

**Report on the Activities of the Supervisory Board
of KGHM Polska Miedź S.A.
for financial year 2017**

*(Approved by Resolution No. 41/IX/18 of the Supervisory Board of KGHM Polska Miedź S.A.
dated 22 May 2018)*



This report contains:

- I.** Principles and procedures of operations of the Supervisory Board of KGHM Polska Miedź S.A.
- II.** Information on the the Supervisory Board's term of office, the composition of the Supervisory Board of KGHM Polska Miedź S.A. in 2017, on Supervisory Board functions served by its members and on meeting independence criteria by the members of the Supervisory Board.
- III.** Information on the major subjects discussed by the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2017.
- IV.** Reports by the Committees of the Supervisory Board of KGHM Polska Miedź S.A.
- V.** Self-evaluation by the Supervisory Board.
- VI.** Evaluation of the manner in which the Company met its informational obligations as regards the application of corporate governance principles, as set forth in Warsaw Stock Exchange Rules and in regulations regarding current and periodic information published by the issuers of securities.
- VII.** Evaluation of the rationale of the sponsoring and charitable activities carried out by the Company.



I. Principles and procedures of operations of the Supervisory Board of KGHM Polska Miedź S.A.

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A. in Lubin in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, including members elected by the Company's employees whose election and dismissal are regulated by the electoral rules adopted by the Supervisory Board.

The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years.

The Supervisory Board acts on the basis of prevailing law, the Statutes of KGHM Polska Miedź the Company Akcyjna with its registered head office in Lubin and the Bylaws of the Supervisory Board of KGHM Polska Miedź S.A. with its registered head office in Lubin as well as the code of Best Practice for GPW Listed Companies.

The Supervisory Board continuously supervises the activities of the Company and carries out its tasks based on the special privileges granted to the Supervisory Board of KGHM Polska Miedź S.A. by the Statutes of the Company under Chapter IVB § 20, and in turn by the Bylaws of the Supervisory Board under Chapter III § 8.

The Supervisory Board performed its functions at Supervisory Board meetings, adopted resolutions outside of meetings in writing and by delegating its members to work in the Committees.

II. Information on the the Supervisory Board's term of office, the composition of the Supervisory Board of KGHM Polska Miedź S.A. in 2017, on Supervisory Board functions served by its members and on meeting independence criteria by the members of the Supervisory Board.

Composition of the 9th-term Supervisory Board (the 9th-term Supervisory Board commenced on 23 June 2014)

The following table presents the composition of the Supervisory Board as at 31 December 2017.

	First, last name	Function
1	Dominik Hunek	Chairman of the Supervisory Board
2	Michał Czarnik	Deputy Chairman of the Supervisory Board
3	Janusz Kowalski	Member of the Supervisory Board

4	Wojciech Myślecki	Member of the Supervisory Board
5	Marek Pietrzak	Member of the Supervisory Board
6	Agnieszka Winnik-Kalemba	Member of the Supervisory Board
7	Jarosław Witkowski	Member of the Supervisory Board

and Members of the Supervisory Board elected by the Company's employees

8	Józef Czyczerski	Member of the Supervisory Board
9	Leszek Hajdacki	Member of the Supervisory Board
10	Bogusław Szarek	Secretary of the Supervisory Board

The following table presents changes in the composition of the Supervisory Board during financial year 2017.

	Date	Changes in the composition of the Supervisory Board
1.	21 June 2017	The Ordinary General Meeting of the Company, acting in accordance with § 16 sec. 2 of the Company's Statutes, appointed Janusz Kowalski to the Supervisory Board of KGHM Polska Miedź S.A.

On 3 April 2018, a letter was received by the Company from Wojciech Myślecki regarding his resignation from the function of member of the Supervisory Board of KGHM Polska Miedź S.A.

Information on the meeting of independence criteria by members of the Supervisory Board

At least two members of the Supervisory Board should meet independence criteria. By independent supervisory board member is meant an independent supervisory board member as defined by the European Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/EC) with due regard to Best Practice 2016. The members of the Supervisory Board have provided the Company's Supervisory Board and Management Board with declarations on meeting independence criteria. The Supervisory Board of KGHM Polska Miedź S.A. conducted an analysis as to whether there were any relationships or circumstances which could have an impact on the meeting of independence criteria by a given member of the Supervisory Board.

