

KGHM Polska Miedź S.A. Copper and Lead Responsible Supply Chain Compliance Report

This report aims at documenting KGHM Polska Miedź S.A. (hereinafter: KGHM) compliance with the Joint Due Diligence Standard guidelines for copper and lead responsible sourcing.

1. Refiner's details

Refiners name	KGHM Polska Miedź S.A.
Location	1. KGHM Głogów Smelter and Refinery is located in Głogów, Poland. 2. KGHM Legnica Smelter and Refinery is located in Głogów, Poland
Reporting period	from 2022-01-01 till 2022-12-31
Date of report	2023-03-31
Senior Management responsible for this report	Mirosław Kidoń, Executive Vice President for International Assets

KGHM's copper and lead production characteristics

KGHM's main activity is copper mining, smelting & refining. Nevertheless, KGHM produces gold, silver and lead also. KGHM sources copper ore from three of its own mines, which are then enriched at its 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. The technology of mining the copper ore in all three mines is based on the room-and-pillar system with the use of blasting technology for ore extraction. After the muck is unloaded at the shaft top, it is transported by conveyor belts or railway to the Enrichment Plants located at each of the three mines. The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste.

The dried concentrate of approx. 8.8% moisture content is transported by rail to the following smelters/refineries: the Legnica Copper Smelter and Refinery located in Legnica and the Głogów Copper Smelter and Refinery, located in Głogów.

The concentrate is subsequently treated in fire and electrolytic processes. The copper anodes produced from fire refining are then sent for electrorefining, and the end product is electrolytic copper in the form of cathodes containing 99.99% copper.

In 2022 KGHM produced in both of its smelters 586 thousand tonnes of electrolytic copper.

KGHM produces yearly 30 thousand tonnes of crude lead, which is later refined. Lead processing takes place at the KGHM Legnica Copper Smelter and Refinery in Poland, in the modern Lead Production Department, operated since 2007. KGHM's refined lead is registered on London Metal Exchange since 2014 under the "KGHM" brand name.

In 2022 KGHM produced in Legnica Copper Smelter 28.8 thousand tonnes of refined lead.

Both KGHM's smelters are certified for their quality management in accordance with ISO 9001 as well as environmental management system in accordance with ISO 14001, occupational health and safety management system in accordance with ISO 45001 and energy management system in accordance with ISO 50001.

In addition, KGHM complies with highest standards in terms of responsible copper production, which is reflected in Copper Mark certification process started in 2021 for both Glogow Copper Smelter and Legnica Copper Smelter. According to The Copper Mark Standard guidelines, Copper Mark certification for both KGHM's smelters was granted for a three-year period (by 2024) and then it will be due to renewal when whole process of certification will start again to confirm conformance with Copper Mark Standard criteria.

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 of copper and lead supply chain.

I. **Adopting and committing to a policy for responsible supply chain.**

Comments and Demonstration of Compliance:

In December 2015 we formally adopted our "KGHM Group Responsible Supply Chain Policy" (hereinafter: "Policy"). In 2022 a newest version of Policy along with the new "KGHM Copper and Lead Supply Chain Due Diligence Procedure" (hereinafter: "Procedure") was implemented by the Management Board Resolution no. 185/XI/2022 of 1st June 2022. Both KGHM's Policy and Procedure are based on KGHM Group Code of Ethics and are consistent with Joint Due Diligence Standard for Copper, Lead, Nickel and Zinc (hereinafter: Joint Due Diligence Standard) and the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (hereinafter: OECD Guidance). Policy is available in Polish and English version on the KGHM website www.kghm.com. According to our Policy, KGHM declares that we do not tolerate, support, contribute to or benefit from:

- any forms of torture, cruel, inhuman and degrading treatment,
- any forms of child labour or of forced or compulsory labour,

- minorities discrimination,
- violations of international humanitarian law,
- war crimes, genocide or any crimes against humanity,
- violating the rights of indigenous peoples,
- money- laundering and financing of terrorism,
- all forms of corruption and other activities related to economic crime, including financial fraud,
- degradation of cultural and natural heritage sites,
- violating health and safety rules,
- violating the right of association,
- other serious human rights abuses.

