

POLISH FINANCIAL SUPERVISION AUTHORITY

**Consolidated report on payments
to governments SPS 2018**

(in accordance with § 61 of the Decree regarding current and periodic information)

For issuers of securities involved in production, construction, trade or services activities

for 1 financial year **2018** comprising the period from **1 January 2018** do **31 December 2018**

publication date: 2019-03-14

| | |
|---|---|
| KGHM Polska Miedź Spółka Akcyjna (name of the issuer) | |
| KGHM Polska Miedź S.A. (name of the issuer in brief) | Basic materials (issuer branch title per the Warsaw Stock Exchange) |
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Issuer involved in mining industry

Polish Financial Supervision Authority

**This report is a direct translation from the original Polish version.
In the event of differences resulting from the translation, reference should be made to the official Polish version.**

Consolidated report on payments to governments

1. Basis of preparation and scope of the Report on payments to governments

Legal basis

This Report on payments to governments (the Report) was prepared under the requirements of the amended Accounting Act. Amendments to this Act were introduced due to the implementation into the Polish law of the Directive 2013/34/EU of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

Reporting unit

This Report contains information on payments to governments made by the Parent Entity (KGHM Polska Miedź S.A.), the subsidiary KGHM INTERNATIONAL LTD. and its subsidiaries. This Report does not include payments to governments made by joint ventures accounted for using the equity method in KGHM Polska Miedź S.A.'s consolidated financial statements.

Activities under the reporting requirements

Payments to governments made by the KGHM Polska Miedź S.A. Group which were disclosed in this Report concern activities involving the exploration and prospecting, discovery, development and extraction of deposits of metals, rock, sand and clay. In cases where a given payment concerns both an activity subject to reporting requirements as well as other activities (e.g. metallurgical, processing and refining activities), the amount disclosed in this Report is not broken down but is presented in full.

Government

"Government" means any government administration authority or local self-government authority, as well as entities supervised or controlled by these authorities, and in the case of other countries of the European Economic Area or countries outside of the European Economic Area – national, regional or local authorities of a given country as well as entities supervised or controlled by these authorities.

Project

"A project" means the operational activities that are governed by a single contract, in particular rentals, leases, licences or concessions which form the basis for payment obligations towards a government authority of a given country. If multiple such agreements are substantially interconnected, then the operational activities under them shall be considered to be a single project.

Types of payments

Payments made to governments, whether in money or in kind (calculated in monetary terms using the most appropriate valuation methods based on historical cost or market value) in respect of activities subject to reporting requirements were classified into the following categories:

a) Taxes

In this Report, taxes levied on the income, production or profits of companies of the KGHM Polska Miedź S.A. Group (mainly the minerals extraction tax), excluding the tax levied on consumption such as the value added tax, the personal income tax or the sales tax.

b) Dividends

Dividends required to be disclosed in the Report are payments other than dividends paid to governments being owners of ordinary shares of KGHM Polska Miedź S.A., unless these are dividends paid instead of production entitlements or royalties. In 2018, there were no such payments to governments.

c) Concession payments, discovery and production bonuses

The following items were classified into this category of payments to governments: payments for mining usufruct rights and mining royalties.

d) Other payments and considerations for concessions

Payments disclosed in this Report are payments for:

- perpetual usufruct of land,
- exclusion of agricultural land for non-agricultural purposes,
- atmospheric emissions,
- discharging of mine and process water,
- waste and rainwater discharge,
- technical supervision and inspection of machines.

e) Payments for infrastructure improvements – did not occur in 2018.

f) Production entitlements and royalties – did not occur in 2018.

Materiality level

In this Report, amounts paid to governments were disclosed if a single payment or a sum of interconnected payments made by the entities of the KGHM Polska Miedź S.A. Group amounted to at least the equivalent of PLN 424 700 in 2018.

