



**NON-FINANCIAL REPORT OF  
KGHM POLSKA MIEDŹ S.A. AND THE  
KGHM POLSKA MIEDŹ S.A. GROUP  
FOR 2019**

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# External auditor's opinion

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

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

The formal basis for drawing up this opinion is the Contract between the Accounting and Tax Institute and KGHM Polska Miedź S.A. dated 1 March 2020 for the Accounting and Tax Institute to render the service of making an expert assessment and attestation of the methodological accuracy and integrity of the preparation of the "Non-Financial Report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2019" (hereinafter referred to as the "KGHM Non-Financial Report").

The KGHM Non-Financial Report comprises qualitative and quantitative data for the period from 1 January 2019 to 31 December 2019 pertaining to corporate social responsibility of the KGHM Polska Miedź S.A. Group and Parent Entity, understood as sustainable development of these organizational entities.

KGHM Polska Miedź S.A. has prepared the report following the guidelines of the Directives of the European Parliament and of the Council (2014/95/EU and 2013/34/EU) and the Act of 15 December 2016 Amending the Accounting Act (Journal of Laws of 2017, Item 61; consolidated version: Journal of Laws of 2017 Item 2342), and implementing them in Poland, as well as applying the elements of TCFD's guidelines (Task Force on Climate-related Financial Disclosures) to report related Financial Disclosures and of the Communique of the European Commission no. 2019/C 209/ 01. The supplement pertains to the notification of client-related information.

The KGHM Non-Financial Report covers five major fundamental parts. The first one contains a description of the business, organization structure, business model and the KGHM strategy pursued thereby along with the strategy's foundation rooted in the idea of sustainable development devised on the basis of the Ten Principles of the UN Global Compact Initiative and the UN 2030 Agenda's 17 sustainable development goals with special emphasis on the metals and mining industry. This part is wrapped up with a subsection describing the comprehensive risk management system applied in the KGHM Group making it possible to react quickly and effectively to the appearance of any determinants of deviations from the execution of the strategic goals. The second part of the Report forming the subject of this opinion is constituted by the ethical grounds for the operation of the Group and the Parent Entity, formed by values, the Code of Ethics, and furthermore the policies and procedures specifying and upholding the ethical foundations for the operation of both entities in their business

environment with special emphasis of respecting human rights and counteracting corruption. The next three parts are formed by sections 3, 4 and 5 with a focus on results and metrics for the employee, social and environmental areas, including the climate-related area, as well as due diligence procedures falling under the conduct of action in these areas. They have been prepared using globally recognized non-financial reporting standards, relying on the methodology for corporate social responsibility reporting as published by the Global Reporting Initiative in the form of GRI Standards (hereinafter: GRI Standards) and using the guidelines for observing corporate social responsibility, presented in the ISO 26000 standard (Guidance on social responsibility), issued by the International Organization for Standardization.

### **Defining the Management Board's responsibility**

The auditor states that the correct preparation of the Non-Financial Report subject to assessment and attestation is the responsibility of the KGHM Polska Miedź S.A. Management Board. The framework for this responsibility consists of the selection, implementation and description of the application of the following: business model of entities observing their corporate social responsibility, key non-financial performance indicators associated with the operations of these entities, policies applied by these entities with regard to social, employee, environmental, respect of human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies. The level of the above responsibility will be validated by constant compliance of globally executed sustainable development principles and goals specified in the description of the subject matter of the opinion as well as a methodology based on GRI Standards and ISO 26000 guidelines.

### **Defining the auditor's responsibility**

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

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

## **Audit activities performed**

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

Stage 1. Assessment of the methodological accuracy of the selection by the KGHM Polska Miedź S.A. Group and Parent Entity of the following: the business model as a group of entities observing their corporate social responsibility, key non-financial performance indicators associated with the operations of these entities, policies used by the entities with regard to social, employee, natural environment, respect of human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies and selection of the corporate social responsibility indicators in light of the reporting standards compliant with GRI Standards and ISO 26000 and the distinct nature of the metals and mining industry.

Stage 2. Verification of the knowledge of the management concerning the business model used by the KGHM Polska Miedź S.A. Group and Parent Entity as a group of entities observing their corporate social responsibility, key non-financial performance indicators associated with the operations of these entities, policies used by the entities with regard to social, employee, natural environment, respect of human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies and selection of corporate social responsibility indicators in light of the reporting standards compliant with GRI Standards and ISO 26000 and the distinct nature of the metals and mining industry.

Stage 3. Assessment of the structure and effectiveness of material mechanisms used by the KGHM Polska Miedź S.A. Group and Parent Entity with regard to collection, processing and reporting of data for the key non-financial performance indicators associated with the operations of these entities, policies used by the entities with regard to social, employee, natural environment, respect of human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies and the corporate social responsibility indicators in light of the reporting standards compliant with GRI Standards and ISO 26000 and the distinct nature of the metals and mining industry.

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

of these policies and the corporate social responsibility indicators in light of the GRI reporting standards and ISO26000 and the distinct nature of the metals and mining industry.

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

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

### **Auditor's conclusion**

On the basis of the actions it has completed, the auditor states that the "Non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2019" has been prepared correctly in its entirety from a methodological perspective and following the rules on overall integrity, and nothing has been identified therein that would indicate that the aforementioned provisions pertaining to the business model as a group of entities observing corporate social responsibility, key non-financial performance indicators associated with the operations of these entities, policies used by these entities with regard to social, employee, natural environment (including the climate), respect of human rights and prevention of corruption issues and due diligence procedures as part of the above policies, and the risks and their management in the context of these policies, fail to follow the guidelines of the Directives of the European Parliament and of the Council (2014/95/EU and 2013/34/EU) and the Act of 15 December 2016 Amending the Accounting Act (Journal of Laws of 2017, Item 61; consolidated version: Journal of Laws of 2017 Item 2342) implementing them in Poland. The auditor also states that the Report subject to this opinion has also applied the TCFD guidelines (Task Force on Climate-related Financial Disclosures) to report environmental issues and European Union Communique no. 2019/C 209/ 01: Supplement regarding the notification of climate-related information, which should be deemed to be an important element specifying the awareness and liability of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for issues associated with curtailing the adverse climate-related changes and rational resource management.

The clauses of KGHM's Non-financial Report are also consistent with the global corporate social responsibility standards and the reporting standards provided for in GRI Standards as well as ISO 26000 guidelines, taking into account the distinct nature of the metals and mining industry.

### **Scope of application of the conclusion**

This opinion, particularly the conclusion resulting from it, has been prepared by the auditor representing the Tax and Accounting Institute, in accordance with the contract with KGHM Polska Miedź S.A. concluded on 1 March 2020 solely and exclusively only for the purposes of the KGHM Polska Miedź S.A. Management Board and it should not be used for any other purpose. The Accounting and Tax Institute does not assume in connection with this opinion any liability towards other persons than the KGHM Polska Miedź S.A. Management Board.



With a miner's greeting,

Paweł Bogacz, Ph.D. Hab. Eng. (Stanisław Staszic AGH University of Science and Technology in Kraków)

Accounting and Tax Institute auditor

Warsaw, 13 March 2020



## ABOUT THIS REPORT

This 2019 Non-Financial Report contains data and measures pertaining to the KGHM Polska Miedź S.A. Group and KGHM Polska Miedź S.A. (hereinafter referred to as the Parent Entity). It has been prepared in accordance with the guidelines of the Accounting Act with regard to disclosure of non-financial information, the Act of 15 December 2016 Amending the Accounting Act (Journal of Laws of 2017, Item 61; consolidated version: Journal of Laws of 2017 Item 2342) and also based on the Directive of the European Parliament and of the Council no. 2013/34/EU subsequently amended by the Directive of the European Parliament and of the Council no. 2014/95/EU. Non-financial reporting is based on the Global Reporting Initiative (GRI) guidelines developed with the use of indicators included in the GRI Standards methodology selected with a view to providing possibly the most comprehensive description of the issues covered. This report also employs elements of the guidelines of the Task Force on Climate-related Financial Disclosures and the Communication from the Commission No. 2019/C 209/ 01 – Supplement on reporting climate-related information.

To ensure full transparency, a comprehensive approach and the analytical data layout, this document has been prepared in the form of a Report. The reporting process in the KGHM Polska Miedź S.A. Group and in the Parent Entity KGHM Polska Miedź S.A. is carried out on an annual basis. The reports do not contain any corrections of the content of previous reports. The previous Non-Financial Report of KGHM Polska Miedź S.A. and the Group was published on 14 March 2019.

In the process of preparing the Report, the documents, policies, due diligence procedures, risk management principles and other informational materials related to the activities of the KGHM Polska Miedź S.A. Group and the Parent Entity KGHM Polska Miedź S.A. and the metals and mining industry in general, were reviewed. The values of respective qualitative and quantitative indicators describing the Group and the Parent Entity were calculated with due care and in accordance with the principles of comprehensiveness.

The Report has been prepared as a separate 2019 Non-Financial Report of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group. This document was subjected to external review. Moreover, in line with its practice to date, KGHM Polska Miedź S.A. will publish its 2019 Integrated Report by the end of June 2020.

## REPORTING METHODOLOGY

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

Stage 1. Confirmation of the map of stakeholders in order to describe relations with the environment.

Stage 2. Confirmation of the applicability and importance of key business and sustainable development issues that are relevant for the KGHM Polska Miedź S.A. Group and the Parent Entity KGHM Polska Miedź S.A. in order to prepare a description of the business model. Significant issues were defined during discussion meetings with representatives of KGHM Polska Miedź S.A. and representatives of KGHM Group Companies.

Stage 3. Collection of data, using the electronic tool, depicting the implementation of policies, strategies and sustainable development goals as well as due diligence and risk management principles and their application in the KGHM Group and the Parent Entity in 2019.

Stage 4. Summary of the 2019 Non-Financial Report of the KGHM Group and the Parent Entity based on the collected data in accordance with the Accounting Act of 15 December 2016 (Journal of Laws of 2017, item 61, consolidated text: Journal of Laws of 2017, item 2342) and elements of the guidelines of the Task Force on Climate-related Financial Disclosures and the Communication from the Commission No. 2019/C 209/ 01 – Supplement on reporting climate-related information.

Stage 5. An external, third-party audit assessing the correctness of the data and contents included in the 2019 Non-Financial Report.

## 1. ABOUT THE GROUP

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

The KGHM Polska Miedź S.A. Group is a global, innovative organization involved in technologically advanced exploration, mining and smelting operations. For several decades, the Company has been mining and processing valuable underground resources, providing the world with commodities that enable its sustainable development. The Company's history began in 1957 with the discovery of one of the world's largest deposits of polymetallic ores, predominantly copper and silver, located in south-western Poland. The deposit has been effectively and reasonably mined to this day. As the years went by, the KGHM Polska Miedź S.A. Group significantly grew its business both in terms of products and the market. KGHM Polska Miedź S.A. is present on four continents: in Europe, South America, North America and Asia. The KGHM Polska Miedź S.A. Group is comprised of KGHM Polska Miedź S.A. as the Parent Entity and several dozen subsidiaries. As at 31 December 2019, the Group was composed of KGHM Polska Miedź S.A. as the Parent Entity and 72 subsidiaries (including two closed-end, non-public investment funds), employing more than 34 thousand people globally, trusting that what they do is important for the world. Owing to their knowledge, courage and responsibility, the KGHM Polska Miedź S.A. Group produces valuable commodities, predominantly metals. The Group's core line of business is the production of copper along with non-ferrous metals accompanying it and the development of the resource base. The Company is ranked among the world's top producers of silver and copper. It also produces gold, nickel, rhenium, lead and platinum. The high quality of the copper, silver and other commodities produced by the Company have been confirmed by certificates awarded by various international commodity exchanges. By adopting a responsible approach, the KGHM Polska Miedź S.A. Group sets a good example for others, acting in accordance with its values in a transparent and socially responsible manner.

The cohesion of such a complex organization is built on a set of common values: **ZERO HARM, TEAMWORK, RESULTS DRIVEN, ACCOUNTABILITY AND COURAGE**. These values have guided the company for more than 60 years, demarcating the direction of its development and how it operates on the international market. The Company has been listed on the Warsaw Stock Exchange for more than 20 years and is included in the WIG20, WIG30 and WIG-ESG indices. KGHM Polska Miedź S.A. is also among companies included in the FTSE4Good Index Series.

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

- mining of copper ores and non-ferrous metal ores
- production of metals, among others copper, nickel, gold, platinum, palladium,

- manufacturing of goods from copper and precious metals,
- underground construction services,
- manufacturing of mining machinery and equipment,
- transportation services,
- research, analysis and design services,
- production of road construction aggregate,
- recovery of metals accompanying copper ore,
- recycling of non-ferrous metals.

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

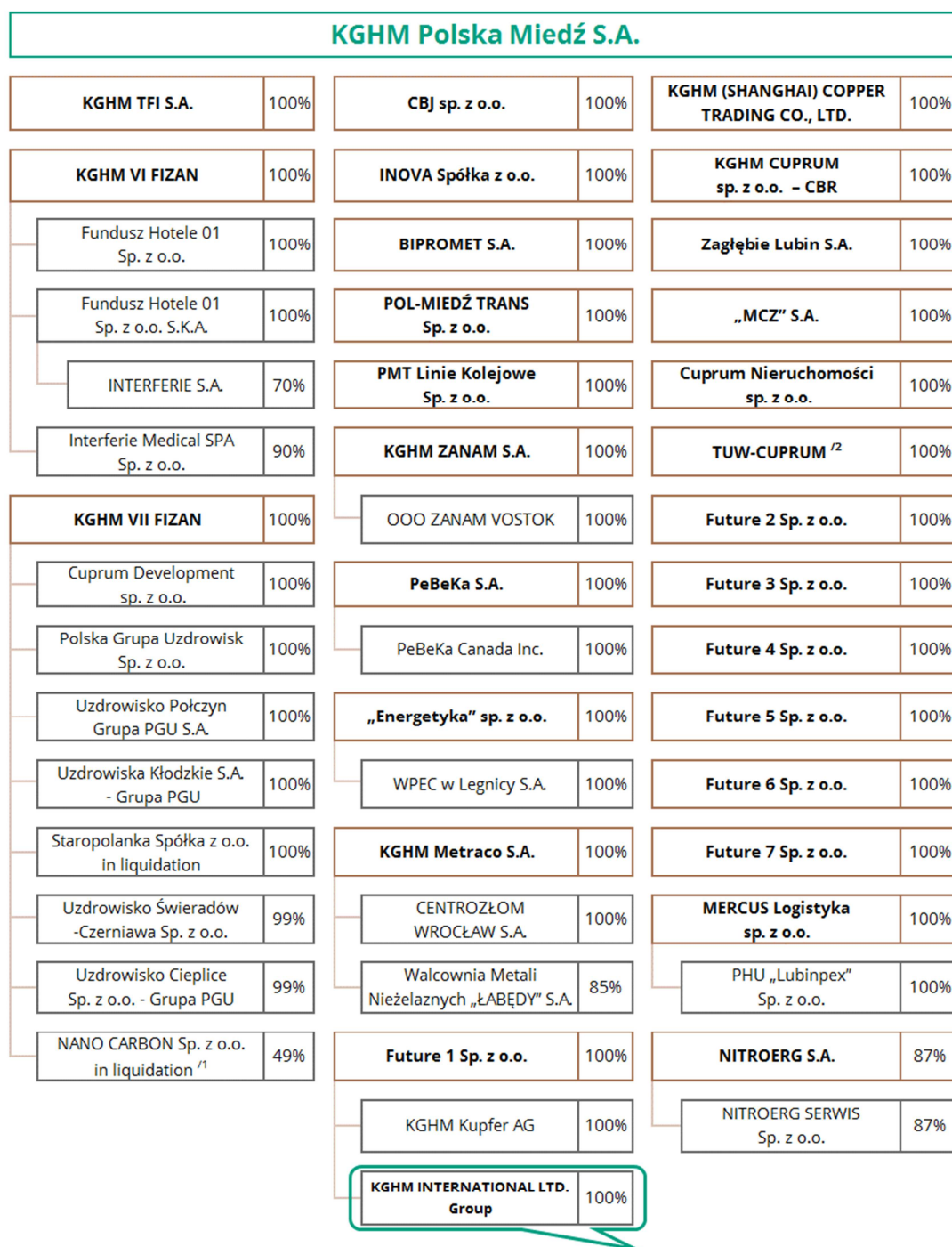
## **1.2. ORGANIZATIONAL STRUCTURE OF KGHM POLSKA MIEDŹ S.A. AND THE KGHM POLSKA MIEDŹ S.A. GROUP**

As at 31 December 2019, the Group was composed of KGHM Polska Miedź S.A. as the Parent Entity and 72 subsidiaries (including two closed-end, non-public investment funds) located on four continents: Europe, North America, South America and Asia. Some of these subsidiaries formed their own corporate groups. The largest of them, both in terms of the number of members and the value of equity, is the KGHM INTERNATIONAL LTD. Group, the main assets of which are located in Canada, the United States and Chile. It consists of a parent company and 26 subsidiaries. As at the end date of the reporting period, the KGHM Polska Miedź S.A. Group held a stake in two joint ventures – Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.

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

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

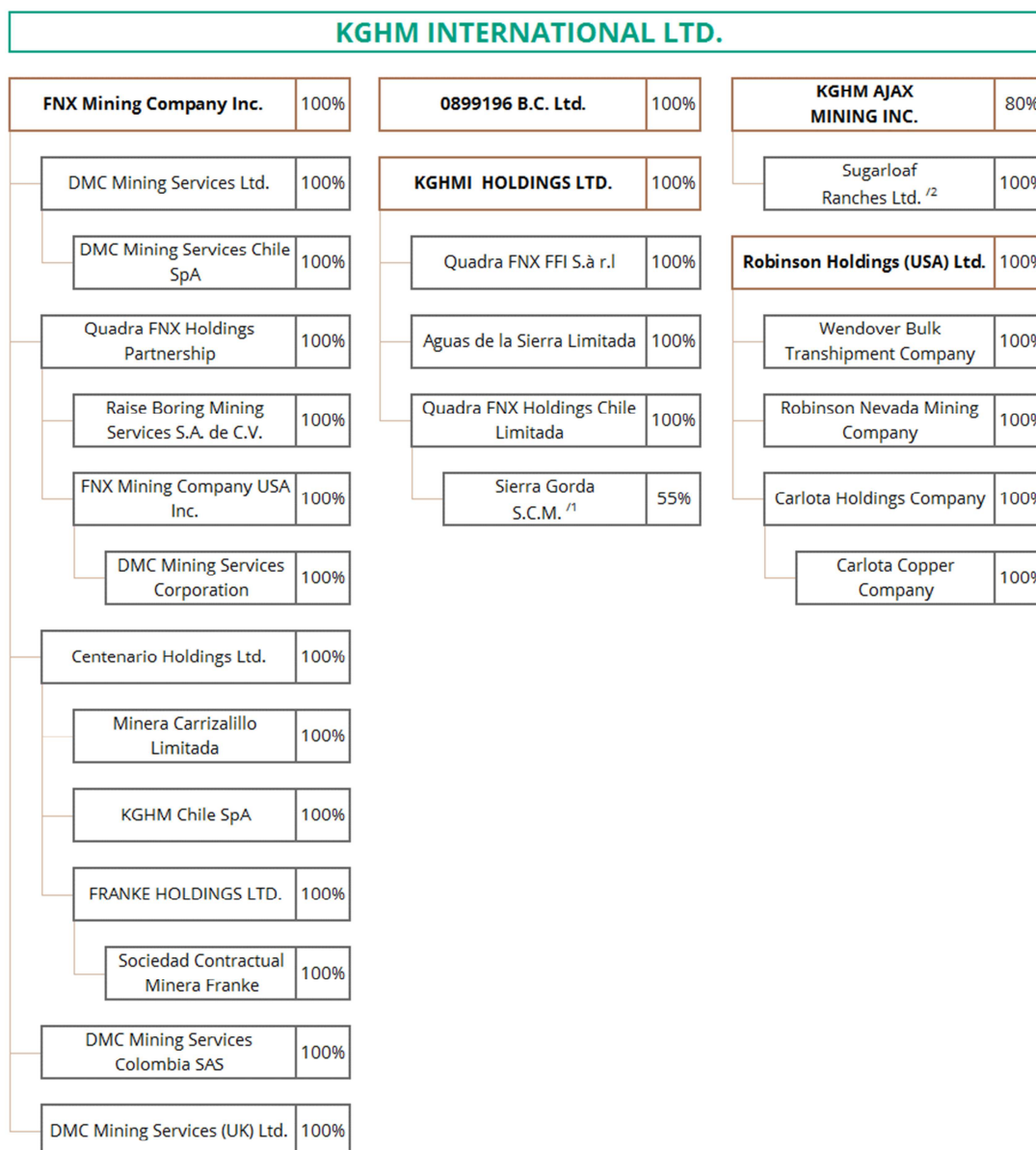
## Organizational structure of the KGHM Polska Miedź S.A. Group, including the position of KGHM Polska Miedź S.A. as the Parent Entity and its stakes in each company



Group structure presented in Appendix 3

1/ joint venture accounted for using the equity method

2/ unconsolidated subsidiary



1/ joint venture accounted for using the equity method

2/ actual Group share 80%

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

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

KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. <sup>1</sup>	Other segments
Mined and metallurgical production of metals – Cu, Ag, Au	Mined production of metals - Cu, Ni, Au, Pt, Pd, Ag	Mined production of metals - Cu, Mo, Au, Ag	<ul style="list-style-type: none"> <li>- Companies supporting the core business of KGHM Polska Miedź S.A.</li> <li>- Closed-end investment funds and companies in their portfolios,</li> <li>- Companies playing an important role in advancing CSR policy,</li> <li>- Special purpose companies in the Group's structure.</li> </ul>
Underground mines - Lubin mine - Polkowice-Sieroszowice mine - Rudna mine Metallurgical plants - Legnica Copper Smelter and Refinery - Głogów I and Głogów II Copper Smelter and Refinery Cedynia Wire Rod Plant	Robinson mine in the USA (open pit)	Sierra Gorda mine in Chile (open pit)	
<ul style="list-style-type: none"> <li>- Głogów Głęboki-Przemysłowy (Deep Głogów)</li> <li>- Pre-production projects and exploration projects in south-west Poland</li> </ul>	<ul style="list-style-type: none"> <li>- Victoria project in the Sudbury Basin in Canada</li> <li>- construction of an underground copper and nickel mine</li> <li>- Sierra Gorda Oxide project in Chile</li> </ul>		

The following companies were not classified in any of the segments mentioned above:

- Future 1 Sp. z o.o., which acts as a holding company for the KGHM INTERNATIONAL LTD. Group,
- Future 2 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o., Future 6 Sp. z o.o., Future 7 Sp. z o.o., which operate within the structure associated with the creation of the Tax Group.

These companies do not carry out any operating activities affecting the performance of the individual segments, therefore adding them could affect the data presented in this part of the consolidated financial statements, because of the significant values of internal settlements with other Group entities.

The Parent Entity of the KGHM Polska Miedź S.A. Group – KGHM Polska Miedź S.A. with its registered office in Lubin at ul. M. Skłodowskiej-Curie 48, is a joint-stock company registered in the District Court

for Wrocław Fabryczna, 9th Business Division of the National Court Register, KRS no. 23302, in the Republic of Poland.

KGHM Polska Miedź S.A. is a multi-division company, which consists of the Head Office and 10 Divisions:

**Organizational structure of KGHM Polska Miedź S.A. as at 31 December 2019**



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

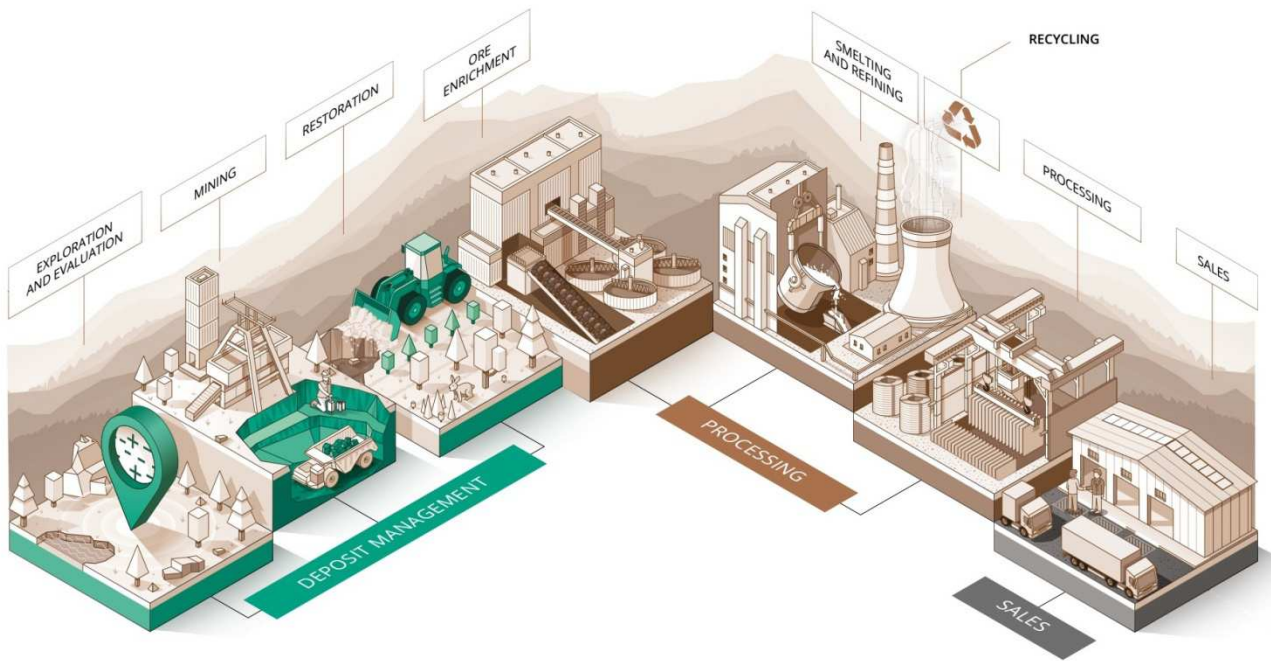
The Group's Parent Entity KGHM Polska Miedź S.A. is a leading global producer of copper and silver, with more than 60 years of experience in the copper ore mining and processing industry. In Poland, KGHM Polska Miedź S.A. mines one of the world's largest copper deposits, the capacity of which will enable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

The KGHM Polska Miedź S.A. Group is a global, innovative organization involved in technologically advanced exploration, mining and smelting operations with a geographically diversified portfolio of mining projects.



**KGHM's business model is divided into 7 segments through which the Group ensures a full value creation chain – from exploration to sales of finished goods.**

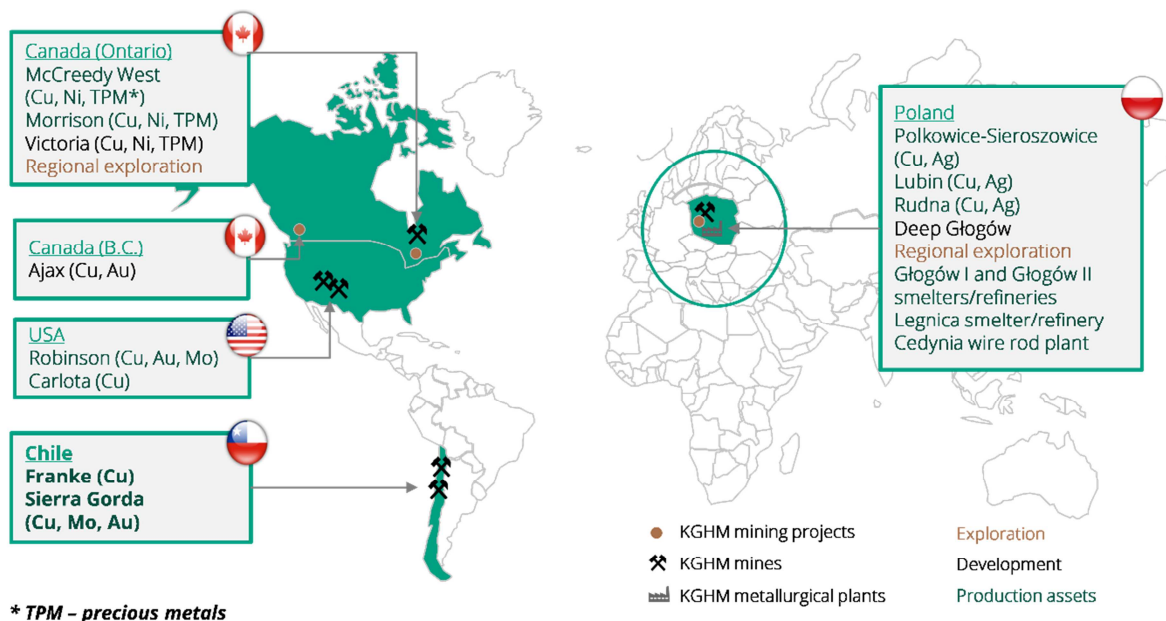
The KGHM's business model is presented on the chart below:



The KGHM Polska Miedź S.A. Group is in possession of geographically diversified mining assets (mines of copper, silver, molybdenum, nickel and other metals) located in Poland, the USA, Chile and Canada. The Group's key foreign asset, the Sierra Gorda mine, is a joint venture of KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and Sumitomo Corporation located in Chile. Moreover, the KGHM Polska Miedź S.A. Group is advancing mining projects in their pre-operational phase (among others Victoria, Sierra Gorda Oxide) and in their exploration phase.