Further, according to the Policy, KGHM's approach is based on risk analysis. This enables risk and high-risk business relations identification on the basis of OECD Due Diligence Guidance and Joint Due Diligence Standard.

KGHM expects all its suppliers to abide by these rules and stipulates that it does not enter into business relations with entities that act in a manner inconsistent with them. Policy is made available to all employees of KGHM in the internal system of normative acts.

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 responsible for maintenance, development and supervision of the responsible copper and lead supply chain. Compliance Officer along with his team's employees have documented professional qualifications e.g. compliance and risk management area. Additionally, according to KGHM's Organizational Rules, the Executive Vice President for International Assets has been appointed as the Member of the Management Board with overall responsibility for shaping of the trade policy, including the supervision of the trade and logistics departments responsible for examining the supply chain for copper and lead and cooperation in this area with certification organisations. The Executive Vice President has many years of professional experience in production management and planning as well as in the area of mining technology. He perfected his skills in companies of the KGHM Polska Miedź S.A. Group in Poland and abroad. The scope of responsibility of the Management Board applies to all aspects of the Company's operations.

Employees of KGHM organizational unit authorised to purchase copper or lead or to accept an order for processing thereof have relevant competence and experience of

counterparties assessment based on their day-to-day work operations and the knowledge of the global metals market.

Taking into account the character of our copper and lead supply chain, KGHM provides appropriate funding of the supply chain due diligence process.

KGHM has implemented the obligation that all payments with copper and lead suppliers have to be settled only in the non-cash form. The storage time of any copper and lead supply chain documentation was set at 5 years, counted from the end of the current calendar year.

According to the fact, that implementing of the Procedure took place in June 2022, the first comprehensive training for employees of KGHM organizational unit authorised to purchase copper or lead or to accept an order for processing thereof was held in March 2023.

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

Comments and Demonstration of Compliance:

KGHM has established a process of potential copper and lead supplier evaluation that must be carried out before the start of any relationship with potential copper and lead supplying counterparty. That is consistent with Joint Due Diligence Standard and OECD Guidance. The analysis of the supply chain includes the determination of the material's country of origin, providing the supplier's risk analysis and risk assessment on the basis of KGHM's „Procedure for counteracting money laundering and preventing fraud and extortion in commercial transactions involving the sale of products and the purchase of bullion and copper-bearing materials at KGHM Polska Miedź S.A.", „Verification procedure in procurement, sales and investment processes at KGHM Polska Miedź S.A." and Contractor's Charter verification. Next steps of analysis, made on the basis of Procedure and information provided by suppliers resulting from mandatory Procedure's appendixes, includes, among others:

- Determination of the Place of origin of Material, as well as its type i.e. the Primary or Recycled material,
- acquiring from the immediate supplier information on other known suppliers, should they appear in the Supply chain of a given Material, to the extent corresponding to the information contained in the Material Spec Sheet,

- assessment of transport documents with the participation of the Logistics and Customs Department.
- checking the data in all documents provided for applicability thereof and verifying them against the knowledge acquired about the supplier's Supply chain; where possible, discrepancies and inconsistencies to be clarified in direct contact with the Supplier,
- verifying the data obtained from the Supplier in terms of the conflict affected and high-risk areas presence in the Supply chain, as indicated in Appendix No. 1,
- identification of Red flags,
- performing additional verification steps for the red flag business relationship.

In case of red flag identification in the supply chain, conducted according to the criterion established in the Procedure which are based on the Joint Due Diligence Standard, KGHM takes further actions related to the detailed analysis of supplier's supply chain. It is focused on collecting and verifying the information about the Supplier derived from the Sheet of detailed analysis, attached as Appendix No. 6 to the Procedure, for its completeness and reliability.

Each case of red flag identified is to be notified by the Authorized unit to the Management and the Compliance Officer by means of the e-mail message indicating whether the red flag is related to the Material origin and transit or/and the Supplier.

