



Independent limited assurance report on the compliance of KGHM Polska Miedź S.A.'s ("KGHM") Compliance Report with LBMA guidance for responsible sourcing of gold and silver for the year ended 31 December 2019

To the Management Board of KGHM Polska Miedź S.A.

Subject matter and criteria

We have been engaged by the Management Board of KGHM Polska Miedź S.A. ("KGHM's Management") in accordance with an agreement dated 23 December 2019 (the "Agreement") to perform an assurance engagement ("Multi-metal audit") providing limited assurance on the compliance of KGHM Polska Miedź S.A.'s Compliance Report for the year ended 31 December 2019 (the "Compliance Report") with LBMA guidance for responsible gold sourcing (version 8 of the LBMA Responsible Gold Guidance) and for responsible silver sourcing (version 1 of the LBMA Responsible Silver Guidance) (together "LBMA Guidance").

We would like to point out that the Compliance Report which is the subject of our assurance engagement comprises the Annex "List of countries of origin of mined gold and silver". In accordance with the LBMA Guidance and KGHM's approach, this Annex, which provides details of the countries of origin of mined gold and silver is not intended for public disclosure and therefore will only be submitted to the LBMA.

The criteria identified by KGHM's Management as appropriate for demonstrating compliance with the LBMA Guidance are presented in the Compliance Report.

Responsibility

KGHM's Management is responsible for its activities and for the preparation and presentation of the Compliance Report in accordance with the LBMA Guidance.

The responsibility of KGHM's Management includes establishing appropriate risk management and internal control system which KGHM's Management considers to be necessary for the preparation of a Compliance Report free of any significant misstatement due to fraud or errors.



Our Responsibility

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 “Assurance Engagements other than Audits or Reviews of Historical Financial Information” (“ISAE 3000”) issued by the International Auditing and Assurance Standards Board and the guidance set out in the LBMA Responsible Sourcing Programme – Third Party Audit Guidance.

Quality control requirements

We comply with the independence requirements and other ethical requirements included in the Code of Ethics For Professional Accountants issued by The International Ethical Standards Board for Accountants, which is based on the basic principles of integrity, objectivity, professional competence and due diligence, confidentiality and professional behaviour.

Our company uses International Standards on Quality Control 1 and therefore maintains a comprehensive quality control system, including documented policies and procedures for compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Inherent limitations

Non-financial information, such as that included in the Compliance Report, due to the qualitative nature of the subject and the method of determining and gathering information, may be subject to more inherent limitations than financial information. The methods used by KGHM to comply with the LBMA Guidance may differ. It is important to read the KGHM Policy available on KGHM’s website:

<https://kghm.com/en/our-business/products/responsible-supply-chain>

Summary of the work performed

The procedures conducted by us to gain limited assurance included:

- Interviews with KGHM’s Enterprise Risk Management and Compliance Department employees responsible for preparing the Compliance Report;
- Interviews with management and employees of the KGHM Głogów Smelter and Refinery responsible for the Integrated Management System, Precious Metals Department, Sales Logistics Department, Precious Metals Warehouse, Security and Loss Prevention Department and Production Planning and Settlement Department;
- Interviews with management and employees of KGHM responsible for Department of Metals, Precious Metals Department and Enterprise Risk Management and Compliance Department;



- Analysis of the key corporate documents describing management processes and the risk management process relating to the responsible supply chain for compatibility with the criteria described in Steps 1, 2, 3 of the Compliance Report;
- Inspection of documentation for all gold and silver purchase transactions presented to us by KGHM's Management and its assessment of compliance with the Procedure for Investigating the Supply Chain of Gold and Silver at KGHM Polska Miedź S.A.;
- Assessment of the validity of the information presented in the Compliance Report compared with the results obtained during the procedures we carried out;
- Assessment of the information included in the Compliance Report for its completeness and compliance with the LBMA Guidance.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

On the basis of the procedures performed, nothing has come to our attention that causes us to believe the Compliance Report prepared by KGHM's Management for the year ended December 31, 2019 is not, in all material respects, compliant with the requirements of the LBMA Guidance.

Usage limitations

This report was prepared by PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością sp.k. for KGHM's Management and is intended solely for use by KGHM's Management in order to fulfil the requirements set out in Step 4 of the LBMA Guidance. It should not be used for any other purpose.

PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością s.k. does not take any responsibility in relation to that report, and we relinquish any obligations arising from contractual and non-contractual relations (including for negligence) with regard to entities which are not considered to be KGHM in the context of the report. The aforementioned statement do not absolve us from obligations in situations in which such exemption is excluded by law.

A handwritten signature in blue ink, appearing to read 'K. Szuldrzyński', is written over a faint, light blue circular watermark.

Krzysztof Szuldrzyński,
Partner, Proxy
PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością s.k.
Warsaw, 13 February 2020

KGHM Polska Miedź S.A. Compliance Report, LBMA Responsible Gold Guidance and LBMA Responsible Silver Guidance

Responsible Gold Guidance and Responsible Silver Guidance were set up by LBMA in order to combat systematic or widespread abuses of human rights, to avoid contributing to conflict and also to comply with high standards of anti-money laundering and combating terrorist financing practice. This Guidance follows the five steps procedure for risk-based due diligence, based on the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

This report aims at presenting KGHM Polska Miedź S.A. compliance with the LBMA Responsible Gold Guidance and LBMA Responsible Silver Guidance.

Table 1. Refiner's details

Refiners name	KGHM Polska Miedź S.A. (later as KGHM)
Location	KGHM Głogów Smelter and Refinery is located in Głogów, Poland
Reporting period	from 2019-01-01 till 2019-12-31
Date of report	2020-02-13
Senior Management responsible for this report	Paweł Gruza, Executive Vice President for International Assets

KGHM Głogów Smelter evaluation

KGHM's main activity is copper ore mining, smelting & refining. Nevertheless KGHM produces annually approximately 3 300 kg of 99,99 gold at Precious Metals Department of KGHM Głogów Smelter and Refinery. The source of gold and silver are copper concentrates originating from mined ore with gold and silver content of approximately grams per ton. Concentrate is treated in the copper smelter and the precious metals finally end up (as anode slime, by-product of copper cathodes production) in the Precious Metals Plant at KGHM Głogów Smelter and Refinery, where silver is produced at first and gold is eventually a by-product of silver production.

KGHM sources copper ore from its own mines, which are then enriched in our own processing plants. All our mines and processing plants are located in Poland. Otherwise we source copper bearings materials (i.e. copper concentrates, copper scraps) from external sources.

At present, neither gold or silver sourcing from nor gold or silver transporting via conflict affected or high risk areas has been identified in KGHM's supply chain. Annex I contains the list of countries of origin of mined gold and silver produced by KGHM during the period from 1st January until 31st December 2019. The annex is not publicly disclosed.

Table 2. Summary of efforts to ensure compliance

STEP 1 – ESTABLISH STRONG COMPANY MANAGEMENT SYSTEMS

KGHM has **fully** complied with Step 1: Establish strong management system.

I. Adopting a company policy regarding due diligence for supply chains of gold and silver.

Comments and Demonstration of Compliance:

In December 2015 we have formalized our "KGHM Group Responsible Supply Chain Policy" and "KGHM Gold Supply Chain Due Diligence Procedure". Those have been updated by the KGHM's Management Board's Resolution no. 38/IX/2018 of 22nd February 2018 and new "KGHM Group Responsible Supply Chain Policy" and "KGHM Gold and Silver Supply Chain Due Diligence Procedure" were introduced. The Procedure has been updated again by the KGHM's Management Board Resolution no. 325/X/2019 of 27th November 2019. Policy and Procedure are based on KGHM Group Code of Ethics and are fully consistent with LBMA Responsible Gold Guidance, LBMA Responsible Silver Guidance and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. This policy is available on the KGHM website www.kghm.com.

II. Setting up an internal management structure to support supply chain due diligence.

Comments and Demonstration of Compliance:

A strong management system was established with a dedicated Compliance Officer, who is also a Director of Enterprise Risk Management and Compliance Department, responsible for maintenance, development and supervision of the responsible gold supply chain. Additionally the Executive Vice President for International Assets has been appointed as the Member of the Management Board with an overall responsibility for the responsible gold and silver supply chain system.

III. Establishing a strong internal system of due diligence, controls and transparency over gold and silver supply chains, including traceability and identification of other supply chain actors.