The following table presents information which conforms to the declarations submitted by members of the Supervisory Board as at 31 December 2017.

	First, last name	The meeting of independence criteria, as specified in principle no. II.Z.4. of Best Practice 2016
1	Dominik Hunek	meets independence criteria
2	Michał Czarnik	meets independence criteria
3	Janusz Kowalski	meets independence criteria
4	Wojciech Myślecki	meets independence criteria
5	Marek Pietrzak	meets independence criteria
6	Agnieszka Winnik-Kalemba	meets independence criteria
7	Jarosław Witkowski	meets independence criteria

and Members of the Supervisory Board elected by the Company's employees

8	Józef Czyczerski	does not meet independence criteria
9	Leszek Hajdacki	does not meet independence criteria
10	Bogusław Szarek	does not meet independence criteria

III. Information on the major subjects discussed by the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2017.

Supervisory Board realizuje swoje zadania w oparciu o szczególne uprawnienia nadane przez Statut the Company i Regulamin Supervisory Board, a także zasady ładu korporacyjnego określone w Dobrych Praktykach 2016. Na każdym posiedzeniu obecne było kworum, w związku z czym Supervisory Board miała zdolność do podejmowania uchwał w sprawach objętych porządkiem obrad.

During the reporting period the Supervisory Board held 9 protocolled meetings at the Head Office of the Company and adopted 138 resolutions, including 6 in writing. The absences of Supervisory Board Members were justified by appropriate resolutions of the Supervisory Board.

The activities of the Supervisory Board in 2017 were documented in the minutes of the meetings and in Supervisory Board resolutions representing appendices to the minutes. As part of its activities, the Supervisory Board actively supported the Company's Management Board in achieving the Company's strategic goals, reviewed the requests of the Management Board regarding questions requiring the consent of the Supervisory Board, in accordance with the adopted Bylaws and and the Company's Statutes, and also reviewed other matters presented by the Management Board.

The duties of the Supervisory Board include in particular:

1. evaluating the unconsolidated and consolidated financial statements and the report of the Management Board on the activity of the Company and the Capital Group for the given financial year,

2. evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
3. submitting to the General Meeting an annual written report on the results of the evaluation of the documents referred to in points 1 and 2,
4. submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
5. examining and controlling the activity and financial condition of the Company, and submitting to the Ordinary General Meeting an annual, concise evaluation of the Company situation,
6. choosing an auditor to audit the statements referred to in point 1,
7. suspending from their duties for important reasons some or all of the members of the Management Board,
8. temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
9. setting the remuneration of members of the Management Board and other conditions of management services contracts, based on principles for setting the remuneration of Members of the Management Board adopted by the General Meeting, with due regard to the Act of 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies (Journal of Laws of 2016, item 1202 with subsequent amendments),
10. approving the bylaws of the Management Board of the Company,
11. approving the Company's annual and long-term plans of activity,
12. stating its opinion on any request of the Management Board addressed to the General Meeting,
13. at the request of the Management Board, expressing its consent to:
 - a) the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting);
 - b) the granting of guarantees and loans to commercial entities in which the Company owns less than 1/3 of the voting rights at the General Meeting of such entities;
 - c) establishing and acceding to commercial partnerships and companies;
 - d) disposing of shares in subsidiaries of the Company;
 - e) establishing branches, companies, representative offices and other organizational or economic entities abroad;
 - f) obtaining or acquiring shares of another Company;
 - g) the establishment and liquidation of foundations;
14. appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the Company,
15. expressing an opinion on investments by the Company in tangible assets, which meet one of the following conditions:
 - a) investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the Company for a given financial year;
 - b) investments of more than 5% of the budget for expenditures on investments in tangible assets of the Company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the Company.