The main assets of the KGHM Polska Miedź S.A. Group are presented on the chart below:

### Production activity of the KGHM Polska Miedź Group across the world:



### 1.3. KGHM POLSKA MIEDŹ S.A. GROUP COMPANIES INCLUDED IN THE 2019 REPORTING ACCORDING TO DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL, WHICH OPERATE INDEPENDENT BUSINESSES

#### KGHM ZANAM S.A.:

- Total assets: PLN 374 million
- Profit on sales: PLN 688 million
- Headcount: 2,308 people

#### PEBEKA S.A.:

- Total assets: PLN 557 million
- Profit on sales: PLN 815 million
- Headcount: 2,075 people

#### **"MIEDZIOWE CENTRUM ZDROWIA" S.A.:**

- Total assets: PLN 138 million
- Profit on sales: PLN 190 million
- Headcount: 739 people

#### **"ENERGETYKA" SP. Z O. O.:**

- Total assets: PLN 646 million
- Profit on sales: PLN 590 million
- Headcount: 829 people

#### **UZDROWISKA KŁODZKIE S.A. - PGU GROUP:**

- Total assets: PLN 136 million
- Profit on sales: PLN 108 million
- Headcount: 540 people

#### **NITROERG S.A.:**

- Total assets: PLN 385 million
- Profit on sales: PLN 352 million
- Headcount: 1,034 people

#### **POL-MIEDŹ TRANS SP. Z O.O.:**

- Total assets: PLN 267 million
- Profit on sales: PLN 195 million
- Headcount: 696 people

#### **MERCUS LOGISTYKA SP. Z O.O.:**

- Total assets: PLN 304 million
- Profit on sales: PLN 1,051 million
- Headcount: 720 people

#### **KGHM INTERNATIONAL GROUP:**

- Total assets: PLN 10,689 million
- Profit on sales: 3,084
- Headcount: 1,944 people

#### **KGHM Metraco S.A.:**

- Total assets: PLN 565 million
- Profit on sales: PLN 2,355 million
- Headcount: 262 people

### **1.4. MANAGEMENT STANDARDS**

In order to ensure the optimal model for managing and supervising business processes of the KGHM Polska Miedź S.A. Group, particularly in the context of its rapid development in recent years, the process of establishment of a new corporate governance model was carried out, relying on systemic legal and corporate solutions. The project was based on the KGHM Group's values and the need for having in place a set of formal and legal regulations governing the principles of cooperation within the KGHM Polska Miedź S.A. Group. On this basis, the **Code of the KGHM Polska Miedź S.A. Group** was adopted.

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

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

In 2019 there were no material changes introduced to the Management Rules of the Group. As part of the activities improving coordination of processes occurring in the Group and increasing its operating

security, new tools were introduced and the existing ones were improved. One of the most important actions was the appointment of the Management Board's advisory body, i.e. the KGHM Group Council.

In 2019 the Company did not engage in activities, events, matters or negotiations that could affect the Company's operations, financial performance or market position.

The Group Council is a permanent body with advisory and consulting powers facilitating the undertaking of organized activities in the KGHM Group. The Council cooperates with Group entities in a way that does not violate the obligations and powers of the statutory bodies of the companies. The area of interest of the KGHM Group Council includes all the matters that are significant for the Group's functioning. The Council includes management staff from the KGHM Head Office responsible for managing all the material areas. In justified cases, it may also include other persons, including representatives of KGHM Group companies.

According to the Statutes of KGHM Polska Miedź S.A., Management Board members are appointed and dismissed by the Supervisory Board. The allocation of powers within the Management Board of KGHM Polska Miedź S.A. is presented below:

**The President of the Management Board** is responsible for:

- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group,
- the preparation, implementation and execution of the Company's Strategy and Policy of Sustainable Development,
- activities related to comprehensive management of security and preventing losses in the Group,
- corporate supervision standards and compliance with the corporate governance standards adopted by the Company,
- overall corporate oversight over the Group's subsidiaries in Poland and abroad,
- compliance with formal reporting and publishing obligations within the scope required by law,
- activities related to creating, updating and maintaining the uniformity of the organisation's internal regulations to maintain consistent operating principles,
- providing organisational and legal services to the Company's bodies,
- providing legal services to the Company,
- activities related to communications and image-building within the Group,

- the shaping of relations with the Company's external business environment,
- on the Founder's behalf – supervision of the functioning of the KGHM Polish Copper Foundation as well as other organisations serving the public, which support achievement of the Group's business goals,
- the activities of the Data Center Division (COPI) with respect to:
  - supplying and developing information and communication services required for the proper functioning of the Head Office,
  - the rational utilisation by management of ordered and contracted goods and services, and;
- activities related to human capital management .

**The Vice-President of the Management Board (Finance)** is responsible for:

- the shaping of the Group's financial policy;
- review of the Main Strategy's projects in terms of their financial feasibility;
- finances in all of the Group's operations and activities;
- the creation of Group tax policy; and
- the Company's accounting services.

**The Vice-President of the Management Board (International Assets)** is responsible for:

- the preparation and implementation of strategy for international assets,
- activities related to acquiring and developing the international resource base,
- analysis, assessment and preparation of new international exploration projects,
- preparation of studies and expert opinions concerning international resource base projects,
- coordination of tasks with respect to the plan of the Company's equity investments in international subsidiaries,
- substantive oversight over the Group's international production entities, including the creation and execution of their production plans, and
- the shaping of the Company's commercial and logistics policies.

**The Vice-President of the Management Board (Development)** is responsible for:

- advancement of the Company's R&D policy,
- advancement of the Company's innovation and intellectual property protection policy,
- coordination of the Company's investments and development projects,
- the development, updating and monitoring of execution of the Group's equity investments plan,

- shaping of the Company's products portfolio,
- initiation, development and implementation of management standards in the process of managing projects and programs,
- acquisition and development of the mining resources base in Poland,
- management of real estate,
- overseeing the Company's administrative services, and
- the work of the Procurement Unit.

**The Vice-President of the Management Board (Production)** is responsible for:

- the integrated planning and optimisation of the Company's production;
- occupational health and safety and control of environmental risks;
- activities with respect to maintaining readiness of the production and non-production assets and achievement of the main goals of the Energy Strategy;
- activities with respect to manufacturing products and development of the primary mine and metallurgical production;
- overseeing activities connected with the implementation, maintenance and improvement of management systems in the Company; and
- integrated supply chain management.

### **1.5. KEY STAKEHOLDERS IN THE KGHM POLSKA MIEDŹ S.A. GROUP:**

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

During the strategic review conducted in 2019 in order to implement the 2019-2023 Strategy of the KGHM Polska Miedź S.A., it was established that the Stakeholder map of the KGHM Polska Miedź S.A. Group developed during the earlier mapping in 2016 should be revised for the new strategic perspective.

As a result of the above, a process to identify and map the KGHM Polska Miedź S.A. Group's stakeholders was conducted based on the Johnson&Scholes methodology. Its first stage was to distinguish Stakeholder groups. This was accomplished in the same manner as in 2016, by using a questionnaire filled out by senior managers of each member of the KGHM Polska Miedź S.A. Group representing various business areas. During a validation workshop conducted in the second stage of this process, these same respondents assessed the degree of stakeholders' interest and orientation in and to the organization and vice versa, as well as the levels of their mutual impact. In addition to the individuals identified above, this workshop was also attended by external experts, including professors of Polish universities, members of organizations focusing on responsible business and representatives of local communities. The results of this research allowed us to identify four categories of Stakeholders presented in the Johnson&Scholes matrix for the KGHM Polska Miedź S.A. Group. One of these groups is the Key Stakeholders, who are the KGHM Polska Miedź S.A. Group's most influential and significant stakeholders. It was established that the category includes not only all of KGHM's current Key Stakeholders (identified in 2016) but also Bondholders, which is associated with the bond issuances that are likely to be conducted by the Group in the future. During the round of discussion meetings with the representatives of KGHM Polska Miedź S.A. and the KGHM Group, it was determined on this basis (i.e. the strength of interest and the strength of impact of the individual stakeholders and the organization, for key Stakeholders) that the aspects of reporting by the KGHM Polska Miedź S.A. Group resulting from the above will not change significantly as compared to the past and only a slightly greater weight will be attached to environmental matters.

The chart below presents the current map of Key Stakeholders of the KGHM Polska Miedź S.A. Group:

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



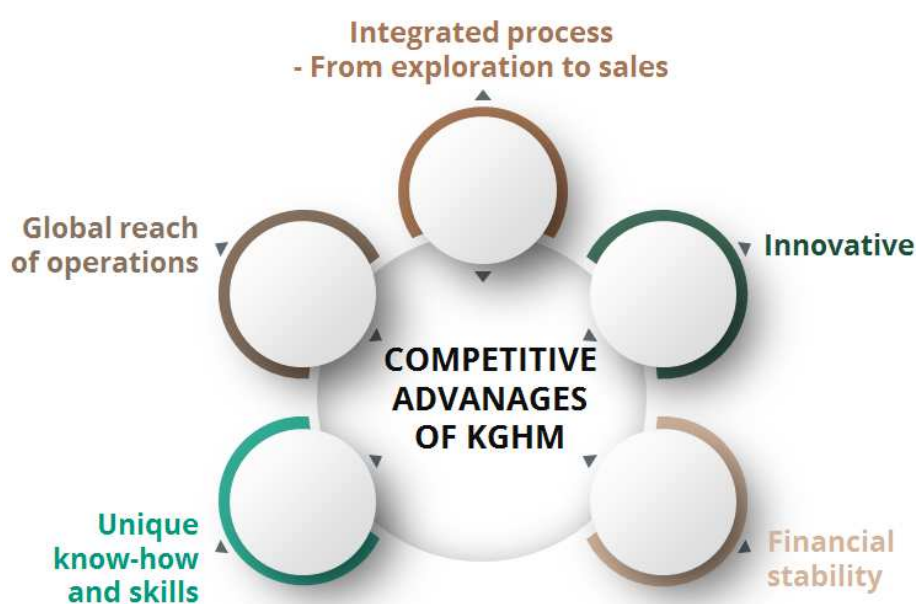


## 1.6. COMPETITIVE ADVANTAGES OF THE KGHM POLSKA MIEDŹ S.A. GROUP

The scope of activities of the KGHM Polska Miedź S.A. Group, the unique comprehensiveness of our mining and processing operations on a global scale, our pursuit of innovation and continued financial stability, along with our extensive in-depth experience, allow us to market products that satisfy the expectations of even the most demanding buyers of our products and services.

The competitive advantages of KGHM Polska Miedź S.A. are depicted on the following diagram:

### Competitive advantages of KGHM Polska Miedź S.A.



### Global reach of operations

In the 21st century, KGHM Polska Miedź S.A. became a global miner present on four continents. On the one hand, such a large scale 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 Company's most prominent experts wherever their expert knowledge is needed to derive business benefits. That also leads to the diversification and enlargement of its product portfolio.

## Unique competences and skills

During its 60 nearly years of history, KGHM Polska Miedź S.A. has acquired experience, knowledge and skills that have enabled the Company to transform its business from a local miner into an international Group acting as a major player in the global market for non-ferrous metals. The skills developed by our employees are and will be used in the future as one of the fundamental assets for winning a competitive edge in the industry and for building a strong position of Poland as an industrial center. Also unique is the KGHM Polska Miedź S.A. Group's complete business chain: from the exploration of deposits, opening of deposits and their mining, including the manufacturing of mining machinery and explosives; processing, smelting, refining and sales to recycling, all the while keeping in mind during the execution of these processes the principles of sustainable development and corporate social responsibility.

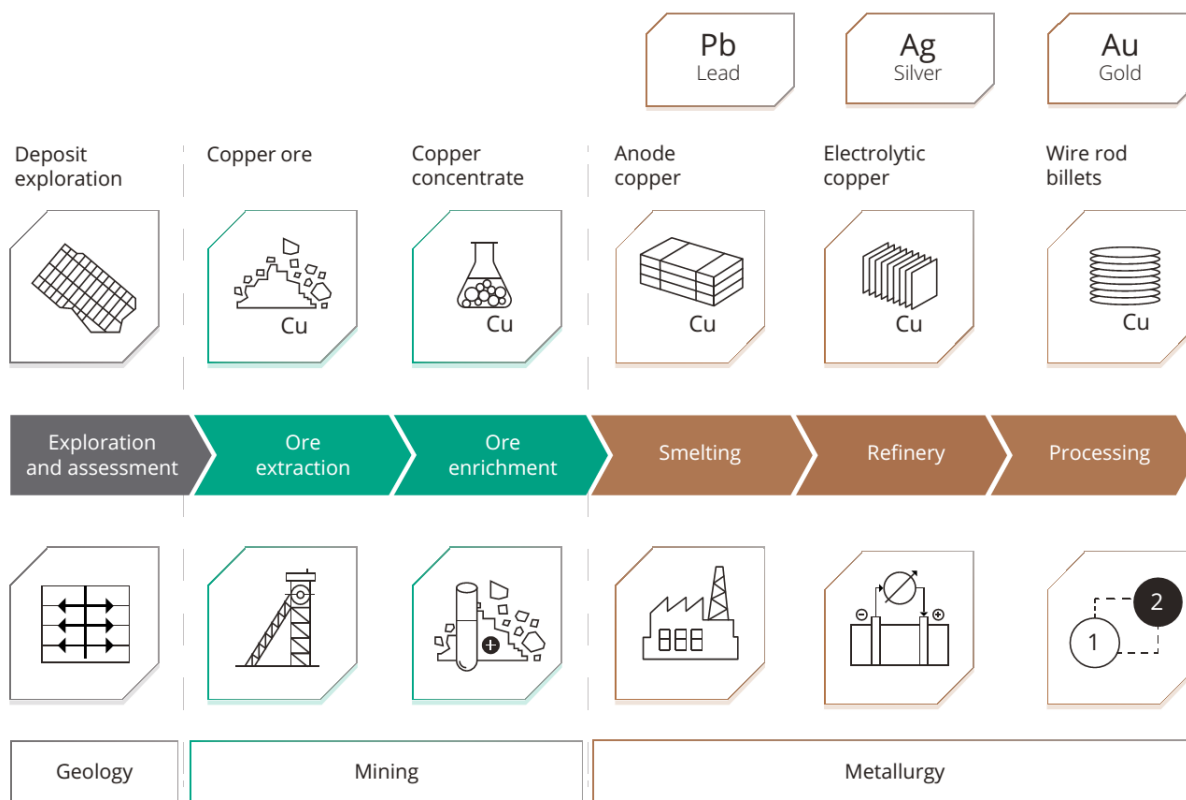
## Innovation

Innovation is one of the competitive advantages of the KGHM Polska Miedź S.A. Group. Work on innovative solutions is conducted at various business levels, drawing on cooperation with independent entities while appreciating the potential and ingenuity of our own employees. They are the most familiar with our specific needs and are able to identify areas and solutions that translate into better performance and greater safety. Creating change and innovation should be an everyday practice of each employee of the KGHM Polska Miedź S.A. Group. The KGHM Polska Miedź S.A. Group's success hinges on the innovation, commitment and collaboration of many thousands of employees representing diverse knowledge and experience. The identification of in-house talent and the creation of individual development paths aligned to the organization's potential and needs are the key to the future development of the KGHM Polska Miedź S.A. Group.

## Integrated process – from exploration to sales

In the KGHM Polska Miedź S.A. Group, production and production-related processes are performed in accordance with the following two models:

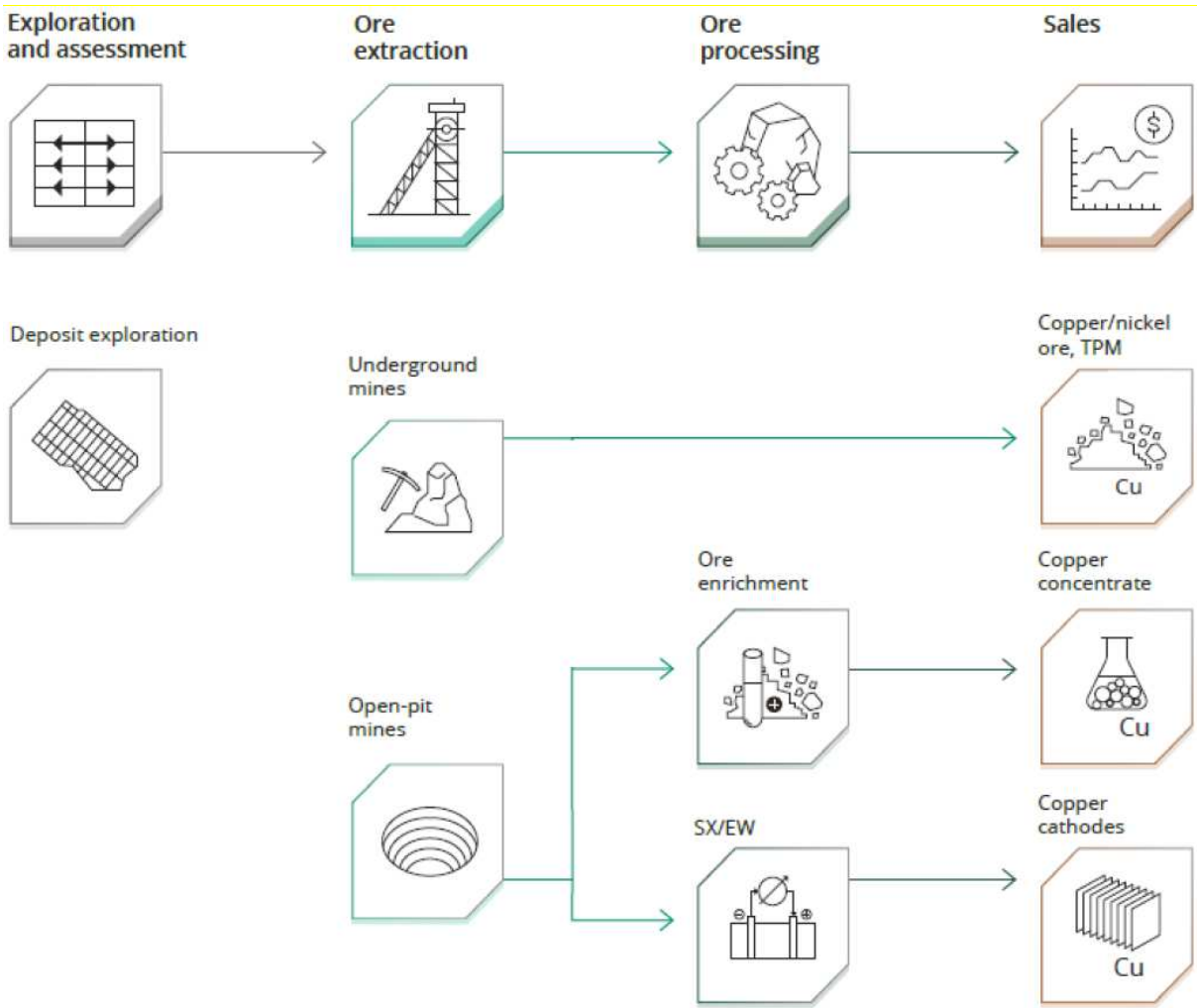
### Integrated geological, mining and metallurgical operations at KGHM Polska Miedź S.A.



Production in KGHM Polska Miedź S.A. is a fully integrated process, in which the end product of one technological phase is the starting material (half-finished product) used in the next phase. Mining in KGHM Polska Miedź S.A. is performed by three mining Divisions: Lubin, Rudna and Polkowice-Sieroszowice. In the subsequent phase the Concentrators Division prepares concentrate for the smelters and refineries, while the Tailings Division is responsible for storing and managing the tailings generated by the copper ore enrichment process. The organisational structure of KGHM includes two metallurgical facilities: the Legnica Copper Smelter and Refinery and the Głogów Copper Smelter and Refinery, as well as the Cedynia copper wire rod plant.

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

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



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

## 1.7. KGHM POLSKA MIEDŹ S.A.'S STRATEGY FOR 2019-2023

The Company pursued the "KGHM Polska Miedź S.A.'s Strategy for 2019-2023" approved on 19 December 2018. The Strategy is based on four development directions (flexibility, effectiveness, environment and e-industry), resulting from global market trends:



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



In 2019, work was performed to prepare the process of implementation of KGHM Polska Miedź S.A.'s Strategy for 2019-2023. Work is underway to define a detailed implementation schedule and organize the monitoring of progress of Strategy implementation.

Information on the KGHM Polska Miedź S.A.'s strategy is presented on our website at <https://kg hm.com/en/about-us/strategy>

In 2019, we continued our policy of development directions for the KGHM Group. We also implemented further measures aimed at adapting the model of functioning of the Group's organization to the business model of KGHM Polska Miedź S.A. and the market environment. In the area of domestic companies, the development policy was geared towards mutual cooperation of the Group's entities and elimination of overlapping competences within the individual entities. In the implementation of the KGHM Strategy for 2019-2023, in the area of international Group companies, KGHM strives to develop unified reporting principles, consistent internal regulations and standardized solutions for the different areas of operation of its international entities.

With respect to domestic companies, the main goal of the development intent is to ensure continuity of operations and occupational safety within the KGHM Polska Miedź S.A.'s core production business and to integrate the KGHM Group around the sustainable development concept. One of the important activities is to implement development initiatives in the circular economy program in order to mitigate our negative environmental impact. In the international area of the Group, the Company focuses on maximization of the value of its assets portfolio.

As regards the development directions adopted in the Company's strategy, capital expenditures focus on projects aimed at improving the efficiency of the core production business. The investment policy of KGHM Polska Miedź S.A. is based on the Company's 5-year investment plan, which supports the achievement of the long-term production plan.

In 2020, the Company will continue to implement the key investment projects in the area of mining and smelting, including:

- Deposit Access Program (Deep Głogów along with access and development tunnels );
- Development of the Żelazny Most Tailings Storage Facility;
- Investment projects supporting drainage of the Polkowice-Sieroszowice Mine;
- The program to adapt to the requirements of BAT Conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BAT-AS);
- Optimum utilization of the production capacity at the Legnica Copper Smelter and Refinery by the processing of scrap ;
- Investment projects related to replacement and optimization of the Głogów I Copper Smelter/Refinery.

In addition, with respect to development of the resource base, the Company will conduct further exploration and geological work under the existing concessions to search for and explore copper ore deposits in areas directly adjacent to those currently in operation.

The directions adopted also include the advancement of actions under the circular economy concept. Additionally the Company will engage in unceasing work on new, intelligent technologies and production management systems, based on online communication between elements of the production process and advanced data analysis, in accordance with the KGHM 4.0 Program concept.

The Company is also intensifying actions aimed at improving energy efficiency through investments in its own generating capacity, in particular those which have little to no emissions. Also under review are the possibilities for investing in energy projects, for example in the area of photovoltaics. Pursuant to the Strategy of the KGHM Group for the years 2019-23 published in 2018, it is expected that by the year 2030, 50% of KGHM Polska Miedź S.A.'s demand for electricity will be met by its own sources of energy

The key achievements in the strategic programs and projects implemented in respective strategic areas in 2019 are described in the document entitled "The Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2019", which is available on the Company's website at <https://kghm.com/en/investors/reports-and-presentations/financial-reports>.

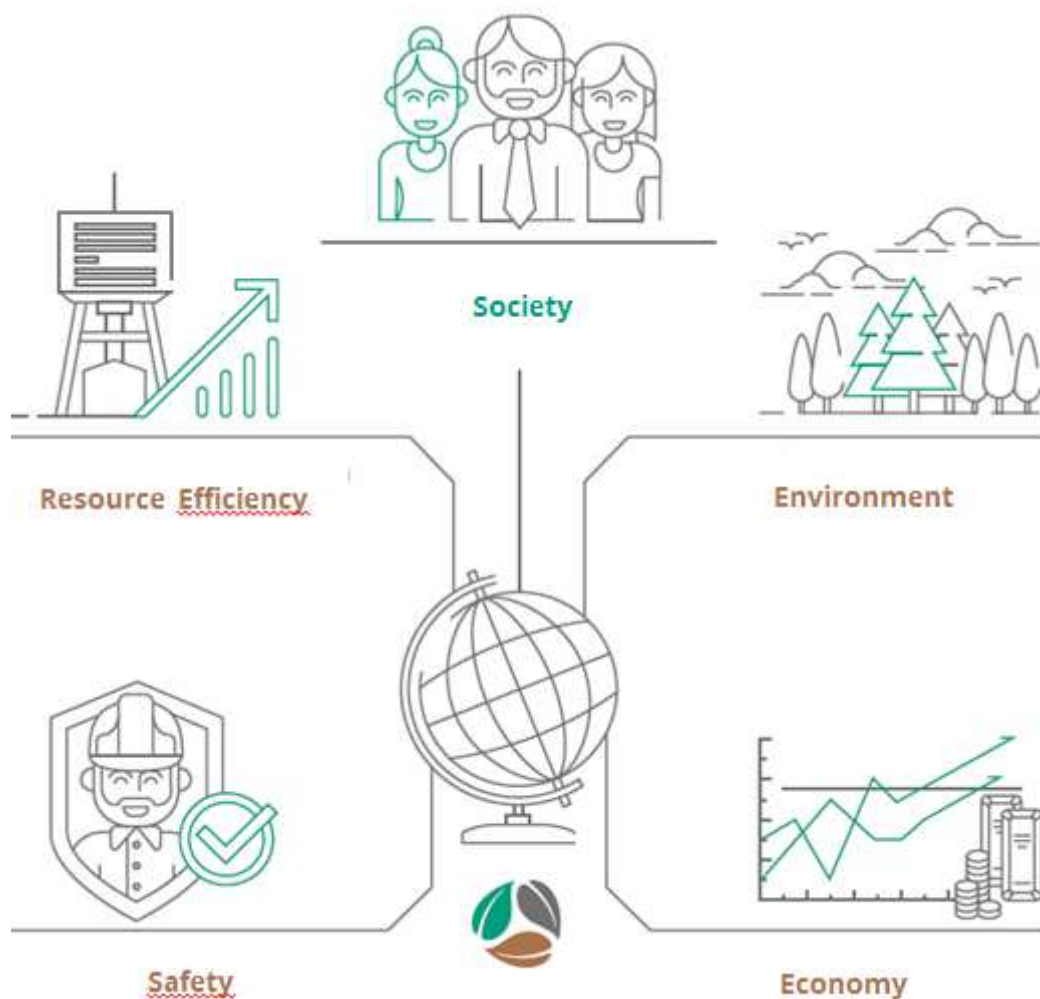
## **1.8. SUSTAINABLE DEVELOPMENT IN KGHM POLSKA MIEDŹ S.A.**

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

In the pursuit of its objectives, KGHM Polska Miedź S.A. focuses on creating added value while ensuring solid foundations for its enterprise and employees and achieving long-term success. The Company aims to invest knowledgeably in new technologies, innovative solutions, best available practices and employee development. KGHM Polska Miedź S.A. is aware that sustainable development of the mineral resource industry has become a global challenge for the modern world. Sustainable development is essential to our mineral resource safety and to ensuring the comfort of life of our employees and society as a whole, as well as to protecting the natural environment. The Company operates based on the principles of sustainable development, in consideration of the following areas in its daily commitments: Society, Environment, Economy, Security and Resource Efficiency.

