainable development issues relevant for the company.

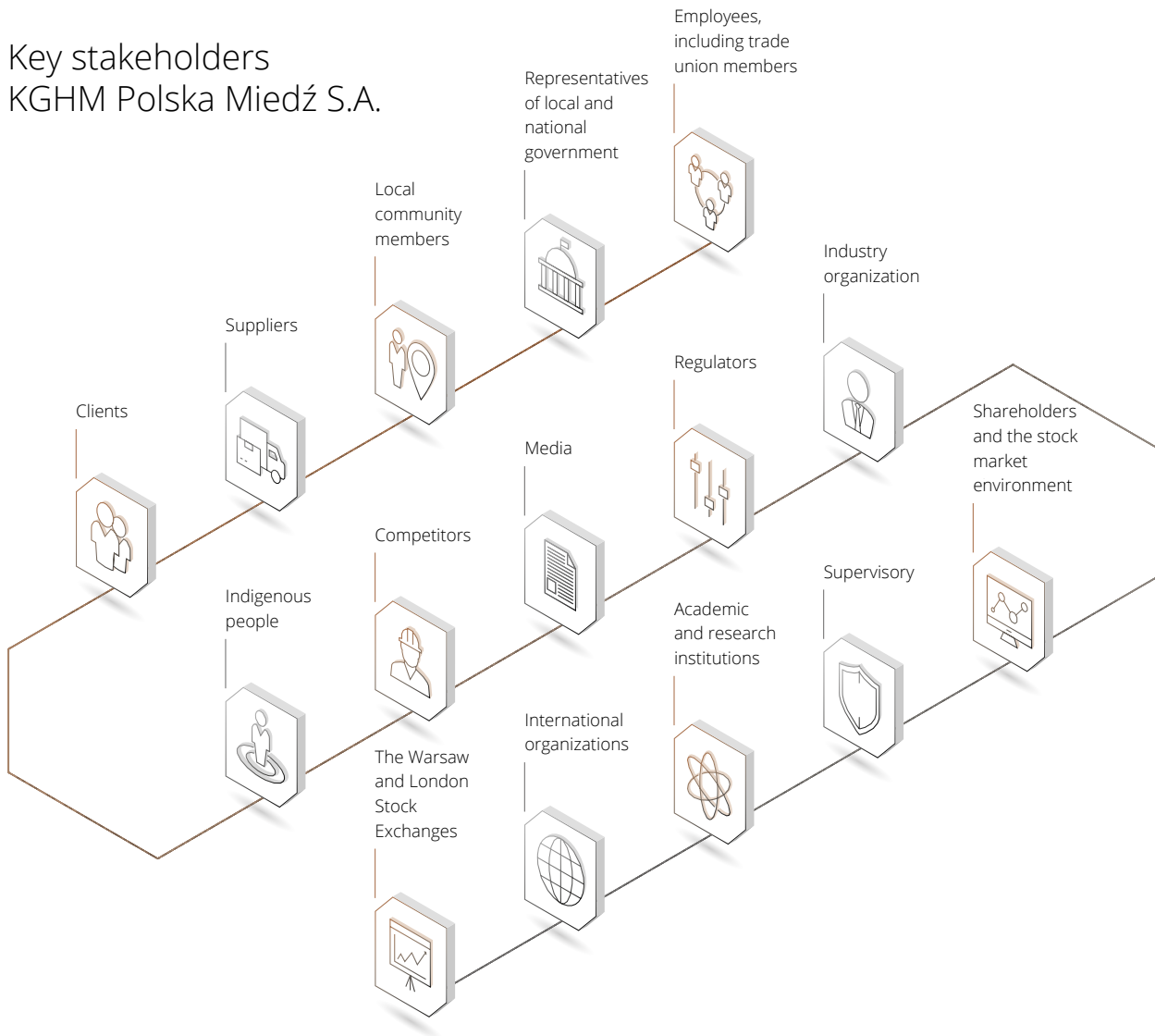
**Stage 2.** Prioritization of identified issues in terms of their importance.

**Stage 3.** Validation workshop attended by management members.

During the first two stages, documents, publications and press releases concerning the KGHM Group companies and the mining industry were analyzed, including competitors' reports. A chart of stakeholders was created and the expected thematic scope of the report was determined. Interviews were also conducted with management and senior management of the Group.



## Key stakeholders KGHM Polska Miedź S.A.



The measures taken led to the identification of the key issues for the KGHM Polska Miedź S.A. Group, which include:

- the company's strategy and business model, taking into account value creation and building trust among stakeholders,
- treating the employees' safety as a priority,
- stable financial results and production performance in 2017,
- creating value – human capital, intellectual capital, social capital and environmental capital,
- creating corporate culture with a particular focus on high management standards.

In addition, in the Report, we emphasized actions making it possible to improve cost efficiency, the highest occupational health and safety and environmental protection standards, as well as our involvement in innovation in the broad sense, concerning both our employees and the technological solutions applied. We verified the issue of significant changes that occurred in the reported period with respect to the size, structure, form of ownership or value chain, we included entities covered by the

consolidated financial statements and we identified significant aspects of the KGHM Group's social impact.

The final identification of issues relevant to the KGHM Group was performed during the workshop attended by management members, when the final scope of reporting in areas that are important from the point of view of the business objectives and Sustainable Development of the KGHM Polska Miedź Group were determined.

# GRI Content Index

## G4-32 Profile indicators

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## Specific Standard Disclosures

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# Selected items of the standalone and consolidated financial statements

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# Standalone financial statements

The accompanying condensed financial statements of KGHM Polska Miedź S.A. with its registered office in Lubin have been prepared by the Company's Management Board on the basis of the audited complete annual financial statements for 2017 prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

In order to appreciate in full the Company's economic and financial situation and its financial results for the period from 1 January 2017 to 31 December 2017, you should read the Company's complete financial statements, along with the audit opinion and report of the registered auditor on these financial statements (the full text of the financial statements is available on [www.kghm.com](http://www.kghm.com))

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## Auditor's opinion

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To the Shareholders and Supervisory Board of KGHM Polska Miedź

### Auditor's report

We have audited the attached annual financial statements of KGHM Polska Miedź S.A. with its registered office in Lubin, ul. Marii Skłodowskiej-Curie 48 (hereinafter: the "Company"), including a statement of financial position prepared as at 31 December 2017, statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows for the financial year from 1 January 2017 to 31 December 2017 and notes comprising a summary of significant accounting policies and other explanatory information ("financial statements").

#### **Responsibility of the Company's manager and those charged with governance for the financial statements**

The Management Board of the Company is responsible for the preparation of the financial statements, based on properly kept accounting records, and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws as well as the Company's Articles of Association. The Management Board of the Company is also obliged to ensure internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2017 Item 2342, as amended), hereinafter referred to as the "Accounting Act", the Company's Management Board and members of the Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act.

#### **Auditor's responsibility**

Our responsibility is to express an opinion whether these financial statements give a true and fair view of the economic and financial position of the entity and its financial performance in accordance with the applicable International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies).

#### **We conducted our audit of the financial statements in accordance with the provisions of:**

1. the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 item 1089) ("Act on Statutory Auditors"),
2. National Auditing Standards in line with the wording of the International Standards on Auditing adopted by the Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended,

3. Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158 of 27 May 2014, p. 77 and OJ EU L 170 of 11 June 2014, p. 66) ("Regulation 537/2014"),

These regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

The aim of the audit is to obtain reasonable assurance that the financial statements as a whole have been prepared based on properly kept accounting records and that they are free from material misstatement arising from fraud or error and to issue an auditor's report with our opinion. Reasonable assurance is a high level of assurance, yet it does not ensure that an audit carried out in accordance with the above-mentioned standards will always detect material misstatement. Misstatements might arise from fraud or error and are deemed material if it can be reasonably expected that they could, individually or jointly, influence the users' economic decisions made based on these financial statements. The risk of failure to detect material misstatement arisen from fraud is higher than the risk of failure to detect material misstatement arisen from error as it could involve collusions, forgery, intentional omissions, misleading or circumvention of internal control and might concern any area of the law and regulations, not only that with direct impact on the financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making the risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. The audit also includes evaluating the appropriateness of accounting principles (policies) used and the reasonableness of

accounting estimates made by the Management Board of the Company are properly kept, as well as evaluating the overall presentation of the financial statements.

