



**THE MANAGEMENT BOARD'S REPORT
ON THE ACTIVITIES OF KGHM POLSKA
MIEDŹ S.A. AND OF THE KGHM
POLSKA MIEDŹ S.A. GROUP IN 2021**

Lubin, March 2022

TABLE OF CONTENTS

Useful terms and abbreviations	4
Aggregated data of the Company and Group for the years 2014-2021	6
Significant events in 2021 and to the date of preparation of this report.....	7
1. Introduction.....	9
2. Group structure.....	10
2.1. Group structure.....	10
2.2. Organisational structure of KGHM Polska Miedź S.A.....	11
2.3. Major assets.....	12
2.4. Production process	17
2.5. Changes in the Group structure, equity investments and their financing	19
3. Primary Group products.....	22
4. Macroeconomic conditions and analysis of the market	24
4.1. Macroeconomic environment.....	24
4.2. Analysis of the global market for the Group's basic products.....	30
5. Strategy of KGHM Polska Miedź S.A.	34
5.1. Strategy description – Basic elements of the Strategy of KGHM Polska Miedź S.A.	34
5.2. Development directions of the KGHM Polska Miedź S.A. Group.....	37
5.3. Advancement of the Strategy in 2021	38
5.4. The Strategy OF KGHM Polska Miedź S.A. and climate-related actions	46
6. Economic performance of the Group.....	50
6.1. Production.....	50
6.2. Structure of consolidated sales revenue.....	51
6.3. C1 cost of producing payable copper in the Group	51
6.4. Financial results.....	52
6.5. 2021 targets versus achievements and targets for 2022	56
6.6. Financing in the Group.....	57
7. Economic results of KGHM Polska Miedź S.A.	62
7.1. Production.....	62
7.2. Sales.....	65
7.3. Costs	66
7.4. Financial results.....	68
7.5. Capital expenditures	73
8. Economic results of KGHM INTERNATIONAL LTD.	75
8.1. Production.....	75
8.2. revenues.....	75
8.3. Costs	76
8.4. Financial performance	76
8.5. Cash expenditures.....	77
9. Economic results of Sierra Gorda S.C.M.....	79
9.1. Production.....	79
9.2. Sales.....	79
9.3. Costs	80
9.4. Financial results.....	80
9.5. Cash expenditures.....	82
10. Financial results of other segments.....	83
11. Shareholders and the capital market.....	84
11.1. Shareholder structure of KGHM Polska Miedź S.A.....	84
11.2. KGHM Polska Miedź S.A. on the Warsaw Stock Exchange.....	85

12. Risk management in the Group	88
12.1. Comprehensive risk management system in the KGHM Polska Miedź S.A. Group.....	88
12.2. Corporate risk – key risk factors and their mitigation	91
12.3. Market, credit and liquidity risk	105
12.4. Market risk management	106
13. Human resources in the Company and Group	110
13.1. Employment.....	110
13.2. Human resources projects	111
13.3. Relations with the trade unions	114
13.4. Occupational health and safety	115
14. Significant contracts for the Company and Group	118
14.1. Information on transactions entered into between related parties, under other than arm's length conditions.....	119
14.2. Information on contracts with the entity entitled to audit the financial statements	119
14.3. Information about suppliers and customers.....	119
15. Litigation and claims	121
16. Environmental protection	122
16.1. KGHM Polska Miedź S.A.	122
16.2. KGHM INTERNATIONAL LTD. Group.....	123
16.3. Other Group companies in Poland.....	124
17. The Management Board and the Supervisory Board of the Parent Entity	125
17.1. Bios and responsibilities of members of the Management Board	125
17.2. Biograms of members of the Supervisory Board.....	128
17.3. Changes in the Parent Entity's bodies	131
17.4. Remuneration of the Parent Entity's bodies and of other key managers of the Group	132
18. Ethics and Corporate Governance	136
19. Regulatory filings published after the balance sheet date	139
Appendix 1 Corporate Governance statement	140
Appendix 2 KGHM Polska Miedź S.A. Group structure	154
Appendix 3 KGHM INTERNATIONAL LTD. Group structure	155
Appendix 4 Activities of subsidiaries and joint ventures of KGHM Polska Miedź S.A.	156
Companies in Poland	156
International companies (and Future 1 Sp. z o.o.)	157
List of tables, charts and diagrams	159
Tables.....	159
Charts	160
Diagrams	160

In accordance with Art. 49b point 9 of the Accounting Act, „The Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2021” does not contain a declaration on non-financial information, due to the fact that a separate non-financial report is being prepared and published.

USEFUL TERMS AND ABBREVIATIONS

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation)	Profit on sales plus depreciation/amortisation recognised in profit or loss and recognition/reversal of impairment losses on non-current assets. The KGHM Polska Miedź S.A. Group's EBITDA is a sum of EBITDAs of individual operating segments
Barren rock	Rock which accompanies the extraction of mineral ore and is not considered as useful
BAT (Best Available Technique)	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole
BREF	"BAT REFerence document", the reference document of best available techniques (BAT)
Cost of producing payable copper (C1)	Unit cash cost of producing payable copper, reflecting ore mining and processing costs, transport costs, the minerals extraction tax, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value. C1 cost is in regard to payable copper in own concentrate in the case of the segment KGHM Polska Miedź S.A. and payable copper in end products of individual mines of the segment KGHM INTERNATIONAL LTD. and the segment Sierra Gorda S.C.M.
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining
Copper concentrate	The product of enriching low-grade copper ore
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry
OFE rod	Oxygen-free copper wire rod produced at the Cedyňa Wire Rod Plant using UPCAST technology
Deposit/Orebody	Natural collection of minerals in the earth, arising as a result of various geological processes
Electrolytic copper	The product of electrolytic copper refining
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolyte is required to maintain the level of contaminants at an acceptable level, which is the one of decisive factors determining the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw materials in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel
Electrorefining	The process of electrolysing dissoluble anodes which are produced from refineable alloys. During this process refined metal is collected on starter sheets under controlled conditions, while contaminants remain in the electrolyte as solids or liquid
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability additionally decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored
ISO	International Organization for Standardization
LTIFR_{KGHM} (Lost Time Injury Frequency Rate)	Indicator of the number of accidents at work (as defined by the Act dated 30 October 2002 on social insurance in case of occupational accident or disease) in the Company KGHM Polska Miedź S.A., standardised to 1 million worked hours
Mine excavation	Open area left after the mining work
Muck	Rock removed from a mine face. Contains both ore and barren rock
NBP	National Bank of Poland
Net debt	Borrowings and debt securities less cash and cash equivalents. This category includes lease liabilities and excludes reverse factoring liabilities
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal)
Payable metal	Volume of metal produced less the loss incurred in further processing to pure metal
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse

Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress divided by the volume of electrolytic copper production from own concentrate. Used solely in the Parent Entity
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals - regulation issued by the European Parliament and of the European on the safe use of chemicals through their registration and evaluation, and in certain cases through the issuance of permits and restrictions in the sale and use of certain chemicals
Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldo furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% silver); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules)
SX-EW (solvent extraction and electrowinning)	Copper cathode production technology applied in some plants of KGHM INTERNATIONAL LTD. based on solvent extraction (the process of leaching useful minerals using a solvent) of the copper ore heap, with the aid of diluted sulphuric acid, under the atmospheric conditions
Total unit cost of producing copper from own concentrate	The sum of costs of mining, flotation, smelter processing per cathode and support functions (the Data Center Division, the Mine-Smelter Emergency Rescue Division and the Head Office), together with cathode selling costs, adjusted by the value of inventories of half-finished products and work in progress and less the value of anode slimes, divided by the volume of electrolytic copper production from own concentrate
The Group	The KGHM Polska Miedź S.A. Group
TPM (Total Precious Metals)	Precious metals (gold, platinum, palladium)
TRIR (Total Recordable Incident Rate)	Indicator of the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, standardised to 200 000 worked hours
Troy ounce (oz t)	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams
YoY	year on year, i.e. comparison between one year and the next year

AGGREGATED DATA OF THE COMPANY AND GROUP FOR THE YEARS 2014-2021**BASIC ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

		2021	2020	2019	2018	2017	2016	2015	2014
Revenues from contracts with customers	PLN mn	29 803	23 632	22 723	20 526	20 358	19 156	20 008	20 492
Profit/(loss) for the period	PLN mn	6 155	1 797	1 421	1 658	1 525	(4 449)	(5 009)	2 451
Adjusted EBITDA ⁽¹⁾	PLN mn	10 327	6 623	5 229	4 972	5 753	4 666	4 710	4 890
Total assets	PLN mn	48 027	42 780	39 409	37 237	34 122	33 442	36 764	40 374
Liabilities and provisions	PLN mn	20 889	21 699	19 207	18 012	16 337	17 531	16 350	14 844
Earnings per share (EPS) ⁽²⁾	PLN	30.78	9.00	7.11	8.29	7.84	(21.86)	(25.06)	12.25
Share price of the Company ⁽³⁾	PLN	139.40	183.00	95.58	88.88	111.20	92.48	63.49	108.85
Net debt/EBITDA ⁽⁴⁾		0.6	0.9	1.5	1.6	1.3	1.6	1.4	0.9
Payable copper production ⁽¹⁾	kt	753.7	709.1	701.6	633.9	656.4	676.9	697.1	662.9
Payable silver production ⁽¹⁾	t	1 366	1 353	1 417	1 205	1 234	1 207	1 299	1 258
Payable copper production cost C1 ⁽¹⁾	USD/lb	1.96	1.59	1.70	1.81	1.59	1.41	1.59	1.89
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	3 890	3 458	3 232	2 875	2 796	3 251	3 939	3 434

BASIC ITEMS OF THE SEPARATE FINANCIAL STATEMENTS

		2021	2020	2019	2018	2017	2016	2015	2014
Revenues from contracts with customers	PLN mn	24 618	19 326	17 683	15 757	16 024	15 112	15 939	16 633
Profit/(loss) for the period	PLN mn	5 169	1 779	1 264	2 025	1 323	-4 085	-2 788	2 414
Adjusted EBITDA	PLN mn	5 474	4 458	3 619	3 416	4 160	3 551	4 163	4 331
Total assets	PLN mn	43 458	39 342	35 989	34 250	30 947	30 100	33 120	32 312
Liabilities and provisions	PLN mn	17 618	18 616	16 100	15 205	13 691	14 200	12 841	8 035
Earnings per share (EPS) ⁽²⁾	PLN	25.85	8.90	6.32	10.13	6.62	-20.42	-13.94	12.07
Electrolytic copper production	kt	577.6	560.4	565.6	501.8	522.0	535.6	574.3	576.9
Metallic silver production	t	1 332	1 323	1 400	1 189	1 218	1 191	1 283	1 256
Payable copper production cost C1	USD/lb	2.26	1.62	1.74	1.85	1.52	1.3	1.47	1.82
Cash expenditures on property, plant and equipment and intangible assets	PLN mn	2 407	2 422	2 366	1 907	1 991	2 604	2 481	2 203

MACROECONOMIC DATA (AVERAGE ANNUAL)

		2021	2020	2019	2018	2017	2016	2015	2014
Copper prices per the LME	USD/t	9 317	6 181	6 000	6 523	6 166	4 863	5 495	6 862
Silver prices per the LBMA	USD/oz t	25.14	20.54	16.21	15.71	17.05	17.14	15.68	19.08
Exchange rate	USD/PLN	3.86	3.90	3.8399	3.61	3.78	3.94	3.77	3.15

(data for the years 2014-2019 according to annual reports for these periods, data for the years 2020-2021 according to the current annual report)

¹⁾Comprises Sierra Gorda S.C.M. pursuant to interest held (55%)

²⁾Attributable to shareholders of the Parent Entity

³⁾At the end of the period

⁴⁾Adjusted EBITDA for the year, excluding EBITDA of the joint venture Sierra Gorda S.C.M.

SIGNIFICANT EVENTS IN 2021 AND TO THE DATE OF PREPARATION OF THIS REPORT

<i>Date</i>	<i>Event</i>	<i>Section</i>
CHANGE IN MACROECONOMIC CONDITIONS		
2021	An increase in average annual prices of copper, silver and molybdenum respectively by 51%, 22% and 82%	4
2021	Changes in average annual exchange rates: USD/PLN by -1%, USD/CAD by -7% and USD/CLP by -4%	4
KGHM POLSKA MIEDŹ S.A. ON THE STOCK EXCHANGE		
2021	A decrease in the share price of KGHM Polska Miedź S.A. by 24% from PLN 183.00 to PLN 139.40	11
CHANGES IN THE COMPOSITION OF KGHM POLSKA MIEDŹ S.A.'S BODIES		
23 March 2021	Appointment of the Management Board of KGHM Polska Miedź S.A. to the new 11 th term	17
20 April 2021	Resignation of Katarzyna Lewandowska from serving as a Member of the Supervisory Board of KGHM Polska Miedź S.A.	17
14 May 2021	The appointment (as of 15 May 2021) of Dariusz Świderski to the Management Board of KGHM Polska Miedź S.A. as Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.	17
6 July 2021	Appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Robert Kaleta and Katarzyna Krupa	17
25 October 2021	The resignation of Marek Pietrzak from serving as a Member of the Supervisory Board of KGHM Polska Miedź S.A. and his appointment (as of 26 October 2021) to the Management Board of KGHM Polska Miedź S.A. as Vice President of the Management Board (Corporate Affairs).	17
21 February 2022	Dismissal of Dariusz Świderski from the Management Board of KGHM Polska Miedź S.A. from the position of Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.	17
14 March 2022	The appointment (as of 15 March 2022) of Marek Świder to the Management Board of KGHM Polska Miedź S.A. as Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.	17
VERYFICATION OF ASSETS		
17 February 2021	Information on the identification of indications to verify the recoverable amount of domestic and international assets of the KGHM Polska Miedź S.A. Group	6,7
11 March 2021	Information on the results of work related to testing for the impairment of the recoverable amount of domestic and international assets of the KGHM Polska Miedź S.A. Group	6,7
12 July 2021	Information on the identification of indications to verify the recoverable amount of international assets of the KGHM Polska Miedź S.A. Group	6,7
5 August 2021	Information on completing work related to testing for the impairment of the international mining assets of the KGHM Polska Miedź S.A. Group	6,7
ALLOCATION OF PROFIT		
10 May 2021	The Management Board's proposal regarding the allocation of profit for 2020 (recommended dividend payout of PLN 300 million)	-
7 June 2021	Decision of the Ordinary General Meeting of KGHM Polska Miedź S.A. to pay a dividend in the amount of PLN 300 million, representing PLN 1.50 per share	11