Based on the results of the activities referred to above, the Head of the Authorized unit may recommend that the transaction with the Supplier in question is concluded or refused or else, may initiate additional verification to be undertaken by the Management with respect to documents submitted by the Supplier in terms of their authenticity, correctness and completeness.

Information on actions taken as part of the verification KGHM's lead and copper suppliers in 2022

Taking into consideration, that KGHM does not have any external lead supplying counterparties, no actions mentioned in this section regarding to lead supply chain verification, such as place of origin determination, collecting supplier's documentation etc., were undertaken in 2022.

In 2022 KGHM has established new business relationship with one copper concentrate supplier, who offered a material supplied by third-party entity. This transaction was marked with a red flag because of the fact that the place of material's origin was located in conflict-affected and high risk area (hereinafter: "CAHRA") and because the supplier has been operating in the CAHRA. All of Procedure's verification activities, including the

detailed analysis for red flag transactions, were undertaken within the whole supply chain of this specified material.

IV. Strengthening company engagement with copper-supplying and lead-supplying counterparties and, where possible, assist copper-supplying and lead-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 and ethics provisions equivalent to those required by the Contractor's Charter. The verification of the contractor's documentation in this respect is performed by the Compliance Officer. This Charter is a declaration confirming supplier's compliance with principles stated in KGHM Group Code of Ethics, which is based on UN Global Compact. Charter contains a declaration of KGHM's involvement in supply chain due diligence process as well as addressed to supplier information concerning the possibility to get acquainted with Copper Mark criterion including The Copper Mark Standard website address. Signing the contract obliges the supplier to take actions to avoid sourcing minerals in illegal and unethical way from conflict areas. KGHM stipulates its right to suspend or terminate the contract, if it reasonably suspects that a counterparty does not comply with the Charter's rules.

Moreover, according to the Procedure, The Authorized unit may take action to improve the transparency and compliance of the Supplier's Supply chain wherever it is justified (e.g. by providing information on initiatives such as The Copper Mark and Joint Due Diligence).

Taking into consideration, that KGHM does not have any external lead supplying counterparties, no actions mentioned in this section regarding to lead supply chain, such as assistance lead-supplying counterparties in building due diligence capacities etc., were undertaken in 2022.

The only KGHM's external supplier of the copper concentrate, with whom a new business relationship has been established in 2022, provided results of its own activities conducted within the supply chain due diligence system. This supported the finding that supplier has implemented appropriate process of counterparties verification, hence it wasn't necessary to take steps to assist in building its due diligence capacities.

V. Establishing a company-wide grievance mechanism to promote broad employee participation in risk identification.

Comments and Demonstration of Compliance:

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

KGHM Whistleblower Platform/Ethics Hotline which is a confidential tool to anonymously or non-anonymously report any violations taking place at Companies from the KGHM Group. It supports the combating of fraud, embezzlement and other violations of applicable workplace standards of ethics. The information about KGHM Ethics Hotline and details about its communication channels are available on KGHM's corporate website at: <https://liniaetyki.kghm.com/web/liniaetyki>. This tool is available for any internal or external stakeholders of KGHM. Participants of the investigation procedure are informed about its result through the previously chosen communication channel.

KGHM also established the following e-mail addresses: conflict.minerals@kghm.com (for minerals) and procurement@kghm.com (for other deliveries), allowing any employee, supply chain actor or stakeholder to voice concerns over the supply chain

In 2022 there were no notifications recorded regarding the KGHM's responsible copper and lead supply chain, both when it comes to KGHM Ethics Hotline and the dedicated mailboxes.