16. determining the manner of voting by a representative of KGHM Polska Miedź S.A. at the General Meetings of companies in respect of which the Company is a parent entity pursuant to art. 4 point 3 of the Act of 16 February 2007 on competition and consumer protection (Journal of Laws from 2017 item 229), regarding:
 - a) the founding by a company of another company;
 - b) amendments in the statutes or articles of association and in the subject of a company's activities;
 - c) the merger, transformation, splitting, dissolution and liquidation of a company;
 - d) increasing or decreasing a company's share capital;
 - e) the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same;
 - f) the retirement of shares;
 - g) setting the remuneration of members of the management boards and supervisory boards;
 - h) decisions relating to claims for redress of damage suffered during the founding of the company, or from management or supervisory activities;
 - i) regarding issues referred to in art. 17 of the Act of 16 December 2016 on the principles of state assets management (Journal of Laws from 2016 item 2259), with due regard to § 34 sec. 4.
17. providing an opinion on the report prepared by the Management Board on representation expenses, expenses incurred on legal services, marketing services, public relations services and social communication services, and advisory services associated with management,
18. providing an opinion on the principles regulating sponsoring activities and evaluating the effectiveness of the Company's sponsoring act,
19. providing an opinion on changes in the principles of disposing of non-current assets, referred to in § 33¹, and
20. approving the Group's remuneration policy.

The duties of the Supervisory Board also include granting consent for the following:

1. agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, if the total expected remuneration for providing such services exceeds the net amount of PLN 500 000 per year,
2. changes in agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management which increase the amount of remuneration above the amount referred to in point 1,
3. agreements for legal services, marketing services, public relations services and social communication services, and advisory services associated with management, in which the maximum amount of remuneration is not determined,
4. donations or other agreements with similar implications, with a value exceeding PLN 20 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements,

5. discharge of debt or other agreements with similar implications with a value exceeding PLN 50 000 or 0.1% of total assets pursuant to the Act of 29 September 1994 on accounting, determined based on the most recently approved financial statements.

In financial year 2017, the Supervisory Board maintained on-going control over the Company's activities:

1. by monitoring the Company's current situation based on the financial results of the KGHM Group for individual months of 2016 and by reviewing Management Board resolutions, submitted at every meeting, and
2. by monitoring, based on information submitted by the Management Board, the status of advancement of the Company's key investments.

On a cyclical basis, based on agreements between the Supervisory Board and the Management Board as well as based on the Company's adopted rules, the Supervisory Board reviewed the following reports and information from the Management Board:

- reports on expenditures incurred on advisory, legal, marketing and advertising services, cultivating traditions, representation and sponsoring,
- reports on the current composition of the management boards of companies of the KGHM Polska Miedź S.A. Group, and of the current composition of Executive Directors in the Divisions of the Company,
- reports on corporate risk management in the KGHM Polska Miedź S.A. Group,
- information on the status and conclusions of post-accident proceedings, and
- information on the strategy for managing the international assets.

1. The major subjects dealt with by the Supervisory Board in 2017 in terms of its duties, oversight and evaluation.

1. The Supervisory Board approved the Budget of KGHM Polska Miedź S.A. for 2017,
2. evaluated the financial statements of KGHM Polska Miedź S.A. and the Consolidated financial statements of the KGHM Polska Miedź S.A. Group in accordance with International Financial Reporting Standards for 2016,
3. adopted the report on the results of its evaluation of the financial statements of KGHM Polska Miedź S.A. for financial year 2016, the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2016 and the Management Board's report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2016, evaluation of the proposal of the Management Board of KGHM Polska Miedź S.A. regarding covering the loss for financial year 2016 as well as a dividend payout,
4. expressed a positive opinion about the proposal of the Management Board of KGHM Polska Miedź S.A. presented to the Ordinary General Meeting of KGHM Polska Miedź S.A. related to the planned dividend payout for financial year 2016,
5. evaluated a document containing an evaluation of the standing of the Company in financial year 2016, reflecting evaluations of the following: internal control systems, risk management, compliance and the internal audit function, in the wording included in

the appendix to this resolution and which will be submitted to the Ordinary General Meeting of KGHM Polska Miedź S.A.,