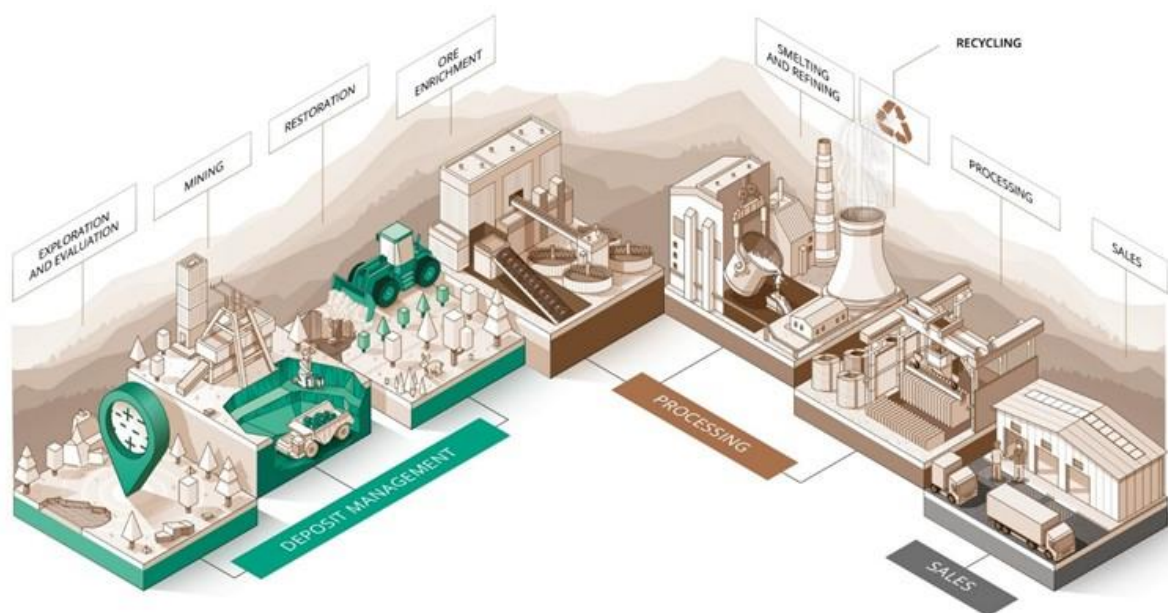
<i>Date</i>	<i>Event</i>	<i>Section</i>
SIGNIFICANT AGREEMENTS		
26 March 2021	Conclusion of an agreement to sell shares in the company PGE EJ 1 sp. z o.o. to the State Treasury	14
29 March 2021	Conclusion of a bank loan agreement between Sierra Gorda S.C.M. and Bank Gospodarstwa Krajowego	14
23 September 2021	Consent of the Management Board of the Company to sign a tripartite agreement with NuScale Power LLC and PBE Molecule Sp. z o.o. Sp. k., with respect to preparations to advance an investment involving the construction of nuclear energy sources	14
FINANCING IN THE GROUP		
16 June 2021	Consent of the Management Board of the Company to sign an Annex to an unsecured loan agreement in the amount of PLN 900 million dated 11 December 2017 with the European Investment Bank	6.6
27 October 2021	Consent of the Management Board of the Company to extend the term of an unsecured revolving syndicated credit facility agreement in the amount of USD 1 500 million	6.6
2 December 2021	Information on extending the term of an unsecured revolving syndicated credit facility agreement. As a result of the decision of one of the members of the syndicate to not exercise its right to extend its participation, the amount of available credit facility will amount to USD 1 438 million	6.6
OTHER		
28 January 2021	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. and the Budget of the KGHM Group for 2021	6.5
14 October 2021	Receipt of a document titled "Offer Notice" from Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation in connection with the intent to sell the entirety of the shares of Sumitomo in the joint venture company Sierra Gorda SCM to the Australian mining group South32	2
16 November 2021	Adoption of a Climate Policy by the Management Board of KGHM Polska Miedź S.A.	5
24 November 2021	Decision not to exercise the right of first refusal to acquire shares in the joint venture company Sierra Gorda SCM belonging to Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation	2
14 January 2022	Approval by the Supervisory Board of the Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040	5
14 January 2022	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group for 2022	6.5
10 February 2022	Repayment of a loan granted to the joint venture Sierra Gorda S.C.M. – the Group received a payment from Sierra Gorda S.C.M. due to loan drawn in the amount of PLN 431 million (USD 110 million)	
22 February 2022	Finalisation of the sale of all shares held by Sumitomo in the joint venture company Sierra Gorda SCM to the Australian mining group South32	2
10 March 2022	Act amending the act on minerals extraction tax came into force. Formula used to calculate the tax rates for copper and silver was amended, which in the transitional period from 1 January to 30 November 2022 sets the tax rate based on a decrease in the coefficient by 0.25 (this coefficient amounted to 0.85, and after the change amounts to 0.6), which in consequence reduces the monthly tax charge by approx. 30%.	

1. INTRODUCTION

KGHM Polska Miedź S.A. is the Parent Entity of a Group which is a world-class producer of copper and silver with over 60 years of experience in the copper ore mining and processing sector. In Poland, KGHM Polska Miedź S.A. operates one of the world's largest copper deposits, guaranteeing continuous production in Poland for the next several decades. KGHM Polska Miedź S.A. also produces silver, gold, lead and rock salt, as well as being one of the leading exporters in the country and one of the largest companies in Poland.

The Group is a global and innovative organisation, which conducts technologically advanced exploration-mining and metallurgical activities and has a geographically diversified portfolio of mining projects. The business model is divided into 7 areas, through which the Group ensures a complete chain of value creation, from exploration to the sale of finished products:

Diagram 1. Business model of the KGHM Polska Miedź S.A. Group



The KGHM Polska Miedź S.A. Group includes the Parent Entity – KGHM Polska Miedź S.A. – and 69 subsidiaries. Uniformity in such a complex organisation is ensured by KGHM's values – zero harm, teamwork, results-driven, accountability and courage. For 60 years they have been the Company's business compass, indicating the direction of development and the means of operation on the international market.

For almost 25 years the Company has been listed on the Warsaw Stock Exchange. The Company is included in the WIG20 and WIG30 indices.

KGHM Polska Miedź S.A. actively supports the realms of science, the arts and sport. Through its Foundation founded in 2003, KGHM Polska Miedź engages in charitable activities.

2. GROUP STRUCTURE

2.1. GROUP STRUCTURE

As at 31 December 2021, the Group was composed of the Parent Entity – KGHM Polska Miedź S.A. – and 69 subsidiaries (including one closed-end, non-public investment fund), located on four continents: Europe, North America, South America and Asia. Some of these subsidiaries form their own groups. The largest of these, in terms both of the number of entities as well as the value of equity, is the KGHM INTERNATIONAL LTD. Group, whose main assets are located in Canada, the USA and Chile. It was comprised of KGHM INTERNATIONAL LTD. and its 26 subsidiaries. At the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in two joint ventures - Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o. in liquidation.

The detailed structure of the KGHM Polska Miedź S.A. Group, together with the relationships between entities, may be found in Appendices 2 and 3.

The Group's main entities, which are engaged in the mining sector, comprise three primary reporting segments which are independently evaluated by management bodies. These are: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. Other companies, excluding Future 1 Sp. z o.o., Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o. and Future 7 Sp. z o.o. in liquidation, are part of the segment called Other segments.

The following diagram presents the significant production assets and projects underway within the reporting segments: KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., Sierra Gorda S.C.M. and Other segments.

Diagram 2. Reporting segments of the KGHM Polska Miedź S.A. Group

KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda S.C.M. ⁽¹⁾	Other segments
Activities			
Mined and metallurgical production of metals – Cu, Ag, Au	Mined production of metals - Cu, Ni, Au, Pt, Pd, Ag, Mo	Mined production of metals - Cu, Mo, Au, Ag	
Main production assets			
Underground mines - Lubin mine - Polkowice-Sieroszowice mine - Rudna mine Metallurgical plants - Legnica Copper Smelter and Refinery - Głogów I and Głogów II Copper Smelter and Refinery Cedynia Wire Rod Plant	Robinson mine in the USA (open pit)	Sierra Gorda mine in Chile (open pit)	
Most important development projects			
- Głogów Głęboki-Przemysłowy (Deep Głogów) - Pre-production projects and exploration projects in south-west Poland	- Victoria project in the Sudbury Basin in Canada - construction of an underground copper and nickel mine	- Sierra Gorda Oxide project in Chile	<ul style="list-style-type: none"> - Companies supporting the core business of KGHM Polska Miedź S.A. - Closed-end investment fund and companies in its portfolio, - Companies playing an important role in advancing CSR policy, - Special purpose companies in the holding structure.

¹⁾ joint venture of KGHM INTERNATIONAL LTD. and the companies Sumitomo Metal Mining and Sumitomo Corporation (from 22 February 2022 South32)

The following companies were not included in any of the aforementioned segments:

- Future 1 Sp. z o.o., which acts as a holding company with respect to the KGHM INTERNATIONAL LTD. Group,
- Future 3 Sp. z o.o., Future 4 Sp. z o.o., Future 5 Sp. z o.o. (which operate in the structure related to the establishment of a Tax Group) and Future 7 Sp. z o.o. in liquidation.

These companies do not conduct operating activities which could impact the results achieved by individual segments, as a result of which their inclusion could disrupt the data presented in the consolidated financial statements due to the significant internal settlements with the other entities from the Group.

The segments KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have separate Management Boards, which report their operational results to the Management Board of the Parent Entity.

The segment KGHM Polska Miedź S.A. only includes the Parent Entity, while the segment Sierra Gorda S.C.M. only includes the joint venture Sierra Gorda. Diagram 2 presents the remaining companies of the KGHM Polska Miedź S.A. Group with a breakdown by segment: KGHM INTERNATIONAL LTD. and Other segments.

CHANGES IN THE BASIC PRINCIPLES FOR MANAGING THE GROUP

In October 2021 the Supervisory Board of KGHM Polska Miedź S.A. appointed a new member of the Management Board, assigning him the function of Vice President of the Management Board (Corporate Affairs). Under the assigned duties, the Vice President of the Management Board (Corporate Affairs) exercises comprehensive corporate supervision over the domestic and international subsidiaries of the Group, which until now have been exercised by the President of the Management Board.

Following the restructuring of KGHM INTERNATIONAL LTD., comprised of the transferral of management and most support processes to the Company's Head Office, this action being a result of the adopted strategy of implementation of the cooperation model and integration of key international assets with domestic activities, in 2021 actions were continued mainly with respect to developing unified reporting principles, coherent internal regulations, procedures and standardised solutions with respect to individual functional areas of the international entities.

In addition, in 2021 in terms of general management principles in force to date, actions were undertaken aimed at coordinating new processes in the Group, including among others as regards commercial activities, aimed at maintaining the continuity and operational safety of the core production business. One of the most important aspects in this regard were actions arising from the COVID-19 pandemic. Coordination of these actions at the level of the Parent Entity were aimed at restricting the pandemic's negative impact on the operations of the Group's entities.

2.2. ORGANISATIONAL STRUCTURE OF KGHM POLSKA MIEDŹ S.A.

In 2021, the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised the Head Office of the Company and 10 Divisions.

Diagram 3. Organisational structure of the Company as at 31 December 2021



CHANGES IN THE BASIC PRINCIPLES FOR MANAGING THE COMPANY

As a result of a Resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. adopted on 19 June 2020, changes were made to the Statutes of the Company with respect to the adoption of resolutions by the Management Board in matters exceeding the scope of ordinary management.

Based on changes to the Statutes registered in the National Court Register (KRS), on 12 August 2020 the Management Board introduced changes to the Bylaws of the Management Board, which were approved by the Supervisory Board on 21 January 2021.

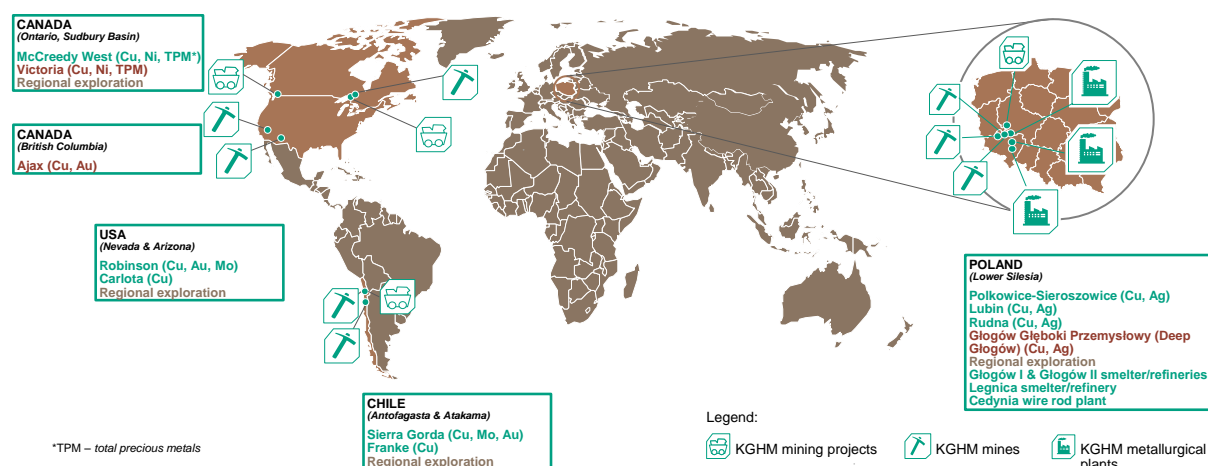
On 29 March 2021 the Supervisory Board of the Warsaw Stock Exchange adopted new corporate governance principles for companies listed on the GPW's Main Market – „Best Practice for GPW Listed Companies 2021” (Best Practice 2021). The Management Board decided to adapt the Bylaws of the Management Board to Best Practice 2021, which were then approved by the Supervisory Board. In addition, the Supervisory Board of KGHM Polska Miedź S.A., taking into account the adopted Best Practice 2021, adopted changes to the Bylaws of the Supervisory Board. As a result of the changes introduced to the Bylaws of the Management Board and of the Supervisory Board, the Company published Statement on the Company's compliance with the principles of Best Practice 2021.

2.3. MAJOR ASSETS

The KGHM Polska Miedź S.A. Group holds geographically diversified mining assets (copper ore mines with associated minerals, such as silver, molybdenum, nickel, gold and other precious metals) located in Poland, the USA, Chile and Canada as well as metallurgical facilities in Poland. The key international asset – the Sierra Gorda mine, which is a joint venture of KGHM INTERNATIONAL LTD., Sumitomo Metal Mining and the Sumitomo Corporation (since 22 February 2022 South32) – is located in Chile. In addition, the KGHM Polska Miedź S.A. Group has a mine project which is at the preproduction phase (Victoria), as well as other exploration projects.

The major assets of the KGHM Polska Miedź S.A. Group are presented in the diagram below.

Diagram 4. Location of the production assets of the KGHM Polska Miedź S.A. Group



POLAND

Polkowice-Sieroszowice mine

Location	Lower Silesia, Poland
Ownership	KGHM Polska Miedź S.A.
Type of mine	underground
Main ore type	copper ore
Associated metals	silver, lead, rock salt, gold
Type of orebody	stratiform
End product	copper ore
Copper in extracted ore in 2021	195.4 kt

The Polkowice-Sieroszowice mine is located in Lower Silesia, to the west of the town of Polkowice. Currently, it conducts mining works in four mining areas: Polkowice, Radwanice Wschodnie, Sieroszowice and in a part of the Głogów Głęboki – Przemysłowy (Deep Głogów) area.

Within the Sieroszowice mining area, there are also rich deposits of rock salt above the copper-bearing horizon.

Mining of the deposit is conducted using room-and-pillar methods with natural roof settlement, using blasting technology. The Polkowice-Sieroszowice mine's current production capacity is around 12 million tonnes of ore per year.

