

KGHM Polska Miedź
Spółka Akcyjna
z siedzibą w Lubinie

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Adam Matthews
Head of Ethics and Engagement
Church of England Pensions Board

Ed John
Executive Manager, Governance
and Engagement, ASCI

Dear Adam, Dear Ed,

Thank you for your letter of 27th October regarding Review of the company's agreements, policies and processes which underpin relationships with First Nations communities and Indigenous peoples.

As you have rightly pointed out, and has been regrettably demonstrated by the tremendous tragedy of Juukan Gorge, the issue of the rights of First Nations and Indigenous Peoples, despite efforts over recent decades to highlight this aspect of corporate operations, still leaves much to be desired. The fact that in the end companies, and indeed all institutions, are ultimately expected to strive for the betterment of humanity and are responsible to the communities they affect, both locally and in the wider sense, appears in the case of Juukan Gorge to have been shunted aside.

This is not the case with the KGHM Group. Since its founding in 1961, and in particular following the momentous events of 1989 and the subsequent public listing of the company in 1997, KGHM has emphasised the social and environmental aspects of its operations and its responsibilities in this regard. As demonstration of this a review of the information provided in our recent Non-financial reports and Integrated reports for 2019, as well as our press releases, should suffice to show the extent of KGHM's engagement with our communities. As the KGHM Group's main operations (over 80% of its revenues) are based in Poland, this is where the bulk of the assistance is provided, through our charitable foundation. For example, in 2019 the KGHM Foundation provided a total of PLN 20,243,989.96 (approx. 5.3 million USD) in assistance to communities and individuals under the four general areas of Health and safety, Science and education, Sports and recreation, and Cultural heritage and community traditions.

Członkowie Zarządu
KGHM POLSKA MIEDŹ S.A.:

Marcin Chludziński
Prezes Zarządu

Adam Bugajczuk
Wiceprezes Zarządu
ds. Rozwoju

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Wiceprezes Zarządu
ds. Finansowych

Radosław Stach
Wiceprezes Zarządu
ds. Produkcji

Zarejestrowana pod nr
KRS 000023302
w Sądzie Rejonowym
dla Wrocławia Fabrycznej,
IX Wydział Gospodarczy
Krajowego Rejestru Sądowego,
gdzie przechowywana jest
dokumentacja spółki

Kapitał zakładowy:

2.000.000.000 zł
(z czego wpłacono 2.000.000.000 zł)

In recent years this focus on community engagement has been codified in formal statements of intent, such as our Code of Ethics, which states that “We care about the local communities where we operate, and engage in dialogue with them”. This mirrors one of our core values which is accountability: We take full Accountability for our actions and commitments. We keep our promises and establish long-term relationships with integrity. We build trust amongst our fellow employees, stakeholders and the communities where we operate. The Code of Ethics constitutes a guidepost for all the decisions and actions taken in the Parent Entity and the KGHM Polska Miedź S.A. Group, and is buttressed by additional statements on corporate social responsibility, such as our Code of Conduct, Safety policy, Responsible Supply Chain policy, Diversity Declaration and Declaration on human rights protection.

The Declaration on human rights protection is of course particularly relevant to our stance towards the protection of and respect for First Nations communities and Indigenous peoples. Among others the Declaration states that “KGHM Polska Miedź S.A. declares that it recognizes, respects and promotes human rights wherever it conducts its business. It does not tolerate any violations of human rights. We undertake to operate in compliance with the United Nations’ Universal Declaration of Human Rights and other norms and standards, including the statutory and executive regulations of the home countries of our business operations.” In the case of the KGHM Group, our direct interactions with First Nations communities and Indigenous peoples is limited to our operations in Chile (the Sierra Gorda and Franke mines) and to projects in Canada (Ajax and Victoria). In terms of the former (Chile), and especially in the case of the Sierra Gorda mine which commenced operations in 2014, KGHM has been especially determined to maintain good relations with the local community. KGHM has provided support to Chilean institutions in the form of scholarships for Chilean students of Universidad de La Serena. This has resulted in the absence of any incidents of claims against the company for infringements of Indigenous rights.