6. adopted the Report on the Activities of the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2016, containing:
 - an evaluation of the manner in which the Company met its informational obligations as regards the application of corporate governance principles,
 - an evaluation of the rationale of the sponsoring and charitable activities carried out by the Company and related activities,
 - an evaluation of the meeting independence criteria by the Members of the Supervisory Board.
7. expressed consent for Members of the Management Board of KGHM Polska Miedź S.A. to exercise functions in the bodies of other companies and to perform work or provide services to other entities,
8. adopted the uniform text of the Statutes of the Company, comprising the changes enacted by resolutions of the Ordinary General Meeting on 21 June 2017, entered into the entrepreneur registry of the National Court Register on 21 September 2017,
9. approved the Strategy of KGHM Polska Miedź S.A. for the years 2017 – 2021 with an outlook to 2040, adopted by the Management Board of KGHM Polska Miedź S.A. in Resolution No. 49/IX/2017 dated 11 May 2017,
10. defined the manner of voting at General Meetings / General Partners Meetings of companies in respect of which KGHM Polska Miedź S.A. is a parent entity pursuant to art. 4 point 3 of the Act dated 16 February 2007 on competition and consumer protection, regarding amendments in the statutes or articles of association of these companies, the acquisition of property, plant and equipment, changes in the principles of remuneration of members of the management boards and supervisory boards, and increases in share capital,
11. supplemented the composition of the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A.,
12. supplemented the composition of the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.,
13. expressed consent for KGHM Polska Miedź S.A. to enter into a significant contract with Polskie Górnictwo Naftowe i Gazownictwo S.A. for the supply of natural gas,
14. expressed consent for write-off by KGHM Polska Miedź S.A. of interest on loans granted to KGHM International Ltd.

2. With respect to its duties respecting the Management Board of KGHM Polska Miedź S.A.

1. The Supervisory Board submitted a proposal to the Ordinary General Meeting regarding approval/disapproval of the performance of duties of Members of the Management Board of the Company in financial year 2017,
2. appointed as at 03 February 2017 Rafał Pawełczak to the Management Board of KGHM Polska Miedź S.A. in the position Vice President of the Management Board of KGHM Polska Miedź S.A.,
3. appointed as at 24 July 2017 Ryszard Jaśkowski to the Management Board of KGHM Polska Miedź S.A. in the position Vice President of the Management Board of KGHM Polska Miedź S.A.,

4. entered into contracts with Members of the Management Board for the providing of management services to KGHM Polska Miedź S.A. and set the details of employment and remuneration of members of the Management Board of KGHM Polska Miedź S.A.,
5. assigned the detailed division of duties of individual Members of the Management Board, pursuant to the Organisational Rules in force in the Company,
6. evaluated the work of the members of the Management Board and granted variable remuneration to Members of the Management Board for 2016,
7. adopted resolutions on entering into agreements with members of the Management Board for the leasing of local housing,
8. expressed consent for financing training for Members of the Management Board based on signed Contracts for Providing Management Services to KGHM Polska Miedź S.A.,
9. approved the Management Goals for the Management Board of KGHM Polska Miedź S.A. for 2017.

3. With respect to supervision of the daily activities of the Company and the KGHM Polska Miedź S.A. Group

1. The Supervisory Board, at the request of the Management Board, expressed consent for the sale/acquisition of property by the Divisions of the Company,
2. expressed consent to sell shares of the company KGHM Kupfer AG,
3. monitored the expenses incurred by KGHM Polska Miedź S.A. and the companies of the KGHM Polska Miedź S.A. Group,
4. analysed the situation in the company Centrozłom,
5. reviewed information from the Management Board regarding events related to organisation of Metallurgists Day festivities,
6. reviewed and monitored realisation of the Company's Strategy,
7. reviewed current information regarding realisation of Sierra Gorda,
8. reviewed current information regarding the status of the Żelazny Most investment,
9. delegated a member of the Supervisory Board of KGHM Polska Miedź S.A. to convene and chair the first meeting of the Electoral Committee of the Company related to the convening by the Company of elections for members of the Supervisory Board elected by the Company's employees,
10. reviewed information regarding the status of matters with respect to the company PeBeKa S.A., current and planned investment projects in Poland and abroad,
11. reviewed information regarding the current status of work on the concession for exploring and extracting ore from the potassium-magnesium salt deposits in the vicinity of Puck,
12. reviewed information regarding the planned development of Deep Głogów,
13. reviewed information regarding the operation of the flash furnace at the Głogów Copper Smelter and Refinery,
14. monitored actions undertaken in 2017 aimed at improving safety in the mines,
15. reviewed in depth the functioning of the Central Procurement Office,

16. reviewed information regarding reorganisation of the financial and equity structure of the international part of the KGHM Polska Miedź S.A. Group.