The scope of the audit does not include assurance of the future profitability of the audited entity or of the efficiency or effectiveness of the Management Board of the Company in conducting its affairs at present or in the future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report for the Audit Committee issued as of the day of this audit report.

### Independence

During the audit, the key statutory auditor and the audit firm were independent of the audited entity in compliance with the Act on Statutory Auditors, the Regulation 537/2014 and the principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

To the best of our knowledge and belief, we represent that we have not provided services not being audit, which are forbidden under the provisions of Article 136 of the Act on Statutory Auditors and Article 5.1 of Regulation 537/2014.

The key statutory auditor and the audit firm provided the following services not being audit of financial statements, which were not disclosed in the financial statements or the report on the activities, to the entity or entities audited by it:

- a review of interim condensed consolidated financial statements of KGHM Polska Miedź S.A. and a review of interim consolidated statements of the KGHM Polska Miedź S.A. Group,
- a certification service regarding a review of the calculation of the electricity consumption intensity coefficient for the period 2015-2017,
- a certification service regarding a review of the calculation of the share of the costs of the consumed electricity in the value of production sold for 2016,



Description of the type of the risk of material misstatement	Statutory auditor's procedures in response to the identified risk and the most important findings related to these types of risk
<p><b>Analysis of asset impairment</b></p> <p>Part 3 of the Financial Statements for 2017 presents disclosures regarding the impairment testing of the value of the Company's capital commitment (interest in Future 1) and loans granted to Future 1 and KGHM INTERNATIONAL LTD. Group, including the basic macroeconomic assumptions, other assumptions critical for the estimate of the fair value of CGU, and testing results.</p> <p>The Management Board, in compliance with the IFRS, carries out impairment testing at the end of each financial year. The impairment testing is related to the Management Board's judgments on, among others, the calculation methodology adopted and the necessity to make a range of various assumptions.</p> <p>The recoverable amount of the stake in Future 1 and of the loans granted to Future 1 and KGHM INTERNATIONAL LTD. Group is determined based on the recoverable amount of the assets of the KGHM INTERNATIONAL LTD. Group composed of mines and pre-operational projects. As a result of the testing, the Management Board recognized impairment at the amount of PLN 900M. This value was allocated to impairment loss on interest in Future 1 at the amount of PLN 305M and impairment loss on receivables on account of loans granted to KGHM INTERNATIONAL LTD. Group at the amount of PLN 595M. As a consequence, the Company's profit or loss as at 31 December 2017 decreased by PLN 900 million.</p> <p>The issue of impairment testing was an object of our analyses due to the significance of the item in the Company's financial statements as well as the complexity of the problem and the sensitivity of the impairment testing results to the adopted assumptions.</p>	<p><b>Our audit procedures included in particular:</b></p> <ul style="list-style-type: none"> <li>• an analysis and assessment of the process of identifying the premises of asset impairment and the accuracy of the testing method applied in compliance with the relevant financial reporting standards,</li> <li>• a review of the mathematical correctness and methodological consistency of the measurement model prepared by the Management Board of the Company,</li> <li>• a critical evaluation of the assumptions and estimates made by the Management Board of the Company. The most significant assumptions for the results of the performed testing concerned the forecast prices of commodities, including copper, and the applied discount rates for individual production assets and pre-operational projects. In order to assess them, we used local internal specialists,</li> <li>• analyzed forecasts regarding future cash flows, and compared them to mine life models and the existing operational plans,</li> <li>• a review of the accuracy and completeness of disclosures regarding impairment testing in the financial statements.</li> </ul>
<p><b>Recognition of revenues from sales in the correct reporting period</b></p> <p>Part 2 of the Financial Statements for 2017 presents a disclosure related to revenues from sales by ranges of products as well as by geographic locations of final consumers.</p> <p>The Company sells products and goods based on different terms of delivery (Incoterms) and the related different moments of risk transfer to the contracting party.</p> <p>As part of the reporting period closing procedures, the Company carries out the review procedure of every open sale. The issue of a correct recognition of revenues from sales in the period was an object of our analysis due to the significance of this item in the Company's financial statements and vulnerability to risk of intentional misstatement.</p>	<p><b>Our audit procedures included in particular:</b></p> <ul style="list-style-type: none"> <li>• the understanding and assessment of the internal control environment in the area of a system used for the purpose of reflecting terms of transactions (Incoterms) in the process of recognizing revenue and identifying the moment of the proper recognition of transfer of risk and benefits,</li> <li>• the assessment of the correctness, on a selected sample of transactions from the turn of the year, of recognition of sales in the proper reporting period in accordance with the transfer of risk and benefits to the counterparty arising from terms of delivery,</li> <li>• the assessment of disclosures as regards the adopted policy of recognizing and presenting revenues from sales.</li> </ul>

- a certification service regarding calculation of financial covenants for the year ended 31 December 2016, prepared by the Management Board of KGHM POLSKA MIĘDŹ S.A. in compliance with the provisions of the European Investment Bank Loan Agreement of 1 August 2014 as amended by the provisions of Annexes no. 1, 2, 3.

### Selection of the audit firm

We were selected to audit the entity's financial statements by the Supervisory Board's resolution no. 23/IX/16 of 5 April 2016. We have been auditing the entity's financial statements continuously since the beginning of the financial year ended 31 December 2016, which is two consecutive financial years.

### The most significant types of risk

During the audit, we identified the most significant types of risk of material misstatement described below, including ones arising from fraud, and prepared relevant auditing procedures regarding these types of risk. In the cases we found relevant for the understanding of the identified risk and the auditing procedures performed by the statutory auditor, we also included the most important observations related to these types of risk.

## Report on other legal and regulatory requirements

### Opinion on the report on the activities

Our opinion on the financial statements does not include the report on the activities.

It is the responsibility of the Management Board and members of the Supervisory Board to prepare the report on the activities in accordance with the applicable laws.

It was our responsibility, in compliance with the requirements of the Act on Statutory Auditors, to issue the opinion whether the report on the activities was prepared in compliance with the laws and that it was consistent with the information contained in the attached financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the activities based on our knowledge of the entity and its business environment obtained in the course of the audit of the financial statements and what each such material misstatement is.

### Opinion

In our opinion, the attached annual financial statements:

- give a true and fair view of the economic and financial position of the entity as at 31 December 2017 and its financial performance for the financial year from 1 January to 31 December 2017 in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies),
- have been prepared based on accounting records, kept properly in compliance with the provisions of chapter 2 of the Accounting Act,
- comply, with respect to their form and content, with the applicable provisions of law, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133, as amended) and with the articles of association of the entity.

In our opinion, the report on the activities is compliant with the applicable laws and the information contained in the attached financial statements. Moreover, we state that we have not found material misstatements in the report on the activities based on our knowledge of the entity and its business environment acquired in the course of the audit of the financial statements.

### Opinion on the statement of compliance with corporate governance principles

It is the responsibility of the Management Board of the Company and members of the Supervisory Board to prepare the statement of compliance with corporate governance principles in compliance with the laws.

In relation to our audit of the financial statements, it was our responsibility in accordance with the Act on Statutory Auditors to give an opinion as to whether the issuer obliged to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the activities, included in

said statement information required by laws and – with reference to specified information indicated in said laws or rules – a statement whether it was compliant with the applicable laws and the information contained in the annual financial statements.

In our opinion, the entity's statement of compliance with corporate governance principles provides the information specified in Article 91 par. 5 subpar. 4 items a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014, item 133, as amended) ("Ordinance") [or – if applicable – the rules referred to in Article 61 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies (Journal of Laws of 2016, item 1639 and of 2017, items 452, 724, 791 and ...) ("Rules")]. The information indicated in Article 91 par. 5 subpar. 4 items c-f, h and i of said Ordinance [or Rules] included in the statement of compliance with corporate governance principles is compliant with the applicable laws and information presented in the financial statements.

#### **Information about preparation of statement of non-financial information**

Pursuant to the requirements of the Act on Statutory Auditors, we hereby inform that the entity's report on the activities include information about preparing a separate statement of non-financial information referred to in Article 49b par. 9 of the Accounting Act and that the entity prepared such a separate statement.