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

**Sustainable Development Areas of KGHM Polska Miedź S.A.**



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

The sustainable development activities undertaken by KGHM Polska Miedź S.A. are fully and comprehensively consistent with the United Nation’s sustainable development goals (2030 Agenda)

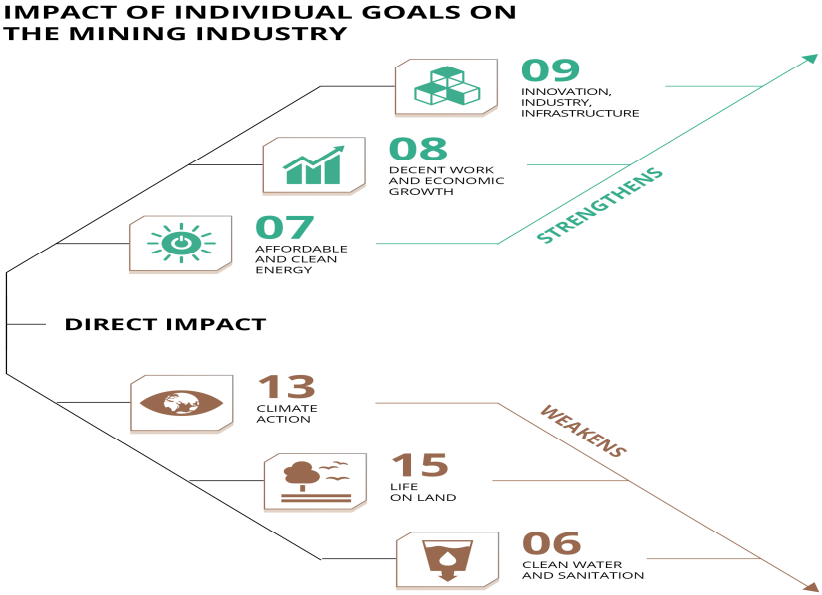


**United Nations' sustainable development goals for 2030 (2030 Agenda for Sustainable Development)**



In this context, KGHM Polska Miedź S.A. is obviously aware of the impact of these goals on the mining industry; accordingly, we are focusing mainly on the implementation of the following activities:

**Impact of each goal set under the 2030 Agenda for Sustainable Development on the mining industry**



## Key Elements of Sustainable Development in Mining

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

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



### Key non-financial indicators of KGHM Polska Miedź S.A. identified and reported in accordance with the Sustainable Development concept for 2016-2019

Society	2016	2017	2018	2019
Maintaining membership in the RESPECT Index /continuation in WIG-ESG	YES	YES	YES	YES
Maintaining position in the FTSE4Good Index Series	-	-	YES	YES
0% investment activity without a social dialogue policy	n/a	YES	YES	YES
Conclusion and maintaining of long-term contracts; achievement of a proper sales structure ensuring long-term relations with customers	n/a	YES	YES	YES
Sponsorship and charitable activities in building corporate social responsibility [sponsorship expenses for the purposes of the Company's promotion and regional support, i.e. sports/culture/science]	PLN 26.6 million	PLN 25.8 million	PLN 29.6 million	PLN 33.3 million
<b>Resource efficiency</b>				
Ore extraction (wet weight) per mine employee [tonne]	2,712	2,641	2,558	2,527
Production of electrolytic Cu per Company / metallurgical employee [tonne]	29 / 152	29 / 148	27 / 139	31 / 156

Maintaining Cu recovery yields [%]	98.18	98.23	97.82	97.96
<b>Zero harm</b>				
<b>LTIRF<sub>KGHM</sub></b> (Lost Time Injury Frequency Rate KGHM)	12.65	10.4	10.3	10.3

Since 3 September 2019, the Company has been part of the WIG-ESG index, which includes companies listed on the Warsaw Stock Exchange that observe the principles of corporate social responsibility. From 19 November 2009 until the final calculation and publication date, i.e. 1 January 2020, the Company was continuously included in the RESPECT Index. Additionally, since September 2018, KGHM Polska Miedź S.A. has been included in the FTSE4Good Index Series, which is part of the group of ethical investment indices taking into account the criteria of corporate social responsibility and ESG risk management.

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

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

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

## INNOVATION AND RESEARCH AND DEVELOPMENT PROJECTS IN KGHM POLSKA MIEDŹ S.A. AND THE KGHM POLSKA MIEDŹ S.A. GROUP

Innovation is one of the competitive advantages of the KGHM Polska Miedź S.A. Group.

KGHM gradually increases the knowledge it has accumulated over more than half a century of its operations. Its success is based on rich tradition as well as on innovation. The company continuously seeks technologies to help it, on the one hand, reduce production costs, while on the other hand allow for a greater recovery of copper and accompanying metals. The Company is committed at the same time to the safety of its employees and protection of the natural environment. Through these efforts, KGHM is not only a domestic but also a global innovation leader.

In 2023, KGHM Polska Miedź S.A. intends to allocate 1 percent of the Company's annual revenue towards innovation and research and development projects, which should amount to nearly PLN 200 million per annum. This constitutes a significant increase of R&D expenditures, which currently are at approximately PLN 40 million per annum. The Company focuses on improving the quality of the tasks it performs and the results it achieves. The main stream of R&D finance and innovation is directed to activities of the core production business (75% in the 2019-2023 period), which have a higher implementation or commercialization potential. KGHM has in place a consistent management model for innovation and research and development work.

The development of technology and raising the level of innovation are very important for the company. The projects undertaken by KGHM focus on developing new copper mining systems in deep deposits as well as efficient technologies their processing and for producing end materials. Research is also conducted to increase the automation of mining processes, develop energy-efficient technologies and reduce the environmental impact of the mining industry.

The Company is building its future on the basis of e-industry. The implemented solutions include robotization, digitization, knowledge management and targets for the 4.0 industry (including data mining aimed at better utilization of machinery and equipment, building a consistent supply chain, energy savings and safety). KGHM does not only promote projects that can be implemented in the short term. The company is not afraid of ambitious challenges and is undertaking work on cutting-edge technologies, which will change the method and nature of mining copper in the future.

KGHM grows by combining the experience and intellectual potential of its employees with external research entities, firms and institutions. The Company uses its resources and funds efficiently, creating value and building its image as a global leader in the mining industry.

Selected initiatives and projects advanced by KGHM Polska Miedź S.A. in 2019:

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## INNOVATION

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### CuBR PROGRAM

Under the CuBR venture, co-financed by the National Centre for Research and Development (NCRD), R&D projects having a total value of around PLN 150 million which were selected in the four editions of the competition are being advanced.

- In 2019, 8 projects were completed.
- 4 projects were commenced under the 4th edition of the CuBR competition, which involve subjects related to the Circular Economy concept.

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### Selected R&D initiatives

- In the first half of 2019, the Company and PGE S.A. signed an agreement on cooperation involving research with a scientific consortium under the direction of the Cardinal Stefan Wyszyński University in Warsaw. The goal of this cooperation is to build a Multi-disciplinary Research Center, aimed at developing new technology leading to development of the industrial and power sectors in Poland.
- In 2019, work continued on advancing the first edition of the Implementation Doctorates Program and university recruitment was concluded under the second edition of the Implementation Doctorates Program for employees of KGHM. At the end of 2019, 50 doctoral students from the two editions participated in the Implementation Doctorates Program for employees of KGHM.
- Under the KGHM 4.0 Program, projects such as those developing information technology required to collect and transfer knowledge within the KGHM Group are being advanced on schedule. The process of digitalising and modern archiving of knowledge resources at the head office of KGHM was begun. Actions were taken with respect to building and implementing a workflow system for R&D processes.

Work was completed on the construction of a battery-powered, prototype vehicle with an electric motor and, designed for the transport of people and materials in the underground mines of KGHM. The vehicle was subjected to surface testing at the Tailings Division.

Projects subsidised under KIC Raw Materials:

- In the first quarter of 2019, advancement of the project „Automated Microscope System for Analysing Deposits” (acronym AMCO) was completed. As a result, a prototype optical microscope system was built to enable the rapid identification of minerals.
- The project „Utrzymanie Kopalni i Sprzętu” (acronym MaMMA - Maintained Mine & Machine) was continued. The goal of the project is to build a management processes support system to maintain mine operations and mine machinery.
- In the first quarter of 2019, work commenced on the project OPMO „Monitoring pracy maszyn do kruszenia minerałów” (Operation monitoring of mineral crushing machinery), under which it is planned to build and test a pilot version of a new generation system for monitoring screening equipment in the concentrator division.
- As a result of selection to the KIC Raw Materials KAVA 6 program carried out in February 2019, three research projects were subsidised:
  - RevRis – related to the recultivation of post-industrial terrain.
  - Batterflai – related to the development of environmentally-friendly flotation reagents.
  - AMICOS – related to the development of an automated infrastructure and industrial facility inspection system.

Advancement of these projects commenced in the first quarter of 2020.

Project applications were prepared for the KAVA KIC 7 competition – under which 6 research projects were announced in the first quarter of 2020.

Projects subsidised under the **Horizon 2020 Program**:

- In the first quarter of 2019, the project „Integrated innovative metallurgical system to efficiently enrich polymetallic, complex and low-grade ores and concentrates” (acronym INTMET) was completed. Under this project, based on trials in the divisions of KGHM, semi-industrial tests of atmospheric, pressure-related and biological leaching were performed, as well as attempts to recover useful minerals from flotation tailings, among others.
- The project „FineFuture” continued, which foresees research into improving mineral particulate flotation.
- Financing was obtained for the project „illuMINEaction”, related to the integration of

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systems used in monitoring the condition of the Żelazny Most Tailings Storage Facility based on artificial intelligence and machine learning. Commencement of the project is planned in the first half of 2020.

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#### Intellectual Property

- The European patent EP2873475 "Method of manufacturing wires of Cu-Ag alloys" was validated, in respect of which KGHM Polska Miedź S.A. is a co-proprietor, under the CuBR project.
  - Protection was received for the word and figurative KGHM trademark in Canada.
  - Protection was received for the word trademark of KGHM by the European Union Intellectual Property Office (EUIPO) on the territory of the entire European Union.
  - The international procedure was instituted for the word trademark of KGHM through the World Intellectual Property Organization (WIPO), in the following countries: the USA, India, China, Switzerland, Japan, Turkey and Ukraine.
  - The Patent Office of the Republic of Poland granted the Company a patent for invention no. PAT.231928 called „Means for indicating the placement of moveable parts of equipment or objects as well as a unit for indicating the placement of moveable parts of equipment or objects”.
  - Rights to patent no. PAT.220230 „Sposób kontroli stateczności warstw stropowych w kopalniach podziemnych, or Means of controlling roof stability in underground mines” were transferred from KGHM CUPRUM Sp. z o.o. Centrum Badawczo-Rozwojowe to KGHM Polska Miedź S.A.
  - A SEPIZ (System Ewidencji Patentów i Znaków, or Patents and Trademarks Recording System) program was created for all of the Group's companies, which enables in particular the monitoring of exclusive rights.
  - A CRPW (Centralne Repozytorium Projektów Wynalazczych, or Central Invention Projects Repository) was created, which enables information on invention projects announced in KGHM Polska Miedź S.A. to be archived in electronic form.
  - New regulations were implemented in the Company: „Regulamin wynalazczości, or Invention regulations” and „Ramowe zasady ustalania korzyści z projektów wynalazczych i wdrożeń wyników prac badawczo – rozwojowych, or Framework principles for establishing benefits from invention projects and implementation of the results of R&D work”.
  - An „Invention Market” was held as a means of supporting innovation activities among the employees of KGHM Polska Miedź S.A., being an initiative of one of the main goals of the Strategy in the area of Innovation.
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### 1.9. COMPREHENSIVE RISK MANAGEMENT SYSTEM IN THE KGHM GROUP

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

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee updated in 2019, the process of corporate risk management in the Group is consistently performed. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the Group, while in the companies of the Group, documents regulating the management of corporate risk are consistent with those of the Parent Entity. Each year, the process of managing corporate risk is subjected to an efficiency audit (compliant with the guidelines of Best Practice for WSE Listed Companies 2016).

Risk factors in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo monitoring by the Department of Corporate Risk Management and Compliance, and in terms of financial risk by the division of the Executive Director for Treasury Operations - Corporate Treasurer.

The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

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

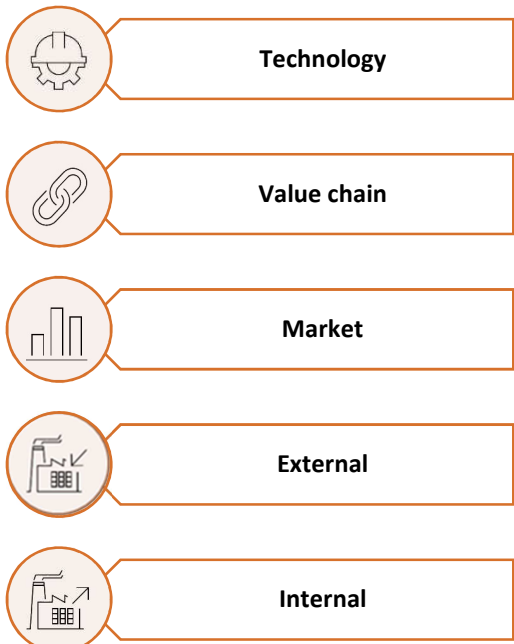
Supervisory Board (Audit Committee)					
Performs annual assessment of the effectiveness of the risk management process and monitors the level of risk factors and ways to address them.					
Management Board					
Has ultimate responsibility for the risk management system and supervision of its individual elements.					
1st line of defense	2nd line of defense				3rd line of defense
Management	Risk Committees				Audit
<p>Managers are responsible for identifying, assessing and analysing risk factors and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.</p>	Support the effectiveness of the risk management process.				<p>The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of risk factors and the degree of efficiency with which they are managed.</p> <p><i>Internal Audit Rules</i></p> <p>Executive Director for Audit and Control</p> <p><i>Reports to the President of the Management Board</i></p>
	<b>Corporate Risk and Compliance Committee</b>	<b>Market Risk Committee</b>	<b>Credit Risk Committee</b>	<b>Financial Liquidity Committee</b>	
	Manages corporate risk and continuously monitors key risk factors	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of customers to meet their obligations	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to obtain financing for operations	
	<i>Corporate Risk Management Policy</i>	<i>Market Risk Management Policy</i>	<i>Credit Risk Management Policy</i>	<i>Liquidity Management Policy</i>	
	Department of Corporate Risk Management and Compliance	Executive Director for Treasury Operations - Corporate Treasurer			
	<i>Reports to the Management Board</i>	<i>Reports to the Vice President of the Management Board (Finance)</i>			



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

Following is the description of the key risk factors in the KGHM Polska Miedź S.A. Group in 2019, broken down into individual categories along with means for their mitigation, including identification of specific risks for the Parent Entity and the KGHM INTERNATIONAL LTD. Group.

**Risk categories in the Risk Model of KGHM Polska Miedź S.A.**



The table below uses the following abbreviations: for the KGHM Polska Miedź S.A. Group – the KGHM Group, for the KGHM INTERNATIONAL LTD. Group – the KGHM INTERNATIONAL LTD. Group, for KGHM Polska Miedź S.A. – the Parent Entity.

**Risk and description of risk factors**

**Mitigation**

**Category – Technology**

**(Parent Entity)**

**Risk of failure to adhere to the efficient working time parameter and of failure to fully utilise the capacity of metallurgical installations to process own concentrate.**

Sources of risk include potential breakdowns of key elements of the core production line and failure to adapt technology to production requirements, which could affect the availability of metallurgical infrastructure. An important risk factor is the need to maintain the production of concentrates in an amount and quality required to optimise the utilisation of the metallurgical facilities. Exposure to risk is also associated with the need to ensure required utilities to maintain the expected level of infrastructure availability.

Optimum utilisation of infrastructure, maintaining an appropriate mix of concentrates, R&D initiatives and advancement of the Metallurgy Development Program (MDP) at the Głogów Smelter and Refinery to adapt metallurgical structure and technology to ensure higher processing capacity for own concentrates, imported copper-bearing materials and purchased scrap. Actions undertaken are aimed at maintaining the availability of metallurgical equipment at the expected level and improving the productivity parameters of metallurgical infrastructure, as well as limiting the negative impact of this risk on KGHM's operations.

## Category – Value chain

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### (KGHM Group)

**Risk related to an ineffective process of monitoring and providing early warning to management staff on deviations from the budget and financial plans as well as with respect to adopting inappropriate economic parameters related to production, investments, macroeconomics and finance, for forecasts of company results.**

An ineffective process of monitoring and providing early warning to management staff on deviations from the budget and financial plans may impede or delay the appropriate early identification of deviations in respect of forecasted results, at the same time shortening the time for taking appropriate corrective actions. Sources of risk are related to the possibility of ineffective mechanisms to control these processes.

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Forecasts related to specific areas of the operations prepared by appropriate specialised units and ensuring the uniformity of operating plans with strategic plans. Monthly reporting of execution on forecasts in all critical areas. Regular contacts with and systematic streamlining of the communication process together with setting criteria enabling the identification of symptoms of potential deviations from the expected results of the KGHM Group.

### (KGHM INTERNATIONAL LTD. Group)

**Risk related to the precision of estimated costs of decommissioning certain mines.**

With respect to risk factors related to the precision of estimated costs of decommissioning certain mines, there are questions related to the need to meet obligatory environmental conditions connected with realistic concepts for such liquidation.

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Estimated costs of restoration and mine decommissioning based on expert reports and providing guarantees of future environmental obligations related to the closure and restoration of mining areas in accordance with existing laws and regulations.

### (KGHM INTERNATIONAL LTD. Group)

**Risk related to exhaustion of ore resources and reserves prior to gaining familiarity with the parameters and characteristics of new planned deposits.**

The risk of changes in the evaluation and management of ore resources involves, among others, geological factors related to the reliable estimation of resources or mining conditions. Risk factors related to the limited reliability and completeness of data, based on which new resource projects are evaluated, may lead to the taking of less than optimal decisions on advancing or suspending a particular project.

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Preliminary modeling data are collected in accordance with geological documentation held and prepared based on existing law as well as reviewed and consulted internally with experienced staff. Detailed analyses are performed on the results of on-going work, with a project's initial assumptions being updated. Incurring expenditures on exploration and evaluation enables the assessment of ore resources and research into geological-mining conditions, aimed at planning subsequent mining activities.

### (Parent Entity)

**Risk of the inability to store mine tailings.**

The KGHM Group is exposed to the risk of a lack of sufficient tailings storage capacity due to delays in the expansion of the Żelazny Most Tailings Storage Facility. Risk factors involve the management and control of the project and may affect its budget, schedule and assumed results and may lead to a failure to adhere to the technological regime for designing and execution. Another source of risk are external factors in terms of suppliers of materials and services and administrative bodies, as for the advancement of such a project it is necessary to obtain required administrative decisions. Exposure to risk is also related with eventual unplanned shutdowns resulting from infrastructure breakdowns, which could impact the continuity of KGHM's operations.

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Operating, building and expanding the storage facility in accordance with the operating instructions. Cooperation with a team of international experts (TIE) and a General Designer during the investment process. Applying observational methods based on assessing the geotechnical parameters obtained on the basis of evaluations of the results of monitoring, enabling a picture of the behaviour of the facility built or operated. Systematic supervision and control over the entire investment process of the expansion of the Żelazny Most Tailings Storage Facility.

### (KGHM Group)

**Risk related to the lack of availability of required power sources.**

The KGHM Group is exposed to the risk of lack of availability of power sources for its operations. Potential disruptions in the supply of key power sources is mainly related to risk on the part of external suppliers and breakdowns of their distribution infrastructure as well as *force majeure*. Amongst internal factors, the most important involve questions of maintaining operations, utilisation and investments and modernisation work.

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Ensuring back-up power/gas systems and on-going assessment of the security of the power network. Conducting a variety of investments aimed at strengthening energy security. A framework agreement with the company Polskie Górnictwo Naftowe i Gazownictwo S.A. for the sale of natural gas to increase the security of natural gas supply. Systematic limitation of energy consumption under the implemented, PN-EN ISO50001:2012-compliant Energy Management System and Energy Savings Program (POE). Planned increase in the efficiency and flexibility of the KGHM Group in terms of its Polish and international assets, among others by partially satisfying the needs for electricity from

its own sources as well as from renewable energy sources („RES”) by the end of 2030. Start of the project Monitoring of Electricity, Gas and Water under the KGHM 4.0 program with respect to INDUSTRY, to improve the efficiency of the core business in Poland.

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**(KGHM Group)**

**Risk related to infrastructure breakdowns which disrupt the core production operations, related to natural hazards as well as internal factors related to the applied technology.**

The KGHM Group is exposed to risk related to the technological potential and efficiency of its infrastructure to meet the needs of the production process. By utilising infrastructure required to maintain its operations, KGHM is exposed to the risk of industrial breakdowns resulting in unplanned shutdowns. Such breakdowns could result both from natural hazards, i.e. catastrophic natural events and *force majeure* as well as internal factors dependent on the KGHM Group (on-going operations, maintaining production, key suppliers, servicing).

Preventive management of key infrastructure elements affecting production continuity. Appointment of a task and expert teams of with respect to counteracting breakdowns of metallurgical infrastructure. On-going analysis of geotechnical risk and the verification of planned recoveries. In terms of ICT (information-communication technology) separating groups of projects related to reducing technological debt. Gradual replacement of older technology with newer solutions, reflecting the corporate architecture standard.

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**(KGHM Group)**

**Risk related to the cost efficiency of the production process, mining projects, processing of copper-bearing materials, reflecting the risk of a substantial rise in prices of materials, services, electricity, gas and water and restoration costs.**

The KGHM Group is exposed to the risk of external and internal factors, such as metals prices, exchange rates, costs of supply of purchased metal-bearing materials, TC/RCS, selling premiums and costs of services and of electricity, gas and water. This risk is also related to the estimation of costs of provisions for the restoration of mining terrain based on existing law for the territories in which the KGHM Group operates.

On-going control of processing costs, monitoring the market situation, optimising costs, including supplies of purchased metal-bearing materials, hedging transactions and management of the net position. Hedging, securing the Company against changes in the USD/PLN exchange rate and metals prices (mainly copper). Creating multi-year plans and budgets enabling the achievement of profitability under conditions prevailing on the market.

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## Category - Market

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**(KGHM Group)**

**Market risk related to volatility in metals prices and risk of changes in exchange rates and interest rates.**

Market risk is understood as the possibility of a negative impact on the results of the KGHM Group resulting from changes in the market prices of goods, exchange rates and interest rates, as well as changes in the value of debt securities and in the share prices of listed companies.

This risk is actively managed by the Parent Entity, in accordance with the Market Risk Management Policy. A basic technique for managing market risk in the company are hedging strategies utilising derivative instruments. Natural hedging is also applied.

More in section 12.3. Market, credit and liquidity risk

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**(KGHM Group)**

**Credit risk related to trade receivables.**

The KGHM Group sells some of its products to commercial entities with deferred payment terms, as a result of which there may arise the risk of late payments for products delivered. The companies of the KGHM Group have for many years cooperated with a large number of customers, leading to the geographic diversification of trade receivables.

This risk is actively managed by the Parent Entity, in accordance with the Credit Risk Management Policy. Exposure to credit risk is limited by evaluating and monitoring the financial condition of customers, setting credit limits and applying creditor security.

More in section 12.3. Market, credit and liquidity risk

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**(KGHM Group)**

**Liquidity risk.**

Management of the risk of loss of liquidity, understood as the ability to pay liabilities on time and to obtain financing for operations.

This risk is actively managed in the Parent Entity in accordance with the updated Financial Liquidity Management Policy.

More in section 12.3. Market, credit and liquidity risk

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## Category – External risks

**(KGHM Group)**

**Risk of seismic tremors and associated roof collapses or destressings of the rock mass, and the occurrence of uncontrolled rock bursts.**

The KGHM Group is exposed to the risk of natural hazards and *force majeure* and related insufficient geological knowledge of the rockmass. Key risk factors which affect the materialisation of such risk also involves the results of periodic analyses of the mining situation and the state of hazard and applied measurement methods. Natural hazards associated with the underground mining of copper ore deposits, in particular hazards related to mining tremors and their potential effects in the form of roof and wall collapses. These factors affect safety, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes.

Actions aimed at preventing rock bursts and roof collapses, such as systematic seismological observations, on-going assessment of the rock mass and the marking off of areas of particular threat of roof collapse. Use of active methods of preventing rock bursts and roof collapses based on provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof. Preparation of reserve fields in the orebody which could handle limited production.

**(Parent Entity)**

**Risk related to gas hazards (mainly hydrogen sulphide).**

KGHM is exposed to the specific risk of natural hazards and *force majeure* (gas-related geodynamic hazards and the occurrence of naturally-occurring hazardous gases) leading to restrictions in realising production plans and the advance of preparatory work. These factors affect safety, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes.

The risk of gas hazards occurring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odours.

**(Parent Entity)**

**Risk related to underground climate risk, which increases in tandem with increasing mine depth.**

KGHM is exposed to risk related to the underground climate, limiting activities or increasing costs, involving geological conditions, the temperature of the air sent into the mines and underground mining conditions.

The use of solutions to counteract underground climate risk using neutral means (e.g. the use of short airways and directing air from the lowest temperature rockmass, high-speed air) and through the use of central, workplace and personal air conditioning. The use of shortened working time.

**(Parent Entity)**

**Risk related to underground water hazards.**

KGHM is exposed to the risk of natural hazards and *force majeure* in the form of underground water hazards resulting from breakdowns of the main dewatering equipment, human error (actions contrary to the project or technology) or mistaken geological conclusions.

Research into hydrogeological conditions and water hazards, measuring water inflow to the mines, conducting mining operations pursuant with technology for the safe conduct of mining operations in underground mines. Systematic control of mining areas threatened by water inflow, control of water flow pathways and dams according to a set schedule. Review and updating of the Rescue Plan in case of water inflow. Development of regional pumps and the piping system, construction of water dams aimed at restricting water inflow, drilling exploratory holes to stabilise uncontrolled water inflow.

**(KGHM Group)**

**Risk of failure to uphold air quality standards (including with respect to arsenic).**

The KGHM Group is exposed to the risk of negative impact on various components of the natural environment resulting from the mining of copper ore, followed by its processing at all stages of the production process, which could lead to the breaching of permissible emissions limits.

Undertaking actions under the Air Protection Programs and R&D work. Advancement of the Program to adapt the technological installations of KGHM to BAT conclusions for the non-ferrous metals industry together with restriction of arsenic emissions (BAT'As).

**(Parent Entity)**

**Risk of restrictions to the ability to sell sulphuric acid (due to loss of market/customers and/or a drop in demand).**

Risk related to macro- and microeconomic factors involving political actions which result in privileges for a specific group of producers or the introduction of additional fees/legal restrictions. Risk related to unfavourable prices (volatility to the disadvantage of KGHM), high requirements in terms of market parameters for selling sulphuric acid and lower demand for the product on international markets, including as a result of the deterioration in the financial condition of a key customer.

Increase the number of internal storage facilities at the metallurgical plants as well as of warehouses in Szczecin. Search for new sales markets. Long term contracts. Incur costs of additional storage. Payments to customers and incur transport costs. Search for alternative ways to manage the acid and utilise it in the Concentrators.

**(KGHM Group)**

**Risk of failure to adhere to established principles and standards of behaviour with respect to counteracting corruption and with respect to the procurement process as well as the risk of incurring losses from actions which are harmful to KGHM.**

The KGHM Group is exposed to the risk of actions which are harmful to KGHM taken by external entities participating in the processes of procurement, sales and investment. Threats are in the form of potential losses by the KGHM Group resulting from the intentional actions of external entities, i.e. collusion over minimum pricing, the insufficient technical and economic potential of contractors, falsification of documentation, fictional contractors, conflicts of interest. Other important risk factors include threats as regards all types of improprieties related to breaching anti-corruption and ethical standards by employees of the KGHM Group (such as corruption, conflicts of interest, abuse, discrimination, illegality, nepotism).

Implementation of the Code of Ethics of the KGHM Polska Miedź S.A. Group as the main tool in the corporate culture of the KGHM Group, and other appropriate policies and procedures ensuring the efficiency of implemented principles and values. Meeting global corporate governance standards and increased stakeholder expectations, including above all those of customers and financial institutions. Application under the Responsible Supply Chain Policy of guarantees of the selection of responsible suppliers, especially in the case of acquiring so-called conflict minerals and ensuring that the goods and services acquired by the KGHM Group will not be used to finance terrorism, and that they will be manufactured or provided while respecting human rights, labour standards, environmental protection and counteracting corruption. Proactive monitoring and analysis of procurement processes in terms of identifying abuse and threats of corruption within the organisation and the supply chain, as well as undertaking actions with respect to ethics and counteracting corruption along with the implementation of corrective actions. Internal control with respect to the identification and uncovering of fraud, abuse and corruption in KGHM Group entities and the prevention of such based on the Internal Control Procedure in order to eliminate risk at the level of prevention.