4. Information on the execution of resolutions of the General Meeting with respect to the activities of the Supervisory Board

1. The Supervisory Board entered into contracts with Members of the Management Board for the providing of management services to KGHM Polska Miedź S.A., with wording compliant with the resolution of the Ordinary General Meeting No. 8/2016 dated 07 December 2016 regarding the principles of remuneration of members of the Management Board,
2. on 8 November 2017 it adopted the wording of the uniform Statutes of KGHM Polska Miedź S.A. comprising the changes enacted by the resolutions of the Ordinary General Meeting dated 21 June 2017.

IV. Sprawozdania Committees of the Supervisory Board of KGHM Polska Miedź S.A.

In performance of the recommendations and principles set forth in Best Practice 2016, in the past financial year the activities of the Supervisory Board were supported by the following Committees: Audit Committee, Strategy Committee and Remuneration Committee.

The Committees of the Supervisory Board are advisory and opinion-creating bodies, which act collegially and provide assistance and advice to the Supervisory Board. The tasks of the Committees of the Supervisory Board are performed by presenting to the Supervisory Board proposals, recommendations, opinions and reports regarding the scope of their tasks.

The rights, scope of actions and manner of work are described in the Bylaws of the Committees as approved by the Supervisory Board.

The following tables present the tasks and duties of the Committees of the Supervisory Board.

Tasks and duties of the Audit Committee
1. Monitoring the process of financial reporting, the effectiveness of internal control systems and risk management systems as well as internal auditing, including financial reporting, the conduct of financial review, in particular carrying out auditing research, reflecting all of the conclusions of the Auditing Oversight Committee resulting from audits carried out within an auditing firm.
2. conducting reviews of transactions carried out by the Company, which the Audit Committee considers as significant for the Company.

3. providing an opinion on the Company's internal audit plan and the internal audit bylaws, as well as changes in the position of Internal Audit Director
4. analysis of the conclusions and recommendations of the Company's internal audit, including monitoring of the degree of implementation of recommendations made by the Company's Management Board
5. auditing and monitoring the independence of the certified auditor and the auditing firm, in particular if the auditing firm provides services to the Company apart from auditing
6. informing the Supervisory Board of audit results and explaining to what degree such audits have resulted in the transparency of financial reporting in the Company, and also the role of the Audit Committee in this process
7. assessing the independence of the certified auditor and expressing consent for the certified auditor to provide permitted non-auditing services in the Company
8. developing a policy to select the auditing firm for conducting audits
9. developing a policy for the auditing firm conducting audits, through entities related to the said auditing firm and by a member of the auditing firm's network, to provide permitted non-auditing services
10. setting forth the Company's procedures for selecting an auditing firm
11. presenting the Supervisory Board with the recommendations referred to in art. 16 section 2 of Decree no. 537/2014 (i.e. recommendations regarding the appointment of a certified auditor or auditing firms), in accordance with those policies referred to in points 5 and 6 above
12. submitting recommendations aimed at ensuring the transparency of the Company's financial reporting process

Tasks and duties of the Strategy Committee

1. execution on behalf of the Company's Supervisory Board of tasks in the area of oversight of issues associated with the Company's strategy
2. monitoring execution of the Company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation;
3. monitoring execution of the annual and long-term operating plans of the Company by the Management Board, and assessment of whether these plans need to be modified
4. assessment of the consistency of the annual and long-term operating plans of the Company with the Company's strategy as executed by the Management Board, and the presentation of any proposed changes in all such Company documents
5. submission to the Company's Supervisory Board of its opinions regarding the draft strategies of the Company and any changes thereto and of the annual and long-term operating plans of the Company, as presented by the Company's Management Board

Tasks and duties of the Remuneration Committee

1. the management of issues related to the recruitment and employment of members of the Management Board by preparing and arranging draft documents and processes to be submitted for the acceptance of the Supervisory Board
2. the management of issues related to the recruitment and employment of members of the Management Board by preparing and arranging draft documents and processes to be submitted for the acceptance of the Supervisory Board
3. oversight of the execution of the Management Board remuneration system, in particular the preparation of settlement documents with respect to variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board
4. monitoring and periodic assessment of the remuneration system for the Company's senior management and, if necessary, the preparation of recommendations for the Supervisory Board
5. oversight of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, housing, etc.