We did not perform any validation works concerning the separate statement of non-financial information and we do not make any warranty about it.

Other information, including information about fulfilment of obligations arising from laws

Requirements of the Energy Law – regulatory financial information

Regulatory financial information presented in note 12.12, covering the statement of financial position and statement of profit or loss prepared separately for each type of business activity in the distribution of electricity, distribution of gas and gas trading, as well as the appropriate basis for the preparation of this information and rules of allocation of assets, liabilities, costs and revenues for each of these activities has been prepared by the Management Board in order to meet the requirements of Article 44 of the Act dated 10 April 1997 of the Energy Law (Journal of Laws of 2012 item 1059 as amended – hereinafter referred to as "Energy Law") (the "Act"), including assurance of equal treatment of customers and the elimination of cross-subsidization between those activities.

The scope of the regulatory financial information has been determined in the Act. Our audit did not include the assessment of the adequacy of the information required by the Act from the point of view of preparing the regulatory financial information, including the assurance of equal treatment of customers and the elimination of cross-subsidization between those activities.

In our opinion, the Company's regulatory financial information has been prepared, in all material respects, in accordance with the basis of preparation specified in note 12.12 and meets the requirements of Article 44.2 of the Act.

The audit was performed on behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity entered under number 73 on the list of audit firms kept by the National Council of Statutory Auditors – by:

**Adrian Karaś**

Key Statutory Auditor, No.  
12194

Warsaw, 14 March 2018.

## Statement of profit or loss (in PLN million)

	2017	2016
Revenue from sales	16,024	15,112
Cost of sales	(12,022)	(11,630)
<b>Gross profit</b>	<b>4,002</b>	<b>3,482</b>
Selling costs and administrative expenses	(877)	(887)
<b>Profit on sales</b>	<b>3,125</b>	<b>2,595</b>
Other operating income/(costs)	(2,004)	(5,429)
Finance income and (costs)	1,033	(541)
<b>Profit / (loss) before income tax</b>	<b>2,154</b>	<b>(3,375)</b>
Income tax	(831)	(710)
<b>NET PROFIT / (LOSS)</b>	<b>1,323</b>	<b>(4,085)</b>
<b>Weighted average number of ordinary shares (million)</b>	<b>200</b>	<b>200</b>
<b>Basic/diluted earnings/(loss) per share (in PLN)</b>	<b>6.62</b>	<b>(20.42)</b>

## Statement of comprehensive income (in PLN million)

	2017	2016
<b>Net profit / (loss)</b>	<b>1,323</b>	<b>(4,085)</b>
Measurement of hedging instruments net of the tax effect	308	(134)
Measurement of available-for-sale financial assets net of the tax effect	30	41
<b>Other comprehensive income which will be reclassified to profit or loss</b>	<b>338</b>	<b>(93)</b>
Actuarial (losses) / gains net of the tax effect	(105)	99
<b>Other comprehensive income, which will not be reclassified to profit or loss</b>	<b>(105)</b>	<b>99</b>
<b>Total other comprehensive net income</b>	<b>233</b>	<b>6</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>1,556</b>	<b>(4,079)</b>



## Statement of cash flows (in PLN million)

	2017	2016
Cash flow from operating activities		
Earnings/(Loss) before tax	2,154	(3,375)
Depreciation/amortization recognized in profit or loss	1,035	956
Interest on account of investment activities	(299)	(374)
Interest and other costs of borrowings	148	128
Changes in other receivables and liabilities	(2)	370
Changes in provisions	43	37
Impairment losses on non-current assets	940	6,197
Exchange gains/(losses), of which:	(67)	(129)
• investment activities and cash	1,180	(527)
• financing activities	(1,247)	398
Changes in assets / liabilities on account of derivatives	152	(132)
Other adjustments	30	35
<b>Exclusions of income and costs, total</b>	<b>1,980</b>	<b>7,088</b>
Income tax paid	(934)	(468)
Changes in working capital	(1,120)	352
<b>Net cash generated from operating activities</b>	<b>2080</b>	<b>3597</b>
Cash flow from investing activities		
Expenditures on mining and metallurgical assets	(1,970)	(2,585)
Expenditures on other property, plant and equipment and intangible assets	(21)	(19)
Loans granted	(490)	(834)
Other expenses	(83)	(85)
<b>Total expenses</b>	<b>(2,564)</b>	<b>(3,523)</b>
<b>Proceeds</b>	<b>52</b>	<b>33</b>
<b>Net cash used in investing activities</b>	<b>(2,512)</b>	<b>(3,490)</b>

Selected items of the standalone and consolidated financial statements

Cash flow from financing activities		
Proceeds from borrowings	2,416	3,198
Proceeds from cash pool	160	-
Other proceeds	-	8
<b>Total proceeds</b>	<b>2,576</b>	<b>3,206</b>
Repayments of borrowings	(2,030)	(2,601)
Dividends paid	(200)	(300)
Interest paid and other costs of borrowings	(138)	(119)
<b>Total expenses</b>	<b>(2,368)</b>	<b>(3,020)</b>
<b>Net cash generated from financing activities</b>	<b>208</b>	<b>186</b>
<b>NET CASH FLOW</b>	<b>(224)</b>	<b>293</b>
Exchange gains/(losses) on cash and cash equivalents	(24)	31
Cash and cash equivalents at beginning of the period	482	158
<b>Cash and cash equivalents at end of the period</b>	<b>234</b>	<b>482</b>

Statement of financial position (in PLN million)

	2017	2016
Assets		
Mining and metallurgical property, plant and equipment	15,355	14,379
Mining and metallurgical intangible assets	507	507
Mining and metallurgical property, plant and equipment and intangible assets	15,862	14,886
Other property, plant and equipment	75	77
Other intangible assets	34	24
Other property, plant and equipment and intangible assets	109	101
Investments in subsidiaries and joint ventures	3,013	2,002
Loans granted	4,972	7,310
Derivatives	109	237
Other financial instruments measured at fair value	613	576
Other financial assets	337	320
Total financial instruments	6,031	8,443
Other non-financial assets	25	22
Deferred tax assets	31	140

Selected items of the standalone and consolidated financial statements

<b>Non-current assets</b>	<b>25,071</b>	<b>25,594</b>
Inventories	3,857	2,726
Trade receivables	1,034	676
Tax assets	214	188
Derivatives	195	72
Other assets	342	362
Cash and cash equivalents	234	482
<b>Current assets</b>	<b>5,876</b>	<b>4,506</b>
	<b>30,947</b>	<b>30,100</b>
Equity and liabilities		
Share capital	2,000	2,000
Other reserves from measurement of financial instruments	142	(196)
Accumulated other comprehensive income	(348)	(243)
Retained earnings	15,462	14,339
<b>Equity</b>	<b>17,256</b>	<b>15,900</b>
Liabilities on account of loans and borrowings	6,085	6,423
Derivatives	84	149
Employee benefits liabilities	1,879	1,683
Provisions for decommissioning costs of mines and other technological facilities	797	761
Other liabilities	207	229
Non-current liabilities	9,052	9,245
Liabilities on account of loans and borrowings	923	1,509
Cash pool liabilities	160	-
Derivatives	74	189
Trade payables	1,719	1,372
Employee benefits liabilities	649	628
Tax liabilities	416	636
Other liabilities	698	621
Current liabilities	4,639	4,955
<b>Non-current and current liabilities</b>	<b>13,691</b>	<b>14,200</b>
	<b>30,947</b>	<b>30,100</b>

## Statement of changes in equity (in PLN million)

		Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total equity
	<b>As at 1 January 2016</b>	<b>2,000</b>	<b>(103)</b>	<b>(342)</b>	<b>18,724</b>	<b>20,279</b>
Note 12.2	Dividend	-	-	-	(300)	<b>(300)</b>
	Net loss	-	-	-	(4,085)	<b>(4,085)</b>
Note 8.2.2	Other comprehensive income	-	(93)	99	-	<b>6</b>
	Total comprehensive income	-	(93)	99	(4,085)	<b>(4,079)</b>
	<b>As at 31 December 2016</b>	<b>2,000</b>	<b>(196)</b>	<b>(243)</b>	<b>14,339</b>	<b>15,900</b>
Note 12.2	Dividend	-	-	-	(200)	<b>(200)</b>
	Net earnings	-	-	-	1,323	<b>1,323</b>
Note 8.2.2	Other comprehensive income	-	338	(105)	-	<b>233</b>
	Total comprehensive income	-	338	(105)	1,323	<b>1,556</b>
	<b>As at 31 December 2017</b>	<b>2,000</b>	<b>142</b>	<b>(348)</b>	<b>15,462</b>	<b>17,256</b>



# Consolidated financial statements

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The accompanying condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group with its registered office in Lubin have been prepared by the Company's Management Board on the basis of the audited complete annual consolidated financial statements for 2017 prepared in accordance with the International Financial Reporting Standards adopted by the European Union.