Rudna mine

Location	Lower Silesia, Poland	The Rudna mine is located in Lower Silesia, to the north of the town of Polkowice. It mines the copper deposit in the Rudna mining area as well as in parts of the mining areas of Sieroszowice, Lubin-Małomice and Głogów Głęboki-Przemysłowy (Deep Głogów).
Ownership	KGHM Polska Miedź S.A.	
Type of mine	underground	The copper orebody in the currently mined deposit ranges from 844 meters to 1250 meters. Mining is conducted using room-and-pillar methods with natural roof settlement with hydraulic backfill, using blasting technology. The current average production capacity is approx. 12 million tonnes of ore per year.
Main ore type	copper ore	
Associated metals	silver, lead, gold	
Type of orebody	stratiform	
End product	copper ore	
Copper in extracted ore in 2021	175.7 kt	

Lubin mine

Location	Lower Silesia, Poland	The Lubin mine is located in Lower Silesia, Poland, to the north-west of the town of Lubin. It mines the copper deposit in the mining area Lubin-Małomice at a depth from 550 meters to 1006 meters.
Ownership	KGHM Polska Miedź S.A.	
Type of mine	underground	Mining is conducted using room-and-pillar methods with natural roof settlement with hydraulic backfill, in the vicinity of the support pillar of the town of Lubin, using blasting technology. The mine's current production capacity is around 8.4 million tonnes of ore per year.
Main ore type	copper ore	
Associated metals	silver, lead, gold	
Type of orebody	stratiform	
End product	copper ore	
Copper in extracted ore in 2021	71.6 kt	

Głogów Copper Smelter and Refinery

Location	Lower Silesia, Poland	This complex of metallurgical plants located in Głogów comprises two copper concentrate smelting lines based on the one-stage smelting of concentrate in a flash furnace directly into blister copper. Apart from electrolytic copper, the Głogów Copper Smelter and Refinery produces crude lead (around 30 thousand tonnes annually), silver (around 1400 tonnes), gold (around 2 tonnes) and sulphuric acid (over 500 thousand tonnes).
Ownership	KGHM Polska Miedź S.A.	
Type of metallurgical plant	smelter/refinery	
End product	electrolytic copper	
Electrolytic copper production in 2021	455.5 kt	

Legnica Copper Smelter and Refinery

Location	Lower Silesia, Poland	The copper smelter and refinery located in Legnica has a current production capacity of 120 thousand tonnes of electrolytic copper. In operation since the 1950s based on shaft furnace technology. Apart from electrolytic copper, the plant also annually produces around 30 thousand tonnes of refined lead and also around 100 thousand tonnes of sulphuric acid, as well as copper sulphate and nickel sulphate.
Ownership	KGHM Polska Miedź S.A.	
Type of metallurgical plant	smelter/refinery	
End product	electrolytic copper	
Electrolytic copper production in 2021	122.1 kt	

Cedynia Wire Rod Plant

Location	Lower Silesia, Poland	Production at the Cedynia Wire Rod Plant, located in the vicinity of Orsk, is based on the use of copper cathodes from the Głogów Copper Smelter and Refinery and from the Legnica Copper Smelter and Refinery. The basic product of the Cedynia Wire Rod Plant is copper wire rod produced in a Contirod line amounting to around 265 thousand tonnes annually and around 18 thousand tonnes annually of oxygen-free copper wire rod produced in an UPCAST line, including oxygen-free, silver-bearing copper wire rod.
Ownership	KGHM Polska Miedź S.A.	
Type of metallurgical plant	processing	
End product	copper wire rod and Cu-OFE rod	
Production in 2021	264.3 kt of copper wire and 17.6 kt of Cu-OFE rod	

THE UNITED STATES

Robinson mine

Location	Nevada, USA	The mine is located in White Pine county, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan range, at an average altitude of 2130 meters a.s.l., near highway no. 50.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	open pit	The mine is comprised of 3 large pits: Liberty, Tripp-Veteran and Ruth. Currently, Ruth is in operation. The sulphide ore is extracted by conventional methods, and is then processed in a concentrating plant into a copper and gold concentrate, and separately into molybdenum concentrate.
Main ore type	copper ore	
Associated metals	gold and molybdenum	
Type of orebody	porphyry/skarn	
End product	copper and gold concentrate, molybdenum concentrate	
Payable copper production in 2021	53.7 kt	

Carlota mine

Location	Arizona, USA	The Carlota mine is located in the Western part of the Miami-Globe mining region, in the state of Arizona at an altitude of 1 300 meters a.s.l. Surrounding the mine is mountainous, desert terrain.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	open pit	Copper ore extraction by the Carlota mine is by conventional methods typical for open-pit metals mines, i.e. the ore is mined by blasting and then is transported by haulage trucks. In 2018 mining re-commenced in the Eder South area, while in 2021 mining commenced in the Eder North area.
Main ore type	copper ore	
Type of orebody	porphyry	
End product	copper cathodes	
Payable copper production in 2021	5.4 kt	

Due to the nature of the oxide ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.

By a decision dated 17 September 2020 the Management Board of KGHM Polska Miedź S.A. approved the designation of the Carlota mine as held for sale. The Carlota mine, starting from 30 June 2021, has been recognised as an asset held for sale. The process of disposing of the mine continues.

CANADA

Sudbury Basin

Location	Sudbury, Ontario, Canada	The Sudbury Basin is located in central Ontario in Canada, approx. 400 km north of Toronto. In this region KGHM INTERNATIONAL LTD. owns a variety of assets, though since April 2019 mining has only been conducted in the underground McCreedy West mine, due to the fact that the Morrison/Levack mine has been placed into Care & Maintenance. Extraction is through mining methods which are dependent on the geometry of the deposit – mainly a mechanised method of selective extraction using undercutting of successive levels from bottom to top at various mine levels. All of the ore extracted from the mine, containing copper, nickel and precious metals, is processed in the Clarabelle plant in Sudbury, owned by Vale.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	underground	
Main ore type	copper, nickel, platinum, palladium and gold ore	
Type of orebody	footwall/contact Ni	
End product	copper and nickel ore with precious metals	
Payable copper production in 2021	1.9 kt	

Victoria project

Location	Sudbury Basin, Ontario, Canada	This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 rights were acquired to the Victoria mineral deposit and a campaign of exploration in this region commenced. The current development scenario for the project calls for the sinking of 2 shafts to access the deposit (a production shaft and a ventilation shaft). Exploration work performed thus far has confirmed the continuity and characteristics of the mineralisation to the level of approximately 2200 meters below the surface.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	underground	
Main ore type	copper-nickel ore	
Associated metals	gold, platinum and palladium	
Mine life	14 years	
End product	copper, nickel and precious metals ore	
Forecasted annual production	16 kt Ni, 18 kt Cu	

Based on analytical work performed in 2017, the current base scenario assumes the Victoria project will be developed in two stages, comprised of the sinking of a first shaft along with additional exploration, followed by a second shaft for production.

In 2021, based on exploratory work performed, approx. 6 million tonnes of project ore resources were re-categorised to a higher recognition category (from Inferred to Indicated). In addition, work focused on preparing the foundations for the shaft's headframe, the waste rock containment pad and the site's parking lot, as well as a water treatment plant.

Ajax project

Location	Kamloops, British Columbia, Canada	The Ajax project is located in British Columbia, Canada, 400 km north-east of Vancouver near the town of Kamloops. The project assumes the construction of an open-pit copper and gold mine and an ore processing plant, with associated infrastructure. Up to 2016 work had been carried out on a Feasibility Study for the project, setting out the preliminary economic conditions for the venture. In December 2017 the Ministers of Environment and of Energy, Mines and Petroleum Resources of British Columbia (provincial authorities) decided against the granting of an Environmental Assessment Certificate for the Ajax project.
Ownership	KGHM INTERNATIONAL LTD. 80%; Abacus Mining and Exploration Inc. 20%	
Type of mine	open pit	
Main ore type	copper ore	
Associated metals	precious metals (gold and silver)	
Mine life	19 years	
End product	copper concentrate	
Forecasted annual production	53 kt Cu, 114 thousand ounces Au	

In June 2018, the Government of Canada, through the Governor-in-Council (Cabinet) issued a negative decision regarding the Ajax project as the project is likely to cause significant adverse environmental effects. The decisions were made through the environmental impact assessment process, and reflect the substantial engagement of provincial and federal governmental agencies, First Nations and a broad spectrum of stakeholders, including thousands of representatives of local communities.

As a result of the decision not to grant an EA Certificate, in 2021 work continued which was mainly related to monitoring and securing of the project terrain in accordance with law in force.

CHILE

Sierra Gorda mine and Sierra Gorda Oxide project

Location	Region II, Chile	The Sierra Gorda mine is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The mine is situated at an altitude of 1 700 meters a.s.l. and 4 km from the town of Sierra Gorda.
Ownership ¹⁾	55% KGHM INTERNATIONAL LTD, 45% SMM SIERRA GORDA INVERSIONES LIMITADA, incl. respectively: -Sumitomo Metal Mining Co., Ltd. (31.5%) -Sumitomo Corporation (13.5%)	
Type of mine	open pit	On 1 July 2015 the Sierra Gorda mine commenced commercial production (since then it has prepared statements of profit or loss). The ore is extracted using explosives, and next is loaded and hauled away in trucks to the processing plant, where it is crushed and milled.
Main ore type	copper ore	
Associated metals	molybdenum, gold	The end product of Sierra Gorda's processing plant is copper concentrate and molybdenum concentrate.
Mine life	23 years for the current deposit based on phase 1 of the investment, including actions to remove bottlenecks. Moreover, there is a possibility to extend the mine's life using new deposits	
End product	copper concentrate, molybdenum concentrate	
Payable production in 2021	189.8 kt of copper in concentrate, 14.9 million pounds of molybdenum in concentrate – on a 100% basis, share of KGHM Polska Miedź S.A. is 55%	

1) In 2021, Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation made a decision to sell all of their interests in the joint venture company Sierra Gorda SCM to the Australian mining group South32. The Management Board of KGHM Polska Miedź S.A. decided to refrain from exercising its right of first refusal to acquire the shares of the company Sierra Gorda SCM. In the first quarter of 2022 the shares belonging to Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation were transferred to South32.

In 2021, actions were continued aimed at limiting the negative impact of the COVID-19 pandemic by implementing safety measures. Sierra Gorda concentrated on implementing an optimisation program aimed at improving the work of the mine, processing plant, infrastructure and tailings storage facility.

The actions taken resulted in an increase in the annual average daily volume of the mine's sulphide ore throughput from a base level of 110 thousand tonnes of ore daily to the level of 129 thousand tonnes of ore daily. Going forward the Sierra Gorda mine is aiming to increase the plant's cost and operating efficiency.

In 2021, an agreement was signed involving the transfer of the Oxide project from the structures of KGHM Chile SpA to Sierra Gorda SCM. Preparatory actions were also continued as regards subsequent stages to develop the project, involving among others the commencement of work on updating project documentation. The Sierra Gorda Oxide project involves the leaching of the copper oxide ore of Sierra Gorda on a permanent heap and the production of high-quality copper cathodes in a solvent extraction and electrowinning (SX-EW) installation, with production capacity of approx. 30 thousand tonnes/year. At present most of the oxide ore planned for processing has already been excavated and is currently stored near the site of the future plant.

Franke mine

Location	Antofagasta region, Chile	The mine is located in a desert area of northern Chile, in the Altamira district, near the southern boundary of the Antofagasta region, near a public road connecting the mine with the Pan-American highway.
Ownership	100% KGHM INTERNATIONAL LTD.	
Type of mine	open pit	Mining is conducted by conventional open-pit methods. Due to the nature of the oxide ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.
Type of orebody	IOCG (ore type containing iron, copper and gold)	
End product	copper cathodes	
Payable copper production in 2021	10.7 kt	

The Franke mine, starting from 30 June 2021, has been recognised as an asset held for sale. The process of disposing of the mine continues.

OTHER ASSETS

In recent years, in the group of the companies located in Poland, there have been no substantial changes in the structure of the main assets. In terms of assuring the operations of the core business of KGHM Polska Miedź S.A. the domestic companies operating mainly on its behalf are still significant, including among others:

- PeBeKa S.A. – mining work contractor,
- KGHM ZANAM S.A. – a supplier and service provider for mining machinery, and also provides production maintenance services in selected areas and participates in investment tasks,
- KGHM Metraco S.A. – a supplier of copper scrap,
- „Energetyka” sp. z o.o. – the company secures part of the energy needs of KGHM Polska Miedź S.A.

Investments in closed-end investment funds fill a role in the management of selected non-core assets. A significant portion of these Funds’ assets are investments in the general field of healthcare, including the Polish Spa Group (Polska Grupa Uzdrowisk).

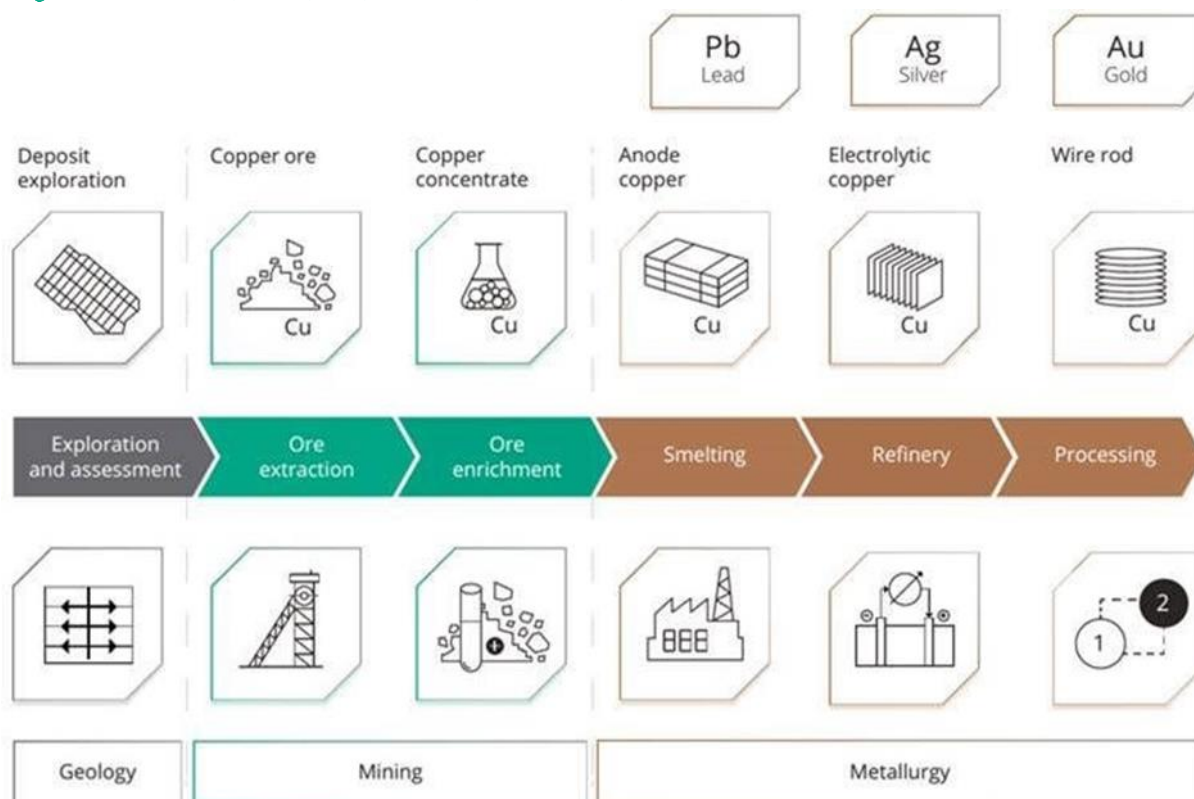
Moreover, amongst the international companies is a group operating under the DMC Mining Services brand: DMC Mining Services Ltd., FNX Mining Company Inc. (a branch of DMC), Raise Boring Mining Services S.A. de C.V. (from 11 February 2022 operating under the changed name DMC Mining Services Mexico, S.A. de C.V.), DMC Mining Services Corporation, DMC Mining Services Colombia S.A.S., DMC Mining Services (UK) Ltd. and DMC Mining Services Chile SpA, which provide services in shaft sinking, preparatory work, construction of above-ground and underground mine facilities, mine drilling, tunnel drilling for general construction purposes and engineering services.

In terms of the amount of capital engaged, the shares of the company TAURON Polska Energia S.A., listed on the Warsaw Stock Exchange, represent a significant investment. As at 31 December 2021 the share of KGHM Polska Miedź S.A. in the share capital of TAURON Polska Energia S.A. amounted to 10.39%. The value of the shares of TAURON Polska Energia S.A. held by KGHM Polska Miedź S.A. amounted to PLN 483 million.

2.4. PRODUCTION PROCESS

Production in the Group is based on the processes illustrated in the following two diagrams:

Diagram 5. Integrated geological, mining and metallurgical activities in KGHM Polska Miedź S.A.



Production in KGHM Polska Miedź S.A. is a fully integrated process, in which the end product of one technological phase is the starting material (half-finished product) used in the next phase. Mining in KGHM Polska Miedź S.A. is performed by three mining Divisions: Lubin, Rudna and Polkowice-Sieroszowice. In the subsequent phase the Concentrators Division prepares concentrate for the smelters and refineries, while the Tailings Division is responsible for storing and managing the tailings generated by the copper ore enrichment process. The organisational structure of KGHM includes two metallurgical facilities:

the Legnica Copper Smelter and Refinery and the Głogów Copper Smelter and Refinery, as well as the Cedynia copper wire rod plant.

Mining

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting technology for ore extraction. This involves access and preparatory work, comprised of the excavation of a drift network on all sides of the site to be mined, cutting of the unmined rock mass with rooms and drifts separating a number of technological pillars, as well as extraction of the ore followed by the transport of the ore to underground dumping stations, where the large rocks (oversized) are crushed and sifted through a grate, and then the crushed muck is transported to the storage areas near the shafts, from which it is transported to the surface by skip hoisting shafts.