Composition of the Audit Committee in 2017

First, last name	1 January – 22 September	22 September – 31 December
Dominik Hunek	Member of the Committee	Member of the Committee
Michał Czarnik	Chairman of the Committee	Chairman of the Committee
Leszek Hajdacki	Member of the Committee	Member of the Committee
Janusz Kowalski	X	Member of the Committee
Wojciech Myślecki	Member of the Committee	Member of the Committee
Marek Pietrzak	Member of the Committee	Member of the Committee
Agnieszka Winnik-Kalemba	Member of the Committee	Member of the Committee
Jarosław Witkowski	Member of the Committee	Member of the Committee
Bogusław Szarek	Member of the Committee	Member of the Committee

Composition of the Strategy Committee in 2017

First, last name	1 January – 31 December
Michał Czarnik	Member of the Committee
Józef Czyczerski	Member of the Committee
Leszek Hajdacki	Member of the Committee
Wojciech Myślecki	Member of the Committee
Marek Pietrzak	Member of the Committee
Bogusław Szarek	Member of the Committee
Agnieszka Winnik-Kalemba	Member of the Committee

Jarosław Witkowski	Chairman of the Committee
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Composition of the Remuneration Committee in 2017

First, last name	1 January - 1 March	1 March - 31 December
Józef Czyczerski	Member of the Committee	Member of the Committee
Leszek Hajdacki	Member of the Committee	Member of the Committee
Dominik Hunek	Member of the Committee	Member of the Committee
Marek Pietrzak	X	Chairman of the Committee
Bogusław Szarek	Member of the Committee	Member of the Committee

Information on the major issues dealt with by the Committees of the Supervisory Board during their meetings in 2017

Audit Committee

The composition of the Audit Committee met the criteria for independence pursuant to art. 129 sec. 3 of the Act dated 11 May 2017 on certified auditors, auditing firms and public oversight, wherein at least one member of the Audit Committee should possess knowledge and skills in the area of accounting or the auditing of financial statements. In financial year 2017 the Audit Committee held 9 protocolled meetings and adopted 1 resolution.

1. the Audit Committee expressed a positive opinion regarding the „Integrated Audit and Internal Control Plan of KGHM Polska Miedź S.A. for 2017”,
2. the Committee, after reviewing the Company’s financial statements for 2016 as submitted by the Management Board, and after reviewing the report of the Auditor on its audit of the financial statements and consolidated financial statements of the Group prepared as at 31 December 2016, in the presence of the Auditor Deloitte Polska, decided to recommend to the Supervisory Board of KGHM Polska Miedź S.A. that the Board adopt decisions on the positive evaluation of:
 - the Company’s Financial Statements for 2016;
 - the Consolidated Financial Statements of the Group for 2016;
 - the Management Board’s Report on the activities of the Company and Group in financial year 2016.
3. issued a positive recommendation for the Supervisory Board to approve the Budget of KGHM Polska Miedź S.A. and the Group for 2017,
4. the Committee expressed a positive opinion regarding the Report on the execution of the Audit and Internal Control Plan of KGHM Polska Miedź S.A for 2016,
5. expressed a positive opinion and decided to recommend that the Supervisory Board approve the following:
 - a) the report of the Supervisory Board of KGHM Polska Miedź S.A. on the results of the evaluation of the financial statements of KGHM Polska Miedź S.A. for financial year 2016, the consolidated financial statements of the KGHM Polska Miedź S.A. Group for financial year 2016 and the Management Board’s report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2016, and the evaluation of the proposal of the Management Board of KGHM Polska Miedź S.A. regarding coverage of the loss for financial year 2016 and a dividend payout;

