

POLISH FINANCIAL SUPERVISION AUTHORITY

**Consolidated report on payments
to governments SPS 2017**

(in accordance with § 82a of the Decree regarding current and periodic information)

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

for 1 financial year **2017** comprising the period from **1 January 2017** do **31 December 2017**

publication date: 2018-03-14

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 which were 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 2017, 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, payments for ore mined.

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

Payments for infrastructure improvements that are disclosed in this Report comprise the construction of roads and bridges that are not designated to be used in mining activities. In 2017 such payments did not occur.

f) Production entitlements and royalties – did not occur in 2017.

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 2017.

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 2017 were applied.

2. Payments made to governments in 2017 (in PLN millions)

	Taxes	Concession payments, discovery and production bonuses	Other payments and considerations for concessions	Payments for infrastructure improvement	Payments to governments - total
Payments to governments					
Poland	2 818	167	241	-	3 226
Canada	45	-	-	-	45
The United States of America	5	2	-	-	7
Chile	1	-	-	-	1
Total	2 869	169	241	-	3 279

POLAND

	Taxes	Concession payments, discovery and production bonuses	Other payments and considerations for concessions	Payments for infrastructure improvement	Payments to governments - total
Payments to governments – breakdown by level of government					
Government administration authorities:	2 720	100	220	-	3 040
Central	-	100	-	-	100
Ministry of Environment	-	56	-	-	56
National Fund for Environmental Protection and Water Management	-	44	-	-	44
Local	2 720	-	220	-	2 940
Regional State Forests Directorate	-	-	218	-	218
Tax offices	1 039	-	-	-	1 039
Customs offices	1 681	-	-	-	1 681
Forest districts	-	-	2	-	2
Local government authorities:	98	67	21	-	186
Marshal's Office of the Voivodeship	-	-	16	-	-
Local county offices	-	-	5	-	5
Towns and municipalities	98	67	-	-	165
Total	2 818	167	241	-	3 226

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 for infrastructure improvement	Payments to governments - total
Payments to governments – breakdown by level of government					
National	45	-	-	-	45
Total	45	-	-	-	45
Payments – breakdown by projects					
Sudbury Basin	37	-	-	-	37
Corporate level	8	-	-	-	8
Total	45	-	-	-	45

THE UNITED STATES OF AMERICA

	Taxes	Concession payments, discovery and production bonuses	Other payments and considerations for concessions	Payments for infrastructure improvement	Payments to governments - total
Payments to governments – breakdown by level of government					
National	4	2	-	-	6
Regional	1	-	-	-	1
Total	5	2	-	-	7
Payments – breakdown by projects					
Robinson mine	4	2	-	-	6
Carlota mine	1	-	-	-	1
Total	5	2	-	-	7

CHILE

	Taxes	Concession payments, discovery and production bonuses	Other payments and considerations for concessions	Payments for infrastructure improvement	Payments to governments - total
Payments to governments – breakdown by level of government					
National	1	-	-	-	1
Total	1	-	-	-	1
Payments – breakdown by projects					
Franke mine	1	-	-	-	1
Total	1	-	-	-	1

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	First, Last Name	Position /Function	Signature
13 March 2018	Rafał Pawełczak	President of the Management Board	
13 March 2018	Ryszard Jaśkowski	Vice President of the Management Board	
13 March 2018	Stefan Świątkowski	Vice President of the Management Board	