In order to appreciate fully the economic and financial situation of the KGHM Polska Miedź S.A. Group and its financial results for the period from 1 January 2017 to 31 December 2017, you should read the Group's complete consolidated financial statements, along with the audit opinion and report of the registered auditor on these financial statements (the full text of the financial statements is available on [www.kghm.com](http://www.kghm.com))

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## Auditor's opinion

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To the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

### Audit report on the annual consolidated financial statements

We have audited the attached annual consolidated financial statements of the KGHM Polska Miedź S.A. Group (hereinafter: "Group"), for which KGHM Polska Miedź S.A. is the parent company (hereinafter: "Parent Company"). The financial statements consist of: the consolidated statement of financial position prepared as at 31 December 2017, the consolidated statement of profit or loss, consolidated statement of other comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2017 to 31 December 2017 and notes, which include information about the adopted accounting policies and other explanatory information ("consolidated financial statements").

#### **Responsibility of the Parent Company's manager and those charged with governance for the consolidated financial statements**

The Management Board of the Parent Company is responsible for the preparation of the consolidated financial statements and their fair presentation in accordance with the International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and applicable laws as well as the Parent Company's Articles of Association. Management Board. The Management Board of the Parent Company is also obliged to ensure internal control as it determines necessary for the preparation of the consolidated

financial statements that are free from material misstatement, whether due to fraud or error.

Under the Accounting Act of 29 September 1994 (Journal of Laws of 2018 item 395), hereinafter referred to as the "Accounting Act", the Management Board of the Parent Company and members of its Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

#### **Auditor's responsibility**

Our responsibility is to express an opinion whether these consolidated financial statements give a true and fair view of the economic and financial position of the Group and its financial performance in accordance with the applicable International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies).

#### **We carried out the audit of the consolidated financial statements in accordance with the provisions of:**

1. the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 item 1089) ("Act on Statutory Auditors"),

2. National Auditing Standards in line with the wording of the International Standards on Auditing adopted by the Resolution No. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015, as amended,
3. Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (OJ EU L 158 of 27 May 2014, p. 77 and OJ EU L 170 of 11 June 2014, p. 66) ("Regulation 537/2014"),

These regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

The aim of the audit is to obtain reasonable assurance that the consolidated financial statements as a whole are free from material misstatement arising from fraud or error and to issue an auditor's report with our opinion. Reasonable assurance is a high level of assurance, yet it does not ensure that an audit carried out in accordance with the above-mentioned standards will always detect material misstatement. Misstatements might arise from fraud or error and are deemed material if it can be reasonably expected that they could, individually or jointly, influence the users' economic decisions made based on these consolidated financial statements. The risk of failure to detect material misstatement arisen from fraud is higher than the risk of failure to detect material misstatement arisen from error as it could involve collusions, forgery, intentional omissions, misleading or circumvention of internal control and might concern any area of the law and regulations, not only that with direct impact on the consolidated financial statements.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making the risk assessment, the auditor considers internal control relevant to the Parent Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. The audit also

includes evaluating the appropriateness of accounting principles (policies) used and the reasonableness of accounting estimates made by the Management Board of the Parent Company are properly kept, as well as evaluating the overall presentation of the consolidated financial statements.

The scope of the audit does not include assurance of the future profitability of the Group or of the efficiency or effectiveness of the Management Board of the Parent Company in conducting its affairs at present or in the future.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report for the Audit Committee issued as of the day of this audit report.

### **Independence**

During the audit, the key statutory auditor and the audit firm were independent of the Group entities in compliance with the Act on Statutory Auditors, the Regulation 537/2014 and the principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

To the best of our knowledge and belief, we represent that we have not provided services not being audit, which are forbidden under the provisions of Article 136 of the Act on Statutory Auditors and Article 5 par. 1 of the Regulation 537/2014 for the Group entities.

### **Selection of the audit firm**

We were selected to audit the Group's consolidated financial statements by the Supervisory Board's resolution no. 23/IX/16 of 5 April 2016. We have been auditing the Group's consolidated financial statements continuously since the beginning of the financial year ended 31 December 2016, which is two consecutive financial years.

### **The most significant types of risk**

During the audit, we identified the most significant types of risk of material misstatement described below, including ones arising from fraud, and prepared relevant auditing procedures regarding these types of risk. In the cases we found relevant for the understanding of the identified risk and the auditing procedures performed by the statutory auditor, we also included the most important observations related to these types of risk.

Description of the type of the risk of material misstatement	Statutory auditor's procedures in response to the identified risk and the most important findings related to these types of risk
<p><b>Analysis of asset impairment</b></p> <p>In part 3 of the consolidated financial statements for 2017 the Group presents disclosures regarding the impairment testing of the value of the KGHM INTERNATIONAL LTD Group's assets, including the basic macroeconomic assumptions, other assumptions critical for the estimate of the fair value of assets of the cash generating units (hereinafter CGU), and testing results. The Parent Company's Management Board, in compliance with the IFRS, carries out impairment testing at the end of each financial year. If impairment is identified, the Parent Company's Management Board carries out impairment testing, which is related to the Management Board's judgments on, among others, the calculation methodology adopted and the necessity to make a range of various assumptions. For the Sudbury KGHM Ajax Mining Inc. CGU, the test result comprises the total net impairment losses in the amount of PLN 645.1 million and for the Robinson CGU, the impairment losses were reversed in the amount of PLN 341.2 million.</p> <p>The issue of impairment testing was an object of our analyses due to the significance of the item in the consolidated financial statements as well as the complexity of the problem and the sensitivity of the impairment testing results to the adopted assumptions.</p>	<p><b>Our audit procedures included in particular:</b></p> <ul style="list-style-type: none"> <li>• an analysis and assessment of the process of identifying the premises of asset impairment and the accuracy of the testing method applied in compliance with the relevant financial reporting standards,</li> <li>• a review of the mathematical correctness and methodological consistency of the measurement model prepared by the Parent Company's Management Board,</li> <li>• a critical evaluation of the assumptions and estimates made by the Parent Company's Management Board. The most significant assumptions for the results of the performed testing concerned the forecast prices of commodities, including copper, and the applied discount rates for individual production assets and pre-operational projects. In order to assess them, we used local internal specialists,</li> <li>• an analysis of the forecasts regarding future cash flows, and their comparison to mine life models and the existing operational plans,</li> <li>• a review of the accuracy and completeness of disclosures regarding impairment testing in the financial statements.</li> </ul>
<p><b>Recognition of revenues from sales in the correct reporting period</b></p> <p>In part 2 of the consolidated financial statements for 2017 the Group presents a disclosure related to revenues from sales by ranges of products as well as by geographic locations of final consumers.</p> <p>Grupa Kapitałowa dokonuje sprzedaży produktów i towarów w oparciu o różne warunki dostawy (formuły Incoterms) i związany z tym różny moment transferu ryzyka i korzyści kontrahenta. W ramach procedur zamknięcia okresu sprawozdawczego Grupa Kapitałowa przeprowadza procedurę weryfikacji każdej otwartej sprzedaży.</p> <p>Kwestia poprawnego ujęcia w okresie przychodów ze sprzedaży była przedmiotem naszej analizy ze względu na istotność pozycji w skonsolidowanym sprawozdaniu finansowym oraz podatność na ryzyko celowego zniekształcenia.</p>	<p><b>Our audit procedures included in particular:</b></p> <ul style="list-style-type: none"> <li>• the understanding and assessment of the internal control environment in the area of a system used for the purpose of reflecting terms of transactions (Incoterms) in the process of recognizing revenue and identifying the moment of the proper recognition of transfer of risk and benefits,</li> <li>• ocenę prawidłowości, na wybranej próbie transakcji z przełomu roku, ujęcia sprzedaży we właściwym okresie sprawozdawczym zgodnie z wynikającym z warunków dostawy transferem ryzyka i korzyści na kontrahenta,</li> <li>• ocenę ujawnień w zakresie przyjętej polityki ujmowania i prezentacji przychodów ze sprzedaży.</li> </ul>

## Opinion

In our opinion, the attached annual consolidated financial statements:

- give a true and fair view of the economic and financial position of the Group as at 31 December 2017 and its financial performance for the financial year from 1 January to 31 December 2017 in accordance with the applicable International Accounting Standards, International Financial Reporting Standards, related interpretations published as European Commission regulations and the adopted accounting principles (policies),
- comply, with respect to their form and content, with the provisions of law applicable to the Group, including the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014 item 133, as amended) and with the articles of association of the Parent Company.