The work related to mining of the copper ore is fully mechanised, in a 4-shift labour system, with the use of motorised mining rigs, most of which are equipped with air-conditioned cabins and systems supporting the work of the operators. Mining work is conducted in the following cycle: drilling the blasting holes with the support of motorised drilling rigs, loading blasting material into drilled holes by motorised blasting rigs, group blasting in mining areas, followed by which the time of waiting for (without the presence of mining crew) the possible occurrence of seismic tremors caused by the blasting works and the ventilation of the areas blasted (from 30 minutes to 2 hours; in seismically-sensitive areas this time may be longer) is introduced. The next stage involves the loading of the muck using motorised loaders into haulage vehicles and its transport to dumping stations. The exposed face is protected by roof anchor bolts using bolting rigs. The crushed muck is transported by conveyor belts or mine rail trolleys to the storage sites near the shafts, and is then transported to the surface. After the muck is unloaded at the shaft top, it is transported by conveyor belts or railway to the located at each of the three mines.

The operations and processes applied at each of the three ore concentrators are the same. However, due to the varied lithological and mineralogical composition of the ore from individual mines, the production layout of each facility differs. The processing technologies applied include the following individual operations: screening and crushing, milling and classification, flotation and drying of the concentrate.

The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste. The Rudna mine concentrator produces concentrate with the highest copper content (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 13.7%). The Polkowice mine concentrator produces concentrate of approx. 24.5% copper content.

The dried concentrate of approx. 8.5% moisture content is transported by rail to the following smelter/refineries: the Legnica Copper Smelter and Refinery located in Legnica, the Głogów I Copper Smelter and Refinery and the Głogów II Copper Smelter and Refinery, located in Głogów.

The flotation waste, in the form of slimes, are transported through pipelines to the Źelazny Most Tailings Storage Facility, where the sedimentation of the solid particles takes place and the clarified water is collected and redirected to the ore concentrators. The storage site also serves as a retention-dosage reservoir for excess mine and process water in circulation. Excess water is hydrotechnically discharged (periodically) to the Odra River. This method was developed and implemented in partnership with research institutions, and it has been officially approved for use under the provisions of the Water Law. Studies demonstrate that the discharging of mine and process water to the Odra River cannot result in any changes that would make the proper functioning of water ecosystems impossible or prevent conformance with the applicable water quality requirements.

Metallurgy

The copper smelters/refineries produce electrolytic copper from own concentrates as well as from purchased metal-bearing material (copper concentrates, copper scrap, blister copper).

The Legnica Copper Smelter and Refinery uses a multi-stage process whose main stages include: preparation of the charge material, its reduction smelting in shaft furnaces to the form of matte copper, conversion to the form of blister copper with approx. 98.5% copper content; fire refining in anode furnaces to produce anodes of 99.2% copper content; and electrorefining. The final product is electrolytic copper cathodes with 99.99% copper content.

The Głogów Copper Smelter and Refinery applies one-stage flash furnace technology, based on a license of the Finnish company Outokumpu. The concentrate dried to a moisture content of 0.3% H₂O, is smelted in a flash furnace into blister copper containing around 98.6% Cu, which is subject to fire refining in anode furnaces. The slag, which still contains on approximately 12%-14% copper, is sent to an electric furnace, where the copper is removed while the CuPbFe alloy obtained is sent to the convertors, from which the resulting copper, containing 98.5% copper, is also sent for refining in anode furnaces. 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.

Approx. 49% of the electrolytic copper produced by KGHM Polska Miedź S.A.'s smelters and refineries are further processed in the Cedynia Copper Wire Rod Division, where copper wire rod is produced by a continuous smelting, casting and rolling process as well as oxygen-free copper rod and oxygen-free, low-alloy, silver-bearing copper rod based on UPCAST technology are produced.

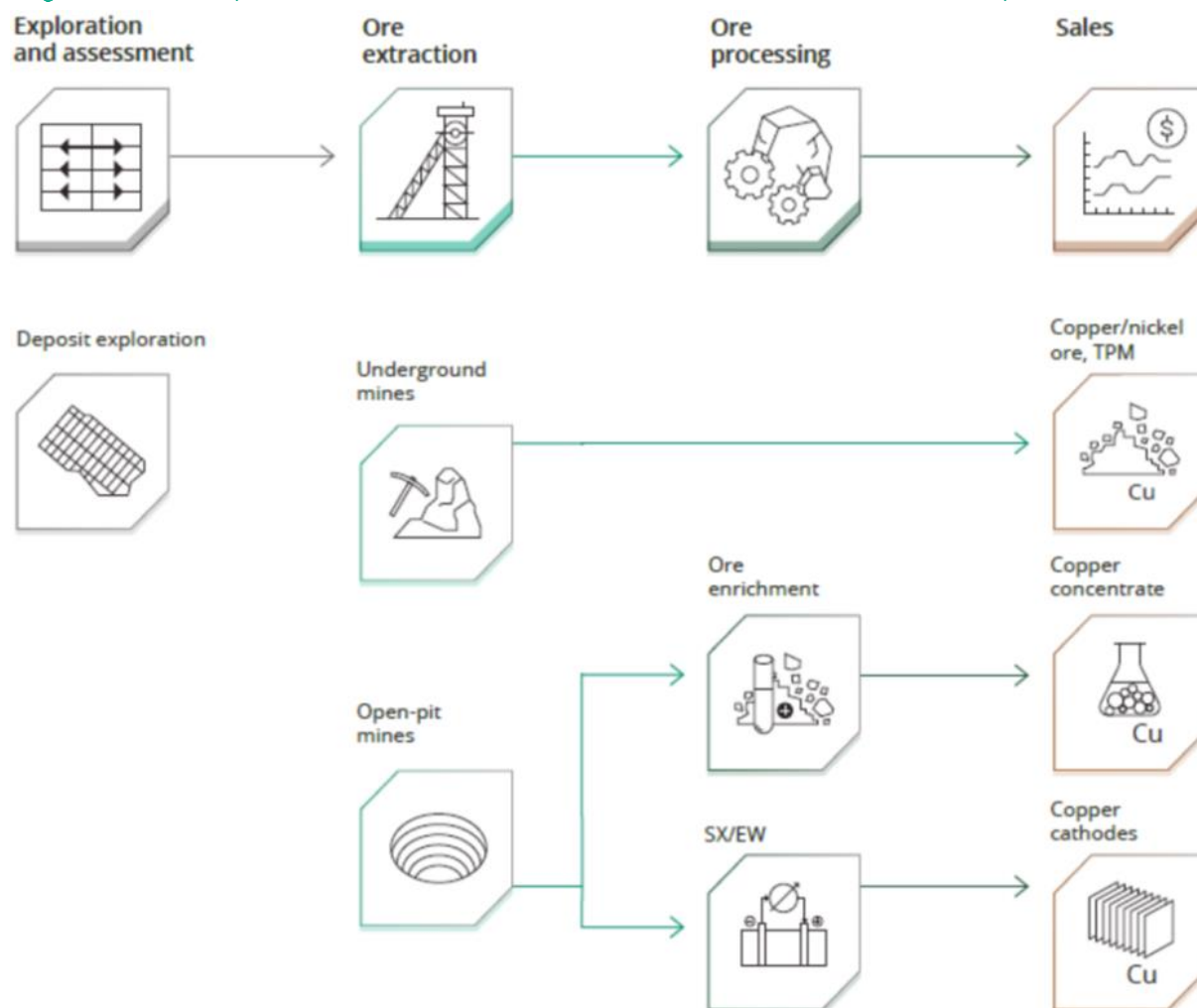
The anode slime produced during the electrorefining process at KGHM's smelters and refineries contains precious metals, and is the raw material used by the Precious Metals Plant at the Głogów Copper Smelter and Refinery to produce the following products: refined silver, gold, platinum-palladium concentrate and selenium. The electrolyte in the Tank Hall, once the copper is removed, is used to produce crude nickel sulphate.

The lead-bearing dust and slimes collected as a result of the removal of dust from technological exhaust gases at the smelters and refineries are smelted, together with decopperised convertor slag from the flash furnace production line, in Dörschel furnaces at the Lead Section of the Głogów Copper Smelter and Refinery into crude lead containing 99.3% lead. This crude lead is then refined at the Legnica Copper Smelter and Refinery to obtain the end product in the form of refined lead containing 99.85% lead.

THE SEGMENT KGHM INTERNATIONAL LTD.

The core business of the KGHM INTERNATIONAL LTD. Group of companies is the mined production of metals, such as copper, nickel, gold, platinum and palladium, from both open-pit and underground mines, as well as advancement of mining and exploration projects. The following drawing shows a simplified flowchart of the core business of the KGHM INTERNATIONAL LTD. Group.

Diagram 6. Simplified flowchart of the core business of the KGHM INTERNATIONAL LTD. Group



2.5. CHANGES IN THE GROUP STRUCTURE, EQUITY INVESTMENTS AND THEIR FINANCING

EQUITY INVESTMENTS IN DOMESTIC ASSETS

In 2021, PLN 38 million was incurred on equity investments comprised of the acquisition of shares of Polish companies of the Group. In addition, PLN 20 million in loans were granted to Group companies.

In 2021, the amount of proceeds from Polish entities of the Group was significantly higher than equity investments and amounted to PLN 145 million, including PLN 53 million from the sale of shares, PLN 46 million from the redemption of Investment Certificates and PLN 37 million from dividends paid.

Table 1. Changes in the Group's structure and organisation (Polish assets) in 2021

Acquisition of newly-issued shares in the increased share capital of KGHM ZANAM S.A.	<p>On 15 November 2021 the General Meeting of KGHM ZANAM S.A. adopted a resolution to increase the share capital of the Company by PLN 38 million. On 16 November 2021 an agreement was entered into with KGHM Polska Miedź S.A. to acquire all of the newly-issued shares in the increased share capital of the Company. The shares were paid for in cash. The increase in share capital was court registered in February 2022.</p>
Sale of shares in PGE EJ 1 sp. z o.o.	<p>On 26 March 2021 a sales agreement for 100% of the interest in the share capital of PGE EJ 1 sp. z o.o. was signed between shareholders representing 100% of the share capital of PGE EJ 1 sp. z o.o. and the State Treasury. The Agreement was signed by all shareholders in the company PGE EJ 1 sp. z o.o., and apart from KGHM Polska Miedź S.A. these were: PGE Polska Grupa Energetyczna S.A., Enea S.A. and TAURON Polska Energia S.A. (Partners).</p> <p>PGE EJ 1 sp. z o.o. is responsible for the preparation and realisation of an investment involving the construction and operation of Poland's first nuclear power plant.</p> <p>KGHM Polska Miedź S.A. had 10% of the shares in PGE EJ 1 sp. z o.o. The final sales price for the shares in the company PGE EJ 1 sp. z o.o. held by KGHM Polska Miedź S.A. amounted to PLN 53 million (after reflecting the post-transaction adjustment arising from the obligation to update the market value of the shares of PGE EJ 1 sp. z o.o., as at the date of payment of the sales price).</p> <p>In addition, the Partners and PGE EJ 1 sp. z o.o. signed an annex to the agreement dated 15 April 2015 regarding WorleyParsons, according to which the Partners are proportionally responsible for liabilities or are entitled to claims that may potentially arise as a result of resolution of a dispute with WorleyParsons, up to the level of claims together with accrued interest as at 26 March 2021.</p>
Merger of the KGHM VI FIZAN Fund with KGHM VII FIZAN Fund	<p>On 31 May 2021 the Investors Meeting of KGHM VI FIZAN and the Investors Meeting of KGHM VII FIZAN adopted resolutions expressing their consent to a merger of the Funds.</p> <p>KGHM Polska Miedź S.A. was the sole participant in the KGHM VI FIZAN and KGHM VII FIZAN Funds.</p> <p>KGHM VI FIZAN was the acquired Fund, and KGHM VII FIZAN was the acquiring Fund. The merger was performed through a transfer of the assets of the acquired Fund to the acquiring Fund and distribution to the participants in the acquired Fund of investment certificates (hereafter: IC) of the acquiring Fund in exchange for IC of the acquired Fund.</p> <p>KGHM Polska Miedź S.A. (hereafter: Participant), in exchange for 21 290 IC of KGHM VI FIZAN with a total value of PLN 110 million, received 8 824 IC, series F of KGHM VII FIZAN with a total issue price of PLN 110 million.</p> <p>On 30 July 2021 the new series F of the IC of KGHM VII FIZAN was registered.</p> <p>An order for removal of the KGHM VI FIZAN fund from the registry of investment funds was issued on 30 July 2021.</p>
Redemption of Investment Certificates of KGHM VII FIZAN	<p>On 24 June 2021, as part of the procedure of merging the KGHM VI FIZAN Fund with KGHM VII FIZAN, KGHM Polska Miedź S.A. made a call for the buyback of 421 Investment Certificates (hereafter Certificates) of KGHM VII FIZAN (hereafter Fund), from a total pool of 30 591 units held by KGHM Polska Miedź S.A. On 30 June 2021 the Fund bought back the Certificates, followed on 6 July 2021 by the payout of funds in this regard in the amount of PLN 5 million, resulting from the measurement of the Certificates in accordance with their net asset value as at the date of the buyback.</p> <p>As at the date of the buyback, or on 30 June 2021, the Certificates were removed from the registry of participants of the Fund and redeemed under the law.</p> <p>On 17 December 2021, KGHM Polska Miedź S.A. submitted a subsequent call for the buyback of 3 700 of the Investment Certificates of KGHM VII FIZAN out of the total pool of 38 994 units held by KGHM Polska Miedź S.A. On 30 December 2021 the Fund bought back the Certificates, and then on 31 December 2021 by the paid out of funds in this regard in the amount of PLN 40 million, resulting from the measurement of the Certificates in accordance with their net asset value as at the date of the buyback.</p> <p>As at the date of the buyback, or on 30 December 2021, the aforementioned Certificates were removed from the registry of participants of the Fund and redeemed under the law</p>

Conclusion of liquidation proceedings in non-operating companies Future 6 sp. z o.o. in liquidation and Future 7 sp. z o.o. in liquidation and payout of funds from the liquidation	On 16 June 2021 the process of liquidating the companies Future 6 sp. z o.o. (Future 6) and Future 7 sp. z o.o. (Future 7) was concluded. The process of liquidating the non-operating companies Future 6 sp. z o.o. and Future 7 sp. z o.o. began in July 2020. De-registration of the company Future 6 sp. z o.o. occurred on 31 December 2021, and of Future 7 sp. z o.o. on 3 January 2022.
Decrease in the share capital of Cuprum Development Sp. z o.o. <i>(a portfolio company of KGHM VII FIZAN)</i>	On 2 June 2021 the Shareholders' Meeting of Cuprum Development Sp. z o.o. adopted a resolution on a decrease in the share capital and redemption of 14 624 shares with a nominal value of PLN 500 each, representing 99.56% of the share capital. The shares subject to redemption were acquired by the company on 8 September 2021 from the sole shareholder, i.e. KGHM VII FIZAN, for the purpose of redemption. Total consideration for all of the shares acquired for the purpose of redemption amounted to PLN 47 million. The funds to buy the shares for the purpose of redemption came from the disposal of the company's main asset – real estate located in Wrocław. The share capital of the company was reduced from PLN 7 million to PLN 32 500.

In addition, the following events occurred after the balance sheet date:

- On 21 February 2022 the KGHM VII Closed-end, Non-public Investment Fund (hereafter: Fund), 100% of whose Investment Certificates are owned by KGHM Polska Miedź S.A. (hereafter: KGHM), sold to Polski Holding Hotelowy sp. z o.o. all of the shares directly held in the company Interferie Medical SPA sp. z o.o. with its registered head office in Legnica, i.e. 41 309 shares representing 67.37% of the share capital and the same number of votes at the shareholders' meeting. The remaining 32.63% of the share capital of the company Interferie Medical SPA sp. z o.o. were held by the indirect subsidiary of the Fund – INTERFERIE S.A.
- on 28 February 2022, as a result of settling a call to sell the shares of INTERFERIE S.A. (hereafter: the Company), announced by Polski Holding Hotelowy sp. z o.o., companies in the Fund's portfolio – Fundusz Hotele 01 Sp. z o.o. S.K.A. and Fundusz Hotele 01 Sp. z o.o. – sold all of the shares held in the Company, or a total of 10 152 625 shares, representing 69.71% of the share capital and granting the right to the same percent of votes at the general meeting of the company.