**(KGHM Group)**

**Risk of changes to laws and regulations (including with respect to energy and tax law).**

The KGHM Group operates in unstable regulatory environments in many jurisdictions. A consequence of the need for technological and organisational adaptation to a volatile legal environment may be higher operating costs or restriction of such activities. The risk of interruptions to operations or the need to reorganise work due to new legislation may have a substantial impact on the operations of the KGHM Group.

Active cooperation with the academic environment, which issues opinions on changes to legal acts, and the on-going providing of positions and opinions with respect to numerous areas subject to legislative change (including as part of membership of national and international organisations). Cooperation with renowned law firms and the creation of specialised organisational units which monitor the regulatory environment. Taking preventive actions aimed at adapting to organisational, infrastructural and technological changes. In the Parent Entity an energy management system was implemented and a certificate of compliance with ISO 50001 standard was received.

## Category – Internal risks

**(KGHM Group)**

**The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper protective measures.**

The failure to adhere to occupational health and safety rules and procedures, as well as the employment of persons lacking an appropriate psychophysical predisposition, could be a source of potential accidents. Exposure to unfavourable natural conditions together with associated natural hazards requires, apart from the high requirements in terms of essential professional preparation, that employees possess appropriate qualifications in terms of health, physical ability and psychological fitness. Risk is also associated with the possibility of temporary production stoppages caused by serious accidents, which could potentially affect the operations of the KGHM Group financially, legally and image-wise. The KGHM Group is also exposed to the risk of industrial illnesses as a consequence of the effect of the working environment on people. Enhanced exposure to risk is also related to external factors in terms of sub-contractors and their safety culture.

A detailed division of obligations between management and supervisory staff on the one hand and entities providing services to the Company on the other, to ensure safe working conditions and the proper coordination of work. Systematic discussion of workplace safety with the participation of representatives of sub-contractors and mining oversight authorities. Engaging employees and sub-contractors in campaigns carried out in the KGHM Group aimed at improving OHS standards. Advancement of development initiatives based on the idea of sustainable development and safety and enhancing the Group's image as being socially responsible under the new Strategy adopted in 2018. Actions involving on-going improvement consistent with the cycle of self-improvement in order to continuously seek and prepare for implementation the catalogue of initiatives aimed at further improvement of OHS, to advance the long-term goal of the Company, „Zero accidents due to human and technical errors“. Optimisation of health care for employees, in particular following workplace accidents and systematic searching for new organisational and technical initiatives to enable the achievement of a higher level of safety of employees in the Divisions of KGHM Polska Miedź S.A.

**(KGHM Group)**

**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

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.

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.

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**(KGHM Group)**

**The risk of not being able to secure appropriate staff to advance the Group's business goals.**

The risk of not being able to acquire and keep human resources, among others to support on-going operations and development projects. The KGHM Group is exposed to risk related to the availability of qualified staff in the market as well as on-going identification of staffing needs in terms of required qualifications and supplying them while reflecting staffing fluctuations. Of significance is access to qualified employees in the future in the context of an aging society and a market deficit of certain professions.

Advancing a variety of HR projects, identification of potential successors for key positions (including in terms of mobility) and preparations for advancement. On-going comparison of remuneration packages (including in relation to working conditions) to offers on the market. Cooperation with schools and universities to promote the company as an employer and to ensure qualified employees. Implementation of programs to develop employee skills and to secure funds for this purpose. Development of recruiting tools and the identification of key skills to advance the company's business goals.

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**(KGHM Group)**

**Risk that the confidentiality, integrity or availability of informational assets which have been collected, stored or processed on IT resources may be compromised, as well as cybernetic threats.**

The KGHM Group, due to its well-developed IT structure, is exposed to the risk of a breach in the confidentiality, integrity or availability of informational assets which have been collected, stored or processed on IT resources. The sources of this risk are both forces of nature (e.g. fires, construction catastrophes, downpours) as well as hazards arising from human activities (intentional or not). The KGHM Group is exposed to the risk of an unauthorised loss, change or destruction of critical data and information as well as loss of the possibility of the operational control of equipment and systems as a result of cybernetic attacks on the infrastructure of the KGHM Group. Such incidents could generate the risk of production shutdowns, leading to production and financial losses and claims due to the loss/disclosure of personal data. This risk has a large impact on the reputation of the KGHM Group.

Strict adherence to and application of principles arising among others from the IT Security Policy and from Facility Protection Plans. The systematic evaluation of risk loss of the confidentiality, integrity or availability of informational assets which have been collected, stored or processed on IT resources. On-going monitoring of the usefulness of existing infrastructure as well as the analysis of and planning for the implementation of teleinformatic solutions to increase security, in accordance with global trends and best practice in this regard. Implementation of security systems and adequate organisational solutions at various levels of the company's infrastructure, aimed at staying ahead of any decrease in the utility of systems at risk and minimising the potential losses of the KGHM Group.

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**(KGHM Group)**

**The risk of exceeding project/program budgets and schedules, deviating from defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects. Risk related to the operational management and development of key mining projects, reflecting the question of incurred costs, permits and infrastructural requirements.**

The KGHM Group is exposed to risk related to the advancement of projects and programs as a result of their improper management. The risk of changes in budgets, schedule, scope and deviations from the expected quality of project products and/or programs is related to a variety of factors of an internal nature involving both the methodical approach and the projected structure of management and supervision. Improperly selected tools and techniques, lack of established criteria and principles for evaluating projects, or inconsistency in their application or adherence to them may restrict or prevent the achievement of the KGHM Group's strategic goals. In terms of external factors, there remains the question of meeting legal and formal requirements which could generate deviations from the assumed schedule, and in extreme instances may halt the advancement of a project/program.

Improve standards in the management of portfolios and projects and implement a projects management system aimed at supporting the organisation in the planning and management of portfolios and projects. Standardisation of planning and preparation processes and in the advancement of investment projects, comprising such aspects as scheduling, preparing costs projections, technical designing, project review, investment handover documentation, risk analysis of projects/programs. Management of projects in accordance with international standards and conducting on-going monitoring of progress. On-going evaluation of the economic feasibility of existing and anticipated development projects.

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## MARKET, CREDIT AND LIQUIDITY RISKS

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and results in the short and medium terms and to enhance the Group's value over the long term. The management of risk includes both the

elements of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Parent Entity these issues are covered in the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee, and
- Financial Liquidity Management Policy and the Rules of the Financial Liquidity Committee.

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group” covers selected mining companies in the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc. and Sociedad Contractual Minera Franke), with representatives of the Parent Entity and KGHM INTERNATIONAL LTD. serving as members of the Market Risk Committee.

Financial liquidity management is carried out in accordance with the „Financial Liquidity Management Policy in the KGHM Group” which in a comprehensive manner regulates financial liquidity management in the Group carried out by individual Group companies, while its organisation and coordination as well as the supervision thereof is performed in the Parent Entity.

Credit risk management in the Parent Entity is carried out in accordance with the Management Board-approved Credit Risk Management Policy. The Parent Entity serves as an advisor to the Group’s companies with respect to managing credit risk. The „Credit Risk Management Policy in the KGHM Polska Miedź S.A. Group” applies to selected Group companies, the goal of which is to introduce a comprehensive, joint approach and the most important elements of the credit risk management process.

## 2. ETHICAL FOUNDATIONS

The rules, methods and tools presented below are the basic elements used to ensure the systematic application of due diligence in the KGHM Polska Miedź S.A. Group and the Parent Entity KGHM Polska Miedź S.A.

### 2.1. VALUES OF KGHM POLSKA MIEDŹ S.A.

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

KGHM is a company with nearly 60 years of history, operating on the basis of deeply rooted values and principles which its Employees follow in their daily work. Zero harm, teamwork, results driven, accountability and courage – these values bind all of KGHM's employees, regardless of whether they work in a mine, processing plant or smelter, in Poland or in other parts of the world. KGHM builds its global position in the world as a reliable producer, trusted business partner and a company pursuing a sustainable development policy. All those values must co-exist, which is reflected in the diagram below.

#### VALUES of KGHM Polska Miedź S.A.

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





## Zero harm

Zero harm is the top priority of the Company's value hierarchy:

1. Protecting the lives and health of our employees is our priority.
2. Respect for the natural environment, in particular the resources we mine in a responsible manner.
3. The Company cares for the local communities within which it operates and maintains a dialogue with.
4. KGHM Polska Miedź S.A. puts emphasis on the continuity and stability of its operations.

## Results driven

Attainment of results while focusing on KGHM's long-term success.

1. Ambitious targets and ongoing development.
2. Taking initiative and making extra efforts for the benefit of KGHM.
3. Solid work using the right tools.

## Accountability

All Company Employees are jointly responsible for the actions taken for the benefit of our shareholders.

1. Acting in a transparent and socially responsible manner, abiding by the standards of the Code of Ethics.
2. Responsibility for our decisions, obligations and constant, stable development.
3. Building long-term relationships with our business and social partners.

## Courage

Facing new challenges in a well thought-out manner:

1. Employees are brave and continually face new challenges.
2. Courageous decisions are made and new, innovative solutions are constantly sought for.

## Cooperation

Teamwork is the basis for the Company's success:

1. Work is performed in teams.
2. Respect for the views of others in a discussion.
3. Using the talents and experience of Employees.
4. Diversity and a multi-cultural environment are valued.

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

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



For the purposes of communication and implementation of the Ethical Standards, the KGHM Polska Miedź S.A. Group operates a system of codes, policies and procedures, introduced and maintained by properly trained Ethics and Anti-Corruption Representatives and Ethics Committees. Their implementation is consistent with global corporate governance standards and the increasing expectations of Stakeholders, including in particular clients and financial institutions.

Based on best practices in corporate governance, the following policies are in force, introducing global, unified standards which have been adapted to the laws applicable in all of the jurisdictions in which the KGHM Polska Miedź S.A. Group operates.

**Competition Law Policy in the KGHM Polska Miedź S.A. Group**

The goal of the Competition Law Policy is to create a functional framework for a system that will enable the KGHM Polska Miedź S.A. Group to remain in conformity with the competition laws which are applicable in all of the countries in which the KGHM Polska Miedź S.A. Group operates.

**Anti-Corruption Policy in the KGHM Polska Miedź S.A. Group**

The Anticorruption Policy establishes basic principles and standards, whose goal is to prevent any breaches of the anticorruption laws in the jurisdictions in which the KGHM Polska Miedź S.A. Group operates. The Group applies a zero tolerance policy towards corruption and bribery.

**Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group**

The Responsible Supply Chain Policy is aimed at securing the selection of only responsible suppliers, especially in the case of acquiring so-called conflict minerals (gold, tin, wolfram and tantalum) and at ensuring that the merchandise and services purchased by the KGHM Polska Miedź S.A. Group are not utilised to finance terrorism, and are manufactured or provided in accordance with laws respecting basic human rights, labour standards, protecting the environment and counteracting corruption.

**Security Policy in KGHM Polska Miedź S.A. Group**

The Security Policy sets forth joint principles and goals for the entities and organisational units of the KGHM Group related to safety and preventing losses. Pursuant to its clauses, all of the KGHM Group's employees operate in accordance with basic principles: professional integrity, accuracy in the execution of official duties, loyalty to the employer, a results oriented approach, courage, teamwork, accountability, mutual responsibility for safety and preventing losses and avoidance of actions harmful to the employer.

In 2019, the „Procedure for assessing the supply chain for gold and silver in KGHM Polska Miedź S.A.” was updated in the Company in order to assure its compliance with the current LBMA Responsible Gold Guidance V8 and LBMA Responsible Silver Guidance V1. The system for managing the responsible gold and silver supply chain is subject to an annual, independent, external audit to confirm the Company's adherence to the principles of conflict-free gold and silver under the LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance.

In 2018, the Management Board of KGHM Polska Miedź S.A. adopted a new „Code of Ethics of the KGHM Polska Miedź S.A. Group”. In order to comply with the most important principles related to counteracting corruption in the KGHM Polska Miedź S.A. Group and in the companies of the KGHM Polska Miedź S.A. Group located in Poland and abroad, the Anticorruption Policy and the Procedure for Counteracting the Threat of Corruption in the KGHM Polska Miedź S.A. Group were updated. The Procedure sets forth in detail the standards of behaviour in situations where corruption may arise and informs about criminal penalties for abuse. It is applied in order to minimise the risk of corruption and to limit all corruption-related phenomena which could arise in relation to the functioning of the KGHM

Group . The Procedure regulates the management of the risk of conflict of interest. The Business Gifts Instruction constitutes an integral part of this.

In 2019, the KGHM Group adopted a Security Policy that establishes the common rules and objectives for entities and organizational units of the KGHM Group relating to security and loss prevention. KGHM's domestic and international entities also adopted a procedure for reviewing business partners in procurement, sales and investment proceedings, which sets out consistent and uniform rules for reviewing the performance of counterparties in connection with the processes of procurement, sales and investment.

In 2019, the procedure regulating conflicts of interest and acceptable gifts was updated. In the Divisions and in seven of the domestic companies, units for overseeing safety and preventing losses were created. Ethics and Anticorruption Representatives are in place in all of KGHM's entities, domestic and international. In 2019, the Procedure for Disclosing Improprieties and Protecting Whistle-blowers in the KGHM Group was also updated, adapting it to the requirements of the amended Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. This procedure is aimed at enhancing the effectiveness of uncovering and resolving situations related to the occurrence of improprieties representing an abuse of regulations applied in the KGHM Group, in particular the Code of Ethics of the KGHM Group, the Security Policy, the Anticorruption Policy and the Procedure Counteracting the Threat of Corruption.

In 2019, an additional channel for whistleblowers was implemented – the „KGHM Ethics Line” platform, available on the corporate website for both employees and third parties, including contractors and customers. The platform is available in four languages – Polish, English, Spanish and Russian. It enables the anonymous disclosure of improprieties and is an alternative channel for other forms of contact – telephone lines, email addresses and addresses for correspondence. In the entities of the KGHM Group an Internal Control Procedure for the Safety and Prevention of Losses Section of KGHM Polska Miedź S.A. was implemented.

Moreover, work supporting and raising ethical standards and corporate governance will be continued in 2020.

## 2.2. SECURITY AND LOSS PREVENTION SYSTEM IN THE KGHM POLSKA MIEDŹ S.A. GROUP

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

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

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

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

1. the Security Department, comprising, among others, the Ethics and Anti-Corruption Procedures Unit, the Security and Loss Prevention Unit, and the Physical and Technical Security Unit.
2. the Supply Chain Security Department, consisting of the Supply Chain Monitoring Unit and the Analyses Unit.

In 2018, Ethics and Anti-Corruption Representatives were appointed in the Divisions and the Polish and international subsidiaries of the KGHM Group. Their work is monitored, supervised and coordinated by the Ethics and Anti-Corruption Representative for the KGHM Group (as per the applicable procedure, the function is discharged by the Director of the KGHM Security Department).

In 2019, security and loss prevention units were established in KGHM Polska Miedź S.A.'s Divisions and in seven companies in Poland selected on the basis of their level of revenues and domestic threats. The unit heads are responsible for implementation and supervision of the security and loss prevention system, ethics and anti-corruption procedures, supply chain security and physical and technical security. They report to the Security and Loss Prevention Executive Director in KGHM Polska Miedź S.A.

Since 2017, regular anti-corruption training has been organized for the employees of all KGHM entities.

In 2018, specialized training was carried out, addressed to senior management and their

representatives (40 people). All materials and instructions are readily available to Employees through the internal corporate Intranet, via a dedicated tab, devoted to the issues of ethics and anti-corruption. In 2019, on-site training on anti-corruption was conducted by an expert from the Central Anti-Corruption Bureau for persons in managerial and executive positions as well as persons responsible for the procurement processes in companies in the KGHM Group. 5 training courses were held in total, attended by 143 persons.

Regular meetings and trainings sessions are organized for the Ethics and Anti-Corruption Representatives (40 persons). In 2019, 3 such courses were held. The objective was to improve the abilities of the Representatives and to share knowledge. The Representatives are responsible for the organization and performance of trainings sessions on ethics and anti-corruption in KGHM's companies.

In 2020, KGHM Polska Miedź S.A. launched two e-learning training modules on ethics, prevention of irregularities (in particular, corruption, abuse, and discrimination) and receiving whistleblower reports in its Head Office and Divisions:

1. for senior management, the Ethics and Anti-Corruption Representatives and Members of the Ethics Committee (695 persons);
2. for the remaining employees with access to the e-learning platform (5818 persons).

In 2019, a number of communication activities were also carried out, addressed to the employees of the KGHM Group, promoting ethical standards and contributing to the culture of the organization:

- 5 educational films on the Code of Ethics, abuse prevention, the Whistleblower Platform and protection of Whistleblowers, rules of acceptance and giving business gifts, as well as corruption prevention were broadcasted,
- 6 articles on the related topics were published in Curier,
- a special supplement focusing on Whistleblowers was published in Curier,
- the updated Anti-Corruption Manual was published in an electronic version,
- 4 publications were posted on the Intranet.

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

The primary document of the Security and Loss Prevention System of the KGHM Group is the KGHM Polska Miedź **Code of Ethics**, the amended and extended version of which was adopted pursuant to the Resolution of the Management Board of KGHM Polska Miedź S.A. in June 2018. Hence the frequent reference to the Code in this document.

The KGHM Group's **Code of Ethics** is based on the aforementioned values and constitutes a guidepost for all the decisions and actions taken in the Parent Entity and the KGHM Group. There are supporting acts regulating the areas of prevention of corruption, prevention of conflict of interests, security, and transparency of procurement processes, verification of external counterparties and prevention of employee rights violations, including discrimination and abuse. The KGHM Group's **Code of Ethics** is a collection of rules applicable to the employees of the Parent Entity, the KGHM Group and cooperating entities. It is one of the pillars of KGHM's organizational culture which is deeply rooted in the mining and metallurgical traditions. They constitute the genetic code of our community, building its professional identity.

The KGHM Group's **Code of Ethics** aims to ensure that the employees follow the highest standards based on the adopted values. The status of global leader and international corporation obligates us to keep the highest business ethics standards. It is also related to the challenges resulting from the richness of the national cultures within which we operate.

## **KGHM POLSKA MIEDŹ S.A. CODE OF CONDUCT (CODE OF CONDUCT)**

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

In June 2018, the Management Board of KGHM Polska Miedź S.A. adopted the KGHM Polska Miedź S.A. Code of Conduct. By doing this, the Company declared its orientation towards sustainable development, based on respect for ethical principles, transparency and best industry practice, and commitment to being a socially and environmentally responsible enterprise. The Code of Conduct is based on the KGHM Group Code of Ethics. Both documents regulate behavior standards that the Company is guided by. The Codes are an integral, mutually interconnected whole, based on consistent assumptions and values followed by the Company.

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

The Code of Conduct is a product of efforts in several parallel areas. On the one hand, a benchmarking analysis of similar competitors' documents was carried out. The top 10 copper producers worldwide were analyzed to see if they apply a Code of Conduct and what is the scope covered. On the other hand, an internal analysis of the Company was performed. The normative acts in effect at KGHM were

catalogued, and those of special importance from the perspective of the future Code of Conduct were selected. Those which might provide the employees with the instructions on how to proceed in a number of everyday situations were selected in agreement with the relevant organizational units. Finally, consultations with senior management made it possible to establish the ultimate Code of Conduct.

The adoption and functioning of the Code of Conduct and the **Code of Ethics** was presented to KGHM Polska Miedź S.A.'s employees both via the internal portal (intranet: "KGHM to My" at [extranet.kghm.com](http://extranet.kghm.com)), as well as distributed with monthly payment slips. The Codes are distributed in the printed version during training sessions held by the Ethics and Anti-Corruption Representatives in all Divisions and Companies of the KGHM Polska Miedź S.A. Group. The Code of Conduct and the **Code of Ethics** are published for the general audience on [www.kghm.com](http://www.kghm.com), in the Investors/Corporate Governance/Code of Ethics tab <https://kghm.com/en/investors/corporate-governance/code-ethics>

## **ETHICS COMMISSIONS IN THE KGHM POLSKA MIEDŹ S.A. GROUP**

Every KGHM Group Entity establishes an Ethics Committee. The primary task of the Committee is to conduct investigations in response to reports on irregularities consisting of violation of the ethical standards defined in the Code of Ethics, and to recommend corrective and disciplinary actions to the workplace manager.

A report can be filed by:

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

The investigation conducted by the Committee covers issues that require determination of the actual facts of the matter, in other words disputable issues or those having unclear causes. The investigation is not in conflict with, nor does it replace, the right to pursue claims in accordance with generally applicable laws. Members of the Committee are obliged to resolve the breaches of ethical principles given in the KGHM Group **Code of Ethics** in an impartial and efficient manner, giving equal treatment to all parties to the proceedings. The Committee operates pursuant to its Regulations, and observing the generally applicable laws and internal regulations of a given KGHM Group Entity.

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

1. Actions displaying features of abuse, discrimination, harassment or other type of unequal treatment of the Company's employee or a group of employees;



2. Breaches of employee duties arising from the Labor Code as well as internal regulations of a given KGHM Group Entity, regardless of the position held;
3. Breaches of the rules of community life;
4. Improper performance of professional duties.
5. Unethical behavior towards other employees and third persons in the work place and outside of the working hours;
6. Exposing the good name of the Company to harm.

## **THE PROCEDURE OF DISCLOSING IRREGULARITIES AND PROTECTION OF WHISTLEBLOWERS IN THE KGHM POLSKA MIEDŹ S.A. GROUP**

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

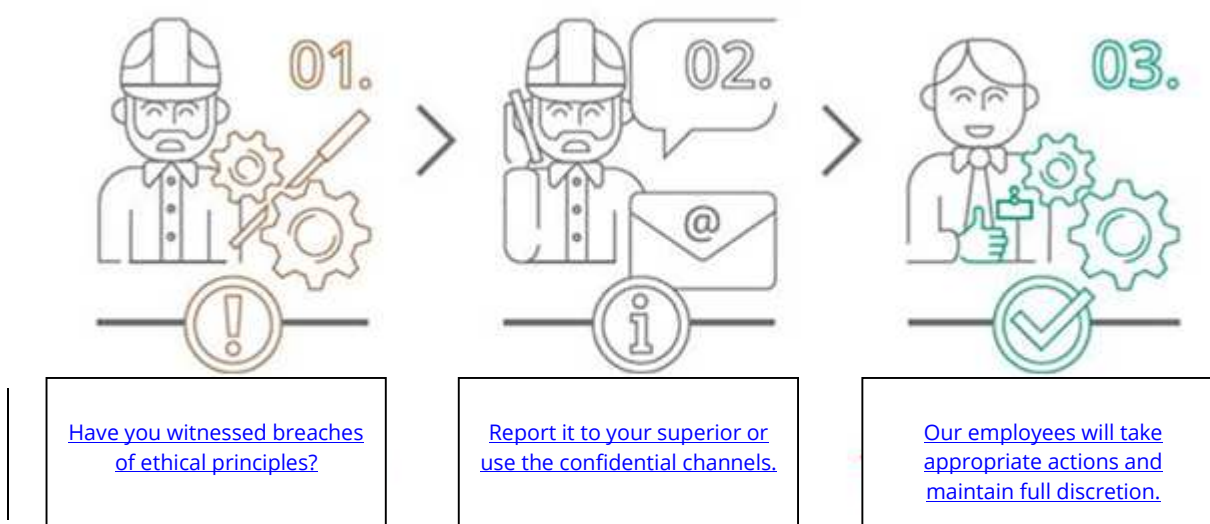
In 2019, the KGHM Group Procedure of Disclosing Irregularities and Protection of Whistleblowers was updated, account being taken of the requirements of the amended Act on public offerings, conditions governing the introduction of financial instruments to organized trading, and public companies. The objective of the Procedure is to increase the effectiveness of detection and resolution of cases related to irregularities constituting abuse in relation to the regulations adopted by the KGHM Group, in particular the KGHM Group's Code of Ethics, Security Policy, Anti-Corruption Policy and the Corruption Threat Prevention Procedure. In 2019, a new whistleblowing channel was launched, i.e. the "KGHM Ethics Hotline" available at the corporate website both to employees and third parties, including business partners and clients. The site is available in four languages - Polish, English, Spanish and Russian. It makes it possible to report irregularities on an anonymous basis and serves as an alternative whistleblowing method versus telephone calls, mailboxes and mailing addresses.

The chart below shows the growth of Whistleblower reports in the period 2018-2019, with events that affected the result marked on the timeline:

1. January 2018 - establishment of the Security and Prevention of Loss Division.
2. June and July 2018 - Adoption of the Code of Ethics and the Code of Conduct, implementation of the Anti-Corruption Policy and the Corruption Threat Prevention Procedure.

3. September 2018 - implementation of the Procedure of Disclosing Irregularities and Protection of Whistleblowers and the Anti-Abuse Procedure.
4. October 2018 – appointment of Ethics and Anti-corruption Representatives in the KGHM companies and establishment of the Ethics Committee.
5. June 2019 – opening the whistleblowing platform (online), publication of the special supplement to Curier concerning the Whistleblowers and broadcast of an education film promoting the whistleblowing platform.
6. November 2019 – launching training on the e-learning platform.

### Actions taken in the case of ethical principles breaches in the KGHM Polska Miedź S.A. Group



### 2.3. ANTI-CORRUPTION POLICY IN KGHM POLSKA MIEDŹ S.A. GROUP

The Anti-Corruption Policy in effect in the KGHM Polska Miedź S.A. Group was adopted in July 2018, pursuant to the Resolution of the Management Board of KGHM Polska Miedź S.A. The Policy establishes detailed standards of conduct in corruption-prone situations and identifies the criminal liability in case of abuse. The KGHM Polska Miedź S.A. Group underscores its commitment to fighting corruption in business, by the way of adopting and uncompromising observance of the “zero tolerance for corruption and bribery” rule. Employees are prohibited from offering or accepting any material benefits in relation to the performance of professional duties.

The only exception is giving and accepting business gifts in line with the local norms and cultural customs, provided that the giving and accepting of gifts cannot lead to a situation in which such behavior could be considered as an attempt to exert pressure or persuade the recipient to act against their duties. Detailed rules pertaining to giving and accepting of customary business gifts have been

defined as an instruction under the Corruption Threat Prevention Procedure. Employees are required to avoid any actions or decisions in a situation of a conflict of interests. Particular control under the Policy is over business procurement transactions, including an option of a third party audit, in order to ensure that such transactions meet the highest standards of ethical and transparent business operations. The KGHM Polska Miedź S.A. Group Entities and their Employees may be held accountable for actions of persons or entities acting on their behalf or for them.

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

The document stipulates that Employees of the Group and external partners are obliged to report any suspicion of breaches to the Policy and the Corruption Threat Prevention Procedure, directly to the Security Department of KGHM Polska Miedź S.A. or via the dedicated channels of abuse reporting. Every report is confidential and followed up with due diligence. The KGHM Polska Miedź S.A. Group uses a range of tools to effectively implement the Policy's objectives, including first of all procedures, instructions, remedies and control mechanisms, which specify in detail the standards of conduct in corruption-prone situations and situations in which accountability for abuse may be involved.

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

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

The Procedure was adopted in July 2018 in accordance with a Resolution of the Management Board of KGHM Polska Miedź S.A. The provisions of the Corruption Threat Prevention Procedure are applied in order to minimize the risk of corruption and limit any corruptive practices that may arise in connection with the operations of the KGHM Group. The Procedure further elaborates the provisions of the KGHM Group Anti-Corruption Policy. The rules defined in the Procedure are addressed to all Employees, as well as Representatives, and are applicable in contacts with clients, counterparties and State authorities. The Procedure stipulates precisely the proper manner of conduct, remedies and control mechanisms, which together with other regulations of the Policy make up the Corruption Threat

Prevention System. The KGHM Group's employees and its representatives are obliged to observe all statutory provisions, guidelines of government bodies and other State authorities, as well as legal acts of the relevant organizations, of which a given KGHM Group Entity is a member, related to anti-corruption rules and actions. Employees are familiarized with the content of the Anti-Corruption Policy and the Corruption Threat Prevention Procedure at the time of hiring and periodically, as part of stationary and e-learning training courses.

The Security Department Director plays the role of the Ethics and Anti-Corruption Representative in the KGHM Group and is responsible for supervision of the implementation and compliance with the Procedure. The Ethics and Anti-Corruption Representatives were appointed in the Polish and international subsidiaries, the KGHM Polska Miedź S.A. Head Office and the KGHM Polska Miedź S.A. Divisions in order to monitor the implementation of the anti-corruption regulations.