## Report on other legal and regulatory requirements

### Opinion on the report on the activities

Our opinion on the consolidated financial statements does not include the report on the Group's activities.

In accordance with the provisions of the Accounting Act and other applicable regulations, preparation of the report on the Group's activities is the responsibility of the Parent Company's Management Board. In addition, the Parent Company's Management Board and Parent Company's Supervisory Board members are obligated to ensure that the report on the Group's activities satisfy the requirements of the Accounting Act. It was our responsibility, in compliance with the requirements of the Act on Statutory Auditors, to issue the opinion whether the report on the Group's activities was prepared in compliance with the laws and that it was consistent with the information contained in the attached consolidated financial statements. Additionally, it was our responsibility to indicate whether we have detected any material misstatement in the report on the Group's activities based on our knowledge of the Group and its business environment obtained in the course of the audit of the consolidated financial statements and what each such material misstatement is.

In our opinion, the report on the Group's activities is compliant with the applicable laws and the information contained in the attached consolidated financial statements. Moreover, we state that we have not found material misstatements in the report on the Group's activities based on our knowledge of the Group and its business environment acquired in the course of the audit of the consolidated financial statements.

### Opinion on the statement of compliance with corporate governance principles

It is the responsibility of the Parent Company's Management Board and Supervisory Board members to prepare the statement of compliance with corporate governance principles in compliance with the laws.

In relation to our audit of the consolidated financial statements, it was our responsibility in accordance with the Act on Statutory Auditors to give an opinion as to whether the issuer obliged to submit a statement of compliance with corporate governance principles, which constitutes a separate part of the report on the Group's activities, included in said statement information required by laws and – with reference to specified information indicated in said laws or rules – a statement whether it was compliant with the applicable laws and the information contained in the annual consolidated financial statements.

In our opinion, the Parent Company's statement of compliance with corporate governance principles provides the information specified in Article 91 par. 5 subpar. 4 items a, b, g, j, k and l of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states (Journal of Laws of 2014, item 133, as amended) ("Ordinance"). The information indicated in Article 91 par. 5 subpar. 4 items c-f, h and i of said Ordinance included in the statement of compliance with corporate governance principles is compliant with the applicable laws and information presented in the annual consolidated financial statements.



### **Information about preparation of statement of non-financial information**

Pursuant to the requirements of the Act on Statutory Auditors, we hereby inform that the report on the Group's activities includes information about preparing a separate statement of non-financial information referred to in Article 49b par. 9 of the Accounting Act and that the Parent Company prepared such a separate statement.

We did not perform any validation works concerning the separate statement of non-financial information and we do not make any warranty about it.

The audit was performed on behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity entered under number 73 on the list of audit firms kept by the National Council of Statutory Auditors – by:

**Adrian Karaś**

Key Statutory Auditor, No.  
12194

Warsaw, 13 March 2018.

## Consolidated Statement of profit or loss (in PLN million)

	2017	2016
Revenue from sales	20,358	19,156
Cost of sales	(15,204)	(15,242)
<b>Gross profit</b>	<b>5,154</b>	<b>3,914</b>
Selling costs and administrative expenses	(1,343)	(1,370)
<b>Net profit on sales</b>	<b>3,811</b>	<b>2,544</b>
• Loss on the measurement of joint ventures using the equity method	(474)	(1,200)
• Impairment losses for loans extended to joint ventures	-	(4,394)
• Interest income on loans extended to joint ventures	319	633
Results from engagement in joint ventures	(155)	(4,961)
Other operating revenue (expenses)	(2,377)	(802)
Financial revenue (expenses)	1,020	(582)
<b>Profit / (loss) before income tax</b>	<b>2,299</b>	<b>(3,801)</b>
Income tax	(774)	(648)
<b>NET PROFIT / (LOSS)</b>	<b>1,525</b>	<b>(4,449)</b>
Net profit / (loss) attributable:		
• To the parent company's shareholders	1,568	(4,371)
• To non-controlling interests	(43)	(78)
<b>Weighted-average number of ordinary shares (millions of shares)</b>	<b>200</b>	<b>200</b>
<b>Basic/diluted earnings/(loss) per share (in PLN)</b>	<b>7.84</b>	<b>(21.86)</b>

## Consolidated statement of comprehensive income (in PLN million)

	2017	2016
<b>Net profit / (loss)</b>	<b>1,525</b>	<b>(4,449)</b>
• Measurement of hedging instruments net of the tax effect	308	(134)
• Measurement of available-for-sale financial assets net of the tax effect	33	15
• FX gains and losses relating to translation of financial statements of operations using a functional currency other than PLN	316	268
<b>Other comprehensive income which will be reclassified to profit or loss</b>	<b>657</b>	<b>149</b>
• Actuarial (losses) / gains net of the tax effect	(109)	90
<b>Other comprehensive income, which will not be reclassified to profit or loss</b>	<b>(109)</b>	<b>90</b>
<b>Total other comprehensive net income</b>	<b>548</b>	<b>239</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>2,073</b>	<b>(4,210)</b>
<b>to comprehensive income attributable:</b>		
• To the parent company's shareholders	2,120	(4,142)
• To non-controlling interests	(47)	(68)

## Consolidated statement of cash flow (in PLN million)

	2017	2016
<b>Cash flow from operating activities</b>		
Profit / (loss) before income tax	2,299	(3,801)
• Depreciation/amortization recognized in profit or loss	1,609	1,698
• Loss on the measurement of joint ventures using the equity method	474	1,200
• Impairment losses for loans extended to joint ventures	-	4,394
• Interest on loans extended to joint ventures	(319)	(633)
• Interest and other costs of borrowings	148	152
• Other impairment losses / (reversal) of an impairment loss for non-current assets	503	1,532
• Exchange gains/(losses), of which:	210	(138)
- investment activities and cash	1,461	(539)
- financing activities	(1,251)	401
• Write-off of tax liability that is not due in other operating income	-	(185)
• Changes in provisions	(25)	69

Selected items of the standalone and consolidated financial statements

• Changes in derivatives	202	(6)
• Other adjustments	(68)	55
Total exclusions of revenues and expenses	2,734	8,138
Income tax paid	(983)	(451)
Changes in working capital	(996)	326
<b>Net cash generated from operating activities</b>	<b>3,054</b>	<b>4,212</b>
Cash flow from investing activities		
• Expenditures on mining and metallurgical assets	(2,527)	(3,032)
• Expenditures on other property, plant and equipment and intangible assets	(269)	(219)
• Subscription for shares in joint ventures	(461)	(671)
• Other payments	(123)	(72)
Total payments	(3,380)	(3,994)
Proceeds	40	46
<b>Net cash used in investing activities</b>	<b>(3,340)</b>	<b>(3,948)</b>
Cash flow from financing activities		
• Proceeds from borrowings	2,442	3,266
• Other proceeds	6	21
Total proceeds	2,448	3,287
• Repayments of borrowings	(2,072)	(2,701)
• Dividends paid to the parent company's shareholders	(200)	(300)
• Interest paid and other costs of borrowings	(157)	(144)
• Other	(1)	(9)
Total payments	(2,430)	(3,154)
<b>Net cash generated from financing activities</b>	<b>18</b>	<b>133</b>
<b>NET CASH FLOW</b>	<b>(268)</b>	<b>397</b>
FX gains and losses	(6)	2
Cash and cash equivalents at beginning of the period	860	461
<b>Cash and cash equivalents at the end of the period</b>	<b>586</b>	<b>860</b>