Exchange rates applied

In this Report, in order to translate the financial data of foreign operations, the exchange rates being the arithmetical average of the current average exchange rates announced by the NBP on the last day of each month in 2018 were applied.

2. Payments made to governments in 2018 (in PLN millions)

| | Taxes | Concession payments, discovery and production bonuses | Other payments and considerations for concessions | Payments to governments - total |
|--------------------------------|--------------|---|---|---------------------------------|
| Payments to governments | | | | |
| Poland | 1 797 | 145 | 38 | 1 980 |
| Canada | 33 | 5 | - | 38 |
| The United States of America | 65 | 2 | - | 67 |
| Chile | 5 | - | - | 5 |
| Total | 1 900 | 152 | 38 | 2 090 |

POLAND

| | Taxes | Concession payments, discovery and production bonuses | Other payments and considerations for concessions | Payments to governments - total |
|---|--------------|---|---|---------------------------------|
| Payments to governments – breakdown by level of government | | | | |
| Government administration authorities: | 1 689 | 82 | 27 | 1 798 |
| Central | - | 82 | - | 82 |
| Ministry of Environment | - | 39 | - | 39 |
| National Fund for Environmental Protection and Water Management | - | 43 | - | 43 |
| Local | 1 689 | - | 27 | 1 716 |
| Regional State Forests Directorate | - | - | 20 | 20 |
| Tax offices | 1 689 | - | - | 1 689 |
| Customs offices | - | - | - | - |
| Forest districts | - | - | 7 | 7 |
| Local government authorities: | 108 | 63 | 11 | 182 |
| Marshal's Office | - | - | 5 | - |
| Local county offices | - | - | 5 | 5 |
| Towns and municipalities | 108 | 63 | 1 | 172 |
| Total | 1 797 | 145 | 38 | 1 980 |

All of the payments made to Polish governments were at the corporate level.

CANADA

| | Taxes | Concession payments, discovery and production bonuses | Other payments and considerations for concessions | Payments to governments - total |
|---|-----------|---|---|---------------------------------|
| Payments to governments – breakdown by level of government | | | | |
| National | 33 | 1 | - | 34 |
| Regional | - | 4 | - | 4 |
| Total | 33 | 5 | - | 38 |

Payments – breakdown by projects

| | | | | |
|-----------------|-----------|----------|----------|-----------|
| Sudbury Basin | 5 | - | - | 5 |
| Corporate level | 28 | 5 | - | 33 |
| Total | 33 | 5 | - | 38 |

THE UNITED STATES OF AMERICA

| | Taxes | Concession payments, discovery and production bonuses | Other payments and considerations for concessions | Payments to governments - total |
|---|-----------|---|---|---------------------------------|
| Payments to governments – breakdown by level of government | | | | |
| National | 64 | 2 | - | 66 |
| Regional | 1 | - | - | 1 |
| Total | 65 | 2 | - | 67 |

Payments – breakdown by projects

| | | | | |
|---------------|-----------|----------|----------|-----------|
| Robinson mine | 64 | 2 | - | 66 |
| Carlota mine | 1 | - | - | 1 |
| Total | 65 | 2 | - | 67 |

CHILE

| | Taxes | Concession payments, discovery and production bonuses | Other payments and considerations for concessions | Payments to governments - total |
|---|----------|---|---|---------------------------------|
| Payments to governments – breakdown by level of government | | | | |
| National | 5 | - | - | 5 |
| Total | 5 | - | - | 5 |
| Payments – breakdown by projects | | | | |
| Franke mine | 5 | - | - | 5 |
| Total | 5 | - | - | 5 |

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY

This report was authorised for issue on 13 March 2019.

President
of the Management Board

Marcin Chludziński

Vice President
of the Management Board

Adam Bugajczuk

Vice President
of the Management Board

Paweł Gruza

Vice President
of the Management Board

Katarzyna Kreczmańska-Gigol

Vice President
of the Management Board

Radosław Stach