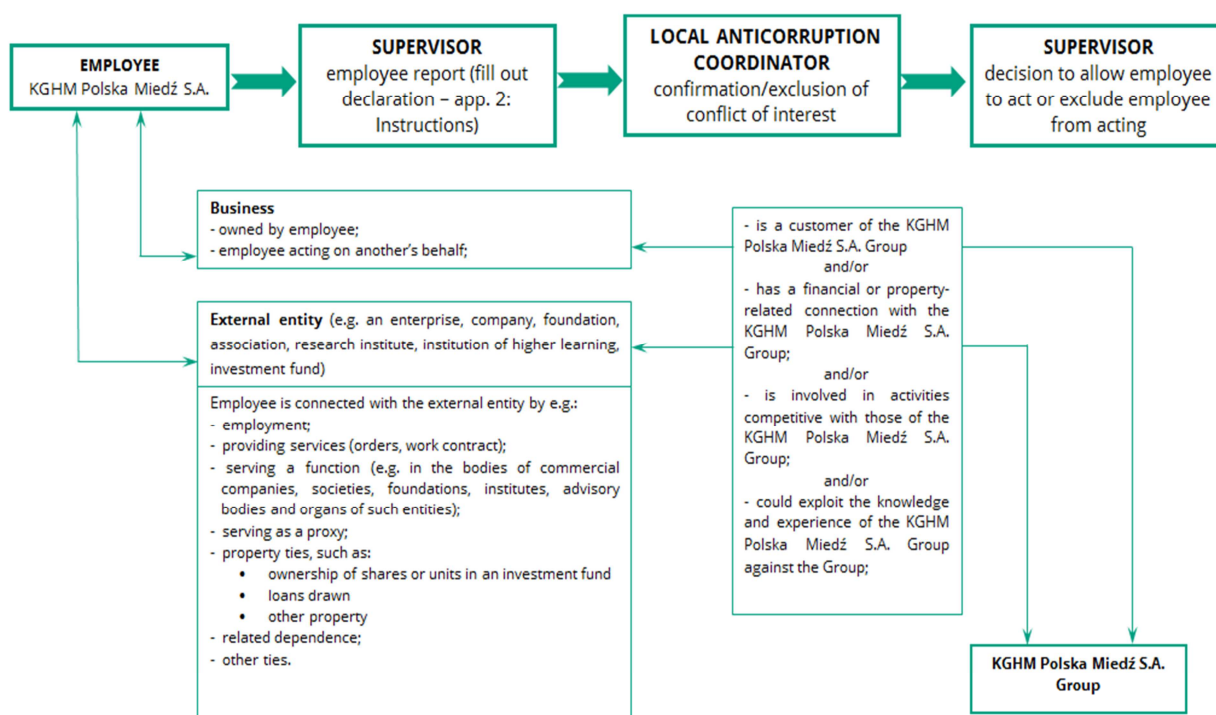
Undertaking, participation in, promotion of, and inciting to any kind of corruptive actions is strictly forbidden. In the KGHM Polska Miedź S.A. Group, corruptive action is in particular:

- bribery;
- influence peddling;
- unacceptable preferential treatment - an action leading to putting a counterparty, product or service in a privileged position, extended against the interests of the KGHM Group, in return for providing, or a promise to provide, material benefit;
- abuse of authority;
- negligence;
- receipt of benefits;
- receipt of a promise;
- making performance of a professional duty conditional;
- demand of benefits;
- conflict of interests;
- nepotism;
- cronyism;
- thwarting or impeding a public tender.

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

## The plan of action for reporting a conflict of interests, including a list of situations that may lead to a conflict of interests in the KGHM Polska Miedź S.A. Group

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



### BUSINESS GIFTS INSTRUCTION

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

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

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

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

## 2.4. PROCUREMENT POLICY OF THE KGHM POLSKA MIEDŹ S.A. GROUP

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

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

In tender documentation, the Company reserves the right to audit its suppliers and to assess their activities in terms of compliance with human rights and regulations governing the hiring of minors. External entities are also checked in order to secure the interests of KGHM, in the context of money laundering, breaches of fair competition rules, prevention of conflict of interests, etc.

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

KGHM uses a diverse range of external counterparty verification in the procurement, sales and investment processes, which are regulated by a number of consistent and uniform internal policies and procedures. This procedure covers verification methods used for the purposes of trading transactions.

To protect its image and the Company's security, KGHM takes measures to prevent the Company from being used by third parties for unlawful purposes, such as money laundering, financing of terrorism or VAT extortion.

The security measures undertaken in this respect consist of:

- Client identification and verification of its identity based on the data provided by the Client, publicly available information and/or reports of credit bureaus;
- undertaking, with due diligence, actions to determine the ownership as well as organizational structures or the Client's links to other entities, in order to identify the Beneficial Owner of the transaction and verify its identity, using publicly available information and/or reports of credit bureaus;
- obtaining information on the Client's objective and intended character of the business relationship, using publicly available information;

- monitoring of the business relationship with the Client, including completed transactions, in order to check if they are consistent with the Company's knowledge of the Client and its business profile, and - if possible - examining the source of funds.

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

The Instruction has been issued as an Appendix to the Internal Control Procedure of the Security and Loss Prevention Division of the KGHM Polska Miedź S.A. Group. Pursuant to the Organizational Regulations of KGHM Polska Miedź S.A., tasks of the Supply Chain Security Department include: control of the transparency of procurement processes, monitoring of procurement processes with increased risk of abuse and control of completed procurement processes - if abuse is suspected - to verify the correctness of those processes and detect corruption threats.

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

### **2.5. ANTI-ABUSE PROCEDURE OF THE KGHM POLSKA MIEDŹ S.A. GROUP**

The Procedure was adopted in accordance with a Resolution of the Management Board of KGHM Polska Miedź S.A. in September 2018. The objective of the Procedure is to prevent abuse at work, by way of implementation of a prevention system and definition of a procedure to be followed if abuse does occur. The procedure is designed to build and enhance an organizational culture based on good interpersonal relations between and among employees.

The procedure describes a catalogue of actions designed to prevent abuse, actions to be taken if abuse does occur, and defines obligations of the employer and employees in this respect. The Procedure applies to all employees of the KGHM Polska Miedź S.A. Group, regardless of the type of contract or position held. Every employee who believes they have experienced abuse or have witnessed behavior displaying features of abuse, has the right to lodge a Abuse Report. An Abuse Report is lodged in a process defined in the Procedure of Disclosing Irregularities and Protection of Whistleblowers, using dedicated channels, subject to the stipulation that in this case the personal details of the reporting

employee, the employee/employees who may have been subjected to abuse and the employee/employees who have committed actions or behavior displaying the features of abuse, must be disclosed. The case is examined by the Ethics Committee of the relevant entity of the KGHM Group. Employees are familiarized with the content of the procedure at the time of hiring and periodically, as part of stationary and e-learning training courses.

Compliance with the Procedure is supervised by the work place manager who is also responsible for the appointment of the Ethics Committee members. The Commission carries out the proceedings in case of abuse initiated on the basis of a Abuse Report. The Ethics and Anti-Corruption Representative plays an important role in counteracting abuse. The Ethics and Anti-Corruption Representative conducts preventive actions, including organization of training for Employees, participates in investigation of the abuse reports, is responsible for receiving the reports and initiating further proceedings in accordance with the Procedure of Disclosing Irregularities and Protection of Whistleblowers. A number of abuse reports that have been examined by the Ethics Committee pertained mostly to conflicts at the work place. Early detection of such cases, possible thanks to the solutions implemented by KGHM, has helped to avoid escalation and prevented occurrence of abuse.

## **2.6. PERSONAL DATA PROTECTION POLICY IN KGHM POLSKA MIEDŹ S.A.**

In 2018, the Management Board of KGHM Polska Miedź S.A. adopted a Personal Data Protection Policy. The Policy lays down the rules of processing and securing personal data in KGHM Polska Miedź S.A., pursuant to Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, hereinafter: GDPR). The Policy has been adopted to ensure that data processing in KGHM proceeds in compliance with the GDPR and other personal data protection regulations, and to be able to demonstrate this compliance. The Policy is subject to reviews and updates, in keeping with the rules laid down therein. Under the Policy, the object of protection is personal data, processed in IT systems, as well as recorded otherwise on media, including paper form and electronic media. The places where personal data is so processed must be secured in a manner defined by the Policy. The Policy applies to all the personal data processed in KGHM for the purposes of the Company's activities. The duty to protect personal data processed by KGHM and to apply the Policy covers all persons with access to personal data, regardless of their position, place of work and type of employment relationship. Every person about to have access to personal data may process the data exclusively based on an



authorization (delegation). All persons having access to personal data are obliged to familiarize themselves with the Policy and other related documents, and to apply the provisions thereof.

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

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

As a socially responsible company, KGHM Polska Miedź S.A. applies due diligence procedures. In doing so, it attaches importance not only to respect for human rights, lawful terms of employment, environmental norms, freedom of establishing trade unions, compliance of operations with generally applicable laws, no child labour and no extraction of production raw materials from conflict sources (the so-called conflict minerals) but also wants 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, which is an important factor of the business decisions on undertaking cooperation with the given partner.

## **2.8. INTERNAL AUDIT REGULATIONS (FOR ETHICS) IN KGHM POLSKA MIEDŹ S.A.**

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

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

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

The Procedure defines how the Control Process is performed by the Division's units, defines and assigns roles in the Control Process, delineates the framework of cooperation of its participants, as well as lists the scope of activities to be performed in the Process. The scope of control carried out by the Security and Prevention of Loss Division includes identification and detection of fraud, irregularities,

abuse, corruption, abuse, breaches of the **Code of Ethics** in the Group, as well as threats to IT and information security.

## 2.10. SELECTED INDICATORS ILLUSTRATING ACTIVITIES RELATING TO ETHICAL ISSUES IN THE KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A. IN 2019

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

Recorded corruption cases ended in:	KGHM Polska Miedz S.A. Group	KGHM Polska Miedz S.A.
disciplinary dismissal or punishment of employees	2	0
refusal to renew contracts with business partners due to breach of corruption rules	0	0
legal actions pertaining to corruption practices taken against the reporting organization or its employees in the reporting period	0	0
<b>Total</b>	<b>2</b>	<b>0</b>

### 3. ACTIONS IN THE AREA OF EMPLOYEE MATTERS AND HUMAN RIGHTS

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

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

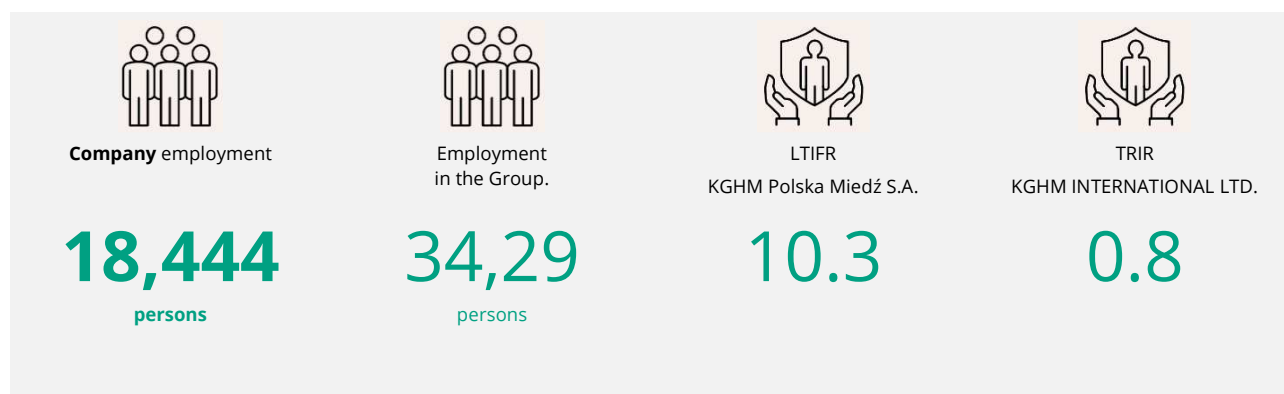
KGHM Polska Miedź S.A. applies impartial and fair criteria of employee assessment, being guided by knowledge, professional competencies, social skills and the quality of work. The Company's culture has created a work environment and venue free from discrimination. No form of discrimination is tolerated, in particular due to gender, race, age, origin, religion, handicap, world view, sexual orientation, social status, marital status, disability, political party and trade union membership and the form of employment.

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

#### **The rules:**

- Compliance with the labour laws of the jurisdictions in which the KGHM Polska Miedź S.A. Group operates, as well as with the standards of our internal labour regulations.
- Compliance with the regulations concerning working time and minimum wage.
- Respect for employees' rights to associate in employee organizations and trade unions, and to engage in collective bargaining.
- To foster employee development and support them in improving their competencies through a variety of training forms and possibility to participate in new projects.

- Respect for human rights and impermissibility of any forms of illegal or forced labour, including child labour.



## Employment :

### KGHM POLSKA MIEDŹ S.A.

At KGHM Polska Miedź S.A., employment at the end of 2019 was 18,539 persons and was 0.2 percent higher compared to the end of the previous year. Annualized average employment in KGHM Polska Miedź S.A. was 18,444 and was higher by 113 persons from the employment in 2018.

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

	2019	2018	Change (%)
<i>Mines</i>	12,440	12,433	+0.1
<i>Metallurgical plants</i>	3,635	3,600	+1.0
<i>Other divisions</i>	2,369	2,298	+3.1
<b>KGHM Polska Miedź S.A.</b>	<b>18,444</b>	<b>18,331</b>	<b>+0.6</b>

In KGHM Polska Miedź S.A., increase in employment was mainly due to :

- increased need for qualified employees in order to develop and implement application and infrastructural projects for the entire Group (among others the KGHM 4.0 Program, implementation of the ECM/BPM platform, implementation of the Integration platform, the SKD CCTV System and the Printing System),
- increased need for qualified employees in order to continue development of the Źelazny Most Tailings Storage Facility , as well as development of the circular economy concept in the Company.

## THE GROUP

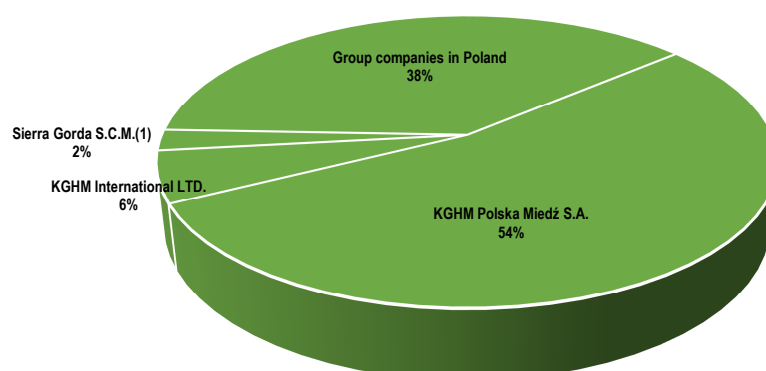
In 2019, 34,328 people were employed in the Group, which represents a decrease by 0.2% as compared to the previous year. The employment structure is presented below:

### Average employment in the Group

	2019	2018	Change (%)
KGHM Polska Miedź S.A.	18,444	18,331	+0.6
KGHM INTERNATIONAL LTD.	1,944	2,037	(4.6)
Sierra Gorda S.C.M. <sup>1</sup>	794	790	+0.5
Group's domestic companies	13,137	13,228	(0.7)
Other Group companies	9	10	(10.0)
<b>Total</b>	<b>34,328</b>	<b>34,396</b>	<b>(0.2)</b>

<sup>1</sup> Sierra Gorda S.C.M. - employment proportional to share in the company (55%)

### Employment structure in the Group in 2019



<sup>1</sup> Sierra Gorda S.C.M. - employment proportional to share in the company (55%)

## COMPANIES IN POLAND

In 2019, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased as compared to 2018 by 91 positions (or by 0.7%). This change was mainly in respect of blue-collar positions and was due to difficulties in securing properly-qualified workers, as well as to adapting employment to current needs.

## COMPANIES ABROAD

In the companies outside Poland, average employment in 2019 decreased as compared to 2018 by 90 positions (or by 3.2%). This was the result of a drop in employment by 93 people in **KGHM INTERNATIONAL LTD.**

The reason for the decrease in employment in KGHM INTERNATIONAL LTD. was the reorganisation in the Sudbury mines, and mainly the suspension of mining from the Morrison deposit.

### 3.1. INTERNATIONAL MOBILITY POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP

As a result of the acquisition of assets outside Poland, since 2015 KGHM Polska Miedź S.A. has conducted an employee mobility program. In view of the international operations of the KGHM Polska Miedź S.A. Group, a policy of international mobility has been adopted as the basis for action in conformity with the due diligence procedure. Being delegated to companies in Chile, Canada and the US represents an investment of major significance for the KGHM Polska Miedź S.A. Group. The policy not only satisfies the local requirement for personnel, but also develops the employee's professional potential. In 2019, 19 employees in total were delegated, of which 6 returned, 8 continued the delegation started before 2019, and 5 started their delegation. The skills and knowledge of employees delegated to work in the international entities of KGHM in 2019 were directly related to the metal production process.

### 3.2. LABOUR REGULATIONS AT KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A. has **Labour Regulations** in place which define the organization and management of the labour process as well as the related rights and obligations of the employer and employees. The regulations define the manner and rules of accounting for working time and granting of holidays, as well as the time and manner of remuneration. They define rules of occupational health and safety. Moreover, they describe the adopted practice with regard to rewards and distinctions, as well as punishments used for infringements of order and work discipline.

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

An **HR Policy** has been defined for the Parent Entity, which underscores that the Employees of KGHM are its most valuable capital – it is they who create the unique corporate culture and build the Company's market position. In order to secure the achievement of its strategic objectives, the Company has for many years consistently invested in the labour market and actively influenced the

process of young people's education. The company acts with due diligence towards its employees, since it is people that play a key role in the development of all areas of the business model, build the global standing of the Company and makes us an integrated organization open to the future. KGHM recruits the best experts and specialists. As a result, the Company employs people with the greatest potential, who can truly respond to the Company's needs. The work of each of these persons is equally important to the success of the entire organization.

The uniqueness of the pursued HR policy is attested to by the fact that KGHM Employees are people who not only are talented and highly qualified, but also act in conformity with KGHM values, are open to changes, seek innovative solutions, and are willing to share their knowledge and experience. Most importantly, however, KGHM Employees, regardless of their job titles, see their personal development as a challenge which contributes to the benefits achieved by the entire organization.

The development of KGHM has also driven changes in human capital management inside the company. Recently, the implementation of the HR policy has been modified. A consistent set of key processes and tools have been implemented to support long-term development of competencies, new solutions have been prepared for employee performance and assessment management, internal communication has been improved, and focus has been made on modern project, program and portfolio systems. In view of the Company's swift development, it has become a priority to identify the best employees efficiently, and then systemically prepare them to assume key roles and functions in all business operations.

In 2019, the employees of KGHM Polska Miedź S.A. were provided with:

- the possibility to pursue educational programs to develop professional, managerial and specialist competencies,
- the possibility to improve their qualifications thanks to co-financing of studies, including:
  - co-financing of MBA studies - 21 people,
  - organization of two post-graduate programs dedicated to the needs of KGHM Polska Miedź S.A.:
    - "Processing of Mineral Resources - Processing of Solid Minerals" in cooperation with AGH University of Science and Technology in Kraków (22 persons),
    - "Company financial security" in cooperation with SGH Warsaw School of Economics (62 persons),
  - co-financing of individually chosen post-graduate studies (36 persons),
  - co-financing of higher education (16 people).

- improvement of language skills of all Company employees (provided to 18,000 employees) thanks to access to online e-learning tools,
- implementation of the performance management process for managers and development of an employee assessment system,
- improved IT tools to support recruitment of the best people.

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

## HR PROJECTS IN KGHM Polska Miedź S.A.

### Mining and metallurgy industry competence. KGHM – a key partner in vocational training

In 2019, KGHM Polska Miedź S.A. continued cooperation with technical and industry secondary schools, including two other schools from the Polkowice County in its "Industry competence" program. In the 2019/2020 school year, the number of students in classes under the patronage of KGHM exceeds 1650. Thanks to the cooperation between the employer and the school, they are able to engage in internships, participate in lessons carried out by experts, visit the Divisions, and apply for a scholarship.

As a result, vocational education will be better adjusted to the needs of the labour market, and in particular of KGHM Polska Miedź S.A. It is worth mentioning that in 2019, as a result of this cooperation, the Ministry of National Education expanded the list of mining professions, including "miners of underground mining of minerals other than hard coal" and "technicians of underground mining of minerals other than hard coal", whose educational profiles are adjusted to metal ore mining technologies.

### Dual education

In 2019, based on a letter of intent entered into by KGHM Polska Miedź S.A., Katowicka Specjalna Strefa Ekonomiczna S.A. and the Powiat (County) of Głogów, under the project „POWER KSZTAŁCENIE DUALNE – DOBRY START W ZAWODACH BRANŻY GÓRNICZO – HUTNICZEJ” (Power dual education – a good start in professions in the mining-metallurgical sector), a pilot Model Program of practical professional education in the profession of Metallurgical Technician was carried out. Lectures and workshops were conducted throughout the school year on the grounds of the Głogów Copper Smelter and Refinery by supervisory personnel from individual areas and comprised the entire copper production line as well as those of the crude lead and precious metals production lines. The Program concluded in June 2019 with an examination and the presentation of assessments. The conclusions generated by the program were sent to the Katowice Special Economic Zone in the form of a report.

### La Serena

KGHM Polska Miedź S.A., in the process of strengthening its global position and expanding its business and social contacts, decided to initiate educational and technical cooperation with the University of La Serena in Chile. A result of this was the organisation in July 2019 of a summer school for mining students. More than a dozen students participated in activities organised by the AGH University of Science and Technology in Kraków and the Earth Sciences Faculty of the University of Wrocław. While in Poland, the students also had the opportunity to visit the Divisions of KGHM Polska Miedź S.A.

### eKariera (e-Career)

Work continues on enabling external access to the entire eKariera system. Two further modules were added to the already existing eRekrutacja (eRecruitment) module: Probationary period employment (Staże) and graduate theses work (prace dyplomowe).

Implementation of the remaining modules - individual and group internships (praktyki i praktyki grupowe) - and completion of the work is expected in the first half of 2020.

### 4E Skills Academy

The program **Developing strategically - 4E Skills Academy** trains leaders in KGHM Polska Miedź S.A.



The four key directions of development defined in the Company's strategy of flexibility, efficiency, ecology and e-industry were the inspiration for creating the 4E Skills Academy. This academy is aimed at supporting managers in developing the skills required to advance the strategic goals of KGHM Polska Miedź S.A.

The first meeting covered trends and their impact on the economy as well as on employers. The inaugural Academy's workshops were dedicated to „Skills of the future“. A team of experts from various areas in our organisation looked at factors of change and developed, under the direction of specialists in research into the future of the marketplace, key directions for our organisation.

Subjects of subsequent meetings were leadership in challenging times and the pressures which are a permanent feature of business reality. The challenges facing managers in a variable, rapidly-changing environment require the skill to recognise and predict cause-and-effect factors, to comprehend global economic, cultural and political trends and critical thinking, and are included in the tasks of the 4E Skills Academy for 2020.

## Group

### Companies in Poland

In 2019, actions were taken in terms of global projects introduced in prior years, comprising all of the companies in Poland, such as recruitment principles using the e-Rekrutacja system.

In addition, each of the companies advanced its own HR projects. These involved areas such as enhancing professional abilities and qualifications, skills and improving productivity, alongside the utilisation of motivational tools. In terms of addressing problems related to acquiring employees, cooperation was instituted with external institutions: vocational schools, schools of higher learning and employment offices.

### KGHM INTERNATIONAL LTD.

In 2019, the following HR projects were advanced in the companies of the KGHM INTERNATIONAL LTD.

#### Group :

##### in Canada and the US

- annual assessment and review of findings, including an analysis of wages, STIP and LTIP concerning Canada and the United States,
- support of the HR function in the process of reorganisation in the Sudbury mines as a result of suspending mining from the Morrison deposit,
- support of the HR function in the process of replacing the entity which provides medical services for employees in the USA (Robinson and Carlota mines),
- replacement of the entity providing tax advisory services in employment-related matters.

##### in Chile

- migration to a new HR system, SAP - a project whose purpose is to optimize efforts related to managing human resources and ensuring better service and information support for employees (completed in December 2019),
- application program for student internships in 2019; this program aims to help the children or relatives of employees who are completing their academic education (15 students),
- professional integration compliance program according to the legal requirements in place in Chile – the legal regulations fulfill social functions and compels companies to hire employees with a certain type of disability. The company met this requirement and with the assistance of an advisory firm in specifying employees with a certain degree of disability (7 employees).

### 3.4. HUMAN CAPITAL AND RISK ON THE INTERNATIONAL MARKET

The global nature of the KGHM Group also translates into risk related to human capital. The Company wants to recruit and retain the best employees necessary among other things for the execution of development projects. The effectiveness of recruitment processes is also undergoing constant improvement. Since 2015 an employee mobility program has also been in place. It defines in detail the rules of delegating employees abroad. The program guarantees the consistency of human resources management policy with best market practices and ensures continuity of risk management (including legal, tax, immigration risks) in the process of delegating personnel to work abroad. In employee international mobility there is an opportunity to transfer knowledge, experience and best practices among the KGHM Polska Miedź S.A. Group's companies.

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

Risks and description of threats	Mitigation
<p data-bbox="180 947 344 976"><b>(KGHM Group)</b></p> <p data-bbox="180 987 783 1043"><b>The risk of not being able to secure appropriate staff to advance the Group's business goals.</b></p> <p data-bbox="180 1055 810 1312">The risk of not being able to acquire and keep human resources, among others to support on-going operations and development projects. The KGHM Group is exposed to risk related to the availability of qualified staff in the market as well as on-going identification of staffing needs in terms of required qualifications and supplying them while reflecting staffing fluctuations. Of significance is access to qualified employees in the future in the context of an aging society and a market deficit of certain professions.</p>	<p data-bbox="831 954 1457 1272">Advancing a variety of HR projects, identification of potential successors for key positions (including in terms of mobility) and preparations for advancement. On-going comparison of remuneration packages (including in relation to working conditions) to offers on the market. Cooperation with schools and universities to promote the company as an employer and to ensure qualified employees. Implementation of programs to develop employee skills and to secure funds for this purpose. Development of recruiting tools and the identification of key skills to advance the company's business goals</p>

### 3.5. MANAGEMENT OF CAREER PATHS AND RECRUITMENT IN KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A. secures highly qualified personnel through the process of internal and external recruitment. It protects the KGHM brand as an employer of first choice for current and prospective employees.

The company acts in accordance with due diligence rules and it keeps an electronic register of job candidates based on the announcements published at <https://www.rekrutacja.kghm.pl>. The electronic registration of candidates comprises job vacancies announced by all Divisions of KGHM Polska Miedź S.A. In order to submit an application the candidate should complete the electronic

template containing the necessary personal data and the requirements for the job for which the candidate is applying. Online registration is considered as valid if the application was completed within the set term, after entering by the candidate of all necessary data, confirmed in accordance with the information sent to the candidate by the system. KGHM Polska Miedź S.A. is not liable for any inability to register the application due to Internet failures, server overload, server failures and other cases of this type. Candidates are obligated to express consent to the processing of their personal data contained in the online application for the purposes of recruitment by KGHM Polska Miedź S.A., in conformity with the Act of 10 May 2018 on Personal Data Protection (Journal of Laws of 2018, item 1000) and the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons in connection with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR).

The Company ensures full discretion to candidates who submit applications and reserves the right to contact only selected persons. No information within the term set in the job announcement means that the application was not accepted. Candidates whose applications have been accepted are notified separately of the date of their job interview. Candidates who successfully pass their job interview may be, upon the candidate's consent, entered in the Central Base of Candidates. The application is stored in the Central Base of Candidates for a period of 12 months. Changes and updates of the stored application are made on the candidate's request. Personal data collected during electronic recruitment of candidates are used only for these processes and are not made available to third parties. The Candidate's Communication via the <https://rekrutacja.kghm.pl> portal is encrypted with SSL protocol with the use of a certificate issued by a trusted certification center. The electronic recruitment system in KGHM provides for the safety of the candidates' stored data and for compliance with the requirements of the Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, hereinafter: GDPR). The candidate's attempts to obtain access to the server, attacks blocking its functioning, breaking through the security mechanisms, interception, theft or destruction of the data of registered candidates are prohibited. Any such action results in disqualification from the recruitment process.