## Consolidated statement of financial position (in PLN million)

	2017	2016
<b>Assets</b>		
Mining and metallurgical property, plant and equipment	16,296	15,217
Mining and metallurgical intangible assets	1,447	2,474
Mining and metallurgical property, plant and equipment and intangible assets	17,743	17,691
Other property, plant and equipment	2,679	2,591
Other intangible assets	209	208
Other property, plant and equipment and intangible assets	2,888	2,799
Joint ventures measured by the equity method	8	27
Loans extended to joint ventures	3,889	4,313
Total exposure to joint ventures	3,897	4,340
Derivatives	110	237
Other financial instruments measured at fair value	614	577
Other financial assets	762	930
Total financial instruments	1,486	1,744
Deferred tax assets	389	511
Other assets	112	117
<b>Non-current assets</b>	<b>26,515</b>	<b>27,202</b>
Inventories	4,562	3,497
Trade receivables	1,522	1,292
Tax assets	277	267
Derivatives	196	72
Other assets	464	252
Cash and cash equivalents	586	860
<b>Current assets</b>	<b>7,607</b>	<b>6,240</b>
	<b>34,122</b>	<b>33,442</b>
<b>Equity and liabilities</b>		
Share capital	2,000	2,000
Other reserves from measurement of financial instruments	158	(183)

Selected items of the standalone and consolidated financial statements

Accumulated other comprehensive income	2,427	2,216
Retained earnings	13,109	11,739
Equity of the parent company's shareholders	17,694	15,772
Equity of non-controlling shareholders	91	139
<b>Equity</b>	<b>17,785</b>	<b>15,911</b>
Debt-related liabilities	6,191	6,539
Derivatives	208	256
Employee benefits liabilities	2,063	1,860
Provisions for decommissioning costs of mines and other facilities	1,351	1,487
Liabilities on account of deferred tax assets	347	563
Other liabilities	718	960
Non-current liabilities	10,878	11,665
Debt-related liabilities	965	1,559
Derivatives	110	215
Trade payables	1,823	1,433
Employee benefits liabilities	842	787
Fiscal liabilities	630	786
Other liabilities	1,089	1,086
Current liabilities	5,459	5,866
<b>Non-current and current liabilities</b>	<b>16,337</b>	<b>17,531</b>
	<b>34,122</b>	<b>33,442</b>

## Consolidated statement of changes in equity (PLN million)

	Equity attributable to the parent company's shareholders					Equity attributable to non-controlling interests	Total equity
	Share capital	Other reserves from measurement of financial instruments	Accumulated other comprehensive income	Retained earnings	Total		
<b>As at 1 January 2016</b>	<b>200</b>	<b>(64)</b>	<b>1,868</b>	<b>16,407</b>	<b>20,211</b>	<b>203</b>	<b>20,414</b>
Dividend	-	-	-	(300)	(300)	-	<b>(300)</b>
Transactions with non-controlling shareholders	-	-	-	3	3	4	<b>7</b>
Transactions with owners	-	-	-	(297)	(297)	4	(293)
Net loss	-	-	-	(4,371)	(4,371)	(78)	<b>(4,449)</b>
Other comprehensive income	-	(119)	348	-	229	10	<b>239</b>
Total comprehensive income	-	(119)	348	(4,371)	(4,142)	(68)	(4,210)
<b>As at 31 December 2016</b>	<b>2,000</b>	<b>(183)</b>	<b>2,216</b>	<b>11,739</b>	<b>15,772</b>	<b>139</b>	<b>15,911</b>
Dividend	-	-	-	(200)	(200)	-	<b>(200)</b>
Transactions with non-controlling shareholders	-	-	-	2	2	(1)	<b>1</b>
Transactions with owners	-	-	-	(198)	(198)	(1)	(199)
Net profit	-	-	-	1,568	1,568	(43)	<b>1,525</b>
Other comprehensive income	-	341	211	-	552	(4)	<b>548</b>
Total comprehensive income	-	341	211	1,568	2,120	(47)	<b>2,073</b>
<b>As at 31 December 2017</b>	<b>2,000</b>	<b>158</b>	<b>2,427</b>	<b>13,109</b>	<b>17,694</b>	<b>91</b>	<b>17,785</b>

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# Non-financial external reports

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## Additional GRI indicators

We included GRI G4 indicators in sections I–X in order to present our results in the area of social responsibility. Below we present the indicators that complement the content presented in previous sections. The data concern KGHM Polska Miedź S.A. unless indicated otherwise.

### **G4-10** Total number of employees by work type, employment contract and region broken down by gender

No.	Total number of employees (head count) by gender:	Number of employees	
		2017	
1	Women	1,307	
2	Men	17,046	
<b>Total</b>		<b>18,353</b>	

No.	Number of employees (head count) by work time:	Number of employees		Total
		2017		
		Women	Men	
1	Full-time	1,304	17,039	18,343
2	Part-time	3	7	10
<b>Total</b>		<b>1,307</b>	<b>17,046</b>	

No.	Number of employees and co-workers (head count) by work time:	Number of employees		Total
		2017		
		Women	Men	
1	Employed for a specified period	6	1,547	1,633
2	Employed for an unspecified period	1,221	15,499	16,720
<b>Total</b>		<b>1,227</b>	<b>17,046</b>	



No.	Number of employees and co-workers (headcount) by:	Number of employees		Total
		2017		
		Women	Men	
1	Employed under service contracts	32	161	193
2	Employed under specific task contracts	-	2	2
3	Employed under apprenticeship contracts	7	27	34
4	Self-employed	-	16	16
5	Supervised and/or seasonal workers	-	-	0
<b>Total</b>		<b>39</b>	<b>206</b>	

**G4-11** Number of employees covered by a collective labor agreement (percentage of the total number of employees)

Total number of employees:	Number of employees
	2017
Total number of employees covered by collective labor agreements	18,299
Total number of employees	18,356
Percentage of employees covered by the collective labor agreement	99.69

**G4-LA1** Total number and rate of new employee hires, dismissals and employee turnover, by age, gender, and region

1.	Total number of employees (headcount) by:	Number of employees (headcount)	Number of new employee hires	Percentage of new employee hires (headcount)
		2017		
1	Women	1,307	91	6.96%
2	Men	17,046	977	5.73%
<b>Total</b>		<b>18,353</b>	<b>1,068</b>	<b>5.82%</b>

2.	Total number of employees (headcount) by age group	Number of employees (headcount)	Number of new employee hires (headcount) in a given group	Percentage of new employee hires
		2017		
1	<30	2,512	626	24.92%
2	30-50	12,464	411	3.3%
3	>50	3,377	31	0.92%
<b>Total</b>		<b>18,353</b>	<b>1,068</b>	<b>5.82%</b>

3.	Total number of employee turnover (headcount) by:	Number of employees (headcount)	Number of employee turnover (headcount)	Rate of employee turnover
		2017		
1	Women	1,307	82	6.27%
2	Men	17,046	894	5.24%
<b>Total</b>		<b>18,353</b>	<b>976</b>	<b>5.32%</b>

4.	Total number of employee turnover (headcount) by age group:	Number of employees (headcount)	Employee turnover (headcount) in a given age group	Rate of employee turnover
		2017		
1	<30	2,512	49	1.95%
2	30-50	12,464	406	3.26%
3	>50	3,337	521	15.43%
<b>Total</b>		<b>18,353</b>	<b>976</b>	<b>5.32%</b>

**G4-LA3** Return to work and retention rates after parental leave, by gender

4.	Total employee turnover (headcount) by age group:	2017	
		Women	Men
1	Number of employees that took parental leave:	57	796
2	Number of employees who returned to work after parental leave ended	30	751
3	Number of employees who returned to work after parental leave ended who were still employed twelve months after their return to work	1	749
4	Return to work rate (A)	90.00%	100.00%
5	Retention rate (B)	97.22%	98.94%

**G4-EC5** Employee remuneration at the lowest level by gender compared to minimum wage on the respective market in the Company's main locations

Location	Minimum wage in a given location (gross value) 2017	Women		Men	
		Average employee wage at the lowest level	Ratio of remuneration at the lowest level to minimum wage	Average employee wage at the lowest level	Ratio of remuneration at the lowest level to minimum wage
Poland	PLN 2,000	PLN 4,066.77	2.03	PLN 3,668.31	1.83

None of the employees of KGHM Polska Miedź S.A. is paid minimum wage.