As a result of the above, neither KGHM nor any of the entities of the KGHM Group hold shares in the Companies: INTERFERIE S.A. and Interferie Medical SPA sp. z o.o.

EQUITY INVESTMENTS IN INTERNATIONAL ASSETS

Equity investments carried out in 2021 were made by increases in share capital.

Table 2. Changes in the Group's structure and organisation (international assets) in 2021

Increases in share capital	
Quadra FNX FFI S.à r.l.	In order for the company Quadra FNX FFI S.à r.l. to retain the status of Foreign Financial Institution under Chilean law, it was necessary to increase the company's share capital by USD 2.5 million (PLN 10 million ¹⁾) to the level set forth in the aforementioned law. As a result, KGHMI Holdings Ltd. acquired 2 500 000 shares in the increased share capital of the company Quadra FNX FFI S.à r.l.
KGHMI Holdings Ltd.	Due to the need to increase the share capital of the company Quadra FNX FFI S.à r.l., KGHM INTERNATIONAL LTD. increased the share capital of the company KGHMI Holdings Ltd. by CAD 3.1 million (representing the equivalent of USD 2.5 million and PLN 10 million ¹⁾). As a result, KGHM INTERNATIONAL LTD. acquired 3 103 000 shares in the increased share capital of the company KGHMI Holdings Ltd.
KGHM Ajax Mining Inc.	In 2021, the company KGHM INTERNATIONAL LTD. and the JV partner Abacus Mining and Exploration Corporation increased the share capital of KGHM Ajax Mining Inc. by a total amount representing the equivalent in CAD of USD 3 million (PLN 12 million ¹⁾), i.e. KGHM INTERNATIONAL LTD. by USD 2.4 million and Abacus Mining and Exploration Corporation by USD 0.6 million.

¹⁾ at the average exchange rate of the NBP from 31 December 2021

3. PRIMARY GROUP PRODUCTS



COPPER CATHODES

Copper cathodes made from electrolytic copper with a minimum copper content of 99.99% are the basic product of KGHM Polska Miedź S.A. They meet the highest quality requirements and for many years have been registered as Grade „A” on the London Metal Exchange (LME) and on the Shanghai Futures Exchange (SHFE) under three brands: HMG-S, HMG-B and HML. Additionally in February 2022 registration of KGHM's cathodes on the new exchange in China, i.e. the International Energy Exchange in Shanghai (INE), was completed.

Copper cathodes are also the primary product of the Carlota mine in the USA and the Franke mine in Chile, belonging to the KGHM INTERNATIONAL LTD. Group.

The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and conveyor belts.



COPPER WIRE ROD

8 mm copper wire rod is manufactured through the Contirod® continuous process of melting, casting and drawing. It is mainly produced from cathodes manufactured by KGHM Polska Miedź S.A. and is the second most numerous copper product volume-wise produced by KGHM. Wire rod is produced in five classes of quality, depending on the needs of the customer. The product is primarily used in the cable, electromechanical and electrotechnical industries.



SILVER

Electrolytic silver is produced mainly by KGHM Polska Miedź S.A., in the form of bars (ingots, billets) and grains containing 99.99% silver. Silver bars (weighing approx. 32 kg) hold a certificate registered on COMEX in New York as well as a Good Delivery certificate issued by the London Bullion Market Association. Grain silver is packed in bags weighing 25 kg or 500 kg. The main customers for silver are financial institutions, the jewellery industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.



COPPER CONCENTRATE

Produced by the Robinson mine in the USA, part of the KGHM INTERNATIONAL LTD. Group, containing about 20% of copper. This product is also produced by the Sierra Gorda mine in Chile (copper content is above 20%). Both of these concentrates also include gold and silver as additional products. The copper concentrates are sold for further processing as a commercial product.



MOLYBDENUM OXIDES

One of the main commercial products of the company Sierra Gorda is molybdenum oxide, arising from the processing of the molybdenum sulphide concentrate (containing approx. 48% Mo) produced by the Sierra Gorda mine. Molybdenum is used in the aircraft, defence, oil, nuclear and electronics industries.



MOLYBDENUM CONCENTRATE

Another commercial product (apart from copper concentrate) produced by the Robinson mine in the USA, part of the KGHM INTERNATIONAL LTD. Group. Production of molybdenum concentrate is derivative of the process of copper concentrate production.



GOLD

Gold in the form of bars weighing approximately 0.5 kg, 1 kg, 4 kg, 6 kg and 12 kg, containing 99.99% gold, is produced by KGHM Polska Miedź S.A. Gold is used in the jewellery industry, by banks and in the electrical industry.



ORE CONTAINING COPPER, NICKEL AND TPM (PRECIOUS METALS – GOLD, PLATINUM, PALLADIUM)

Ores containing copper, nickel and TPM are produced by the mines in the Sudbury Basin in Canada, part of the KGHM INTERNATIONAL LTD. Group. They are sold for further processing to one of the plants in the Basin.



OXYGEN-FREE COPPER ROD

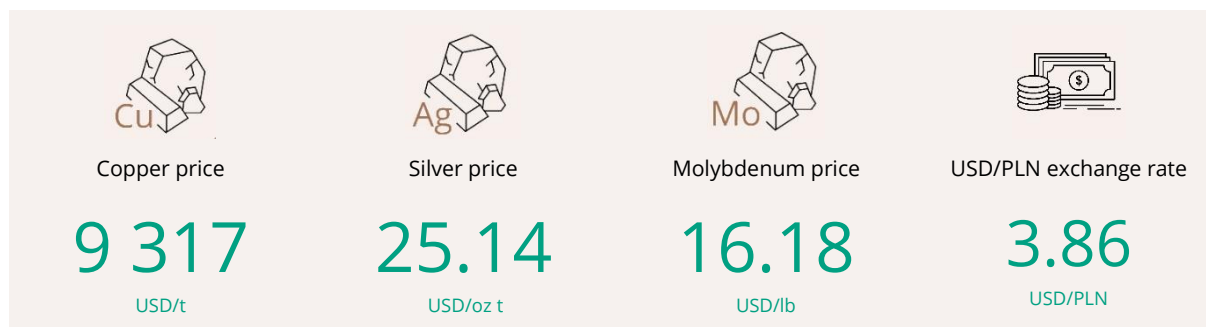
Two types of rod are produced using UPCAST® technology: Cu-OFE oxygen-free rod and CuAg(OFe) oxygen-free, silver-bearing rod. Depending on customer need, the rod is produced in several diameters: 8 mm, 12.7 mm, 16 mm, 20 mm, 22 mm, 24 mm and 25 mm with possible silver content. Customers for this product are in the cable industry, with application in the form of thin wires, enamelled wires and fire-resistant cables, as well as cables for transmitting audio and video signals. Oxygen-free copper rod is an ideal material for the process of extrusion into flat profiles and for processing through the Conform® process. It can also be used in the process of drawing into flat and round profiles. In addition, oxygen-free, silver-bearing rod is used in the manufacture of trolleys and commutators.



ETP/OFE NUGGETS

Nuggets obtained from Cu ETP1 (99.90% Cu) wire rod and Cu OFE (99.99% Cu) rod for use in the manufacture of alloys and in galvanisation. Sample nugget sizes: diameter of 8 mm, 12.7 mm; length of 10-35 mm

4. MACROECONOMIC CONDITIONS AND ANALYSIS OF THE MARKET



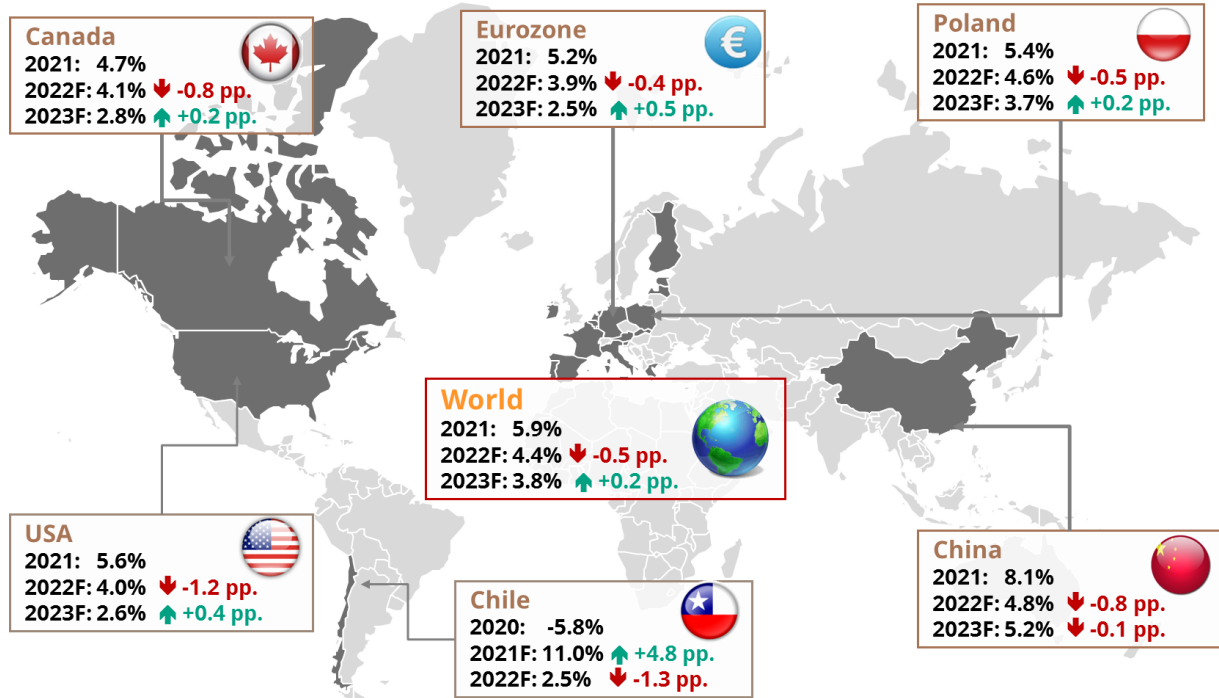
4.1. MACROECONOMIC ENVIRONMENT

The year 2021 in the international economic arena was for many reasons exceptional, and from the point of view of the global pandemic it was a turning point. Pharmaceutical companies began the mass distribution of vaccines against SARS-CoV-2 which, in combination with the enormous quantitative easing programs introduced by central banks, raised investor optimism. Indices of the equity markets once again rose, in many cases exceeding historic records. Commodities also rose in value, with some reaching historic maximums, including copper prices.

It was also a period in which there was a change in the presidency of the USA. Donald Trump's control of the White House passed to Joe Biden, who in many areas had strongly different views. They did however agree on the question of the need for further economic stimulus, in particular until such time as the vaccinations programs achieve a level insuring that the risk of subsequent lockdowns is highly limited, and the health care system stabilizes and becomes unburdened. The rebuilding the labour market was recognised as the most important. A similar direction was followed in Europe and Asia, with the differences only coming from the details of the stimulus applied. Together with numerous fiscal incentives, the world's economies were stimulated by a monetary impulse. In the first months of 2021, central banks continued to maintain low interest rates and continued to print money. A change in rhetoric came in the second half of the year, when the situation on the labour markets and in the economy began in many countries to return to a pre-pandemic state. The supply of energy commodities was reduced by reluctance towards new investments, given the rapid rise in demand resulting from emergence from the pandemic-induced restrictions in the global economy, led to a jump in the prices of energy commodities. In Europe the problem was worse due to rising geopolitical tensions. At the same time, strained or frequently severed supply chains along with consumer demand pushed by strong fiscal and monetary stimulus resulted in a destabilisation of prices around the world. Both the producer price index (PPI) as well as the consumer price index (CPI, which includes base inflation) soared, leading to substantially higher global inflationary expectations. After several months, the representatives of central banks took action, aimed at the gradual discontinuance of quantitative easing programs or the commencement of a cycle of interest rate hikes. Representatives of the American Federal Reserve, the world's largest monetary institution, began to restrict quantitative easing (QE) with a target of ceasing purchases of assets in March 2022. At the end of the year, the central banks of England and Switzerland raised interest rates, and a similar reaction was witnessed by central banks in Central-Eastern Europe and in many other emerging economies in the world. The increase in interest rates was initiated by developing countries. The jump in inflation rates in these countries also resulted in a rapid normalisation of monetary policy parameters. Following decisions that were taken primarily in the last quarter of the year, in many cases the level of interest rates is already higher than prior to the announcement by WHO of the global pandemic.

As regards the question of economic activity it is worth noting that the world became increasingly effective in dealing with the pandemic environment. Lockdowns were of a more targeted nature, as opposed to effecting the entire economy. Health services with each successive wave became more effective, though the health care systems remained tremendously strained. Delta and omicron strains appeared, which showed that the coronavirus was mutating, and subsequent mutations may be more infectious and/or dangerous. According to the last report of the International Monetary Fund (IMF), an increase in global GDP in 2021 was estimated at 5.9% versus a decrease of 3.1% in 2020. The estimated rate of growth rose significantly both in developed economies (5.0% in 2021 from -4.5% in 2020), as well as developing economies (6.5% in 2021 from -2.1% in 2020). The results of the United States' economy in 2021 was estimated at 5.6% (-3.4% in 2020), while the increase in economic activity in the eurozone is 5.2% year-to-year. The rate of growth in China in 2021 was estimated at 8.1%, accelerating from 2.3% in 2020. In the World Economic Outlook published in January 2022, the IMF's economists assessed the increase in global GDP by 0.5 percentage points less than in the autumn report. The updated outlook results to a large extent from a lowering of the rate of growth in the world's two largest economies: the USA and China, whilst amongst the arguments for reducing the rate of growth are the rapid spread of the omicron variant, the strains on supply chains, rising energy commodities prices, higher inflation and slower than previously expected consumer demand in China.

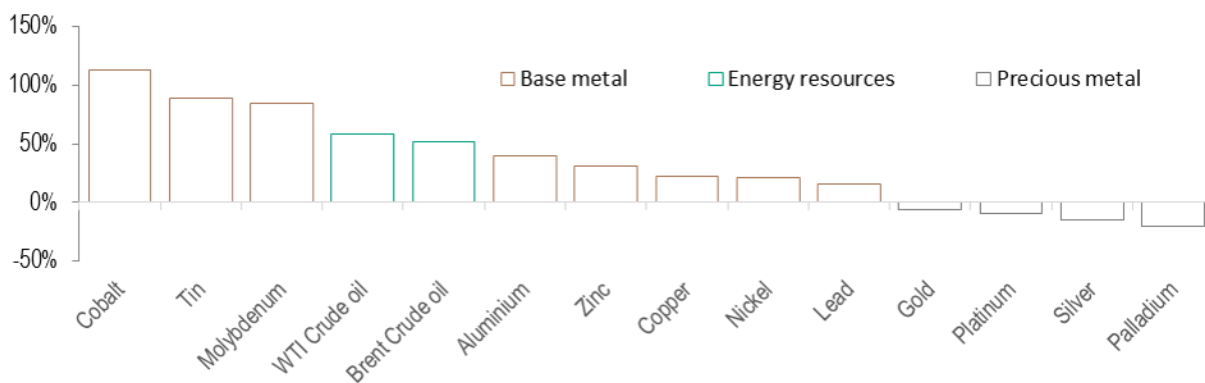
Chart 1. Forecasts of real GDP growth per the International Monetary Fund from January 2022 versus previous forecasts



Forecast (F) of actual GDP growth – International Monetary Fund – Economic Outlook – January 2022 compared to October 2021; for Chile data from October 2021, compared to July 2021; Source: KGHM Polska Miedź, International Monetary Fund

In terms of the commodities market, several events and turning points are worth noting. The necessity to carry out the green revolution put forward by several institutions and the role that copper will play, led to attention being focused on the red metal by many market participants (producers, consumers, commercial companies and investors). The start of the year did not see a continuation of the upward price trend that began in 2020. Nevertheless, unflagging demand, financial investor interest and subsequent declarations on achieving emissions neutrality not only by various governments, but also by individual companies, provided a signal for further price rises. A key moment was the declaration by China of the intention to achieve emissions neutrality, a country which in the past had frequently avoided the subject of reducing polluting emissions. Also positively received were the pollution reduction goals announced by the new administration of Joe Biden. The situation thus reached a turning point, as both countries had for decades been amongst the world's highest emitters of carbon dioxide.

