

Dear Stakeholders,

The past year was one of intensive work and challenges . We crowned it with a document of strategic importance for the Company: the New strategy for the years 2019-2023. We also advanced other, very important goals, which will have a positive effect on the stability and development of the KGHM Group.

We stabilised production, conducted a review of our assets in Poland and abroad, signed new, long-term contracts with business partners and commenced the process of reducing our debt, at the same time launching a variety of new development initiatives.

The electrolytic copper production plan set for the Company for 2018 was exceeded by 1.6%. Silver production was higher, by 2%. The excellent achievement of the production plan was reflected in higher sales of our products, by 1.7%. The revenues of the KGHM Group were higher compared to the prior year by 0.8%, at PLN 20.5 billion. The adopted measures – EBITDA of the KGHM Group as well as EBITDA of KGHM Polska Miedź S.A. – exceeded the budget targets for 2018.

The KGHM Group is an integral part of the world's economy. We produce copper and non-ferrous metals on three continents, while the quality of our products is highly praised by our customers. For years we have been the largest Polish exporter to France and China, and in November 2018 we confirmed our strategic commercial position with the Central Kingdom by signing a new contract for the delivery of copper cathodes. Over a five-year period we will provide the company China Minmetals with products whose value could reach up to USD 4 billion.

We are a global company and operate in compliance with global rules. We try to anticipate to the maximum extent possible the trends and processes arising in the international and domestic economies, thanks to which we are able to steadily enhance our competitive edge. Corporations engaged on the global market need to be dynamic and flexible. The Polish economy is developing harmoniously also thanks to the responsible business policy of "national champions" such as KGHM. Attesting to its ever-stronger position on the global market was the success of Poland in gaining entrance to the FTSE Russell index of developed market countries. As a result we joined the likes of economic powerhouses such as the United States, Germany, the United Kingdom, France and the Netherlands, which is a reason for pride, but also a great challenge for our Company.

Fluctuations in the price of copper, trade wars, the decision by the United Kingdom to leave the European Union – 2018 was full of events which had a decisive impact on the geopolitical situation and the macroeconomic environment, affecting among others the mining sector. The new strategy of KGHM Polska Miedź is a comprehensive and long-term response to these changes. This document describes the Group's four key development directions: flexibility, effectiveness, ecology and e-industry. The most important goals which we have set for ourselves comprise higher ore processing by Sierra Gorda, greater operational control of international assets, energy independence and increased expenditures on innovation and R&D. The new strategy reflects EU regulations as well as plans with respect to low-emission operations and electromobility.

The detailed review of international assets conducted in the third quarter of 2018 enabled rationalisation of our strategy with respect to production by KGHM International and Sierra

Gorda. We are concentrating on the Debottlenecking Program, which is aimed at increasing average annual daily ore throughput to 130, and then 140 thousand tonnes based on existing infrastructure and necessary investments. The Owners of Sierra Gorda have approved among others the purchase of additional vertimills and a third flotation waste thickener, which are key elements of the Program.

The significance of the unique skills of the companies acting under DMC Mining Services brand is rising. In 2018 the revenues of the DMC Group were twice as high as in the prior year, amounting to over USD 200 million. We are intensively working on further development of this part of our activities and at acquiring additional contracts.

Over the past 60 years the heart of KGHM has beat in Lower Silesia, and it is for this reason that we place such great emphasis on domestic investments. In 2018 we commenced the expansion of the Żelazny Most Tailings Storage Facility. This key investment for KGHM guarantees safe operations by the Company in the Copper Belt for the coming decades. Work also accelerated on the Copper Scrap Plant program being advanced at the Legnica Copper Smelter and Refinery. This division is undergoing a broad investment program comprising among others the construction of a new RCR (*Revolving Casting-Refining*) furnace.

In 2018 we advanced numerous development projects for the domestic companies of the KGHM Group. We implemented a variety of solutions, such as enhanced coordination of key entities. We eliminated overlapping activities, which will help to increase the value of the Group. We developed the concept of the KGHM Group Council, a body which is aimed at providing comprehensive support to the companies of the Group during the process of setting directional targets and the integration of these entities' businesses as well as enhancing corporate governance.

We are a socially responsible company. This is confirmed not only by our presence in the RESPECT Index but also by our daily work and efforts on behalf of local communities. Our employees, contractors, suppliers and customers, indeed all of our stakeholders, expect clear declarations and regulations in terms of questions of ethics.

We have confirmed our pro-development focus, transparency and actions aimed at respecting ethical principles based on the Code of Ethics of the KGHM Group, as well as the Code of Conduct of KGHM Polska Miedź S.A. adopted in June 2018. The Code of Conduct is practical, being a guide and support for the Company's employees whenever there are any doubts as to the propriety of decisions taken.

When we do face breaches of the law and actions contrary to the adopted Codes we act in a determined and uncompromising manner. To effectively counteract abuses we have created confidential channels for reporting improprieties by Whistleblowers, both within the Company as well as outside of its structure.

The Management Board of KGHM places particular emphasis on questions related to safety, healthcare and environmental protection. In 2018 we spent PLN 143 million on pro-ecological investments, including over PLN 32 million on modernising the installation for removal of carbonates during the flotation process at the Polkowice Concentrator. We also began design work on the development of a modern arsenic treatment method for the Głogów Copper Smelter and Refinery.

This solution will enable arsenic to be transformed into a form similar to scorodite – a mineral naturally occurring in nature and one with a neutral impact on the natural environment.

The world is changing ever more rapidly, forcing us to deal with new international commercial conditions and commodities prices. 2019 could be a year full of challenges for the economy due to the potential for a global slowdown. This is why we want to be able to rapidly react to oncoming processes or events, to flexibly adjust prices and costs and effectively manage supply, as well as investments. We are facing challenges related to our adopted strategic ambitions, which are centered around improvement of our profitability and financial parameters. We want to compete through internal efficiency – mine and manufacture more cheaply and manage our resources and potential new projects in an optimised manner, and thereby achieve even better results, generate capital for growth and enhance the Company's value.

At this point I would like to express my thanks to our employees for their efforts, commitment and hard work on behalf of the Company and the KGHM Group. We are one team, competing for the highest laurels in international competitions. I also wish to express my thanks to our shareholders and customers for the trust you have bestowed in us. To local communities I extend my warmest regards for your neighbourliness and cooperation on behalf of the regions in which we live together.

On behalf of the Management Board of KGHM Polska Miedź S.A. I hereby present the Annual Report of the Company and of the KGHM Polska Miedź Group for 2018. I also encourage you to familiarise yourselves with the Non-Financial Report for 2018, which contains data and indicators regarding the KGHM Polska Miedź S.A. Group and KGHM Polska Miedź S.A.

Respectfully yours,

Marcin Chludziński

President of the Management Board

KGHM Polska Miedź S.A.

Lubin, 13 March 2019