**G4-LA6** Rates of injury, work-place related illnesses, lost days, and absenteeism, as well as number of work-related fatalities by region and gender.

	Women	Men	Women	Men
	2017		2016	
Total number of accidents (incidents) at work	3	297	3	367
Number of fatal injuries (incidents)	-	2	-	13
Number of severe accidents (incidents)	-	4	-	2
Number of minor accidents (incidents)	-	294	3	352
Total number of injuries in accidents	300		370	

Incident rate (IR, calculated as the total number of injuries in accidents/employment × 1,000)

Women	Men	Total	Women	Men	Total
2017			2016		
0.16	16.32	16.48	0.16	20.18	20.35

Total number of days of incapacity for work due to accidents at work (LDR, calculated as the ratio of the total number of lost days to the number of planned hours of work of employees in the reported period× 200,000)

Women	Men	Total	Women	Men	Total
2017			2016		
51	20,278	20,429	39	23,108	23,147
1	140	141	0	160	160

Accident severity rate (calculated as the number of days of incapacity for work due to an accident/number of accidents)

Women	Men	Total	Women	Men	Total
2017			2016		
50.33	68.74	68.55	13.00	65.23	64.79

Occupational disease rate (ODR, calculated as <the number of cases of occupational diseases / the total number of hours worked by all employees in a given period> × 200,000)

Women	Men	Total	Women	Men	Total
2017			2016		
-	0.09	0.09	-	0.05	0.05

**G4-LA7** Employees particularly susceptible to workplace-related illnesses

No.	Identified hazard from factors harmful or dangerous to health	Information- which types of positioned (groups of employees) are particularly exposed to increased risk of incidence of specific diseases due to their professional activities	Number of employees working in hazardous/ risky conditions	Information why there is a particular exposure to occupational diseases	Description of the mitigation measures taken by the organization (such as health protection programs, OHS programs, etc.)	Percentage of employees working on positions exposed to high risk of occupational disease, with regard to whom preventive measures were taken – including occupational risk assessment
1	Industrial fibrogenic dust	Miners	1,120	Work technologies and systems	Personal protective equipment	100%.
2	Carcinogenic chemicals	Metallurgists	812	Composition of the processed concentrates Pyrometallurgical process	Modernization of technology Personal protective equipment Biological monitoring Job rotation Educational activities	100%



No.	Identified hazard from factors harmful or dangerous to health	Information- which types of positioned (groups of employees) are particularly exposed to increased risk of incidence of specific diseases due to their professional activities	Number of employees working in hazardous/ risky conditions	Information why there is a particular exposure to occupational diseases	Description of the mitigation measures taken by the organization (such as health protection programs, OHS programs, etc.)	Percentage of employees working on positions exposed to high risk of occupational disease, with regard to whom preventive measures were taken – including occupational risk assessment
3	Noise	Miners	5200	Equipment	Technical and organizational measures, including personal protective equipment	100%
4	Vibration	Metallurgists	602	Machinery and equipment	Technical and organizational measures, including new, innovative machinery and equipment	100%
5	Heat	Employees of ore processing plants	3255	High depth of exploitation	Centralized, mine face, and workplace air-conditioning, ventilation, organization of work	100%
6	Excessive physical burden	Miners	1982	Technological process	Mechanization of tasks, modernization of processes and organization of work	100%

**G4-MM1** Amount of land (owned or leased, and managed for production activities or extractive use) disturbed or rehabilitated

KGHM Polska Miedź S.A.

No.	Land	Quantity (ha)
		2017
1	Amount of land disturbed and not yet rehabilitated (A: opening balance)	6,715.0873 ha
2	Amount of land disturbed during the reporting period (B)	3.7774 ha

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No.	Land	Quantity (ha)
		2017
3	Amount of land rehabilitated to the agreed end use during the reporting period (C)	20.0657 ha
<b>4</b>	<b>Sum of land disturbed and not yet rehabilitated (D: as at the end of the period)</b>	<b>6,725.5634 ha</b>

KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

No.	Land	Quantity (ha)
		2017
1	Total amount of land	43,024 ha
2	Amount of land disturbed before 2017	4,751 ha
3	Amount of land disturbed in 2017	136 ha
4	Amount of land rehabilitated in 2017	0 ha
5	Amount of land rehabilitated before 2017	227 ha
<b>4</b>	<b>Sum of undisturbed land</b>	<b>38,136 ha</b>

**G4-MM3** Total amount (overburden, rock, waste and effluents) and a description of the associated risks

KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

Total amount (overburden, rock, waste and effluents)	Quantity (t)	
	2017	2016
Overburden	0	0
Non-mineralized rock	187,230,033	167,097,565
Leached material	0	4,266,505
Slag heaps	52,297,646	51,428,080
Sediments	0	27

**G4-MM4** Number of strikes and lockouts

During the reporting period there were no strikes or lockouts that lasted longer than a week.

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

KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

Non-renewable raw materials	unit	value
Natural gas	m <sup>3</sup>	3,015,143
Gasoline	l	470,285
Oil	l	14,123
Heating oil	l	0
Diesel	l	173,465,933
Butane	m <sup>3</sup>	0
Propane	l	1,268,194
Ethane	m <sup>3</sup>	0
Electricity	unit	value
Purchased	kWh	1,450,334,889
Generated independently	kWh	0
Sold	kWh	0

**G4-EN5** Energy intensity

Energy intensity	Values	Unit
	2017	
Dividend – total energy consumption (GJ, MWh)	3,654,608	MWh
Divisor – to be selected	522,022	t
Energy intensity indicator	7.000 869 695	MWh/t of electrolytic Cu

**G4-EN6** Reducing energy consumption

No.	Activity conducted to save energy	Amount of energy saved as a result of the actions taken (Gj/MWh)	
		2017	2016
Initiative/project 1	Redesigning and streamlining processes - Replacement or modernization of equipment - Changes of employee habits and behavior - Changes in systems / procedures	77,568	64,279
Initiative/project 2	Redesigning and streamlining processes - Replacement or modernization of equipment - Changes of employee habits and behavior - Changes in systems / procedures	45,264	44,148
Initiative/project 3	Redesigning and streamlining processes - Replacement or modernization of equipment - Changes of employee habits and behavior - Changes in systems / procedures	1,525	1,525
<b>Suma</b>		<b>124,357</b>	<b>104,835</b>

**G4-EN8** Total water usage by source

KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M.

Total water usage by source	Quantity (m <sup>3</sup> )
	2017
Surface water	1,463,163
Underground water	23,776,119
Runoff	1,081,259
Water pipe water	132,101
Marine water	26,055,768
<b>Total</b>	<b>52,508,410</b>

**G4-EN12** The operation of KGHM Polska Miedź S.A.'s installations does not exert an adverse impact on naturally valuable species and areas, including the ones covered by the program Natura 2000

**G4-EN14** Total number of species in the ICUN Red List (International Union for the Conservation of Nature) and on the national conservation lists of species at risk identified in the area of the organization's impact ordered by level of extinction risk

KGHM Polska Miedź S.A. in 2017 r.