Chart 2. Change in commodities prices in 2021 (first vs last day of the year)



Source: Refinitiv, KGHM Polska Miedź S.A.

Table 3. Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group – average prices⁽¹⁾

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Copper price on the LME	USD/t	9 317	6 181	+50.7	9 699	9 372	9 700	8 504
Copper price on the LME	PLN/t	36 017	23 975	+50.2	39 166	36 303	36 438	32 115
Silver price per the LBMA	USD/oz t	25.14	20.54	+22.4	23.33	24.36	26.69	26.26
Molybdenum price per the CRU	USD/lb	16.18	8.90	+81.8	19.74	19.81	13.93	11.25
USD/PLN exchange rate per the NBP		3.8647	3.8978	(0.8)	4.0421	3.8740	3.7611	3.7752
USD/CAD exchange rate per the Bank of Canada		1.2535	1.3415	(6.6)	1.2603	1.2600	1.2282	1.2660
USD/CLP exchange rate per the Bank of Chile		759	792	(4.2)	826	771	715	724

¹⁾ arithmetic average of daily quotations

Over the course of the year quite a number of interesting events occurred on the copper market. Due to concerns about an increase in the number of infections related to the mass movement of people during the Chinese New Year, Chinese authorities decided to suspend work in production facilities. This led to an above-average for the period increase in copper demand. The usual accumulation of inventories did not occur, as material was continually processed. At the same time demand for copper also rose in highly-developed countries, which were emerging from the pandemic-induced restrictions. Financial investors were stimulated to act by analytical reports of investment banks, in which analysts raced one another as regards price forecasts for the coming years.

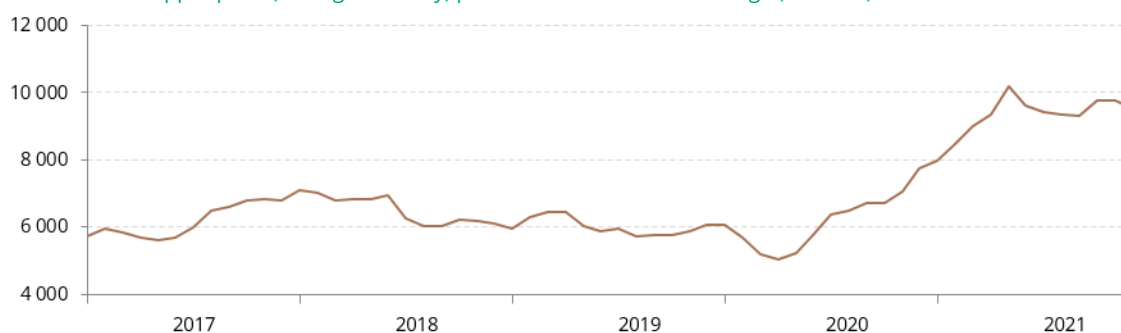
The dynamically-rising price caused concern, however, in the Chinese authorities as to the sustainability of the economic rise and the cost of functioning of the economy. Consequently, following numerous verbal interventions, the Chinese authorities decided to release some of the metal stored earlier by the State Reserves Bureau (SRB), which until then had occurred very infrequently. Despite the volume of metal sold being lower than expected, several auctions sufficed to quench the rise in the red metal's prices bring balance to the market, mainly the domestic one. The deficit of metal faced by the market's participants can be seen in information presented by the International Copper Study Group, which estimates that in the first eleven months of 2021 the copper market was in a state of deficit at the level of 339 thousand tonnes. The deficit in the whole year 2021 was estimated by the same institution at 42 thousand tonnes. It should however be recalled that these data are based among others on so-called apparent demand in China, meaning data reflecting net imports together with production, but excluding changes in warehouses, and therefore could be underestimated. On the other hand, a number of financial institutions as well as those specialising in the metals market have estimated a somewhat higher deficit on the copper market in 2021, on average at a level of around 125 thousand tonnes.

Taking into consideration the portfolio of mine projects, it is highly probable that over the next several years a substantial amount of new material will enter the copper market. Most of the mine production which soon will be made available will come from projects which are currently in the final phase of realisation. It should however be noted that there are several events which may significantly impact the fundamental situation on the market over the long-term. In jurisdictions which until now have accounted for the world's largest copper reserves, such as Peru and Chile, political changes have occurred whose consequences could increase uncertainty in the conduct of the mining business in subsequent years. A political turn to the left in these countries could mean a less predictable investment climate and a desire for higher taxation in order to equalise social well-being. It should also be noted that the desire to tax the mining sector is taking on a global character. Likewise, trends in climate policy do not support the advancement of expensive and complex investment projects. Arguments predicting another commodities super-cycle espoused by certain investment banks proposed, among others, that current prices have to rise and maintain a high level in order to motivate mining companies on the one hand to commit to more difficult investments, and on the other to increase their recycling activities.

Strong demand for copper led to a substantial draining of inventories in the fourth quarter of 2021. LME warehouse levels fell to a historic low, resulting in substantial volatility of forward curves and an immense level of backwardation (over 1000 USD/t on the intraday scale), meaning a market where futures contract prices for subsequent periods are lower than spot prices. This market condition resulted from the fears of its participants about the availability of material, as a result of which the red metal was/is worth more „today“ than „tomorrow“. In subsequent weeks the market situation calmed, among others thanks to the intervention of the LME authorities. Nonetheless, the level of inventories remains substantially lower than the historic average, while the forward curve until the end of the year continued to unremittingly reflect the fears of market participants, maintaining deep backwardation.

The average annual price of copper (cash settlement on the LME) in 2021 amounted to 9 317 USD/t. The highest price was recorded on 10 May. At that time it amounted to 10 724.50 USD/t, and set a historic record. The lowest level was recorded on 2 February. On that day the price of the red metal amounted to 7 755.50 USD/t. Taking into consideration the cash settlement price, copper in 2021 rose by 22% (the closing price on the first versus last day of the year). It is also worth noting that 2021 was also a record year in terms of copper prices denominated in the Polish złoty. The average price in 2021 amounted to 36 017 PLN/t (daily LME prices calculated after the NBP fixing).

Chart 3. Copper price (average monthly) per the London Metal Exchange (in USD/t)



Source: Bloomberg, KGHM Polska Miedź S.A.

The turn of January and February 2021 was a period when silver took centre stage on the financial market. Following a speculative upturn on the shares of the company Gamestop, this metal turned out to be another target of the speculative insurgency of investors associated on the internet forum Reddit. The intention of individual investors was to enforce the closing of supposedly enormous short positions of investments banks out of the market (a so-called short squeeze). The main instrument used for this purpose turned out to be derivatives, which was mostly felt by the options market, whose parameters remained unsteady for many weeks. Following these events, the price of silver briefly broke the 30 USD/oz t level (marking the maximum yearly price in the continuous trading system of 30.03 USD/oz t), following which in subsequent months its value systematically decreased. The minimum was reached at the end of September and amounted to 21.39 USD/oz t. Contrary to historic dependencies, the price of silver (and also gold) did not react to heightened expectations or global inflation. Evident instead were the impact of fears about the sustainability of growth and the change in monetary policy, which, after February's price jump, led to a drop in interest in precious metals as well as a decrease in warehoused silver and gold in ETFs. The continuation of global interest rates at record low levels held back investor interest in precious metals. The price of silver ended 2021 at around 23.10 USD/oz t. The average price of this metal according to the London Bullion Market Association (LBMA) in 2021 rose by around 22% and amounted to 25.14 USD/oz t versus 20.54 USD/oz t in 2020.

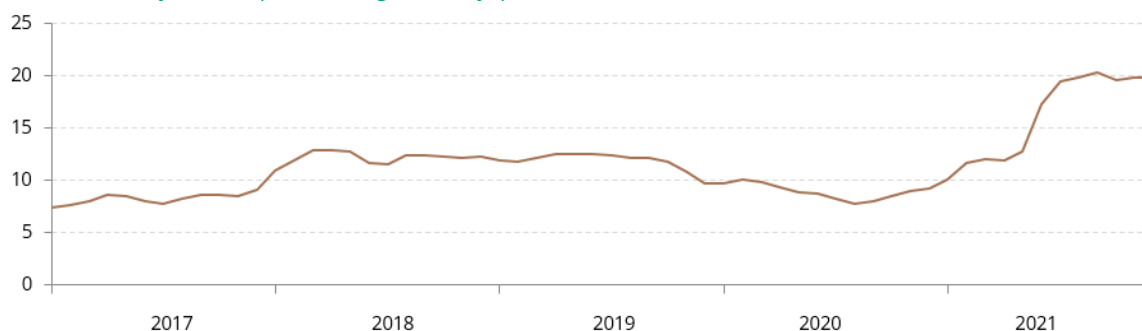
Chart 4. Silver price (average monthly) per the London Bullion Market Association (in USD/oz t)



Source: Bloomberg, KGHM Polska Miedź S.A.

The price of molybdenum rose systematically during the year, reaching its maximum price in September, and for several weeks remained above 20 USD/lb. Increasing demand for steel containing molybdenum (FeMo; in China +12% year-to-year) together with fears about metal supply being lower due to logistical interruptions and restricted mine production led to multi-year highs being reached. In the fourth quarter of 2021 prices recorded a slight decrease, mainly due to fears about demand being affected by an energy crisis impacting the stainless steel production. The average price of the metal in 2021 amounted to 16.18 USD/lb and was 82% higher than the average for 2020 (8.90 USD/lb).

Chart 5. Molybdenum price (average monthly) per the CRU (in USD/lb)



Source: CRU, KGHM Polska Miedź S.A.

Quotations of the Polish zloty, both in comparison to the euro as well as the American dollar, continued to be under the influence of the heightened volatility extent for some time on the financial markets. Currency interventions at the end of 2020 by the National Bank of Poland (NBP) aimed at maintaining a favourable PLN exchange rate for Polish exporters, were meant to anchor market participants at the start of 2021 around the level desired by the NBP. Subsequent weeks showed however that the situation on the currency market may turn out to be far from stable. At the start of June 2021 the Polish zloty reached its minimum versus the euro (approx. 4.45) and the American dollar (approx. 3.65). In subsequent months centre stage was taken by the conflict between Poland and the European Commission and rising prices in the economy with a continuation at the same time of the existing monetary policy chosen by the Monetary Policy Council. A change occurred in the fourth quarter, when the NBP unexpectedly altered its rhetoric, raised interest rates and continued to tighten monetary policy in subsequent months. The PLN exchange rate reached its highest level versus the euro and the USD in November, at the levels respectively of approx. 4.72 and approx. 4.19. The PLN ended 2021 at around 4.06 to the USD (NBP fixing of 31 December 2021). The average USD/PLN exchange rate (per the NBP) in 2021 amounted to 3.8647 and was lower by 1% than in 2020 (3.8978 USD/PLN).

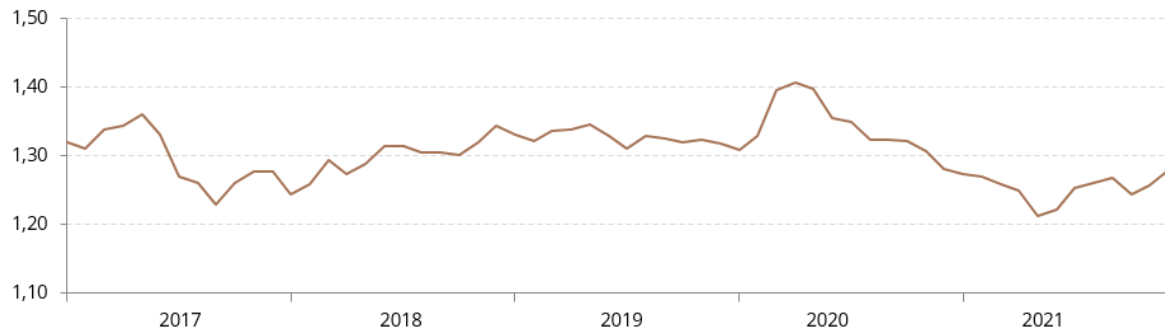
Chart 6. USD/PLN exchange rate (average monthly) per the National Bank of Poland



Source: Bloomberg, KGHM Polska Miedź S.A.

Despite subsequent waves of coronavirus infections and the associated restrictions introduced by the government, the Canadian economy is returning to growth. This does not however alter the fact that after three quarters GDP remains below the level of 2020. As regards the question of monetary policy, in November the Canadian central bank ended its quantitative easing program, while inflation, which remains above the target level (1-3%), is slowly leading to a change in monetary policy rhetoric and increases the likelihood of interest rate hikes. In 2021 the Canadian dollar recorded a slight strengthening versus the American dollar, taking into consideration the quotations of this currency pair in the first and last days of the year. The average USD/CAD exchange rate (per the Bank of Canada) in 2021 amounted to 1.2535 and was 7% lower than the rate recorded in 2020 (1.3415).

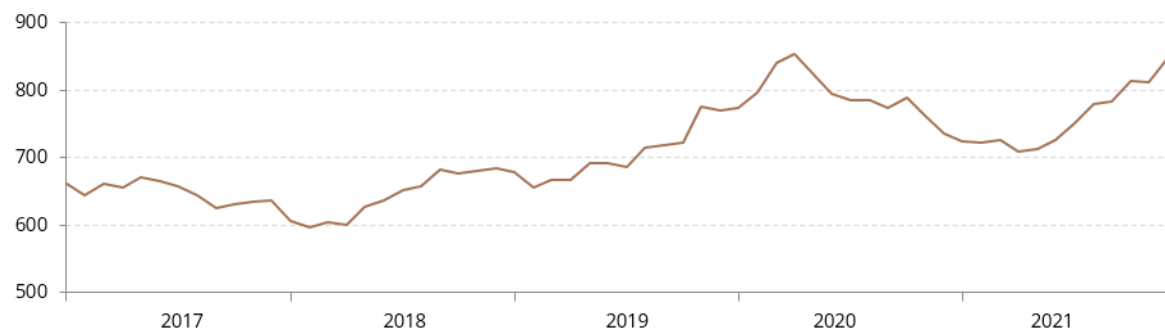
Chart 7. USD/CAD exchange rate (average monthly) per the Bank of Canada



Source: Bloomberg, KGHM Polska Miedź S.A.

Events in Chile in 2021 were mainly dictated by the electoral calendar. Since the mass protests of 2019 the citizens of Chile have expected changes in their constitution, which in consequence led to the victory of the leftist candidate Gabriel Boric. A substantial challenge for the mining industry will be the further evolution of tax law and the direction of new legislation. The first draft act and the copper mining taxation it contained met with substantial opposition by the industry's representatives and resulted in continued negotiations. If the current wording of the act is adopted, it is highly probable that the attractiveness of investing in copper resources-rich Chile in terms of new mining projects will be substantially decreased. These fears to a large extent have been reflected in the price of copper which is significant not only for the country's balance of payments, but also for the USD/CLP exchange rate, which during the year systematically weakened. The average annual USD/CLP exchange rate (per the Bank of Chile) in 2021 amounted to 759, meaning a strengthening of the local currency as compared to the USD by 4% (792 in 2020).

Chart 8. USD/CLP exchange rate (average monthly) USD/CLP per the Bank of Chile



Source: Bloomberg, KGHM Polska Miedź S.A.

MACROECONOMIC CONDITIONS AT THE START OF 2022

The start of 2022 was rich with another batch of events of significance for the global economy. Though the world is dealing with the highly-contagious omicron strain, a regional director of the World Health Organisation (WHO) stated at the end of January that it is highly probable that the end of the pandemic in Europe is in sight. The level of vaccinations amongst society and resistance gained from enduring the disease is leading an increasing number of European countries to ease or completely remove restrictions. While this is a positive signal for economic activity, the coronavirus remains a threat to the continuity of international supply chains and continues to be a cause of potential interruptions to commercial trade.