- b) evaluation of the standing of KGHM Polska Miedź S.A. in financial year 2016, including assessment of the systems of internal control, risk management and compliance as well as the internal audit function.
6. the Committee expressed a positive opinion regarding the Report on the execution of the Audit and Internal Control Plan of KGHM Polska Miedź S.A. for 2016,
 7. adopted the report on the activities of the Committee in 2016,
 8. reviewed information regarding corporate risk management in the KGHM Polska Miedź S.A. Group and the report on corporate risk management in the KGHM Polska Miedź S.A. Group in the third and fourth quarters of 2016,
 9. the Committee monitored and reviewed reports on corporate risk management in 2017 in the KGHM Polska Miedź S.A. Group,
 10. reviewed the hedging policy of the international assets management strategy of KGHM Polska Miedź S.A.,
 11. expressed consent for Deloitte Advisory Sp. z o.o. to provide:
 - advisory support services in the process of preparing the Integrated Report for 2016;
 - attestation services regarding corporate social responsibility with respect to the project of the Warsaw Stock Exchange called RESPECT Index.
 12. the Committee adopted:
 - the „Policy and procedure of KGHM Polska Miedź S.A. regarding selection of the auditing firm to audit the financial statements”;
 - the „Policy regarding the providing of services by the auditing firm conducting audits of permitted services not being audits”.
 13. the Audit Committee appointed a three-person team, which on behalf of the Audit Committee reviewed the execution of the project „Drilling of mine tunnels using a combine team”,
 14. the Audit Committee reviewed information:
 - regarding recommendations from the audits conducted in the years 2014 – 2016 and the extent of their realisation;
 - regarding the manner in which post-audit recommendations and proposals were implemented and the schedule of implementation of the most important recommendations in 2017;
 - regarding the selection of contractors and the quality of anchor bolts supplied to the Company’s Divisions;
 - regarding the level and mechanisms applied to hedge the risk of changes in metals prices, exchange rates and interest rates;
 - regarding the functioning of the internal audit unit.

Given the new rules arising from the Act on certified accountants dated 11 May 2017, after evaluating the competencies of individual members, the Audit Committee determined that there was no need for a change in the composition of the Committee or to adapt the composition of the Committee to the new rules.

The Audit Committee appointed a Team, which on behalf of the Committee reviewed realisation of the project „Drilling of mine tunnels using a combine team”. During the period covered by this Report, the Team held 6 protocolled meetings, at which documentation in this regard presented by the Company was reviewed. The goal of the

Team was to review and assess the execution of the project in the context of decisions undertaken by persons holding key functions in the structure of the project. The final protocol from the work of the team was provided to the Company for the purpose of taking further decisions.

Information on the major issues dealt with by the Committees of the Supervisory Board during their meetings in 2017

Strategy Committee

In financial year 2017 the Strategy Committee held 5 protocolled meetings.

1. The Strategy Committee adopted and submitted to the Supervisory Board the „Report on the activities of the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A. S.A. in financial year 2016,
2. analysed and evaluated the Report on execution of the Strategy in 2016,
3. reviewed the preliminary assumptions of the intermodal transport development strategy,
4. the Strategy Committee recommended that the Supervisory Board approve the Strategy of KGHM Polska Miedź S.A. for the years 2017 – 2021 with an outlook to 2040,
5. analysed and evaluated the execution of the Strategy in the first half of 2017,
6. reviewed and analysed the directions of restructurisation of the organisation with respect to the „Development Strategy of KGHM Polska Miedź S.A.”,
7. reviewed the results of execution of the Strategy of KGHM Polska Miedź S.A. for the years 2017 – 2021 in the first nine months of 2017.

Information on the major issues dealt with by the Committees of the Supervisory Board during their meetings in 2017

Remuneration Committee

In financial year 2017 the Remuneration Committee held 3 protocolled meetings.

1. The Remuneration Committee selected a Chairman of the Committee,
2. adopted and expressed its recommendations to the Supervisory Board regarding approval of the model management contracts with members of the Management Board of KGHM Polska Miedź S.A.,
3. submitted its recommendation to the Supervisory Board regarding adoption of an annex to the management contract with a member of the Management Board of KGHM Polska Miedź S.A.,
4. reviewed the evaluation of Goal Cards for individual members of the Management Board,
5. recommended to the Supervisory Board that it not grant additional remuneration to members of the Management Board who did not receive approval for the performance of their duties in 2016,
6. recommended to the Supervisory Board that it take a positive decision regarding consent for the financing of training for Members of the Management Board based

on signed Contracts for Providing Management Services to KGHM Polska Miedź S.A.,

7. the Remuneration Committee recommended to the Supervisory Board of KGHM Polska Miedź S.A. that it adopt a resolution regarding entering into leasing agreements with members of the Management Board for local housing,
8. submitted a positive recommendation to the Supervisory Board regarding expressing consent to financing training for members of the Management Board based on signed Contracts for Providing Management Services to KGHM Polska Miedź S.A.,
9. the Remuneration Committee decided to recommend to the Supervisory Board that it adopt a resolution regarding the assignment to members of the Management Board of KGHM Polska Miedź S.A. a detailed list of duties,
10. the Remuneration Committee discussed whether to approve the amount of bonus measures for members of the Management Board of KGHM Polska Miedź S.A. for 2017.