No.	Level of risk of extinction of species	Species identified in the area subject to the organization's impact
1	At extreme risk	1
2	At risk	0
3	In jeopardy of extinction	0
4	Risks are close	0
5	No at risk at the present time	0

KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. in 2017

No.	Level of risk of extinction of species	Species identified in the area subject to the organization's impact
1	At extreme risk	1
2	At risk	6
3	In jeopardy of extinction	5
4	Risks are close	1
5	No at risk at the present time	11

**G4-EN15** Direct greenhouse gas emissions

No.	Direct emissions	Greenhouse gas emissions [tCO <sub>2</sub> e]	Greenhouse gases incorporated in calculations
		2017	Description
1	Emissions related to the generation of electrical energy	192,850	Blast furnace gases exported to the company Energetyka (under EU ETS treated as Energetyka's emissions)
2	Emissions related to the generation of heat	71,642	Emissions related to the burning of natural gas and heating oil
3	Emissions from cooling processes and the generation of steam		None
4	Emissions from physical and chemical processing	1,091,018	Process emissions



No.	Direct emissions	Greenhouse gas emissions [tCO <sub>2</sub> e]	Greenhouse gases incorporated in calculations
		2017	Description
5	Hydrofluorocarbon (HFC) emissions	34,325	Cooling agents and electrical insulators (SF6)
6	Emissions related to the transport of materials, products and waste	99,192	Motor fuels
Total direct emissions		1,489,027	
7	Emissions of biogenic carbon dioxide in metric tons of CO <sub>2</sub> equivalent	39,326	It also contains the transfer of biological carbon in the blast furnace gas to the company Energetyka's combined heat and power plant

**G4-EN18** Concentration of greenhouse gas emissions

No.	Concentration of greenhouse gas emissions	2017	Unit
1	Quantity of total GHG emissions (in tons of CO <sub>2</sub> equivalent)	3,508,747	t
2	Selected divisor	522,021.959	t
3	CO <sub>2</sub> intensity	6.721 455 673	

**G4-EN21** Emission of NO<sub>x</sub>, SO<sub>x</sub> and other significant compounds emitted into the air

No.	Emission of NO <sub>x</sub> , SO <sub>x</sub> and other significant compounds emitted into the air	Weight of significant emissions into the air (in tons)	
		2017	2016
1	NO <sub>x</sub>	1,499.4	1,488
2	SO <sub>x</sub>	1,054.7	3,207
3	Dust (PM)	68.9	104

**G4-EN22** The total volume of effluents by quality and destination

No.	Effluents removal site	Volume (in m <sup>3</sup> )	
		2017	2016
1	To underground water	230,000	230,000
2	To surface water (lakes, rivers, etc.)	20,993,571	20,196,489
3	To municipal companies	9,239,503	8,499,124
<b>4</b>	<b>Sum of the total quantity of sewage</b>	<b>30,463,074</b>	<b>28,925,613</b>

No.	Method of treating sewage	Volume (in m <sup>3</sup> )	
		2017	2016
1	Through the organization	20,993,571	20,196,489
2	Through the sewage treatment plant	9,239,503	8,499,124
<b>3</b>	<b>Sum of the treated sewage</b>	<b>30,233,074</b>	<b>28,695,613</b>

**G4-EN24** Total amount and volume of significant spills

No.	Number of complaints associated with environmental impact	Number and volume of spills in 2017	
		Number	Volume (in m <sup>3</sup> )
1	Leak of diesel fuel from the tank of a truck onto the surface of an internal asphalt road at Smelter I (HMG)	1	56

**G4-EN29** Total value of fines for non-compliance with environmental laws and regulations (PLN)

	KGHM	reasons for imposing the sanction
	2017	
Total value of fines for non-compliance with environmental laws and regulations [PLN]	8,204.00	Failure to adhere to the permit's conditions
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	

**G4-EN31** Total expenditures and investments for environmental protection

No.	Number of complaints associated with environmental impact	2017
1	Costs of recycling waste, treating emissions and reclamation (PLN)	14,265,500
2	Costs and capital expenditures to prevent and manage environmental protection (PLN)	368,985,100

**G4-EN34** Number of complaints associated with environmental impact examined and solved by employing the formal mechanisms in force in the organization

No.	Number of complaints associated with environmental impact	2017
1	Total number of complaints associated with environmental impact filed during the reporting period under the formal complaint submission process	24
2	Number of submitted cases accepted for examination	24
3	Number of submitted cases that have been solved	24

**G4-S08** Monetary value of penalties and total number of non-financial sanctions for non-compliance with the law and regulations

KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. in 2017

Fines in 2017	unit	value
<b>Total</b>	USD	<b>109,041</b>

**G4-PR7** Client satisfaction survey results

In 2017, just as in the previous year, KGHM Polska Miedź S.A. did not have any cases of non-compliance with regulations and voluntary codes regulating marketing communications, including advertising, promotion and sponsorship. In 2017 no legal steps were taken against the Company regarding instances of violating the principles of free competition or monopolistic practices.

G4-24, G4-25, G4-26, G4-27

No.	Stakeholder group	Approach and type of engagement shown by the group of stakeholders (e.g. surveys, satisfaction research, dialogue sessions, etc.)	Frequency of engagement by type	Key issues and problem areas raised by stakeholders
1	Institutional investors	Participation in investor conferences and non-deal roadshows (meetings with investment fund managers)	14 investor conferences and 1 roadshow a year (approximately 250 meetings)	Financial aspects of the operation of the Company and the Group, the target production levels of metals, the quantum of capital expenditures and replacement expenditures, the status of projects under execution, development projects, stance concerning the metals market, dividend policy, mine tax on extracting some minerals
2	Institutional investors, retail investors, stock market analysts, local community, local governments, employees	Publication of KGHM Polska Miedź S.A.'s Strategy for 2017-2021 with an outlook to 2040	1 time a year	Tenets of the Strategy and the prospects for the Company's growth
3	Institutional investors, retail investors, stock market analysts, financial journalists, market regulator	Results conferences after the publication of the financial statements of the Company and the Group (online webcast)	4 times a year	Economic results of the Company and the Group, macroeconomic environment, key domestic projects, key foreign projects
4	Institutional investors, retail investors, stock market analysts, market regulator, financial journalists	Discharging reporting duties: publication of current reports, publication of financial reports	34 current reports and 5 financial reports	Economic results of the Company and the Group, macroeconomic environment, key domestic projects, key foreign projects
5	Institutional investors, stock market analysts	Direct meetings in the Company's registered office and representative office	In response to submitted requests	Economic results of the Company and the Group, macroeconomic environment, key domestic projects, key foreign projects
6	Institutional investors, retail investors, stock market analysts, financial journalists	E-mail and phone communication (responses to questions posed by the market)	Continuously	Economic results of the Company and the Group, macroeconomic environment, key domestic projects, key foreign projects

Non-financial external reports

No.	Stakeholder group	Approach and type of engagement shown by the group of stakeholders (e.g. surveys, satisfaction research, dialogue sessions, etc.)	Frequency of engagement by type	Key issues and problem areas raised by stakeholders
7	Retail investors	Investor chats (following the publication of results) dedicated to retail investors	1 time a year	Recap of production and economic results in H1, tax on the extraction of some minerals, copper price forecast, development of Sierra Gorda, capital expenditures in Poland, Victoria Project, C1 cost
8	Retail investors	"Wall Street 21" Conference organized by the Individual Investors Association	1 time a year	Operations of KGHM Polska Miedź S.A., key production assets in Poland, key foreign assets, KGHM's strategy for 2017-2021, challenges facing KGHM in 2017-2021
9	Capital market institutions	Program Conference of the Chamber of Brokerage Houses	1 time a year	Quality of investor communication
10	Capital market institutions, other public companies	Public Companies' Investor Relations Congress, Polish Association of Listed Companies	1 time a year	Quality of investor communication



# Contact data

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Correspondence should be sent to the address of the Company's main head office

**G4-5, G4-31** KGHM Polska Miedź S.A.

ul. M. Skłodowskiej-Curie 48  
59-301 Lubin  
Poland

Please submit questions concerning  
KGHM Polska Miedź S.A. to the following:

Investor Relations Department

tel.: +48 76 74 78 280  
fax: +48 76 74 78 205  
ir@kghm.com

Communication and CSR

tel.: +48 76 74 78 200  
fax.: +48 76 74 78 507  
csr@kghm.com

Questions concerning  
KGHM INTERNATIONAL LTD.  
please submit to the following:

KGHM INTERNATIONAL LTD.

Suite 400-191 Creditview Road  
Vaughan, Ontario  
L4L 9T1 Canada