Comments and Demonstration of Compliance:

KGHM has updated a process of business partners evaluation that is carried out before the start of any relationship or periodically in case of long-term contracts with gold and silver supplying counterparty that is fully consistent with LBMA Responsible Gold Guidance, LBMA Silver Guidance and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. To ensure the highest standards regarding sourcing of gold and silver from conflict and high risk areas, KGHM has established a risk-based approach analysis. Sourcing of gold and silver from the above-mentioned areas requires more robust control of adherence to the rules set by the LBMA Guidance. Until November 27th, 2019 the Procedure was based on the LBMA Responsible Gold Guidance V7 and the LBMA Responsible Silver Guidance V1, and after that date on the LBMA Responsible Gold Guidance V8 and the LBMA Responsible Silver Guidance V1. The Officer Compliance has completed internal self-assessment of the Management System for compliance with the LBMA Guidance for the change concerns a World Heritage Site (WHS) during the period from January 1st until December 31st and in none of the cases ore was found to originate in a WHS.

All transactions with gold and silver supplying counterparty are carefully monitored according to the procedure for responsible gold and silver supply chain. In addition every gold and silver supplying counterparty will have to go through the AML (Anti-Money-Laundering) risk assessment that is performed by a department dedicated to that task.

Moreover, KGHM Głogów Smelter and Refinery implemented ISO 9001 quality management system.

IV. Strengthening company engagement with gold-supplying and silver-supplying counterparties and, where possible, assist gold-supplying and silver-supplying counterparties in building due diligence capacities.

Comments and Demonstration of Compliance:

KGHM has set up a process, where all our suppliers are obliged to sign the Contractor's Charter or have responsible sourcing of gold and silver and ethics provisions equivalent to those required by the Contractor's Charter. The verification of the contractor's documentation in this scope is carried out by the Compliance Officer. This Charter is a declaration that they comply with principles stated in KGHM Group Code of Ethics (based on UN Global Compact) and that they take actions to avoid sourcing minerals in illegal and unethical way from conflict areas. KGHM reserves its right to suspend or terminate the contract, if reasonably suspects that a counterparty does not comply with the above rules.

V. Establishing a company-wide communication mechanism to promote broad employee participation and risk identification to management.

Comments and Demonstration of Compliance:

KGHM has set up KGHM Group Code of Ethics that promotes employee participation and communicates company values and principles.

Additionally KGHM has set up a mechanism, where employees can voice their concerns, raise risk issues and ask questions about gold and silver supply chain using a dedicated mailbox. The information is received directly by the Compliance Officer who is also responsible for taking appropriate actions.

STEP 2 – IDENTIFY AND ASSESS RISKS IN THE SUPPLY CHAIN

KGHM has **fully** complied with the Step 2: Identify and assess risks in the supply chain.

I. Identifying risks in the gold and silver supply chain.

Comments and Demonstration of Compliance:

KGHM identifies and assesses risks in the gold and silver supply chains. For every gold and silver supplier we have established a database and allocated a risk profile according to our risk profile criteria. For gold and silver suppliers criteria set out in *"KGHM Gold and Silver Supply Chain Due Diligence Procedure"* were based until November, 27th 2019 on *LBMA Responsible Gold Guidance V7, LBMA Responsible Silver Guidance V1* and is based on the *LBMA Responsible Gold Guidance V8* and the *LBMA Responsible Silver Guidance V1* since then and on *the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*. This process is a formal requirement before entering any business relationship with any gold or silver supplying counterparty or periodically in case of long-term contracts. Our due diligence process is carried out on a risk-based approach set out in the *"KGHM Gold and Silver Supply Chain Due Diligence Procedure"*.

II. Assessing risks in the light of the standards of their supply chain due diligence system.

Comments and Demonstration of Compliance:

Counterparty's supply chain due diligence comprising all measures required by the LBMA is performed before entering into a business relationship with any gold or silver supplying counterparty.

If a high risk is identified for a given business relationship the decision can be made of either not proceeding with it or performing enhanced due diligence. The due diligence process includes all gold-bearing and silver-bearing mining material, deliveries where gold and silver potentially originates from or transits *via* conflict affected areas, areas with human rights abuse or child labour or where other high risk factors are identified.

In addition, KGHM conducts appropriate scrutiny and monitoring of transactions undertaken through the course of the relationship following a risk based approach.