V. Self-evaluation by the Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory authority of the Company in all of its functional areas, in accordance with the obligations and rights set forth in the Commercial Partnerships and Companies Code and other laws, the Statutes of the Company and the Bylaws of the Supervisory Board. Moreover, in performing its duties the Members of the Supervisory Board of KGHM Polska Miedź S.A. were directed by the principles of Best Practice 2016. The Supervisory Board in 2017 worked with the required intensity. Each of the Members of the Supervisory Board applied the amount of effort in their work appropriate to their competencies, while differences of opinion and outlook as well as assessments brought the desired effects in the form of a broad approach to the problems reviewed. The Supervisory Board positively reviewed the results of their work, as well as the degree of contribution of each of the Members of the Supervisory Board.

VI. Evaluation of the manner in which the Company met its informational obligations as regards the application of corporate governance principles, as set forth in Warsaw Stock Exchange Rules and in regulations regarding current and periodic information published by the issuers of securities.

In the opinion of the Supervisory Board, the Company endeavoured at each stage of its operations to carry out all of the recommendations and principles enshrined in the document *Best Practice by GPW listed companies*.

The Company maintains a corporate website on which it provides, in a clear and detailed manner, basic corporate documents, including the Company's Statutes and the Bylaws of the Supervisory Board and Management Board, information on the composition of the Company's bodies with biographical data as well as information on the fulfilment of independence criteria by the members of the Supervisory Board, and also follows a transparent informational policy aimed at the Company's shareholders.

The *Management Board's report on the activities of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group in 2017* contains a corporate governance statement on the application of corporate governance principles by the Company in 2017. The contents of the document *Best Practice by GPW listed companies*, as well as the *Corporate governance statement for 2017* are available on the Company's corporate website, <http://www.kghm.com/pl/inwestorzy/lad-korporacyjny/stosowanie-ladu-korporacyjnego>

Taking into consideration the aforementioned actions, the Supervisory Board of KGHM Polska Miedź S.A. positively evaluates the manner in which the Company met its informational obligations regarding the application of the corporate governance principles as set forth in Warsaw Stock Exchange Rules and in regulations regarding current and periodic information published by the issuers of securities.

VII. Evaluation of the rationale of the sponsoring and charitable activities carried out by the Company.

Since 2013, the Company, in its Integrated Annual Report, and previously in its Reports on Corporate Social Responsibility, has published detailed information on the results of its activities regarding regional support, including data on its sponsoring and charitable activities. In 2018, in its Non-financial report for 2017, the Company also presented expenditures on its sponsoring activities and those directed at the statutory activities of the foundation (the KGHM Polska Miedź Foundation and the Polish National Foundation). The basis for these actions is the „Corporate Social Responsibility Strategy of KGHM Polska Miedź S.A. for the years 2017 - 2021” adopted by the Company. are mainly aimed at promoting the Company and Lower Silesia by the sponsoring of sport and the arts. The sponsoring activities of the Company are conducted by the Fundację Polska Miedź, Polish Copper Foundation, which since 2003, thanks to its founder and sponsor KGHM Polska Miedź S.A., has supported the communities of the Copper Belt and the region, as well as persons beyond Lower Silesia, injured as a result of natural disasters.

Twice every financial year the Supervisory Board reviews information from the Management Board regarding expenditures on sponsoring and charitable activities: collective information regarding all expenditures in this regard for the prior year and the the current half-year. Taking into consideration the above, in the opinion of the Supervisory Board, the Company's sponsoring and charitable activities were carried out in compliance with the assumptions of the Management Board.

The Supervisory Board of KGHM Polska Miedź S.A. hereby submits the above report on the execution of its obligations in financial year 2017.

Michał Czarnik

Józef Czyczerski

Leszek Hajdacki

Dominik Hunek

Janusz Kowalski

Translation from the original Polish version. In the event of differences resulting from the translation, reference should be made to the official Polish version.

Marek Pietrzak

Bogusław Szarek

Agnieszka Winnik - Kalemba

Jarosław Witkowski