The global economy continues to deal with an energy crisis which, given limited capacity to increase supply, is driving up energy prices. These in turn, given supply chains for other goods which remain strained and thanks to strong consumer demand, are causing higher inflation on the global scale and are driving up costs. Rising costs are increasingly perceptible in subsequent links of the global economy. Moreover, in response to rising prices and the risk of inflation expectations getting out of control, central banks are further tightening the monetary policy. The question being posed by market participants is not whether the leading central banks will raise interest rates, but what the scale of the tightening will be and the impact of these hikes on global economic activity.

There has been no decrease in doubts as to the further development of the situation, while the events in eastern Europe and the Russian invasion in Ukraine are not facilitating an assessment of the market environment. Particularly in the context of energy carrier prices, and amongst these natural gas, whose primary supplier to Europe is Russia. There also appeared above-average volatility on the currency market. The weakening currencies of countries in our region, in combination with the jump in energy commodities prices, are driving inflation, which already at the turn of the year was the highest in many years. An additional problem for European industry are the rising costs of European CO₂ emission rights certificates, which in recent weeks have been marking new price records. The increase in the prices of these certificates may lead to discussions on a broader scale and is leading to actions aimed at reforming the system and perhaps restricting speculative activities.

The impact of the war in Ukraine on the European and global economy is difficult to assess at this time, but problems with the supply of numerous products, including steel, as well as serious interruptions in the production and export of agricultural products, may have serious social and economic repercussions.

4.2. ANALYSIS OF THE GLOBAL MARKET FOR THE GROUP'S BASIC PRODUCTS

The primary products of the KGHM Group, i.e. copper concentrates, cathodes, copper wire rod and silver in the form of bars and grains, are traded on the highly-competitive global market as well as in reference to the commodity markets. Markets for the individual products offered by KGHM have varied rules and customs concerning trading and standard prices. Their incomparability is also due to the characteristics of products, which impacts their usage and the diversity of market participants.

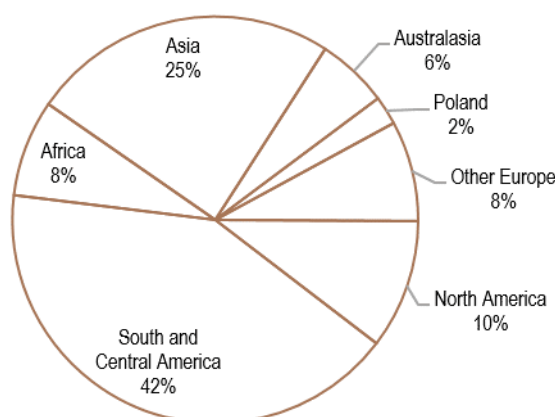
COPPER

The primary products offered by the companies of the KGHM Group are concentrates, cathodes and copper wire rod. For all of these products, the price benchmark (i.e. the global benchmark of copper prices for physical sales contracts of copper-bearing materials and products) is stock market quotations, with the cash settlement of the London Metal Exchange (LME) being most commonly used. Less commonly used are alternative quotations of copper on the stock exchanges in New York (COMEX) and the Shanghai (Shanghai Futures Exchange -SHFE). Grade "A" type refined copper cathodes, with a copper content of at least 99.99%, are quoted on the LME (under the standard BS:EN 1978:1998 - Cu-CATH-1, the standard sets the maximum level of impurities for Cu-Cath-1 copper at 0.0065%). In order to be able to apply stock exchange prices to purchase/sale transactions of the products to which this quality standard is not applied (i.e. all types of copper-bearing materials such as copper concentrates, copper scrap or more processed products like copper wire rod), market participants have developed a premium and discount system, which adjusts stock quotations. It allows setting of a market price for a product which takes into account its processing stage, its physical state and chemical makeup, as well as costs of transport and insurance to an agreed delivery destination and the current availability of the metal in a given location.

Copper concentrates

Copper concentrate is a product made by processing and enriching copper ore, which usually has a relatively low metal content and is not suitable for direct metallurgical processing. Usually, copper content in concentrate varies from percentages in the teens to several tens of percent, which enables further processing in copper smelters and refineries. The cost of transporting products with a lower copper content (for example copper ore) basically eliminates them from trade in the global market (with certain exceptions), therefore it may be assumed that copper concentrate is the first product of processing copper ore that may be generally traded. As a result of metallurgical processes copper is produced as well as the by-products of processing (mainly precious metals, sulphuric acid, lead etc.). The main participants of the concentrate markets are mines supplying the product on the market and smelters and refineries, for which the concentrates are materials for production. Trading companies also play a role in the international trading, intermediating in the purchase/sale transactions and offering additional services expected by the parties. In 2021, the total global production of copper in copper concentrate is estimated at 17.4 million tonnes (according to CRU).

Chart 9. Geographical breakdown of copper concentrates production in 2021 (source: CRU, KGHM Polska Miedź S.A.)



Copper concentrates require processing into refined copper, which leads to incurring processing costs and the incomplete recovery of metals at individual production stages. Therefore, the transaction price should have a set of discounts as compared to quoted prices for refined copper. The benchmark of these discounts (for TC/RC) is determined during negotiations with the main producers of concentrates (Freeport McMoRan, Antofagasta) and their customers (mainly Chinese and Japanese smelters and refineries).

Companies of the KGHM Group participate in the copper concentrate markets mainly by selling concentrate from Sierra Gorda in Chile and from Robinson in the USA. At the same time KGHM purchases copper concentrates from the market with characteristics suitable for more efficient utilisation of the production capabilities of the smelters and refineries in Poland.

Copper cathodes

Refined copper in the form of copper cathodes is the end product of the smelting and refining processes to which the copper-bearing materials are subjected (including concentrates, copper blister, anodes and copper scrap). Primary commodities exchanges (including the LME and SHFE) enable cathodes to be registered (Grade A type, with a copper content of at least 99.99% under the BS:EN 1978:1998 - Cu-CATH-1 standard), and therefore their trading on exchanges and through LME-approved warehouses. The copper cathodes produced by KGHM are registered on the LME and SHFE as well as on INE, under the brands: HML, HMG-B and HMG-S. Unregistered cathodes are also traded on the physical market (for example those that do not meet quality parameters or the minimal yearly production conditions set by exchanges). One example of unregistered cathodes produced by KGHM are the Carlota and Franke brands. The main participants in the cathodes market are mining and smelting companies producing copper in the form of cathodes and wire rod plants and other companies engaged in copper processing, which use cathodes to produce wire rod, other rods, flat bars, pipes, sheets and belts. Similarly as in the case of copper concentrates, trading companies and financial institutions intermediating in the cathodes trade also participate in the market. In 2021, CRU estimated total global production of refined copper at 24.3 million tonnes.

It is a standard practice on the Grade “A” copper cathodes market to add a producer’s premium to the prices set by global exchanges. Its level allows the producer to cover the cost of transport and insurance to the agreed delivery destination, and it also includes the premium for quality (of a given cathodes brand) and supply-demand situation on a given market.

The companies of the KGHM Group participate on the cathodes market mainly by selling cathodes from the Group’s Polish assets. The Głogów Copper Smelter and Refinery produces cathodes of the HMG-S and HMG-B brands, while the Legnica Copper Smelter and Refinery produces cathodes of the HML brand, registered on the exchanges in London (LME) and in Shanghai (SHFE). Moreover, the KGHM Group offers cathodes produced through the leaching and electrowinning (SX/EW) process in the Franke mine in Chile and in the Carlota mine in the United States. Production of refined copper in KGHM Polska Miedź S.A. amounted to 577.6 thousand tonnes, which represents approx. 2.4% of global production.

Chart 10. Geographical breakdown of refined copper production in 2021 (source: CRU, KGHM Polska Miedź S.A.)

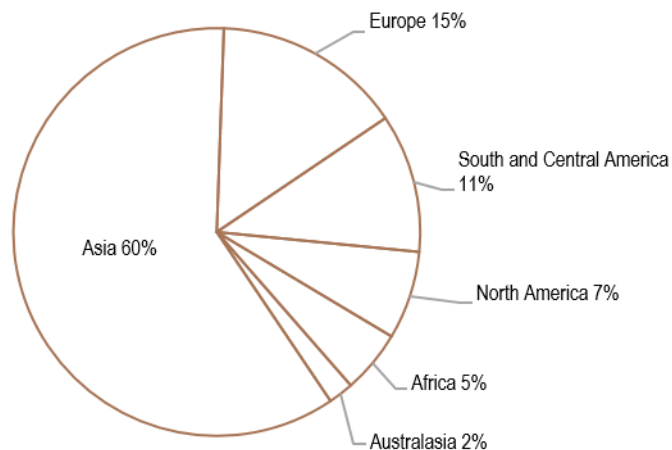
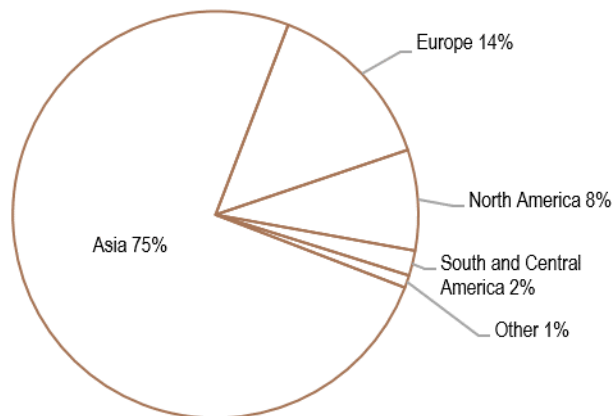


Chart 11. Geographical breakdown of refined copper consumption in 2021 (source: CRU, KGHM Polska Miedź S.A.)



Copper wire rod

Copper wire rod is manufactured in the continuous process of melting, casting and drawing in plants processing refined copper. The material used in this production cycle is mainly copper in the form of cathodes, although higher-grade copper scrap may also be used. Wire rod is a half-finished product used in the production of single wires and strands used to produce conducting cores in cables and electric wires (for example: enamelled cable, car cables, power cords etc.). Similarly

as for copper cathodes, trading companies are also involved in trading of half-finished products, apart from companies with production facilities (wire rod plants and companies processing wire rod into cables and bundled wires). The wire rod market, due to the quality characteristics of the product, is more of a local market, which also means that it is highly competitive and demanding. In 2021, total global production of copper in the form of wire rod is estimated by CRU at 19.3 million tonnes.

Chart 12. Geographical breakdown of copper wire rod production in 2021 (source: CRU, KGHM Polska Miedź S.A.)

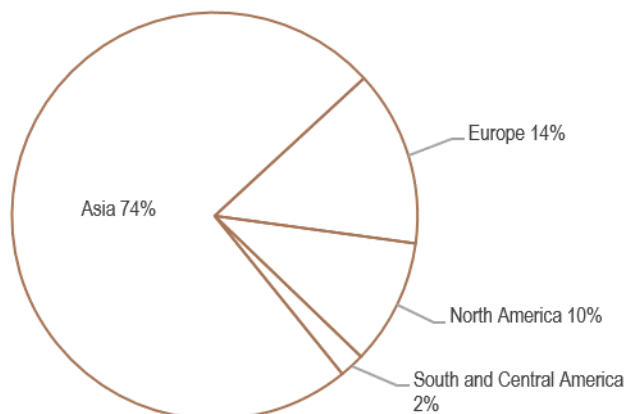
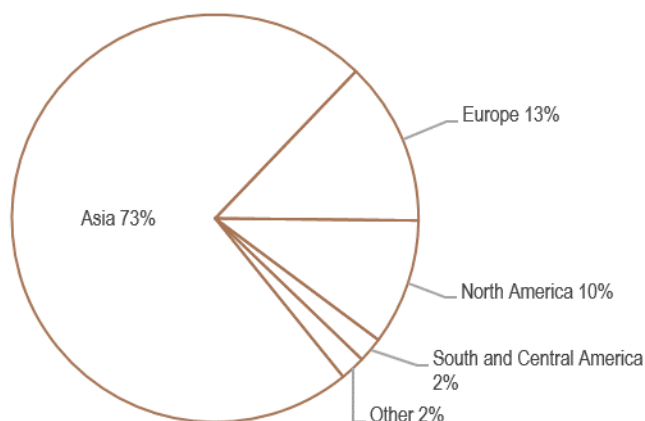


Chart 13. Geographical breakdown of global wire rod consumption in 2021 (source: CRU, KGHM Polska Miedź S.A.)



Wire rod's price structure, apart from the copper quotations on the London Metals Exchange, also includes a producer's fee (added to cathodes) and the refining charges due to the costs of processing cathodes into wire rod. KGHM Polska Miedź S.A. produces wire rod in the Cedynia Wire Rod Plant in Orsk.

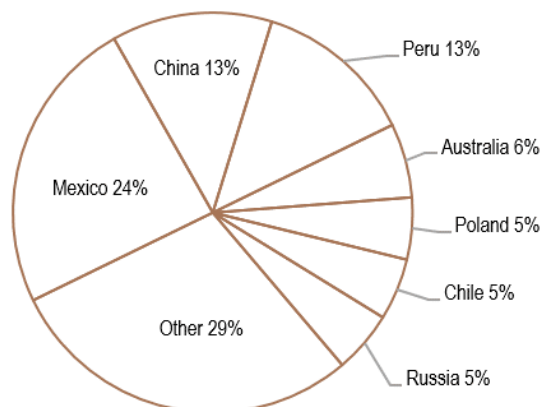
Copper wire rod and wires are utilised in numerous sectors of the modern economy, while the products created from them (cables and bundled wires) account for approx. 60% of world copper consumption. The vast majority of wire rod and wires (estimated at over 10 million tonnes annually), is used in construction and infrastructure. Amongst the most popular products manufactured from wire rod and wires are power lines, cables in the electrical installations in buildings and winding wires (together approx. 70%).

In 2021, production of wire rod and cable by KGHM Polska Miedź S.A. amounted to 281.9 thousand tonnes, or nearly 11% of European production. This result makes the Company one of Europe's leading producers of these copper half-finished products.

SILVER

Approx. 73% of global metallic silver production is a by-product of mining ores of other metals. Silver, due to its unique physical characteristics, is used in the jewellery, electronics and electrical industries, as well as in medicine, optics, the energy industry and many others. It is also applied in the latest technological solutions, among others in infrastructure, the automotive industry and photovoltaics. In total, industry utilises approx. 50% of global silver production. It is also a valued investment metal. According to Metals Focus preliminary estimates, in 2021 global production of mined silver amounted to 25.8 thousand tonnes.

Chart 14. Geographical breakdown of global mined silver production in 2021 (source: Metal Focus – preliminary data, KGHM Polska Miedź S.A.)



Usually, participants in the silver market make use of London Bullion Market Association quotations when setting the price for silver in physical transactions, after adjusting for current market conditions.

KGHM sells silver in the form of bars and grains (produced at the Głogów Copper Smelter and Refinery) and is one of the largest producers of metallic silver. In 2021, KGHM produced 1 332 tonnes of silver, making the Company one of the world's leading producers of silver. This metal in the form of bars is registered under the brand KGHM HG and has a registered certificate on the New York Exchange COMEX as well as Good Delivery certificates issued by the London Bullion Market Association. Silver is supplied in the form of grains to the jewellery and metals industries, which produce alloys containing silver. Silver in the form of bars (ingots) is mainly purchased by financial institutions and industry.

5. STRATEGY OF KGHM POLSKA MIEDŹ S.A.

5E – Five development directions



Elasticity/Flexibility



Efficiency



Ecology



E- Industry



Energy

5.1. STRATEGY DESCRIPTION – BASIC ELEMENTS OF THE STRATEGY OF KGHM POLSKA MIEDŹ S.A.

Until the end of 2021 the Company advanced the „Strategy of KGHM Polska Miedź S.A. for the years 2019-2023” which was approved on 19 December 2018. The Strategy was based on four development directions (Elasticity/flexibility, Efficiency, Ecology and E-industry), arising from global market trends. The aforementioned directions were reflected in six identified strategic areas, with individualised and measurable main goals:

<i>Strategic area</i>	<i>Main goal</i>
Production	Maintain cost-effective Polish and international production
Development	Increase the KGHM Polska Miedź S.A. Group's efficiency and flexibility in terms of its Polish and international assets
Innovation	Increase the KGHM Polska Miedź S.A. Group's efficiency through innovation
Financial stability	Ensure long-term financial stability and the development of mechanisms supporting further development
Efficient organisation	Implement systemic solutions aimed at increasing the KGHM Polska Miedź S.A. Group's value
People and the environment	Growth based on the idea of sustainable development and safety as well as enhancing the Group's image of social responsibility

To date, advancement of the Strategy of KGHM Polska Miedź S.A. for the years 2019-2023 enabled the Group to take advantage of favourable macroeconomic trends to increase the scale of its operations and to improve its production results and financial condition.