STEP 2 – IDENTIFY AND ASSESS SUPPLY CHAIN RISKS

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

I. Identifying risks in the copper and lead supply chain.

Comments and Demonstration of Compliance:

KGHM's Procedure, according to the Joint Due Diligence Standard, establishes the requirement of identifying and assessing the risk in the copper and lead supply chain for every transaction marked with red flag. This process is a formal requirement before entering any business relationship with any copper or lead supplying counterparty. The risk assessment is conducted by KGHM's organisational unit eligible for buying external material. Copper and lead supply chain risk is identified and analyzed on the basis of the following list:

- i. gross human rights violations consisting in:
 1. any forms of torture, or cruel, inhuman and degrading treatment;
 2. any form of forced or compulsory labour involving work or the provision of services required of any person under threat of punishment, the person concerned has not volunteered to;
 3. the worst forms of child labour;
 4. other gross human rights violations and abuses such as widespread sexual violence;
 5. war crimes or other gross violations of international humanitarian law, crimes against humanity or genocide.

- ii. direct or indirect support to non-state armed groups,
- iii. support to public or private security forces,
- iv. bribery and fraudulent misrepresentation regarding the origin of Materials,
- v. money laundering,
- vi. non-payment of taxes, fees and royalties.

Each case of identifying a Risk present is to be notified by the Authorized unit to the Management by means of the e-mail message.

Taking into consideration, that KGHM does not have any external lead supplying counterparties, no actions mentioned in this section regarding to lead supply chain, such identifying risk in supply chain etc., were undertaken in 2022.

The only KGHM's external supplier of the copper concentrate, with whom a new business relationship has been established in 2022, provided results of its own risk identification regarding to its direct supplier. On the basis of provided analysis, KGHM's specialized unit conducted independent verification of the third-party supplying entity to determine the presence of any risk mentioned in Procedure. This supported the finding that no risk has been found.

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

Comments and Demonstration of Compliance:

The assessment determining the presence of the risk is carried out on the basis of the relevant results of verification in accordance with the „Verification procedure in procurement, sales and investment processes at KGHM Polska Miedź S.A.” and „Procedure for counteracting money laundering and preventing fraud and extortion in commercial transactions involving the sale of products and the purchase of bullion and copper-bearing materials at KGHM Polska Miedź S.A.” as well as information acquired directly from the Supplier.

Before entering into any business relationship with copper or lead supplying-counterparty, KGHM is obliged to conduct risk analysis and assessment according to „Procedure for counteracting money laundering and preventing fraud and extortion in commercial transactions involving the sale of products and the purchase of bullion and copper-bearing materials at KGHM Polska Miedź S.A.” and on this basis every potential supplier's performance is determined on the following scale: normal risk, high risk, non-acceptable risk. KGHM does not establish or maintain business relationships with counterparties whose performance was determined as non-acceptable risk.

In case of transactions with red flags there is an analysis performed investigating the need to conduct an on-site assessment to confirm the absence of any risk mentioned

above in this Report, should gaps and deficiencies be identified in the information acquired or the clear and objective assessment of the risk presence be impossible.

The Head of the Authorized unit may offer to the Management recommendation on conducting the on-site assessment at the supplier's. Prior to making the recommendation by the Head of the Authorized unit, the Suppliers opinion on the reasons for the on-the-ground assessment should be acquired. The Management may decide to conduct the on-site assessment at the Supplier's, which is subject to approval by the Board Member.

Taking into consideration, that KGHM does not have any external lead supplying counterparties, no actions mentioned in this section regarding to lead supply chain, such as identifying risk in supply chain etc., were undertaken in 2022.

The only KGHM's external supplier of the copper concentrate, with whom a new business relationship has been established in 2022, provided results of it's own risk identification regarding to it's direct supplier. On the basis of provided analysis, KGHM's specialized unit conducted independent verification of the third-party supplying entity to determine the presence of any risk mentioned in Procedure. This supported the finding that no risk has been found and there was no reason to conduct on-site assessment at the supplier's or third-party entity.