After the due diligence is completed, it is a decision of the designated Member of Management Board, whether KGHM will pursue the higher-risk business relationship or transaction further or not.

III. Reporting risk assessment to designated Senior Management.

Comments and Demonstration of Compliance:

Appropriate department in KGHM assesses the potential risks in-line with "*KGHM Gold and Silver Supply Chain Due Diligence Procedure*". The Compliance Officer verifies and accepts the assessment for every individual gold or silver supplier prior to KGHM engaging in a business relationship. In case of the disagreement with the assessment made, the Compliance Officer escalates assessment to the designated Member of Management Board.

STEP 3 – DESIGN AND IMPLEMENT A MANAGEMENT SYSTEM TO RESPOND TO IDENTIFIED RISKS

KGHM has **fully** complied with the Step 3: Design and implement a management system to respond to identified risks.

- I. Devising a strategy for risk management of an identified risk by either (i) mitigation of the risk while continuing trade, (ii) mitigation of the risk while suspending trade or (iii) disengagement from the risk.**

Comments and Demonstration of Compliance:

KGHM has set up a system of regular risk assessment of gold and silver supplying business partners. In addition, all ad-hoc identified risks brought up by any stakeholder are carefully assessed by the Compliance Officer in order to decide on any necessary actions/measures. Both actions are part of "*KGHM Gold and Silver Supply Chain Due Diligence Procedure*".

- II. Including measurable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk and regular reporting to designated senior management, where a management strategy of risk mitigation is undertaken.**

Comments and Demonstration of Compliance:

"*KGHM Gold and Silver Supply Chain Due Diligence Procedure*" states that risks are to be monitored and reassessed periodically. Low risk suppliers are reassessed annually and high risk suppliers are reassessed at every transaction.

In addition, every gold and silver supplying counterparty will have to undergo periodic AML (Anti-Money-Laundering) risk assessment.

Moreover, Enterprise Risk Management System is established, where all risks identified in KGHM are monitored, periodically reassessed and reported to the Management Board.

STEP 4 – ARRANGE FOR AN INDEPENDENT THIRD-PARTY AUDIT OF THE SUPPLY CHAIN DUE DILIGENCE

We have **fully** complied with Step 4: Arrange for an independent third-party audit of the supply chain due diligence.

Comments and Demonstration of Compliance:

KGHM engaged the services of assurance provider PricewaterhouseCoopers Polska Sp. z o.o. sp.k. ("PwC"). PwC's independent limited assurance report for the period from January 1st until December 31st 2019 is attached to this Compliance Report.

STEP 5 – REPORT ON SUPPLY CHAIN DUE DILIGENCE

We have **fully** complied with Step 5: Report on supply chain due diligence.

Comments and Demonstration of Compliance:

Publication of this Compliance Report for the reporting period from January 1st until December 31st 2019 provides compliance with the Step 5.

Table 3. Management conclusion

Is the Refiner compliant with the requirements of the LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance for the reporting period? YES

In conclusion, KGHM implemented an effective Management System, the Procedure, processes and practices to conform to the requirements of the LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance. A KGHM declares compliance with the requirements mentioned above in the period from January 1st until December 31st 2019. Until November 27, 2019 the Procedure was based on the LBMA Responsible Gold Guidance V7 and the LBMA Responsible Silver Guidance V1 and is based on the LBMA Responsible Gold Guidance V8 and the LBMA Responsible Silver Guidance V1 since then. The Officer Compliance has completed internal self-assessment of The Management System for compliance with the LBMA Guidance for responsible gold and silver supply chain (LBMA Responsible Gold Guidance V8 and LBMA Responsible Silver Guidance V1) for the calendar year 2019 and in none of the cases ore was found to originate in a World Heritage Site (WHS).

KGHM is committed to continual improvement in the scope covered by this report, therefore the system to manage gold and silver supply is reviewed by the Compliance Officer on an annual basis.

Table 4. Other report comments

If readers of this report wish to provide any feedback to KGHM Polska Miedź S.A. with respect to this report, they are invited to do so by e-mail at the following address: conflict.minerals@kghm.com.

Monika Wolniewicz
DYREKTOR DEPARTAMENTU
Zarządzania Ryzykiem
Korporacyjnym i Zgodnością


Monika Wolniewicz

Compliance Officer

Paweł Gruza



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