In Canada as mentioned we have two projects: Victoria in the Sudbury Basin and Ajax in British Columbia. (We also have a small operating mine in the Sudbury Basin but this has not involved substantial direct interaction with First Nations). Both of these involve direct interaction not only with local communities but especially with First Nations, although they are differentiated in that while the Victoria project continues to be advanced at the planning stage, the Ajax project is currently on hold, for reasons which shall be described shortly. Relations with First Nations in both projects have been and remain positive and constructive, with the only difference being that, as Victoria is located in a highly-industrialised region of Canada, the process of agreeing and obtaining consent from the relevant affected First Nations has proceeded smoothly, whilst in the case of Ajax the process of obtaining consent for the project met with opposition from several groups,

including First Nations. Throughout this process dialogue was maintained in accordance with best practices and Canadian law. The result was that at the end of 2017 the Canadian government decided not to grant an environmental permit for the Ajax project, and consequently the project since that time has not been advanced.

As we reported at the end of 2017:

In December 2017, the Ministers of Environment and of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) decided against the granting of an Environmental Assessment Certificate for the Ajax project. In June 2018, the Government of Canada, through the Governor-in-Council (Cabinet) issued a negative decision regarding the Ajax project as the project is likely to cause significant adverse environmental effects. The decisions were made through the environmental impact assessment process, and reflect the substantial engagement of provincial and federal governmental agencies, First Nations and a broad spectrum of stakeholders, including thousands of local citizens. In 2019, work was carried out related to maintaining existing infrastructure and requisite monitoring of terrain. A strategy for further action in respect of the Ajax project was also defined, which concluded with a mutual decision by the project's partners to commence the process of re-engaging with its stakeholders, aimed at improving relations with First Nations and the local community. Under this strategy, talks were held with First Nations representatives, among others during meetings between representatives of First Nations in the Kamloops region (Canada) and representatives of the Management Board of KGHM Polska Miedź S.A. in Poland.

At the end of 2019 KGHM, as part of its efforts to maintain an open dialogue with the First Nations associated with the currently-inactive Ajax project, hosted representatives of the First Nations community from the vicinity of the town of Kamloops in British Columbia, the Stk'emlúpsenc te Secwépemc Nation, in Poland. During their meeting with the company's management, the First Nations representatives introduced the history and traditions cherished by the indigenous people of the Kamloops area. KGHM in turn presented the specifics of the company's operations in Poland, as well as the company's relations with local governments, non-governmental organizations and residents of the Copper Belt. During their stay in Lower Silesia, the representatives of the Stk'emlúpsenc te Secwépemc Nation had the opportunity to go underground and visit the Lubin mine. One of KGHM's representatives who accompanied our First Nations visitors commented that "They were impressed by the vast area our company covers and how far the interconnected branches of KGHM extend. The trip underground and the visit to the mine were a unique experience for our guests. Such visits build understanding and allow for better and better dialogue."

It is just such dialogue that KGHM strives to maintain for all of the communities in which it has operations or projects, thanks to which it has been able to maintain its so-called social license to operate.

In terms of risk related to relations with First Nations communities and Indigenous peoples, this element of overall risk is covered by the Comprehensive Risk Management System of the KGHM Polska Miedź S.A. Group, as follows:

The risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.

The KGHM Group is exposed to the risk of exposure to external factors involving the environment in which it operates and consequently, exposure to changes in the image of the organisation and its products or services. Risk of ineffective management of relations with stakeholders, which affects the willingness of the environment and the taking of actions towards the Group. In extreme cases, the materialisation of this risk may lead to the blocking of development plans.

Mitigation

Advancement of CSR Strategy and close cooperation with government bodies. Meetings and negotiations with stakeholders, informational campaigns, conferences, publications. Cooperation with academic and sector bodies and authorities in order to meet the highest communication-public relations standards.

I would like here to emphasise that responsibility for establishing policy, execution and monitoring of the aforementioned aspects of the company's operations lies with the Management Board of KGHM Polska Miedź S.A. under the supervision of the Supervisory Board. As such I can assure you that we will continue to strive to maintain or even improve our efforts towards building and enhancing relations with all of our communities, including those First Nations and Indigenous Peoples who are directly impacted by our operations in any way. We recognise the immense harm and suffering caused by failures to adhere to the principle of Zero Harm, one of our core values, such as the tragic loss of life in Brazil following the failure of a tailings pond, and the enormous loss not only to Australia's indigenous peoples but also to humanity, of the destruction of the Juukan Gorge heritage site. Accidents of course will happen despite the best intentions and efforts to the contrary, but KGHM has never, and will never, consciously and blatantly breach the social covenants that have been at the core of KGHM's operating principles. I trust that our performance to date has amply demonstrated this, and encourage further dialogue should you have any further questions or concerns in this regard.

Respectfully,



Marcin Chludziński
President &CEO
KGHM Polska Miedź S.A.