STEP 3 - DESIGN AND IMPLEMENT A MANAGEMENT STRATEGY 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 a high risk business relation.**

Comments and Demonstration of Compliance:

KGHM has set up in Procedure rules of reacting to identified risk in copper and lead supply chain in order to prevent or mitigate it's negative impact. First, there is a decision taken to choose the strategy of risk management among the following options:

- maintain the business relationship with simultaneous risk mitigating measures to be taken,
- suspend the relationship temporary with simultaneous risk mitigating measures to be taken,
- suspend the business relationship immediately (in case of risks in the area of gross human rights violations and support for non-governmental armed groups)

- break the business relationship (in case of risks in the area of gross human rights violations and support for non-governmental armed groups)

II. Including measurable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk and regular reporting to designated member of the Management Board, where a risk mitigation actions are undertaken.

Comments and Demonstration of Compliance:

In case of need to take actions related to risk mitigation, KGHM prepares an adjustment action plan, i.e. defining proposals for organizational, process, systemic and other changes in cooperation with the supplier or, where justified, with further participants in the Supply chain, in order to reduce the risk; as a minimum, the adjustment action plan should include:

- persons to take responsibility, budget (if applicable), timetable
- description of the adjustment measures to mitigate risk
- key quantitative and qualitative indicators, correlated with the change in the level of risk and designed for the progress of adjustment measures monitoring,
- a list of stakeholders involved in the development and monitoring of the adjustment action plan (e.g. local governments, central government authorities to be consulted with).

The adjustment action plan shall be subject to acceptance by the Management and the Supplier. The progress of the adjustment action plan shall be monitored by the Compliance Officer. Monitoring activities with respect to the progress of the adjustment action shall be undertaken at least once every two months, the results of them to be reported to the Management. Based on the results, 6 months after the plan was accepted, the Management shall take decision as to whether:

- resume the business relationship should the implementation of the adjustment measures go in accordance with the adopted plan, or
- discontinue or suspend the business relationship for a period of at least 3 months in the absence of progress in the implementation of the adjustment action plan in reference to the schedule agreed upon with the Supplier.

Taking into consideration, that KGHM does not have any external lead supplying counterparties, no actions mentioned in this section regarding to lead supply chain, such as implementing a management strategy to respond to identified risk or taking actions regarding to risk mitigation etc., were undertaken in 2022.

Regarding to the only KGHM's external supplier of the copper concentrate, with whom a new business relationship has been established in 2022, there was no identified risk mentioned in the Procedure's list. In view of this no actions mentioned in this section regarding to copper supply chain, such as implementing a management strategy to respond to identified risk or taking actions regarding to risk mitigation etc., were undertaken in 2022.

STEP 4 – OBTAIN INDEPENDENT THIRD-PARTY ASSURANCE ON SUPPLY CHAIN DUE DILIGENCE PRACTICES

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:

In 2021 there was an independent third-party assurance process conducted in KGHM within the Copper Mark Standard. One of its subjects was copper and lead responsible supply chain due diligence system established in KGHM. In 2022 work continued on the actions initiated in 2021 related to implementation of independent assessor's recommendations for the improvement of the responsible sourcing area in order to maintain the Copper Mark certification. This was the subject of the independent third-party assurance process' additional phase performed by RCS Global's assessor which took place in June 2022. On this basis, the assessor confirmed KGHM's conformance with all Copper Mark's Standard criteria and Copper Mark's certification for both KGHM smelters was maintained as a result.

STEP 5 – REPORT ANNUALLY ON COPPER AND LEAD 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 2022 provides compliance with the Step 5.

3. Conclusion

In conclusion, KGHM implemented an effective management system, Procedure, Policy, processes and practices to conform to the requirements of the Joint Due Diligence Standard for copper and lead responsible sourcing.

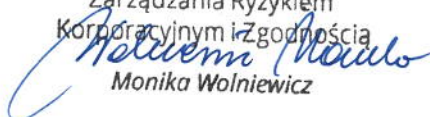
KGHM declares compliance with the above mentioned requirements on the date of 31st December 2022.

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 encouraged to do so by sending an e-mail tot the following address: conflict.minerals@kgm.com.

Monika Wolniewicz
Compliance Officer

DYREKTÓR DEPARTAMENTU
Zarządzania Ryzykiem
Korporacyjnym i Zgodnością



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Wiceprezes Zarządu
ds. Aktywów Zagranicznych



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