### **3.6. TRAINING PROCESSES IN KGHM POLSKA MIEDŹ S.A.**

The KGHM Polska Miedź S.A. Group does not have in place a shared Training Policy. In view of the international scope of activities, cultural differences and specific characteristics of the industries in

which the KGHM Polska Miedź S.A. Group operates, each company conducts a series of activities related to employee training. The purpose of employee development activities in KGHM in 2019 was to retain and improve human capital and to manage the Company's intellectual capital, taking into account the Company's new strategic directions in this process: 4E (Elasticity (flexibility), Effectiveness, Ecology - safety and sustainable development, E-industry) as well as its long-term development plans through:

- securing fulfillment of the requirements defined in regulations by the employees' participation in periodic training courses on occupational health and safety, courses and examinations entitling employment in underground mines which require specialist actions as well as other jobs in the Company,
- improving employee skills by the organization of training courses and other development activities, with particular focus on linguistic, managerial and interpersonal skills, as well as training on business process orientation in management.
- improving the qualifications of the Company's employees and changing their educational structure by continuing to co-fund graduate and post-graduate studies.

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

When planning activities, the Company focuses on ensuring that they fit in the best possible way to the execution of the adopted strategic priorities.

Systemic competence development activities are performed by a centralized unit specialized in this area. Development needs are established regularly and constitute the basis for building a training plan and calculation of the resources needed for its performance. These actions are performed on the basis of the procedures existing in the Company and are registered for purposes of internal and external accounting. Both the competence development activity and the utilization of the allocated budget are regularly monitored and the results are reported.

In 2019 the number of employees participating in a single training event was 31,066, of which 20,994 in blue-collar jobs and 10,047 in white-collar jobs.

In 2019, 1,038 employees took part in industry symposia and conferences in Poland and abroad in order to become acquainted with new technological and organizational solutions, as well as exchange experiences with regard to performance, improvement of production efficiency, human capital

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

Employees were afforded the opportunity to develop their skills through co-funding of the courses of higher study, post-graduate studies and MBA studies. 157 persons benefited from co-funding of their studies in 2019. The development of skills through the co-funding of higher courses of study spanned the following:

- MBA studies - 21 people,
- organization of two post-graduate study programs dedicated to the needs of KGHM Polska Miedź S.A. administered in collaboration with Poland's largest universities:
  - post-graduate studies entitled "Processing of Mineral Resources - Processing of Solid Minerals" in cooperation with AGH University of Science and Technology in Kraków (26 persons),
  - post-graduate studies entitled "Company financial security" in cooperation with the Warsaw School of Economics (62 persons),
- post-graduate studies (36 persons),
- higher courses of study (16 persons).

Enhancing language skills is an important element of implementation of the cooperation and exchange plan for the Polish and foreign companies within the Group. 338 Company employees benefited from on-site language courses in 2019. To facilitate language skills development, all Company employees were given access to online e-learning tools dedicated to 18 thousand employees.

To reach the largest group of employees we are launching e-learning training courses. The e-learning training courses we propose to our employees are one of the forms of instruction focused on expanding their knowledge. One of the greatest advantages of e-learning is that we can participate in training at a time that is convenient to us. In addition, the training contains interactive elements to facilitate comprehension and committing to memory the needed information. In 2019 KGHM Polska Miedź S.A.'s employees obtained access to e-learning training courses:

- Training on ethics:
  - Training for employees in managerial jobs (people who manage other people) on ethics, prevention of irregularities in the company (in particular, corruption, abuse and discrimination) and receiving whistleblower reports,

- Training for employees in white-collar and blue-collar positions (people with computer access) on ethics, prevention of irregularities in the company (in particular, corruption, abuse and discrimination) and submitting whistleblower reports concerning irregularities utilizing the channels in place in the company,

Training courses were devoted to material issues such as: abuse and discrimination, protection of whistleblowers and reporting irregularities in the company, corruption and conflict of interests, security of information and cybersecurity.

- Training on Information Security Policy (Information Security Policy based on the ISO 27000 standard).

This interactive training course is earmarked for all employees of KGHM Polska Miedź S.A who use computers in their daily work. This course aims to inculcate safe behaviors on the web. E-learning training courses provide for an interactive form of learning and contain numerous additional materials, short video clips, case studies and decision-making exercises.

### **3.7. SAFETY POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP**

The health and life of employees and safety in general are of paramount concern in the hierarchy of values espoused by the KGHM Polska Miedź S.A. Group. For several years the Company has been pursuing its long-term vision entitled “Zero accidents caused by staff and technical-related factors, zero occupational diseases among our employees and the employees of our business partners”. In line with the adoption in December 2018 of a new strategy going through 2023, the conceptualization for the strategy pertaining to occupational safety was prepared in 2019 by formulating the Employee Safety Enhancement Program entitled “Think About the Consequences” and the Program to eliminate the most frequent threats in occupational safety through the utilization of innovative technologies.

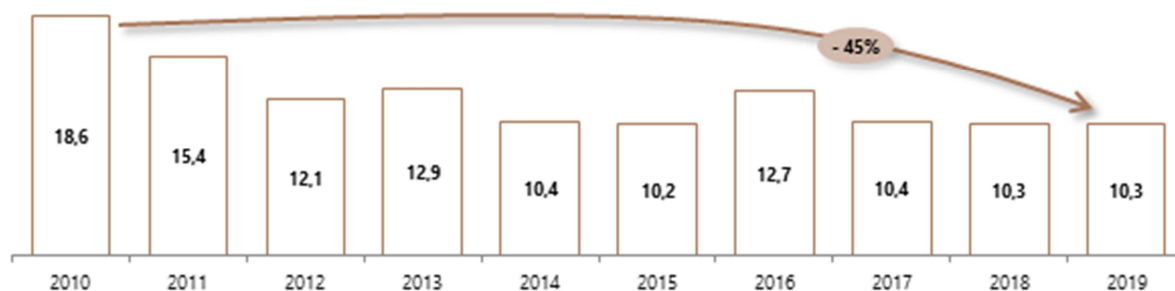
The Company has high standards in occupational safety and health that apply to its employees and other companies providing services on the premises of KGHM Polska Miedź S.A. Each of the Company's Divisions has implemented an occupational safety management system compliant with the applicable standards in effect to date, while in 2019 preparations were launched to implement a new OHS standard in KGHM Polska Miedź S.A. complying with the ISO 45001:2018 standard. Risks have been identified for all jobs. The Company has assessed the professional risk and updates it on an ongoing basis. The conditions of the working environment are continuously monitored and periodic reviews and assessments of possible hazards, equipment overhauls and required technical inspections and type approvals are conducted. Employees undergo systematic training and continually improve their qualifications.

In 2019, the Company recorded a slight increase in the total number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses), with a year-on-year increase from 297 to 299 injured (+2). At the same time the number of workplace accidents in 2019 in KGHM Polska Miedź S.A., excluding accidents due to natural causes (roof collapses, distressings, tremors, rock falls) was lower by 31 (a drop from 279 to 248). The vast majority of workplace accidents (around 98%) qualified as light injuries, caused mainly by rock falls followed by loss of balance by employees, as well as contact (striking) with or by moveable/ immoveable objects.

Natural hazards associated with the underground mining of copper ore deposits, in particular hazards related to mining tremors and their potential effects in the form of roof and wall collapses are considered as particularly important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes. The Company for many years has carried out a variety of preventive actions in its mines involving the intentional provoking of roof collapses and rock falls, comprising systematic seismological observations, on-going assessment of the rock mass and the marking off of areas of particular threat of roof collapse. The size, shape and number of chambers and inter-chamber pillars is selected, as well as the most advantageous direction of mine work advance and the optimum order of ore selection to minimise local concentrations of stress in the rock mass. So-called active methods of preventing uncontrolled roof collapses and rock falls are also applied, based on provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof. In 2019, in the mines of KGHM Polska Miedź S.A. a total of 51 workplace accidents were recorded, resulting from natural hazards from the rockmass. These incidents represented 20% of all workplace accidents in the mines during this period. KGHM Polska Miedź S.A. is continuously improving its safety record in the mining of the copper ore deposit.

In 2019, the  $LTIRF_{KGHM}$  ratio (Lost Time Injury Frequency Rate KGHM) in 2019, or the total number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses) in the Company, being the number of accidents per million hours worked for the entire core business of KGHM Polska Miedź S.A., was at the same level as that achieved in 2018 – 10.3 – and at the same time was lower by 45% than the amount recorded in 2010:

## LTIFR<sub>KGHM</sub> in the parent company in the years 2010-2019



KGHM INTERNATIONAL LTD. reviews the principles underlying the operations of the OHS section. It is focused on finding a means of standardising the reporting and monitoring of the state of safety in the individual international assets, in such a way as to ensure the data can be collated and comparable with one another.

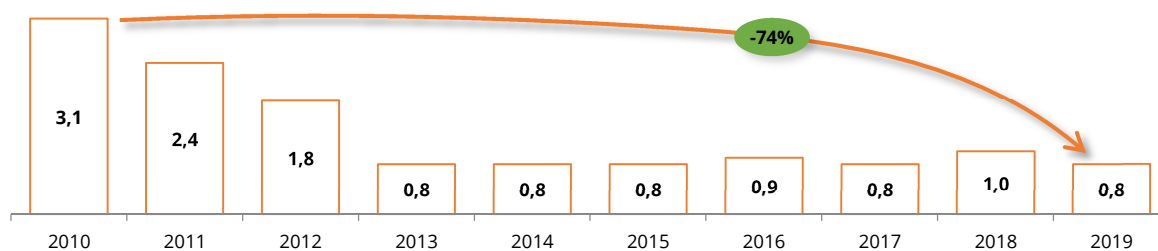
In 2019, a total of 31 incidents at work were registered in the mines supervised by KGHM INTERNATIONAL LTD. in Canada and the United States of America, while the TRIR ratio amounted to 2.8. In 100% of the cases these were incidents of a minor nature without serious consequences for the employees.

In Chile, the KGHM Polska Miedź S.A. Group conducts mining operations in two entities, which have separate systems of OHS management adapted to the legal requirements and mining conditions in this country. These systems encompass both the employees in these entities as well as sub-contractors, and are aimed at achieving the long-term vision „Zero harm”. In KGHM Chile SpA, which oversees the Franke mine, and which also engages in its own exploration and other activities, three workplace accidents were recorded in 2019, with a TRIR ratio of 0.31. In the joint venture company Sierra Gorda S.C.M., 16 workplace accidents were recorded in 2019, with a TRIR ratio of 0.36.

In 2019, in the entities in which the KGHM Polska Miedź S.A. Group conducts mining operations in Canada, the United States and Chile, a total of 50 workplace accidents were recorded. The consolidated TRIR ratio (Total Recordable Incident Rate) for these operations reached 0.77. This was 0.23 lower as compared to 2018 and at the same time 74% lower than the level recorded in 2010:



## TRIR<sup>1</sup> ratio in KGHM INTERNATIONAL LTD. in the years 2010-2019



<sup>1</sup> TRIR (Total Recordable Incident Rate) calculated using accepted methodology as the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, in total for the employees of KGHM INTERNATIONAL LTD., KGHM Chile SpA and Sierra Gorda S.C.M. and sub-contractors for these entities, per 200 000 worked hours.

The KGHM Polska Miedź S.A. Group has defined significant risks and their mitigation in the area of safety. Information about key risks and their mitigation are described in this Report in the section “Comprehensive Risk Management System in the KGHM Group”.

## OHS GOLDEN RULES

The KGHM Polska Miedź S.A. Group has prepared and applied OHS Golden Rules. They are presented in the figure below:



### 3.8. LABOR SAFETY COUNCIL OF KGHM POLSKA MIEDŹ S.A.

The Parent Entity's employees are represented in the Occupational Safety Council whose functioning is based on the principles of mutual trust and cooperation. The Council is the opinion-making and advisory authority with respect to matters of occupational safety and health. It consists of 40 persons, including representatives of the employers (Divisions), representatives of the trade unions operating in the Company and the Company Voluntary Labor Inspectors in the Divisions of KGHM Polska Miedź S.A. The scope of operation of the Occupational Safety Council encompasses, among other things, periodic evaluation of the state of occupational safety and health at the Company, submitting opinions on preventive actions and formulating conclusions with respect to improvement of the working conditions.

At each facility of KGHM Polska Miedź S.A., the representatives of the employer, employees and medical services who are members of the Company Committees for Occupational Safety and Health perform periodic reviews of the working conditions, assess occupational safety and health and draw conclusions with respect to improvement of the sector working conditions. Since 2016, current occupational safety issues have been discussed at each meeting of the Supervisory Board of KGHM Polska Miedź S.A. In 2019 and previous years the OHS area was analyzed many times using a variety of procedures. An ongoing assessment of occupational safety in the Company is made at weekly meetings of the Vice President of the Management Board responsible for Production and at monthly meetings of the Management Board with the management of all the Divisions.

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

Risk management, including the principle of prudence, is an essential element of our business. KGHM strives for minimization of any threats to its employees, local communities and the environment (**Zero Harm Policy**). The best facilities are those with the highest level of safety. Employees in the copper ore mines of KGHM Polska Miedź S.A. work in difficult conditions and are exposed to a great number of various hazards. Natural hazards connected with underground mining of copper ore deposits are among the most important threats to the life and health of employees of KGHM Polska Miedź S.A. Specifically, the threats connected with rock mass tremors and their potential impact in the form of rock bursts and roof collapses are considered to be very important in terms of safety as they may lead to serious or fatal accidents, damage to machinery, equipment, and underground infrastructure, as well as mining downtimes. Since employee safety is our priority, the KGHM Polska Miedź S.A. Group has been taking a number of preventive and protective measures. Regular seismic observations are conducted in the mines based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all the regions and mining areas. The Company has implemented an integrated model of occupational safety and health management. The following entities are involved in it:

- company Occupational Safety and Health service;
- the Mine-Smelter Emergency Rescue Unit of proven world-class excellence,
- Miedziowe Centrum Zdrowia S.A., an entity providing specialized medical services;
- research and development unit, KGHM Cuprum Sp. z o.o. CB-R;
- accredited laboratory of Centrum Badań Jakości Sp. z o.o.;

an entity specialized in rescue services equipped with its own medical facilities.

### **3.10. GOOD COOPERATION PRACTICE WITHIN THE KGHM POLSKA MIEDŹ S.A. GROUP**

Our employee safety is the top priority of the value hierarchy of the KGHM Polska Miedź S.A. Group as well as one of the pillars of the Corporate Social Responsibility Strategy. Research and development initiatives are focused on the improvement of occupational safety. All standards and legal regulations in the area of occupational safety and health are complied with, and in the selected areas our own, even more rigorous rules, are applied. In view of our business profile, interference in the environment and care for our employees, we set ourselves ambitious goals, the achievement of which translates into concrete effects in terms of improvement of work and occupational safety conditions. Our focus on respect for life and health improves efficiency and effectiveness and ensures continuity of production, which is essential in the mining and metallurgy industry. Moreover, the highest standards in the area of Occupational Safety and Health pertain not only to the Company staff, but to all entities providing services to the KGHM Polska Miedź S.A. Group.

#### **DIVERSITY DECLARATION OF KGHM POLSKA MIEDŹ S.A.**

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

The Company complies with the prohibitions of discrimination and takes actions in order to ensure respect of diversity in the workplace. It creates an organizational culture based on mutual respect, equality, access to development opportunities and optimal use of employee talent regardless of ethnic origin, age, gender, nationality, citizenship, religious orientation, political convictions or trade union membership, among others. It aims at ensuring reasonable diversity both in the selection of personnel (including in the recruitment process), with special focus on knowledge, technical competence and social skills.

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

The management of diversity also pertains to members of the Supervisory Board and Management Board of KGHM Polska Miedź S.A. Persons with varying gender, age and experience form the management and supervisory team. More information on the approach to diversity in the supervisory

bodies is presented in the Statement on Corporate Governance in The Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2019.

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

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

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

The KGHM Polska Miedź S.A. Group does not have in place a shared Human Rights Protection Policy. Taking into consideration the international nature of our activities, cultural differences and specific natures of the Group's industries, each company engages in a number of actions to protect human rights. Consequently, an independent Declaration of Human Rights Protection has been defined at KGHM Polska Miedź S.A.

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.

KGHM Polska Miedź S.A. is a global organization, aware of the importance of respect for human rights in the modern world. The Company accepts responsibility for protection and respect for fundamental human rights and implements such standards across the KGHM Polska Miedź S.A. Group. It also assumes that respect for human rights by other entities is a vital element of mutual relationships.

In compliance with the adopted principles, each employee and collaborator of the KGHM Polska Miedź S.A. Group is responsible for ensuring that in his/her closest environment human rights are respected, and any infringements are reported according to the agreed procedure. This Declaration is the basis of our approach to human rights. It supplements and consolidates the human rights issues contemplated in other policies and guidelines of the Company, such as the **Code of Ethics**, the Diversity Declaration, HR and the Responsible Supply Chain Policy.

The Declaration is implemented in the following manner:

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

Infringements are reported as follows:

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

### COMPANY COLLECTIVE LABOUR AGREEMENT (CLA) OF KGHM POLSKA MIEDŹ S.A.

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

### 3.11. SELECTED GRI STANDARD PERFORMANCE INDICATORS SHOWING ACTIONS ON EMPLOYEE ISSUES IN THE KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A.

#### Total number of employees

Total number of employees (calculated in terms of persons)	Number of employees	
	KGHM GROUP	KGHM POLSKA MIEDŹ S.A.
<b>Total</b>	<b>34,329</b>	<b>18,444</b>

#### Number of new hires and employee departures

New hires in 2019:	Total number of employees (head count) broken down to:	Number of employees (calculated in terms of persons)		Number of new hires		Rate of new employee hires (calculated in terms of persons)	
		KGHM Group	KGHM POLSKA MIEDŹ S.A.	KGHM Group	KGHM POLSKA MIEDŹ S.A.	KGHM Group	KGHM POLSKA MIEDŹ S.A.

	<b>Total</b>	<b>34,345</b>	<b>18,536</b>	<b>2,519</b>	<b>988</b>	<b>7.33%</b>	<b>5.33%</b>
<b>Employee departures in 2019:</b>	<b>Total number of employee departures (head count) broken down to:</b>	<b>Number of employees (head count)</b>		<b>Number of employee departures (head count)</b>		<b>Percentage of employee departures</b>	
		<b>KGHM Group</b>	<b>KGHM POLSKA MIEDŹ S.A.</b>	<b>KGHM Group</b>	<b>KGHM POLSKA MIEDŹ S.A.</b>	<b>KGHM Group</b>	<b>KGHM POLSKA MIEDŹ S.A.</b>
	<b>Total</b>	<b>34,345</b>	<b>18,536</b>	<b>2,570</b>	<b>952</b>	<b>7.48%</b>	<b>5.14%</b>

### Number of work-related accidents by gender

	<b>KGHM GROUP</b>		<b>KGHM POLSKA MIEDŹ S.A.</b>	
	<b>Women</b>	<b>Men</b>	<b>Women</b>	<b>Men</b>
Total number of work accidents (incidents)	78	464	4	295
Number of fatal accidents (incidents)	0	3	0	3
Number of severe accidents (incidents)	0	3	0	2
Number of minor accidents (incidents)	74	450	0	290
Total number of people injured in accidents	<b>531</b>		<b>299</b>	

### Average number of hours of training during the year per employee

	<b>Total number of training hours</b>	
	<b>TOTAL</b>	
	<b>KGHM Group</b>	<b>KGHM Polska Miedź S.A.</b>
Total number of training hours	<b>575,861</b>	<b>431,949</b>
Number of employees	<b>34,345</b>	<b>18,536</b>
Average number of training hours	<b>16.77%</b>	<b>23.30%</b>

## 4. ACTIVITIES RELATED TO SOCIAL ISSUES

In its relations with clients, employees, external partners and local communities, the KGHM Polska Miedź S.A. Group complies with the laws which are in effect in the countries where they operate. The Group also complies with voluntary obligations resulting from ISO and ASTM standards as well as from membership in international organizations such as International Copper Association, European Precious Metals Federation, Eurometaux, Euromines, the London Bullion Market Association, the European Technology Platform on Sustainable Mineral Resources, the European Innovation Partnership, and domestic organizations, including: the Polish Association of Listed Companies, Stowarzyszenie Inżynierów i Techników Metali Nieżelaznych [Association of Non-Ferrous Metals Engineers and Technicians], the Economic Chamber of Non-Ferrous Metals and Recycling, the Polish Committee of the World Mining Congress, the Polish-Canadian Chamber of Commerce, the Polish Chamber of Commerce for High Technology, and the Employers' Organization of Polish Copper. The KGHM Polska Miedź S.A. Group does not participate in undertakings which involve breaking the law and which pose a threat to its reputation.

### The rules:

- Compliance with the regulations of the commonly binding law as well as the internal regulations in effect in KGHM Polska Miedź S.A.
- Compliance with both the obligations contemplated in the agreements, and verbal promises made to our clients, suppliers and social partners.
- Reliable performance of assigned duties.
- No offering or acceptance of bribes or other material or personal benefits; and no entering into cooperation with companies of doubtful reputation.

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

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



The KGHM Polska Miedź S.A. Group requires observance of the “zero tolerance for corruption” principles in mutual relationships. It puts special focus on transparency of transactions. It monitors the supply chain and product life. Business partners of the KGHM Polska Miedź S.A. Group are evaluated with regard to corruption risk. Business is conducted only with entities of proven reputation. Thanks to appropriate procedural arrangements, the KGHM Polska Miedź S.A. Group prevents money laundering and the financing of criminal activities, including terrorism. It specifically protects the personal data of partners as well as commercial, technical or organizational information entrusted to it. The KGHM Polska Miedź S.A. Group is guided by the principles of fair competition.

#### **4.1. KGHM POLSKA MIEDŹ S.A. GROUP’S COMPETITION LAW POLICY**

There is a Competition Law Policy in the KGHM Polska Miedź S.A. Group. Its purpose is to establish the operational framework for the system to ensure compliance with the competition laws prevailing in all the countries of its operations

#### **4.2. RESPONSIBLE SUPPLY CHAIN POLICY IN THE KGHM POLSKA MIEDŹ S.A. GROUP**

The KGHM Polska Miedź S.A. Group complies with the highest standards of production and business ethics. We are guided by those principles across our value creation chain, which is reflected in the **Code of Ethics** of the KGHM Polska Miedź S.A. Group. The awareness that the selection of responsible suppliers, especially as regards the sourcing of conflict minerals (such as gold, tin, tungsten and tantalum) and silver, is of key importance for conducting activity oriented on sustainable development. The foregoing issues are regulated in the Responsible Supply Chain Policy. Its purpose is not only to guarantee the selection of only responsible suppliers, especially with respect to the conflict minerals listed above, but also to ensure that the goods and services procured do not contribute to financing terrorism and are manufactured or provided in compliance with basic human rights, labour standards, standards of environmental protection and preventing corruption.

The Parent Entity KGHM Polska Miedź S.A. has fully implemented an internal responsible gold and silver supply chain management system which is comprised of the Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group and the Responsible Bullion Supply Chain Audit Procedure in KGHM Polska Miedź S.A. In 2019, the Company updated the Supply Chain Audit Procedure with respect to gold and silver in KGHM Polska Miedź S.A. with a view to ensuring compliance with LBMA Responsible Gold Guidance V8 and LBMA Responsible Silver Guidance V1 in effect. The system is subject to independent external audit to ensure its compliance with LBMA Responsible Gold Guidance and the LBMA (The London Bullion Market Association) certification.

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

In 2019, all suppliers passed the Responsible Metals Supply Chain Audit Procedure with a positive result.

The description of the policy for the KGHM Polska Miedź S.A. Group's business partners may be found at <https://kghm.com/en/our-business/products/responsible-supply-chain>

Risk in the area pertaining to the responsible supply chain of the KGHM Polska Miedź S.A. Group has been described in this Report in the section entitled "Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group".

#### **4.3. SOCIAL DIALOGUE AND COOPERATING WITH LOCAL COMMUNITIES IN THE KGHM POLSKA MIEDŹ S.A. GROUP**

As part of the social dialogue, KGHM Polska Miedź S.A. cooperates with the municipalities of the Copper Basin in, among others, their development strategies, it supports their growth through payment of taxes or hiring residents of adjacent towns and implements a number of social Agreements aimed at improving the living standard of the residents. The Company's representatives participate in meetings and sessions of City and Town Councils, and in events organized by local governments. Every year, mayors of municipalities, towns and cities participate in festivities organized to commemorate the Miner's Day and the Metallurgy Worker's Day. The Parent Entity sponsors events organized by municipalities; it provides support from the KGHM Polska Miedź Foundation's budget to cover the costs of children's summer and winter day camps, school field trips and outings to a swimming pool.

In terms of cooperation in the expansion of the Źelazny Most Tailings Storage Facility to include the Southern Quarter, KGHM continued cooperation under the Agreements with the Rudna and Grębovice Municipalities - calling for the transfer of funds in 2019 to perform co-funding tasks in the following

areas: recreation for children, healthcare, spa treatment for adults, revitalization of parks and recreational areas, cleaning ditches, securing rivers, protecting soil and crops against the harmful impact exerted by industry and protecting cultural heritage. The agreement with the Polkowice Municipality was continued calling for cooperation in the following areas: organizing and co-funding summer and winter recreation for children and youth, healthcare, protecting soil and crops, identifying alternative heating solutions, wider Internet access and improving mobile telephone coverage, supporting the preparation of recruitment processes conducted by KGHM and safeguarding the community directly adjacent to the Żelazny Most Tailings Storage Facility.

The agreement with the Żukowice Municipality on the construction of the GG-2 shaft was also continued. In October 2018, a Memorandum of Agreement was signed in which, in addition to financial resources for the development of the municipality, KGHM provides health care and recreational cards to residents.

In 2019, numerous meetings with Mayors of cities, towns and municipalities and councilors from the Copper Basin were held, also in the form of business breakfasts between the KGHM Management Board and local government authorities, where the role of cooperation between KGHM and local governments for building a strong brand of the region, the Company's actions on behalf of environmental protection, electromobility, power engineering, and sponsorship initiatives were presented. In May 2019, KGHM organized a conference with local governments with the aim to explain the budget creation mechanisms and the budgeting rules at the local government level. The issue of electromobility was taken up at the conference for local governments held in November. The Electromobility Development Program is one of the key areas defined in the Responsible Development Strategy. From the viewpoint of local government units, the effect is improved quality of residents' life as a result of, among others, air pollution and noise reduction as well as better availability and comfort of transport. A Letter of Intent, where KGHM and local government units expressed their wish to commence cooperation for the development of electromobility in the Copper Basin region, was signed at the conference.

Bearing in mind the successful cooperation between KGHM Polska Miedź S.A. and the local governments of the Copper Basin to date, actions for health, ecology and healthy lifestyle promotion for residents of the region were continued.

In 2019, funds were provided to the towns of Głogów and Legnica for health and social programs serving the local communities.

The Głogów Urban Municipality was provided with funding for the following actions: outpatient clinics, including the opening of a nephrology outpatient clinic, sessions in a salt grotto for primary school

pupils, promotion of a healthy diet, sporting activities for children and youth with the use of the “Fit resident of Głogów” municipal sports facilities, planting of trees and shrubs.

The Legnica Urban Municipality received a donation for the following actions: the “Healthy Legnica” program aimed at propagating a healthy lifestyle and education as well as increasing the availability of medical care to residents of Legnica.

In the Głogów county, KGHM supported the following actions in the form of cash donations: preventive examinations for lung, thyroid diseases, diagnostics of prostate cancer, USG breast exams, promotion of a healthy diet, sporting and cultural activities for children, youth, adults, and the elderly, provision of additional equipment for the hospital, schools, and volunteer fire units.

KGHM also sponsored swimming lessons for over 700 children from the Copper Basin region. Conferences and meetings as part of the Copper Basin social strategy, co-funded by KGHM and local governments, focused on the family foster care and initiation of the social campaign “The Family is Mine” and on building effective ways of assisting youth with problems in the Copper Basin. A research, prevention and training project in this area covered 17 schools and 10 local governments, and the findings were summarized at the conference: “Integrated prevention as a response to the developmental needs and problems of teenagers in the Copper Basin”. The conference was preceded by a series of 12 workshops for local governments.

In 2019, work continued on securing existing infrastructure and project terrain, as well as preparatory work aimed at conducting additional exploratory work and work related to an application to obtain the required environmental permits. On 27 June 2019, the Canadian Environmental Assessment Agency decided that it was unnecessary to conduct an environmental assessment at the federal level, which means a positive conclusion to the process of obtaining an environmental permit. The Agency stated that the project’s environmental impact was properly described in the project description, and that the methods applied in the project for restricting its impact are in compliance with law in force. The Agency’s decision is a milestone in the development of the Victoria project.

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.

Information about risk in the area of social dialogue of the KGHM Polska Miedź S.A. Group was described in this Report in the section "Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group".

#### **4.4. FOUNDATIONS, SPONSORSHIP AND CSR ACTIVITIES IN THE KGHM POLSKA MIEDŹ S.A. GROUP**

KGHM is a "good neighbor and trustworthy investor". It supports local communities, social organizations and institutions related to science, culture and sport. It promotes an active lifestyle and helps people in need.

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

##### **KGHM POLSKA MIEDŹ S.A. FOUNDATION**

The KGHM Polska Miedź Foundation has continued the multiannual social activity of the Founder, KGHM Polska Miedź S.A., since 2003. A signpost for the Foundation's day-to-day activities are the values held by the Founder, which include zero harm, teamwork, results driven, accountability and courage. The Foundation engages in actions to increase the safety and health, intellectual, professional, and cultural development of residents and their activation to perform actions for the common good in the region.

The basis for the operation of the KGHM Polska Miedź Foundation are financial and material donations granted to:

- individuals in the field of health protection and victims of natural catastrophes and disasters,
- institutions for project execution.

In 2019, the Foundation supported many valuable activities, and yet it was not able to meet the growing needs of the environment and stakeholders. The level of aid granted to the institutions accounted for 17% of all applications registered, and in the case of support for individuals, it was 24%.

The projects planned for 2020 are a natural continuation of the Foundation's activities to date. The assumptions are based on an analysis taking into account the needs of the inhabitants of the Copper Basin, Lower Silesia and all of Poland as regards health and safety, sports and recreation, culture and tradition as well as science and education.

The activities of the KGHM Polska Miedź Foundation in 2020 will continue to focus on granting donations and controlling their spending as well as on running dedicated programs. The commitments undertaken by the Foundation will be carried out with the utmost care, thorough analysis of the needs described in the requests and their compliance with the Foundation Statute and the Founder's objectives, with a consideration of the capacity to help. As in previous years, applications for donations will be accepted and formally reviewed by the Foundation Office staff, and they will be examined and evaluated at meetings of the Foundation Management Board.

In 2019, 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. Support was granted in the form of cash donations in a total amount of **PLN 20,243,989.96**, including:

- **PLN 17,763,651.78** for the implementation of **313 projects**;
- **PLN 1,194,825.18** for **169 individuals**;
- **PLN 1,285,513.00** for the implementation of the "Health Promotion and Environmental Hazards Prevention Program".

AREA	Donations	
	Amount awarded PLN	Number of projects/ number of individuals
<b>DONATIONS FOR INSTITUTIONS</b>	<b>17,763,651.78</b>	<b>313</b>
1. <b>HEALTH AND SAFETY</b>	3,453,005.00	45
2. <b>SCIENCE AND EDUCATION</b>	2,422,608.56	56
3. <b>SPORTS AND RECREATION</b>	3,266,227.33	88
4. <b>CULTURE AND TRADITION</b>	8,621,810.89	124

<b>DONATIONS FOR INDIVIDUALS</b>	<b>1,194,825.18</b>	<b>169</b>
<b>1. HEALTH CARE</b>	1,187,691.18	168
<b>2. SOCIAL AID</b>	7,134.00	1
<b>“Health Promotion and Environmental Hazards Prevention Program”</b>	<b>1,285,513.00</b>	<b>616 (children)</b>
<b>TOTAL DONATION AMOUNT</b>	<b>PLN 20,243,989.96</b>	

## HEALTH AND SAFETY AREA

**Health and safety** are a strategic area of operation for the KGHM Polska Miedź Foundation. In 2019 alone, **45** projects were co-funded for a total of **PLN 3,453,005** and **169** individuals received donations totaling **PLN 1,194,825.18**.

These funds were used for purchasing e.g.:

- specialized medical apparatus and equipment for hospitals, rehabilitation centers, and other healthcare facilities,
- modern rescue and fire-fighting equipment and special vehicles for local emergency rescue facilities, e.g. fire and police stations.

In 2019, in the **“Health and safety”** area, the Foundation also co-funded preventive examinations for residents as well as initiated and supported projects promoting blood donation and hemotherapy, and co-funded scientific conferences in the field of medicine. Moreover, the Foundation supported projects aimed to prevent exclusion of the disabled. Cash donations were made, among others, for projects related to organization of rehabilitation stays or Christmas actions for those in need, e.g. Christmas Eve for the homeless or gifts for children.

In 2019, individuals received financial aid from the KGHM Polska Miedź Foundation for health care, including in particular: rehabilitation stays, inpatient rehabilitation, purchase of hearing aids and wheelchairs, surgical treatment, including treatment abroad, and removal of architectural barriers.

## SCIENCE AND EDUCATION AREA

Science and education is the area of comprehensive actions of the KGHM Polska Miedź Foundation to support the development of education, science, and economy based on knowledge, innovation, social

capital, and learning society. As part of a broad range of initiatives, the amount of **PLN 2,422,608.56** was spent to run **56** projects in 2019.

The scientific projects supported by the Foundation included publications, scientific conferences, competitions, education and integration activities for children and youth, academic scholarships and awards. Funds were also spent for teaching aids and classroom equipment in education establishments, which contributed to an improved level of education.

In 2019, the Foundation funded the National Science Centre Award in the amount of PLN 50,000.00 for the winner of the competition in humanities, social sciences and arts, which was a distinction for a young scholar for significant scientific accomplishments as part of fundamental research conducted in a Polish academic center, evidenced by publications affiliated in a Polish academic center.

In 2020, the Foundation intends to continue its comprehensive activities supporting the development of education, science and industry and higher education. It will promote innovation in education and the need for education in line with trends observed in the labour market. In the **“Science and Education”** area, the KGHM Polska Miedź Foundation will focus on propagating science and education.

## **SPORTS AND RECREATION AREA**

**Sports and recreation** is the area of operation for the KGHM Polska Miedź Foundation which supports all sports initiatives and popularizes social attitudes and behaviors based on values propagated by physical culture and sport. This area was extremely popular among the beneficiaries in 2019. The amount of **PLN 3,266,227.33** was spent to implement **88** projects in this area.

The following were among the initiatives co-funded in the **“Sports and recreation”** area:

- leisure for children and youth,
- training activity of sports clubs,
- organization of sports events.

The cash donations provided by the Foundation enabled the purchase of sports equipment and delivery of numerous sport training courses, various tournaments and competitions, and establishment of new recreational and sports facilities, such as playgrounds for children. Moreover, some of the funds were dedicated to co-funding the organization of summer holidays in the form of camps, day camps for children and youth by local branches of the Society of the Friends of Children (TPD), the Polish Scouting and Guiding Association (ZHP), community day centers, associations, orphanages, and parishes. The participants were mainly children and youth from underprivileged,



dysfunctional, and poor families, who, thanks to the Foundation's support, had the opportunity to go to the seaside or the mountains for the first time in their lives and learn about another culture.

The Foundation considers popularization of physical culture and sport as well as education in preventive health care an important field of social life and therefore intends to continue activities promulgating an active and healthy lifestyle. In the area "**Sports and Recreation**", the KGHM Polska Miedź Foundation will support all actions for the development of young people's physical activity taken by local institutions, associations, and sports clubs in 2020.

### **CULTURE AND TRADITION AREA**

The Foundation respects the cultural heritage of previous generations, which underlies identity building, and referring to community traditions and ones cultivated by various social and cultural groups becomes the most important value. In 2019 alone, **124** projects in the area of culture and tradition were supported with the total amount of **PLN 8,621,810.89**.

In 2020, the Foundation intends to continue its support for projects consisting of commemorating and promoting Polish cultural or historical heritage as well as strengthening local cultural identity and participation in culture at the local, regional, national and global level. The aided projects will be related to rescuing cultural heritage and tradition and will contribute to a considerable improvement of the condition of many heritage structures, and some will even save the heritage structures from a structural collapse. As regards supporting culture and art, the KGHM Polska Miedź Foundation will also provide financial aid to diverse artistic and cultural events organized by various associations, cultural societies, cultural centers, and museums.

## PROGRAMS FINANCED BY THE FOUNDATION IN 2019

The **“Health Promotion and Environmental Hazards Prevention Program”** has been implemented for three years in cooperation with an external enterprise.

Only in 2019, the amount of **PLN 1,285,513.00** was allocated for its implementation and **616** children from the municipalities of Jerzmanowa, Głogów (urban), Głogów (rural), Kotła, Pęcław, Polkowice, and Żukowice were covered by it. It is intended to counteract the potential impact of industry on people, in particular children living in the counties of Głogów, Legnica, Lubin and Polkowice. It provides financing for preventive and health trips for children and adolescents aged 6-16 to mountain or coastal health resorts. Given the great interest of both the participants and the local community, the Foundation intends to continue and increase the funds for the implementation of the “Health Promotion and Environmental Hazards Prevention Program” in 2020.

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

## REVIMINE INNOVATION AND CULTURAL HERITAGE FOUNDATION

The Revimine Foundation was established in 2014 by KGHM Polska Miedź S.A. to engage in activities related to protection of cultural heritage as well as the mining and metallurgical traditions of the Copper Basin. The Foundation supports the undertakings and initiatives aimed 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.

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

## SPONSORSHIP

KGHM’s sponsorship strategy is closely associated with the activity pursued in the area of Corporate Social Responsibility (CSR) and assumes that most funds will be allocated to the performance of the planned actions for promoting the Company and the region on the one hand and for supporting valuable cultural, sports, scientific, and social initiatives and undertakings contributing to Lower Silesia marking its presence on the map of Poland and Europe on the other hand.

The areas falling within the scope of the sponsorship activity are culture, science, and sport.

## SPORT

The Company considers sport an important area of social life and therefore it supports both top-class professional sport and amateur sport. As the largest employer in the region, it appreciates the significance of sport in forming the culture of leisure for adults and its educational role for youth. The Parent Entity is the major sponsor and at the same time the owner of Zagłębie Lubin S.A., a football team playing in the top Polish football league.

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.

## CULTURE

The Company is perceived as a patron of culture and art. KGHM participates in organization of significant projects addressed to the society in the region and the whole country and takes patronage over them. In 2019, KGHM took patronage over the Royal Castle in Warsaw, which was inaugurated by the exhibition "To rule and to dazzle. Jewels and jewelry in Poland in the 16th and 17th centuries".

## SCIENCE

As regards science, KGHM supports higher education institutions and scientific institutes, thus tightening cooperation and building a bridge between the industry and the academia. The Company provides financial and subject-matter aid to projects thematically related to the problems solved to meet the needs of KGHM and the region.

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.

A list of amounts granted by KGHM Polska Miedź S.A. in 2019 within Sponsorship broken down by areas:

Area	Amount granted in PLN
Sports	22,972,478
Culture	8,496,622

<b>Science</b>	<b>1,805,725</b>
<b>Total</b>	<b>33,274,825</b>

The amount spent by the KGHM Group companies (excluding the Parent Entity) as part of its Sponsorship activity in 2019 was: **PLN 5,815,900**

## **KGHM POLSKA MIEDŹ S.A. CSR PROGRAMS**

### **EKO Zdrowie [ECO Health]**

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

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

By planning and pursuing CSR activities the addressees and direct recipients of which are social beneficiaries of its environment, the Company upholds the “license for operation”, which is important for the group and which is manifested in the social acceptance of KGHM’s business activity in the mining sector.

The ECO-Health program was launched in 2014 as part of corporate social responsibility. The priorities of the ECO-Health program are in particular promotion of preventive health care and active lifestyle among residents of the Copper Basin. The assumption of the program is to take up the projects/initiatives for the promotion of preventive health care, active lifestyle, physical activity, and recreation, thus taking care of children’s, adults’ and the elderly’s health, among residents of the region.

The program’s efforts to advance include regular activities: Nordic Walking for adults, recreational gymnastics for elderly citizens, and swimming lessons for children.

### **PROJECTS**

The Nordic Walking project is addressed to people over 35 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 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.

Nordic walking is an activity for everyone, regardless of age or fitness. Its impact on the body is similar to that of jogging without putting excessive strain on joints and the spine. It relieves hip and knee joints,

the lumbar spine, and releases shoulder, neck, and back muscle tension. Additionally, it does not require specialized equipment and engages up to 90 per cent of muscles safely (with a low risk of injury).

**So far, 10 editions of the activities have been held in which more than 1,500 people participated.**

The swimming teaching program assumes cyclic basic swimming classes for children aged 5–10. The classes are held in indoor swimming pools in several towns of the Copper Basin: Chojnów, Legnica, Lubin, Polkowice, Głogów, and Rudna, and children develop their basic swimming skills under the supervision of qualified instructors from swimming clubs in the region. Swimming is a sport strongly recommended to children. It helps ensure the correct posture and reverse scoliosis. This discipline makes a child develop healthily, be physically fit, have a good stamina and motor coordination. Water exercises have a highly positive influence on the respiratory and circulatory systems, too.

**So far, 10 editions of the swimming learning activities have been held in which ca. 3,000 children participated.**

Recreational gymnastics with specialized hammocks, a project dedicated to the elderly, is implemented in a few towns in the region: Lubin, Legnica, Polkowice, Głogów, Chojnów, Ścinawa, and Złotoryja. Fitness instructors and physiotherapists participate in the classes.

**Over 250 people aged 55–80 have taken part in three editions of the project so far.**

In 2019, a screening project was launched for KGHM employees: computed tomography for early detection of lung cancer, diagnosis of emphysema, and assessment of coronary artery calcification.

**There were more than 800 KGHM employees participating in the first edition of the examinations.**

### **“Copper Heart” Employee Volunteerism**

The “Copper Heart” employee volunteerism program has been operating in KGHM POLSKA MIEDŹ S.A. since 2014. It is a form of support provided by the employer to employees for their personal development and pursuit of their passions, and joint engagement in socially significant actions enhances integration and job satisfaction. The voluntary activities implement and reinforce the values guiding KGHM employees on an everyday basis: responsibility, safety, performance orientation, courage, and collaboration. Employees engaging in organizing and participating in charity actions become ambassadors of the KGHM Polska Miedź S.A. brand and they are the best evidence of the effectiveness and appropriate implementation of the corporate social responsibility policy.

Volunteers, Company employees, with the support from KGHM Polska Miedź S.A., organized 20 charity actions in 2019. Almost a half of them, namely nine actions, were the outcome of the employees' grassroots initiative.

### **COPPER COMPETITION**

On 27 March 2019, KGHM Polska Miedź S.A. inaugurated the "Copper Competition" scholarship program. The new program is addressed to talented Polish athletes. Each beneficiary receives individual financial aid.

The aim of the program is to grant scholarships to the athletes selected in cooperation with the Ministry of Sports and Tourism. The scholarships allow them to focus on training and the best possible performance. 20 athletes from all over Poland benefited from the program in 2019. Every year, the President of the Management Board, in cooperation with the Ministry of Sports and Tourism, will allocate a certain amount to the development of Polish athletes. The basis for granting the scholarship by the President of the Management Board of KGHM Polska Miedź S.A. is exemplary sporting achievements and orientation towards increasingly better results.

**In 2019, 15 athletes selected by the Ministry of Sports and Tourism, 5 athletes selected in the Copper Basin Region were granted scholarships for exceptional sporting achievements.**

#### 4.5. SELECTED INDICATORS ILLUSTRATING ACTIONS RELATING TO SOCIAL ISSUES IN THE KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A.

Selected indicators for 2019 illustrating actions in the area of social issues:

##### List of donations from the KGHM Polska Miedź Foundation for institutions and individuals in 2019, by areas

AREA	Donations	
	Amount awarded [PLN]	Number of projects/ number of individuals
<b>DONATIONS FOR INSTITUTIONS</b>	<b>17,763,651.78</b>	<b>313</b>
5. <b>HEALTH AND SAFETY</b>	3,453,005.00	45
6. <b>SCIENCE AND EDUCATION</b>	2,422,608.56	56
7. <b>SPORTS AND RECREATION</b>	3,266,227.33	88
8. <b>CULTURE AND TRADITION</b>	8,621,810.89	124
<b>DONATIONS FOR INDIVIDUALS</b>	<b>1,194,825.18</b>	<b>169</b>
3. <b>HEALTH CARE</b>	1,187,691.18	168
4. <b>SOCIAL AID</b>	7,134.00	1
<b>“Health Promotion and Environmental Hazards Prevention Program”</b>	<b>1,285,513.00</b>	<b>616 (children)</b>
<b>TOTAL DONATION AMOUNT</b>	<b>PLN 20,243,989.96</b>	

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

## 5. ACTIONS AIMED AT PROTECTING THE NATURAL ENVIRONMENT, INCLUDING THE CLIMATE, AND IMPLEMENTATION OF A CIRCULAR ECONOMY

**KGHM Polska Miedź S.A., as one of the largest socially responsible companies, acts to reduce its impact on the environment as far as possible.**

**The sustainable development concept, including in particular conservation of the natural environment, is one of the most significant values driving the Company's activities**

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

In pursuing the slogans and values presented above, we are also guided by an awareness of our responsibility not only at present but also in the future. Therefore, as regards sustainable development actions, KGHM Polska Miedź SA endeavors to find the best solutions serving the purpose of satisfying the demand for copper and other metals in connection with the growing human population (it is estimated that the global population will exceed 9 billion in 2040) with the simultaneous awareness of the Earth Overshoot Day indicator increasing year by year (the demand for resources exceeds the Earth's regeneration capacity by 75% for 2019).

The above indications make us look for solutions serving the purpose of providing products but also protecting the environment for both the present and future generations.

The solutions are sought, designed, and implemented based on and in full compliance with the related legislative activities, and often ahead of them. As regards the former, the KGHM Group joins in actions within the European Green Deal concept announced on 13 December 2019 and Implementing the Recommendations of the Task Force on the Climate-related Financial Disclosures (TCFD) of June 2017 as well as the Communication from the European Commission 2019/C 209/01 of 19 June 2019 Guidelines on non-financial reporting: Supplement on reporting climate-related information. On the other hand, KGHM Polska Miedź SA is extremely happy to state that it has been implementing many of the recommendations indicated in the abovementioned documents for a much longer time, following the path of sustainable, environmentally responsible development.

The determination, planning, and performance of the actions would not be possible without the awareness and identification of the natural capital by the KGHM Group. Using the definition and the methodology of its identification, created by Natural Capital Coalition, it was determined that the



natural capital of the KGHM Group included the natural resources serving as the source of economic and social benefits: mineral resources (ferrous and non-ferrous metal ores, sodium as well as potassium and magnesium salts, organic or mineral aggregates, and petroleum products), water, trees (wood), water and air.

Building on the idea of sustainable development as regards using the natural capital, as described above, the actions taken in the KGHM Group were arranged according to three thematic areas:

- protection of climate and ambient air,
- water and sewage management,
- waste management and implementation of the idea of a circular economy.

### **Protection of Climate and Ambient Air**

The KGHM Group notices the occurrence of significant changes in Earth's climate as a result of the increase in the average temperature on our planet, which has been observable since the beginning of the industrial era. It is also aware of the fact that the main cause of this process is the growing emission and excessive accumulation of greenhouse gases (GHG) in Earth's atmosphere (as was ascertained based on the CarbonBrief analysis). This disturbed the natural circulation of these gases, consisting in their emission being balanced by the level of assimilation which was observed earlier in the human era and analyzed for the preceding periods. This has resulted, in particular in recent years, in increased dynamics of the so-called greenhouse effect generated by the gases. It is illustrated, for instance, by the considerable increase in temperatures over a year and the resulting occurrence of dynamic weather events (thunderstorms, rainstorms, hurricanes, droughts) and climate changes (increase in the average annual temperature, decrease in the average precipitation, and further lowering of water tables as well as the progressing steppe formation) at the latitudes where KGHM pursues its business activities.

Due to its sense of responsibility and the sustainable manner of performing its business activities, the KGHM Group is commencing work on slowing down the pace of the negative climate changes. Thus, it has joined the global actions of countries (decisions of successive World Climate Summits), the European Union (European Green Deal, one of the assumptions of which is to be the world leader in reducing GHG emissions until full climate neutrality is achieved), Poland (change of the energy mix of the country, low-carbon economy building), and individual enterprises pursuing the UN's sustainable development goals provided for in the so-called 2030 Agenda for Sustainable Development.

These actions will ultimately be performed by the KGHM Group in a fully systematic manner, as recommended in the Communication of the European Commission being Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01), including an Annex being Task Force on Climate-related Financial Disclosures (TCFD) (in the section concerning Metals and

Mining). Despite the current non-compulsory nature of the documents listed above, the Group commenced work for the introduction of the resulting systematic actions and reporting method.

Their starting point was to determine the significance of the information related to climate for the KGHM Group. Based on the guidelines set by the experts from the AGH University of Science and Technology, using a reporting factor significance examination tool, the level of significance of the information related to climate for the KGHM Group was determined to be high in the short, medium, and long term as well as in the entire value chain of the KGHM Group.

It was decided that:

- the short term would be understood as the timeframe of the current business strategy of the KGHM Group,
- the medium term would be understood as the timeframe until 2030, i.e. the year of meeting the emission targets set by the European Union (-30% compared to 2005 according to etCO<sub>2</sub> from the non-ETS sectors) and Poland (-7% compared to 2005 according to etCO<sub>2</sub> from the non-ETS sectors), which arise from the Paris Agreement (COP21),
- the long term would be understood as the timeframe until 2050, i.e. the year of the European Union achieving (with the exception of Poland (under the decisions of the EU Summits of 20 June 2019 and 13 December 2019)) the climate neutrality objective.

It was established that the KGHM Group does not and will not have a very high direct impact on climate in the reported and future periods. In spite of the above, the indirect impact might be adverse and noticeable. This was determined in terms of social and environmental significance. The basic products of the Group, as raw materials, go to the sectors exerting a major impact on the climate (construction, automotive output, power engineering). Thus, amendments, if any, to the regulations and additional burdens imposed on these sectors in connection with greenhouse gas emissions might have an adverse effect on the Group's expenses. Looking at climate changes from a broader perspective, the KGHM Group also recognises the financial significance and the related physical risks both in terms of acuteness and duration. This is because the observed intensification of weather anomalies might influence the Group's production process. In terms of a long-term physical risk, this aspect is associated primarily with the lowering water tables in rivers (mainly the Oder), which is indispensable in ore enrichment and concentrate production processes as well as metallurgical processes. It was also determined that the risk of electricity and other energy carrier supply interruptions due to rainstorms and hurricane winds was a significant issue and they were pointed as the major components of acute physical risk.

In spite of the above, it must be stated that the KGHM Group has the sufficient resources, knowledge, competences, and attitude to join in the application of low- and zero-emission energy sources, emission reduction, and energy efficiency improvement.

These statements are made by the KGHM Group based on the following facts:

1) The Company's participation in the European emissions trading system (ETS), through the obligation to monitor and report carbon emissions and the purchase of emission allowances, builds the awareness of the system's influence on the Company's financial standing and predisposes it to seeking and implementing low-emission solutions. Therefore, as regards metallurgical processes, KGHM has reduced CO<sub>2</sub> emissions by changing the shaft furnace technology into the flash furnace one and, as regards energy-releasing fuel combustion, it utilizes low-emission natural gas-fired CCGT units, thus partly replacing the fine coal-fired units.

2) In accordance with the best available techniques "BAT" conclusions for the non-ferrous metals industries published in the EC Implementing Decision 2016/1032, KGHM initiated investment processes in order to adapt the installations to the requirements of the conclusions and thus a further reduction of emissions and adverse environmental impact.

3) The KGHM Group is preparing a climate policy which will be a systemic solution for implementing the Communication of the European Commission being Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019/C 209/01), including an Annex on the Task Force on Climate-related Financial Disclosures (TCFD) (in the section concerning Metals and Mining). It covers also medium-term (2030) and long-term (2050) quantitative goals regarding:

- reduction of direct GHG emissions (scope 1), but also indirect emissions (scope 2 and 3),
- energy efficiency improvement,
- increase in the use of energy from renewable sources,
- minimization of actions in regions exposed to a long-term or acute physical risk,
- increase in the percentage of products related to activities satisfying the criteria of a significant contribution to mitigating the effects of climate changes or adjustment to mitigating the effects of such changes,
- engagement in the green finance system resulting from the new Green Bonds taxonomy announced on 19 June 2019.

4) The KGHM Group has taken and will continue to take its own actions for climate and ambient air protection without any regulatory enforcement. An overview of these activities for 2019 is presented below in this section.

### **Water and sewage management**

The KGHM Group considers water one of the most important components of its natural capital. It also assures that it strives to consume water and close its circulation in a manner as efficiently as possible in technical, economic and environmental terms. For that purpose:

- 1) The conditions determined in any water-law permits obtained for the purposes of operations permitting the use of the environment with regard to water and sewage management are complied with. The conditions set forth in the permits are consistent with EU and national legal regulations.
- 2) Machines are operated in conformity with the requirements, guaranteeing the minimization of any negative environmental impact.
- 3) In addition to the above, the KGHM Group has for many years conducted and will conduct a series of its own activities, non-forced by legal regulations, aimed at the optimization of water and sewage management. This serves mainly to limit water consumption in the production process, especially in the Concentrators (i.e. Ore Enrichment Plants). In view of this, KGHM Polska Miedź S.A. has introduced the circular economy at the Concentrators. Surplus water is discharged to the Oder, constituting an important element of regulation of the level of this river, so vital for Poland's inland sailing.
- 4) A detailed picture of the above activities conducted by the KGHM Group in 2019 is presented below in this section.

### **Water management and implementation of the idea of a circular economy**

Aiming at a circular economy is one of the priorities of the KGHM Polska Miedź Group. This is related to the Earth Overshoot Day indicator presented above. The Group welcomed the roadmap published on 24 September 2019 for the development of a circular economy in Poland, as well as the publication on 13 December 2019 of the European Green Deal.

KGHM has for many years been pursuing the circular economy (CCE) approach and intends to join its development. The Group bases the above statement on the following facts:

- 1) Copper ore mining and its subsequent processing at all production stages are inextricably linked to impact on individual components of the natural environment. The minimization of this impact, made possible thanks to the implementation of the circular economy, allows

environmental protection as well as the improvement and development of KGHM's industrial installations built in the past, in parallel with the pursuit of new investments in this field, with simultaneous engagement in local, national, sector and international initiatives for the environment. In order to quantify the above, the KGHM Group constantly monitors data related to the impact of its operations on the environment. The Group complies with all requirements resulting from regulations and best practice standards with regard to environmental protection, and to a large extent takes proactive steps in this respect.

- 2) KGHM Polska Miedź S.A. fully understands and implements the definition of the circular economy, understanding it as the value of products, materials and resources sustained as long as possible within a circular economy, and waste production reduced to a minimum, aiming at the development of sustainable, low-emission, resource-saving and competitive circular economy. It also accepts and intends to pursue the European Union's goals related to the circular economy: savings in the amount of EUR 600 billion for firms from the EU, which accounts for 8% of their annual turnover, creation of 580,000 jobs and reduction of CO<sub>2</sub> emissions by 450 million tonnes by 2030.
- 3) KGHM Polska Miedź S.A. wants to participate in the implementation of the Polish roadmap to achieve a circular economy. Therefore, it wants to identify all possible activities in the Company aimed at increasing the efficiency of resource utilization and waste reduction. Key elements of building a circular economy in KGHM Polska Miedź S.A. include:
  - innovation, strengthening of cooperation between the Company and the scientific community, and consequently implementation of innovative solutions related to the circular economy,
  - participation in the development of the market for metallic recycled materials and increasing their share in the Company's production,
  - minimization of post-production waste to the level of residual waste,
  - increasing the share of metal recovered from ore, and
  - seeking and implementing solutions that allow utilization of waste storage sites as secondary deposits.
- 4) The idea of creating a circular economy is put into practice in the KGHM Group in the following groups of actions:
  - commercialization of flotation waste towards recovering metal from such waste, as well as economic utilization of rock forming minerals, as sealing material for the Żelazny Most Tailings Storage Facility, as backfilling in post-mining goafs, and material for applications in construction, road building and agriculture,
  - development of the technology of recycling smelting in WTR,

- closing of water circulation in ore processing,
  - full reclamation of post-production areas,
  - development and implementation of environmentally friendly flotation agents and improved recovery of metals from fine-grained input,
  - utilization of heat energy contained in the mined deposit,
  - development of the Company's own research and development activity towards a circular economy,
  - development of the CuBR Joint Venture towards a circular economy,
  - research and development within the Horizon Europe program towards a circular economy, and
  - development of the Company's own investments towards a circular economy.
- 5) KGHM Polska Miedź S.A. implements the requirements introduced by the amendment to the act on waste, which comprise the launch of the National Data Base on Waste (BDO), system of visual control of waste storage sites, and securing of claims to cover the costs of mitigating environmental impact. Meeting the requirements of the amended act allows for waste recording in a manner transparent to the inspection authorities, simultaneously mitigating environmental impact.
- 6) KGHM Polska Miedź S.A. has for many years conducted and will conduct a series of its own activities, non-forced by legal regulations, aimed at the implementation of a circular economy. An overview of these activities for 2019 is presented below in this section.

The aforementioned activities in three thematic groups related to environmental protection and the minimization of the Company's impact are implemented in KGHM Polska Miedź S.A. through KGHM's environmental policy and KGHM's energy policy, which set the highest ecological and environmental standards for the Company.

### **5.1. ENVIRONMENTAL POLICY IN KGHM POLSKA MIEDŹ S.A.**

Care for the natural environment is combined with the business model, in which throughout all its constitutive segments – from exploration to reclamation – standards apply to ensure safe and environmentally friendly business operations.

Main assumptions of the **KGHM Polska Miedź S.A.** environmental policy:

- compliance with the requirements of Polish and EU law with respect to the use of the environment,
- maintenance in full technical working order of the equipment that serves to protect the environment,

- following the latest technical developments in order to limit the environmental impact of the industry and introducing them as needed and possible,
- development of waste management techniques and continuous growth of the managed waste in total waste,
- on-going environmental cooperation with the local community and authorities,
- cooperation at the level of the Ministry of Environment in implementing the country's ecological policy,
- cooperation with the European mining industry and non-ferrous metals industry within sector organizations in the development of European Union documents regarding environmental protection.

As a company operating with corporate social responsibility KGHM Polska Miedź S.A. may not and does not want to shy away from its responsibility for the condition of the environment. Copper ore mining and its subsequent processing at all production stages are inextricably linked to impact on individual components of the natural environment. Compliance with rigorous standards resulting from legal regulations is possible thanks to systematic modernization of existing installations and construction of new ones to reduce and minimize environmental impact.

KGHM's production plants have implemented an environmental management system according to the ISO 14001 standard, which attests to their operation in a manner which is safe for both employees and society. In 2018 the system was recertified in connection with the coming into force of a new edition of the standard, therefore all of KGHM Polska Miedź S.A.'s Divisions are compliant with the standard of 2015.

### **FORMAL STATUS AND FEES FOR THE USE OF THE ENVIRONMENT**

KGHM Polska Miedź S.A. operates ten installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits .

In addition, the Tailings Division holds permits for the operation of the Żelazny Most Tailings Storage Facility, and sector permits required by law. The mines operate on the basis of current sector permits with respect to airborne emissions and waste management.

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

In 2019, emissions in the previous year in the amount of 1 110 thousand tonnes of CO<sub>2</sub> were settled by freely-acquired rights (around 930 thousand tonnes of CO<sub>2</sub> for 2018 and from reserves) supplemented by purchases of rights (EUAs or European Emission Allowances and CERs - certified emission reduction). It is expected that 2019 emissions at the level of around 1.3 million tonnes of CO<sub>2</sub> will be settled thanks to freely-acquired rights for the Głogów and Legnica Copper Smelters and Refineries as well as rights for the Gas-Steam Blocks in Polkowice and Głogów (around 900 thousand tonnes of CO<sub>2</sub>) and reserves of rights from prior years and purchases of rights (EUA and CER) in the amount of around PLN 13 million.

Environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2019 amounted to PLN 18 million. In 2019, in the structure of fees, the highest amount incurred was the waste storage fee: PLN 7 million. Another item of costs, over PLN 5 million, is the fee for emissions of gases and dusts to the atmosphere.

Amongst the Polish companies of the Group, the largest environmental impact comes from the activities of the company „Energetyka” sp. z o.o. In 2019, this company incurred PLN 3.3 million in environmental fees, which mainly comprised payments for water intake and waste discharge (PLN 2.3 million) and for emission of contaminants to the atmosphere (around PLN 1 million). In 2019, the company advanced investments aimed at limiting emissions of atmospheric pollutants, including expanding capacity based on gas-fired boilers and the construction of a fumes treatment installation meeting emissions standards compliant with the Directives of the European Parliament.

Due to the specific nature of the products manufactured by the company NITROERG S.A. (explosives, initiation systems, fuel additives), it has an impact on the environment. The environmental fees incurred by this company in 2019 amounted to PLN 0.3 million. In 2019, the company advanced investments aimed at limiting its environmental impact, including modernisation of the sewage treatment plant, and continued construction of a new installation for the production of fuel additives, which will allow for the re-use of concentrated acids in the production process.

The company Cuprum Development Sp. z o.o., which owns land in the center of Wrocław, in February 2019 received notification from the Voivode of Lower Silesia on the commenced enforcement proceedings to enforce the execution of non-financial obligations, i.e. remediation of owned land, to an extent pursuant to a decision of the Regional Director for Environmental Protection from 2015. Under this notification, execution will be conducted in accordance with the Act on administrative execution proceedings. The requested enforcement measure is a fine aimed at forcing execution of the obligation. Following dismissal by the Voivode of the complaints filed against the notification, the company filed complaints with the Minister of the Environment and is awaiting his decision.



## ACTIVITIES TO REDUCE ENVIRONMENTAL IMPACT IN THE KGHM POLSKA MIEDŹ S.A. GROUP

Apart from the environmental impact fees described above, in 2019 the KGHM Group conducted numerous projects and activities aimed at process-based reduction of environmental impact. The projects and activities are presented by the areas presented above.

The most important planned undertakings related to environmental protection in the near term are as follows :

- the advancement of investments involving the need to adapt the metallurgical installations to BAT conclusions. Advancement of these investments is also related to further reductions in dust and gas emissions, including arsenic emissions,
- updating the integrated permits for the operated installations,
- overseeing the system for trading CO<sub>2</sub> emissions, along with obtaining rights for these emissions,
- continuation of a program to promote health and prevent environmental threats, aimed at the people living in the nearest proximity to our metallurgical facilities, and
- construction of the southern quarter of the Żelazny Most tailings storage facility.

During the year intensive work was carried out aimed at implementing the decision of the European Commission establishing best available techniques (BAT) Conclusions for the non-ferrous metals industry. Adaptation of the metallurgical installations to BAT Conclusions is also related to further restriction of dust and gas emissions. In 2019, the Company spent more than PLN 229 million on investments to protect the natural environment, of which the largest expenditure, in the amount of over PLN 44 million, was incurred on replacing the absorption and drying towers of the sulphuric acid plant at the Legnica Copper Smelter and Refinery.

Apart from adaptation to and fulfillment of BAT conclusions, as well as further reduction of greenhouse gas emissions and striving to achieve emissions neutrality, in 2019 KGHM Polska Miedź S.A. conducted activities to improve energy efficiency by increasing the share of energy obtained from renewable resources and, what is more, ones owned by the Company. To that end, the Lubin Mine (the mine that consumes the greatest amount of heat in the entire heat stream consumed by KGHM Polska Miedź S.A.) began in 2019 a program of heat recovery from mining waters by using heat pumps. The other activities regarding climate and air protection and related to energy, more specifically to energy saving and reduction of its consumption, were part of the Energy Management System in KGHM Polska Miedź S.A. and, since they are linked to the energy policy, are described below in this section.

With regard to water and sewage management, in 2019 the KGHM Group conducted projects and activities mainly regarding water-law permits. All but one of the domestic companies of the Group obtained such permits. The company Uzdrowiska Kłodzkie S.A. – Grupa PGU does not possess a water

rights permit for the discharge of post-bathing water for Zakład Przyrodolecznicy in Polanica Zdrój. Because of this the fee paid by the company for the discharge of post-bathing water is higher by 500%. There is also no water rights permit for the discharge of excess mineral water from the „Pieniawa Józefa I” and „Pieniawa Józefa II” inlets. The discharge of this water to the river is not subject to fees. In order to resolve the formal and legal aspects of this situation, in terms of obtaining legal water rights for the discharge of the aforementioned water to the river, the company is engaged in discussions with Town Hall, as the owner of the sewage system. The company is also awaiting the issuance of a water rights permit for the discharge of water following bathing for the unit Zakład Przyrodolecznicy and the discharge of excess mineral water from the „Górne” inlet in Kudowa-Zdrój. In October 2019, the company appealed the decision received, due to the classification of unutilised mineral water from the „Górne” inlet as industrial waste. The discharge of industrial waste from Mineral Water Bottling Plant no. II in Polanica Zdrój to the municipal sewage system has not been regulated by law. The Miejski Zakład Komunalny (municipal services office) in Polanica Zdrój did not respond to the company's request for the clarification of conditions for the discharge of industrial waste to the municipal sewage system due to the lack of a signed agreement. The company is considering building a waste treatment plant on the grounds of the bottling plant.

Apart from the fact that the vast majority of companies in the Group hold water-law permits and besides the closing of water circulation in the Concentrators Division and the discharging of surplus water to the Oder, in 2019 the KGHM Group conducted, under the CuBR Joint Venture, a project called “Innovative technologies of limiting the migration of salt-containing underground waters to surface waters in the vicinity of the Żelazny Most Tailings Storage Facility.”

Waste management and the implementation of the idea of a circular economy constituted in 2019 one of the major directions of pro-environmental activities for the KGHM Group. They can be divided into implementation and/or investment activities and research-and-development activities.

With regard to the former, KGHM Polska Miedź S.A. implemented, among others, the requirements introduced by the amendment to the act on waste, which comprise the launch of the National Data Base on Waste (BDO), the system of visual control of waste storage sites, and securing of claims to cover the costs of removing negative environmental impact. Meeting the requirements of the amended act allows for waste recording in a manner transparent to inspection authorities, simultaneously mitigating the possible negative environmental impact.

The companies of the Group in Poland function in conformity with the legal regulations regarding environmental protection. The companies obliged to hold valid permits to use the environment hold

such permits with one exception regarding water and sewage management as presented in the relevant section.

The largest investment project of KGHM Polska Miedź S.A. completed in 2019 and aimed at implementing the idea of the circular economy was bringing the RCR (revolving casting-refining) furnace for recycling copper scrap into operation at the Legnica Copper Smelter and Refinery. The furnace meets the highest environmental protection standards, with a state-of-the-art installation for process gas treatment. The investment optimizes utilization of the existing infrastructure; it will reduce per-unit cost of production and at the same time will considerably increase the use of recycled copper in KGHM Polska Miedź S.A. The Prime Minister of the Polish government, Mateusz Morawiecki, officially attended the furnace's commissioning on 28 June 2019.

An important investment project conducted as a pro-environmental initiative and part of the building of the circular economy is the advancement of the expansion of the Źelazny Most Tailings Storage Facility. Work on building the Soutyhern Quarter was continued in 2019 (and continues in 2020) on increasing the dam height with no acquisition of more land. This is to serve as a waste deposit to be used as a future reserve for circular economy activities in one place. Building of the Tailings Segregation and Thickening Station was a 2019 investment to support the ecological efficiency of the process of flotation waste depositing. The investment assumes the implementation of technology to thicken waste from the completed process of ore enrichment. This solution will cause a reduction of water circulating between the concentrators and smelting/refining plants, and consequently will allow for increased safety of the Źelazny Most facility. Direct benefits from the completion of this task will also include the possibility to deposit the entire stream of waste on a smaller area, improved stability of the Źelazny Most facility due to a smaller quantity of water, and the possibility of eliminating a considerable part of water from circulation between the divisions of KGHM Polska Miedź S.A.

With respect to metal recovery, partial sampling was conducted on the "Wartowice" and "Gilów" storage sites in 2019.

With respect to the economic use of rock-forming minerals, flotation waste was broadly utilized in 2019 at the Źelazny Most Tailings Storage Facility: coarse-grained processing waste was and is used to build dams of the facility, and fine-grained waste is used to seal the bottom of the facility. About 18 million tonnes of processing waste was used in this way in 2019.

In 2019 implementation research was also conducted on the use of thermally processed flotation waste as:

- a component of hydraulic cinder and calcium binder – waste after the process of roasting at a temperature between 750°C and 850°C shows binding properties comparable to those of hydraulic calcium,
- aggregate and binding material for road building – it was shown to be possible to produce aggregate from waste by the agglomeration method, after adjusting the composition with silica and clay mud,
- some types of concrete and mortar – sandstone waste are suitable to produce cellular concrete, carbonate waste is suitable to produce foam concrete; the products obtained met the requirements of the standards,
- binder for solidifying backfilling mixtures for mining - flotation waste can be used there after mixing with furnace cinder; the obtained resistance parameters were close to those of products made of natural materials,
- for production of mining concrete – tests were conducted on using waste as a mineral powder for bituminous mass, to increase the granulation of a cement-stabilized soil layer, as an additive to frost-resistant layers, to construct embankments, to build into the road underlying base – research showed good utility of waste as an asphalt filler and the possibility of using relatively small additions of waste in order applications.

The most interesting directions of waste recovery due to the recoverable quantities include the possibility to use flotation waste as material for filling goafs and in road building. Therefore, it was determined that approx. 0.5 million m<sup>3</sup> of waste could be managed annually and, as a target solution by 2055, approx. 15 million m<sup>3</sup> of waste.

With regard to scientific research activities, the KGHM Group conducted in 2019 research and development activities related to circular economy, pursued the CuBR Joint Venture, participated in research done by the KiC Raw Materials platform, and participated in European Research Programs Europe 2020 and Horizon Europe.

The Group's own research and development activities focused mainly on a concept for the preparation of flotation waste depositing and its depositing. Work was also conducted on developing a technology of metals from slags from the copper ore metallurgy and their utilization in producing fertilizers enriched with microelements. It should be noted here that in 2019 all metallurgic slags generated by KGHM Polska Miedź S.A. found an economic use.

Under KiC Raw Materials research, the year 2019 saw scientific work conducted under the KAVA6 project in the Batterflai program, to develop environmentally friendly flotation agents.

Under the CuBR Joint Venture, the following four themes were studied in 2019 in connection with the implementation of the circular economy:

- Comprehensive technology of using the carbonate part of the tailings from KGHM production and producing innovative construction materials,
- Innovative technologies of limiting the migration of salt-containing underground waters to surface waters in the area of the Żelazny Most Tailings Storage Facility,
- Concept for an installation to prepare and deposit post-flotation waste in underground excavations of KGHM mines,
- Multitechnologies of recovering usable components.

The Horizon 2020 program, which is the largest research program of the European Union, allowed KGHM Polska Miedź S.A. to conduct in 2019 a project called "Integration of the metallurgical system for effective enrichment of polymetallic compounds and low-class ores and concentrates (INTMET). In turn, within the Horizon Europe program, which is a EU program for 2021-2027, KGHM Polska Miedź S.A. participated in the Bohemian Study, one of whose pillars is implementation of the circular economy.

#### **ACTIVITIES TO REDUCE THE ENVIRONMENTAL IMPACT OF KGHM INTERNATIONAL LTD.**

In 2019, entities of the KGHM INTERNATIONAL LTD. Group also engaged in activities related to environmental protection.

In the case of the Robinson mine (USA), activities were aimed at monitoring air and water quality, waste management and the restoration of mining areas - total expenditures amounted to around PLN 28 million, including PLN 3 million due to environmental permits held.

At the Carlota mine in the USA, activities were mainly related to mine decommissioning and environmental monitoring – total expenditures for this purpose amounted to around PLN 5 million .

In the Sudbury Basin mines (Canada) activities focused on environmental monitoring. PLN 1 million was incurred for this purpose .

At the Franke mine (Chile) activities focused on acquiring required permits and environmental monitoring. Total expenditures for this purpose amounted to PLN 6 million .

#### **FINANCIAL RESOURCES FOR MINE DECOMMISSIONING AND RESTORATION OF MINING AREAS**

Pursuant to laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to provide security in the form of blocked cash or guarantees/letters of credit at the amount of the estimated liabilities for decommissioning of mines and technological facilities.

As at 31 December 2019, the value of assets for decommissioning the mines of KGHM INTERNATIONAL LTD. (cash) amounted to PLN 68 million (as at 31 December 2018: PLN 117 million ).

In addition, as at 31 December 2019, KGHM Polska Miedź S.A. had issued letters of credit to secure liabilities related to covering the costs of decommissioning mines and restoring mining areas in the amount of PLN 397 million (as at 31 December 2018 – PLN 345 million). Letters of credit issued by KGHM International LTD. as at 31 December 2019 amounted to PLN 202 million (as at 31 December 2018 – PLN 85.0 million).

Apart from operating activities, it should also be noted that KGHM Polska Miedź S.A. strives to seek new, future-oriented solutions regarding reclamation of post-industrial areas. To that end KGHM Polska Miedź S.A. participated in 2019 in the RevRis program, conducted within KiC Raw Materials KAVA 6.

### **ACTIVITIES TO MEET REACH REGULATION REQUIREMENTS**

KGHM is a member of six international consortia created to meet the requirements of EC Regulation No. 1907/2006, the so-called REACH Regulation. In 2019, cooperation with the consortia involved adaptation to changes in REACH requirements as regards registration documentation, the classification of substances, assessment and authorisation. These changes are to be introduced smoothly, which is why the REACH consortia will continue to function.

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

The primary objective of KGHM Polska Miedź S.A. with regard to energy management and pro-climate activities is to pursue a reasonable energy policy while ensuring energy security to power the Company's production facilities and installations. The process of implementing the international standard of energy utilities management in conformity with ISO 50001 commenced following approval by the President of the Management Board of the Energy Policy of KGHM Polska Miedź S.A. (28 November 2016). At present the second edition of the policy applies, approved on 28 February 2019.

The Energy Policy contains the key assumptions of KGHM Polska Miedź S.A.'s activities related to the Energy Management System. In compliance with the requirements, the Company undertakes to:

- Ensure resources necessary to achieve the planned energy objectives and outcomes, conduct activities in compliance with legal regulations as well as other requirements related to energy consumption,
- create desirable attitudes, build awareness and constantly improve the skills of the Company's employees and collaborators performing tasks for KGHM Polska Miedź S.A.,
- prevent wastefulness in energy consumption,

- cooperation with partners and suppliers in purchasing material goods and services taking into account energy efficiency as an important selection criterion.

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

The outcome of implementation in KGHM Polska Miedź S.A. of the Energy Management System consistent with ISO 50001, including the application of the adopted Energy Policy, is the introduction of a series of regulations and activities aimed at reasonable energy management, compliant with legal regulations, including:

- rules of proceeding in investment and procurement processes,
- energy overhauls in KGHM branches and headquarters performed in accordance with the approved methodology,
- approved targets and tasks,
- implementation of the regulation: legal and other requirements in the field of energy and assessment of their compliance for the purposes of the Energy Management System in KGHM Polska Miedź S.A.

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

In 2017 the Parent Entity and Energetyka Sp. z o.o. implemented ENERGY MANAGEMENT SYSTEM (SZE), in conformity with PN-EN ISO 50001:2012. The outcome of implementation of the Energy Management System and application of the Energy Policy is avoiding the costs of energy audits, the obligation to perform which is imposed by the Energy Efficiency Act if there is no certified energy management system in place, as well as further improvement of the process of energy consumption optimization.

The second supervision audit conducted in KGHM Polska Miedź S.A. in June 2019 by an external certifying unit UDT-Cert confirmed that KGHM Polska Miedź S.A. has a functioning energy management system according to ISO 50001 and upheld the Certificate obtained by the Company in September 2017. At present, works are in progress in KGHM Polska Miedź S.A. in connection with transition to the new version of the PN-EN ISO 50001:2018 standard.

As a result of completed energy reviews, 46 targets were designated for advancement as part of energy efficiency improvement plan. 61 energy tasks were defined and key energy indicators were identified. The implementation of the Energy Management System also represents a reduction of costs related to the purchase and consumption of energy utilities. In 2018 the resulting savings were approx. 104 GWh of energy. By 2020 the Company plans to achieve further savings. At the same time, the Company is reducing greenhouse gas emissions, thereby reducing the cost of buying CO<sub>2</sub> emissions rights. Most

importantly, the implementation of standards and improvement of procedures improve occupational safety and increase employees' competences.

**5.3. KGHM POLSKA MIEDŹ S.A. PROGRAM TO PROMOTE HEALTH AND COUNTERACT ENVIRONMENTAL HAZARDS**

The purpose of the program is to provide preventive care to the inhabitants of the Copper Belt, in particular children and youth, but completion of such activities as:

- preventive and healthcare trips to mountain or seaside resorts as part of the so-called greenschools,
- all-year rehabilitation and sports classes in the swimming pool,
- tests to monitor the presence of lead in blood,
- tests for the presence of arsenic in the bodies of inhabitants of the region,
- ecological education combined with health promotion.

The Program To Promote Health And Counteract Environmental Hazards has been conducted for two years by the KGHM Polska Miedź Foundation in cooperation with an external firm.

**5.4. ENVIRONMENTAL IMPACT RISK OF THE KGHM POLSKA MIEDŹ S.A. GROUP**

The Group has identified material environmental risks and their mitigation:

	<b>RISK</b>	<b>MITIGATION</b>
<b>Natural environment and climate change</b>	<p>(KGHM Group) Copper ore mining and its subsequent processing at all production stages are inextricably linked to impact on individual components of the natural environment. Risk related to prices and the limit granted for CO<sub>2</sub> emissions.</p>	<p>Compliance with rigorous standards resulting from legal regulations is possible thanks to systematic modernization of existing installations and construction of new ones. (Parent Entity implemented CO<sub>2</sub> Emissions Management System and environmental management standards ISO 14001).</p>
	<p>(Parent Entity) Risk related to the evaluation of air quality in the territory of the Dolnośląskie Voivodeship (exceeding of average annual target level of arsenic in particulate matter PM10).</p>	<p>Performance of activities resulting from Air Protection Programs.</p>
<b>Waste management</b>	<p>(Parent Entity) Risk of inability to store flotation tailings</p>	<p>Operating, building and expanding the storage facility in accordance with the operating instructions. Cooperation with a team of international experts (TIE) and a General Designer during the investment process. Applying observational methods based on assessing the geotechnical parameters obtained on the basis of evaluations of the results of monitoring, enabling a picture of the behaviour of the facility built or operated.</p> <p>Introduction of the LCA model and circular economy.</p>



<b>Availability of materials and utilities</b>	(KGHM Group) Risk related to unavailability of the necessary utilities (electricity, natural gas, water).	Ensuring back-up power/gas systems and on-going assessment of the security of the power network. Conducting a variety of investments aimed at strengthening energy security.
<b>Production and infrastructure</b>	(KGHM INTERNATIONAL Group).	Geotechnical risk in open pit mines (stability of slopes) and in underground mines. Risk of failure to achieve the assumed leach extraction parameters.
<b>Law and regulations, taxes</b>	(KGHM Group) Risk of changes in legal regulations in the area of e.g. geological and mining law, environmental and energy regulations.	Monitoring of legal developments at the level of individual jurisdictions and taking an active part in legislative processes. Preemptive measures to adapt to changes in respect to organization, infrastructure and technology. Implementation in KGHM Polska Miedź S.A. of energy management system according to ISO 50001 standard.

The risk is validated quarterly in a five-degree scale by expert method and affects the Management Board's decisions.

## 5.5. SELECTED GRI STANDARDS INDICATORS ILLUSTRATING ACTIVITIES RELATED TO ENVIRONMENT PROTECTION IN KGHM POLSKA MIEDŹ S.A. GROUP AND KGHM POLSKA MIEDŹ S.A. IN 2019

Selected GRI Standards for 2019 illustrating activities related to natural environment:

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

1	Total consumption of energy from non-renewable sources (own or purchased) in joules or their multiple, by type of raw material	Values (MWh)	
		KGHM GROUP	KGHM POLSKA MIEDŹ S.A.
Non-renewable	Coal	923,951	0
	Natural gas	2,585,715.77	2,379,0006.19
	Heating oil	10,107.98	0
	Diesel	264,089.27	0
<b>Total</b>	<b>Total consumption</b>	<b>3,783,864.24</b>	<b>2,379,006.19</b>
2	Total consumption of energy from renewable sources (own or purchased) in joules or their multiple, by type of raw material	Values (MWh)	
		KGHM GROUP	KGHM POLSKA MIEDŹ S.A.
Renewable	Biomass	51	0
	Biofuels	0	0
	Wind energy	31	0
	Solar energy	672.10	0
	Geothermal energy	576	0
	Water energy	14	0

	Other (t)	4.70	0
<b>Total</b>	<b>Total consumption</b>	<b>1,348.80</b>	<b>0.00</b>
<b>3</b>	<b>Total consumption of energy from own production or purchased by: electrical, heat in joules or their multiple</b>	<b>Values (MWh)</b>	
		KGHM GROUP	KGHM POLSKA MIEDŹ S.A.
	electrical energy	3,196,744.42	2,975,298.86
	heat energy (including steam consumption. cooling energy)	513,092.97	260,650.44
<b>Total</b>	<b>Energy consumption</b>	<b>3,709,837.39</b>	<b>3,235,949.30</b>
<b>4</b>	<b>Total sale of energy by: electrical, heat, cooling and steam in joules or their multiple</b>	<b>Values (MWh)</b>	
		KGHM GROUP	KGHM POLSKA MIEDŹ S.A.
	Total sales of electrical energy	474,459.15	389,166.33
	Total sales of heat energy (including: heat in steam. heat in water, cooling energy)	1,259,227.34	20,458.33
<b>Total</b>	<b>Sales</b>	<b>1,733,686.49</b>	<b>409,624.66</b>
<b>5</b>	<b>Total consumption of energy in the organization according to the formula</b>	<b>5,761,363.94</b>	<b>5,205,330.82</b>

### G305-2 – Indirect emissions of greenhouse gases

Indirect emissions by origin	Emissions of greenhouse gases (tCO <sub>2</sub> e)	
	KGHM GROUP	KGHM POLSKA MIEDŹ S.A.
Emissions resulting from electrical energy purchased for purposes of the organization	1 946,213.58	1 815,871.13
Emissions resulting from heat energy purchased for purposes of the organization	480,568.78	
Emissions resulting from cooling energy or steam purchased for purposes of the organization	21,284.06	161,014.64
<b>Total indirect emissions</b>	<b>471,180.66</b>	<b>1 976,885.77</b>

### G306-2 - Total weight of waste by waste type and treatment method

No.	Total weight of safe and dangerous waste by treatment method	Weight of waste in 2019 [t]			
		safe waste		dangerous waste	
		KGHM GROUP	KGHM POLSKA MIEDŹ S.A.	KGHM GROUP	KGHM POLSKA

					MIEDŹ S.A.
1	Reutilization of waste	29,999.90	9,429.22	32.33	0,00
2	Recycling (including organic recycling, e.g. composting)	4,913.91	2,931.56	102,68	28,90
3	Recovery (including energy recovery)	19 906,853.66	19 794,336.14	146,177.15	130,319.82
4	Combustion (or utilization as fuel)	47,94	16,76	137.37	0,00
5	Storage on waste storage sites	10 178,474.00	10 177,462.61	3,300.31	153,881.82
6	Inserting into deep wells	0.00		0.00	
7	Storage on the plant premises	184,789.38	188,342.39	36,131.33	36,081.45
8	Other	2,182.02	203,16	288.00	35,037.51
	<b>TOTAL</b>	<b>30,470.177.52</b>	<b>30,329,367.56</b>	<b>331,359.35</b>	<b>311,636.34</b>

### G307-1- Monetary value of fines and total number of non-financial sanctions for non-compliance with environmental protection law and regulations

In testimony to the effectiveness of the initiatives aimed at protecting the natural environment and lower its footprint, there were no non-financial sanctions imposed on the KGHM Polska Miedź S.A. Group or on the Parent Entity.

<b>Information on administrative and court sanctions imposed on the organization for non-compliance with environmental protection regulations</b>		
	KGHM GROUP	KGHM POLSKA MIEDŹ S.A.
Total value of fines for non-compliance with the law and regulations regarding environmental protection [PLN]	357,940.00	00.00
Number of non-financial, administrative and court sanctions imposed on the organization for non-compliance with environmental protection regulations, including international declarations /conventions /treaties, national, regional and local regulations, as well as voluntary agreements reached with regulatory authorities and deemed as binding.	2	0

## **SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD**

This report was authorised for issue on 16 March 2020

President of the Management Board

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Marcin Chludziński

Vice President of the Management Board

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Adam Bugajczuk

Vice President of the Management Board

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Paweł Gruza

Vice President of the Management Board

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Katarzyna Kreczmańska-Gigol

Vice President of the Management Board

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Radosław Stach