Nonetheless, due to the rapid changes which took place during this time in the general environment, a review was carried out and the adopted strategic assumptions were updated. The justification for this review and redefinition was concurrent with the extraordinary market situation resulting from the SARS-CoV-2 virus epidemic.

On 14 January 2022 the Company's Supervisory Board approved the „Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040” as presented by the Management Board. This is the Company's current binding Strategy, reflecting the macroeconomic environment and the geopolitical situation affecting the mining sector. In the activities planned a particular place is held by the green transformation through renewable energy and modern technology. The updated Strategy does not alter the Company's current approach to its business activities. KGHM continues to act responsibly and to think long-term about the Company's future.

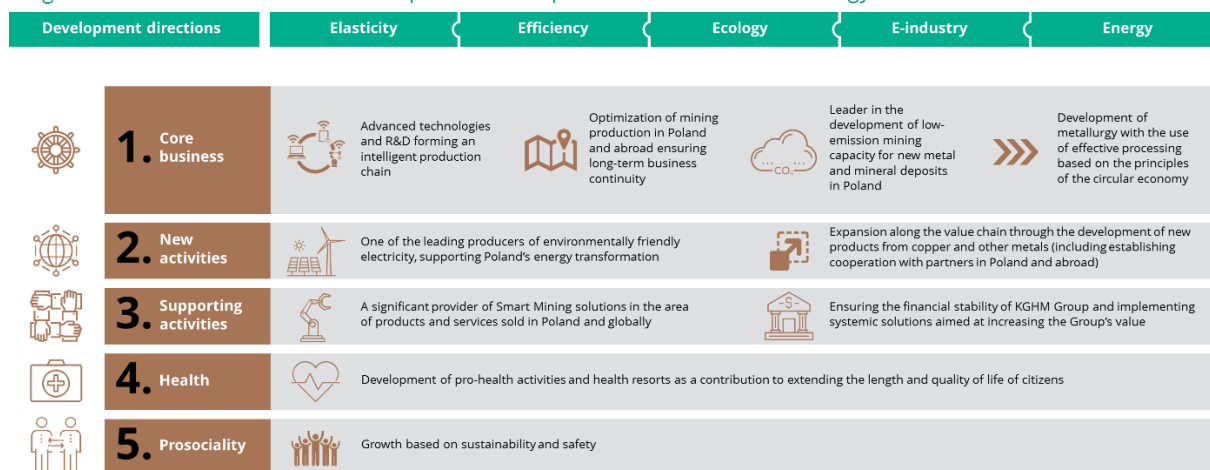
Therefore, the Company's mission and vision remain unchanged, and the goals of the Strategy are ambitious, but attainable. To reflect the changes in the environment, the four existing strategic development directions (Flexibility/elasticity, Efficiency, Ecology and E-industry) were updated to include a fifth element – Energy.

Diagram 7. Mission, Vision and Development Directions of the Strategy of KGHM Polska Miedź S.A.



This „5E” Strategy is now comprised of 5 pillars (Core business, New activities, Supporting activities, Health, Prosociality), based on 5 updated development directions.

Diagram 8. 5 Pillars based on 5 updated development directions in the Strategy of KGHM Polska Miedź S.A.



These pillars have been assigned individualised main goals as well as key performance indicators, as follows:

I. PILLAR - CORE BUSINESS, COMPRISED OF THE FOLLOWING ELEMENTS:

- Advanced technology and R&D creating an intelligent production line.
- Optimisation of mine production domestically and abroad ensuring long-term operational continuity.
- Leadership in the development of low-emissions mining capacity as regards new metals and minerals deposits in Poland.
- Development of metallurgy utilising efficient processing based on Circular Economy principles.

Main goal	Goals for 2030:	Base level (2020)
Strengthen the position of the KGHM Polska Miedź S.A. Group as a global player in the mining and metallurgy sector	1) Domestic copper production – approx. 600 thousand tonnes of electrolytic copper (including production based on a higher amount of purchased materials and copper from recycling)	approx. 560 kt of electrolytic copper
	2) International copper production – higher production by the international assets of KGHM by extending their life-of-mine, developing assets in the mine projects portfolio held and increasing the resource base thanks to advancement of the International Exploration Strategy	approx. 150 kt of payable copper
	3) Silver production – maintain the position amongst the world’s top-three producers of silver (approx. 1200 tonnes of silver annually).	approx. 1 320 tonnes of silver
	4) Profitability – 10.2% (Average ROCE (return on capital employed) from the last 3 years	8.5%
	5) Cost competitiveness – 3rd quartile	4th quartile

II. PILLAR - NEW ACTIVITIES, COMPRISED OF THE FOLLOWING ELEMENTS:

- To be one of the leading, environmentally-friendly electricity producers, supporting Poland's energy transformation.
- Expansion along the value chain by developing the production of new products from copper and other metals (including initiating relationships with partners in Poland and abroad).

<i>Main goal</i>	<i>Goals for 2030:</i>	<i>Base level (2020)</i>
Diversification and aiming at sustainable development by building internal generation capacity from low-emission sources	1) Energy produced – min. 50% of consumption.	22% of consumption (694 GWh)
	2) A reduction in estimated CO ₂ emissions resulting from electricity consumed – 1.0 million tonnes of CO ₂ .	1.9 million tonnes of CO ₂ (in 2019).
	3) Diversification of the commercial offer in terms of metals (increase in share of new half-finished copper products and highly processed copper products (OFE-Cu wire, OFE-Cu granules) and other metals in the total sales of the Group) – 10%.	2%

III. PILLAR - SUPPORTING ACTIVITIES, COMPRISED OF THE FOLLOWING ELEMENTS:

- To be a major supplier of Smart Mining solutions for products and services sold in Poland and globally.
- Ensure the financial stability of the KGHM Polska Miedź S.A. Group and implement systemic solutions aimed at enhancing its value.

<i>Main goal</i>	<i>Goals for 2030:</i>	<i>Base level (2020)</i>
Redefine the way that existing assets supporting the core business are utilised	1) Recycling of scrap - approx. 350 thousand tonnes of copper scrap (copper-bearing materials of varied metals % content).	124 kt of copper scrap
	2) Revenues from sales on foreign markets of selected Group companies - using 2020 as the base year = 100%: an increase by 2030 of 147% versus the base year for the companies KGHM Zanam S.A., Nitroerg S.A. and PeBeKa S.A., and 163% versus the base year for the company DMC Mining Services Ltd.	2020 as base level = 100%

IV. PILLAR - HEALTH, COMPRISED OF THE FOLLOWING ELEMENTS:

- Development of activities promoting health and health resorts (spas) as a contribution to extending the length and quality of life for citizens.

<i>Main goal</i>	<i>Goals for 2030:</i>	<i>Base level (2020)</i>
Development of the spa assets held as a contribution to extending the length and quality of life for society as a whole	1) LTIFR – the goal of 0 accidents.	LTIFR – 7.3
	2) TRIR – the goal of 0 accidents.	TRIR – 0.52
	3) Level of support for the area of Health carried out by the KGHM Polska Miedź Foundation – approx. PLN 7 million.	approx. PLN 11.5 mn ¹

1) Due to the epidemic situation, the area „Health and Safety” was a particular priority for the KGHM Polska Miedź Foundation in 2020, thus the significantly higher financing in this area in the base year.

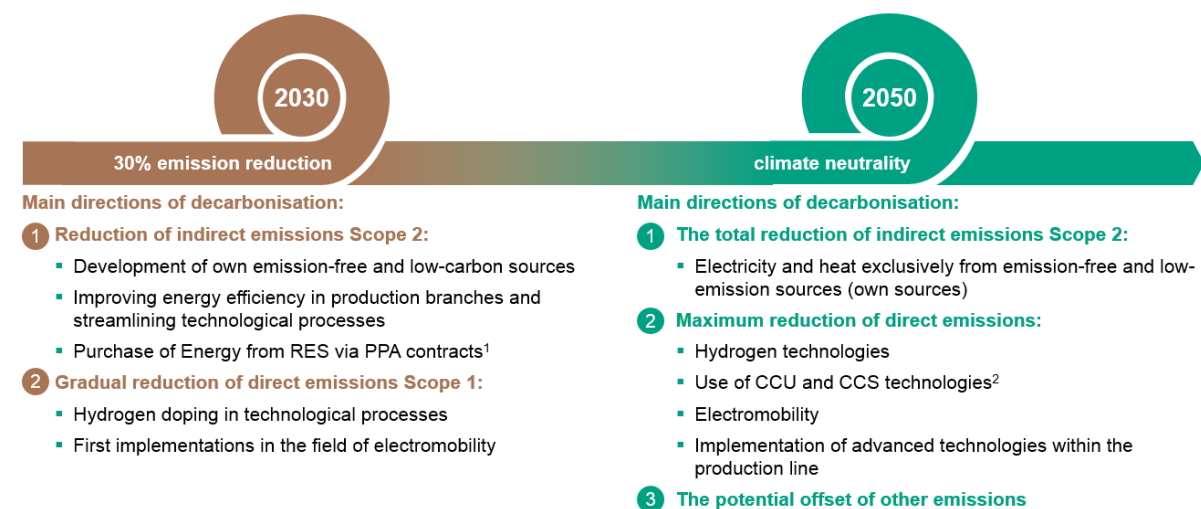
V. PILLAR - PROSOCIALITY, COMPRISED OF THE FOLLOWING ELEMENTS:

Growth based on the idea of sustainable development and safety.

<i>Main goal</i>	<i>Goals for 2030:</i>	<i>Base level (2020)</i>
Growth based on the idea of sustainable development and safety	1) Support for the fair transformation of the mining sector.	Not applicable
	2) Number of volunteer projects advanced – 30.	25
	3) Level of support for the arts, sport and health approx. PLN 48 million.	approx. PLN 38.5 million

The Strategy of the Group to the year 2030 also includes climate-related goals as respects reducing emissions by KGHM which are consistent with the Climate Policy of KGHM Polska Miedź S.A. – being a complementary document to the Strategy – as well as climate goals for the years 2030 and 2050.

Diagram 9. Emission reduction targets of KGHM Polska Miedź S.A. and the main directions of decarbonisation



1. PPA – Power Purchase Agreement, an agreement for the supply of electricity between two parties

2. CCS/CCU - Carbon Capture, Storage and Utilisation Technologies, technologies for capturing, storing and utilizing carbon dioxide

5.2. DEVELOPMENT DIRECTIONS OF THE KGHM POLSKA MIEDŹ S.A. GROUP

POLICY REGARDING THE DEVELOPMENT DIRECTIONS OF THE KGHM GROUP

During the reporting period being discussed, policy regarding the development directions of the KGHM Polska Miedź S.A. Group was continued. Further actions were also taken aimed at adapting the Group's organisational functioning model to the business model of KGHM Polska Miedź S.A. and the market environment. In terms of the domestic companies, development policy was also aimed at cooperation between the Group's entities and at eliminating overlapping areas of competence in terms of individual entities.

With respect to implementation of the Strategy, in the case of the international companies of the Group, KGHM aims to develop unified reporting principles, coherent internal regulations, and standardised solutions with respect to individual functional areas of the international entities.

INTENTIONS REGARDING EQUITY INVESTMENTS

In the case of the companies in Poland, the primary development goal is to ensure continuity and safe working conditions in the core business of KGHM Polska Miedź S.A. and at integrating the Group around the idea of sustainable development, including the implementation of development initiatives under the Circular Economy aimed at limiting the environmental footprint.

In terms of implementation of the Strategy, as regards the Group's international companies, a variety of reorganisational actions were undertaken aimed at integration of KGHM INTERNATIONAL LTD. in Canada with the Company's activities in Poland and the transferal of some of the business functions of KGHM INTERNATIONAL LTD. to Poland. In 2021, these actions were continued, mainly in terms of developing uniform internal regulations, procedures and the standardisation of solutions in individual areas of the Company's activities. In addition, internal actions were undertaken aimed at advancing development scenarios for individual international assets in the Company's portfolio.

INVESTMENT GOALS

Investment projects planned and approved for advancement in 2021 support the achievement of strategic goals in all areas of the Strategy. Maintaining cost-effective domestic production will be possible by continuing and bringing into operation key investments, such as:

- Development of the Żelazny Most Tailings Storage Facility - the Southern Quarter and the Tailings Segregation and Thickening Station.
- Replacement of mining machinery.
- Outfitting the mines along with the construction of conveyor belts.
- Construction of mine de-watering systems.
- Construction of air cooling systems.
- Modernisation of the electrorefining sections in the metallurgical plants.

Taking into consideration the development of KGHM by enhancing the efficiency and flexibility of the KGHM Group in terms of its Polish assets, investments which will be advanced include:

- The Deposit Access Program (Deep Głogów along with access and development tunnels).
- Development of the Żelazny Most Tailings Storage Facility above a crown height of 195 m a.s.l.
- Documentation for the Hybrid Legnica Smelter and Refinery.
- Construction of photovoltaic power plants.
- Searching for and exploring deposits under areas of exploration concessions.

Moreover, following the idea of sustainable development, investment projects will be continued such as those adapting the metallurgical installations to BAT conclusions for the non-ferrous metals industry and to restrict emissions of arsenic (BATAs).

In addition, the Company will continue to carry out work on new, intelligent technologies and production management systems, based on online communication between elements of the production process and advanced data analysis, in accordance with the KGHM 4.0 Program concept.

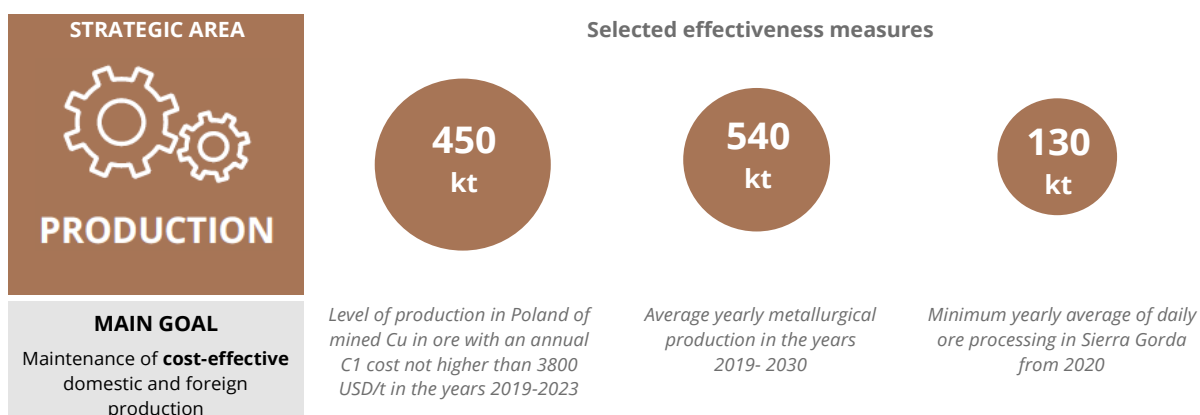
5.3. ADVANCEMENT OF THE STRATEGY IN 2021

During the reporting period being discussed, KGHM Polska Miedź S.A. advanced the „Strategy of KGHM Polska Miedź S.A. for the years 2019-2023” approved in the last quarter of 2018.

In September 2021 during the Economic Forum in Karpacz, the Company announced a further breakdown of the existing Strategy to include new targets, connected among others with involvement in actions concerning renewable energy sources (RES), on-shore and off-shore windfarms, the use of hydrogen and small nuclear reactor technology, so-called SMRs. Consequently, the Company in the last quarter of 2021 undertook actions aimed at implementing the new strategic directions, which were finally detailed in the document „Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040”, approved in January 2022.

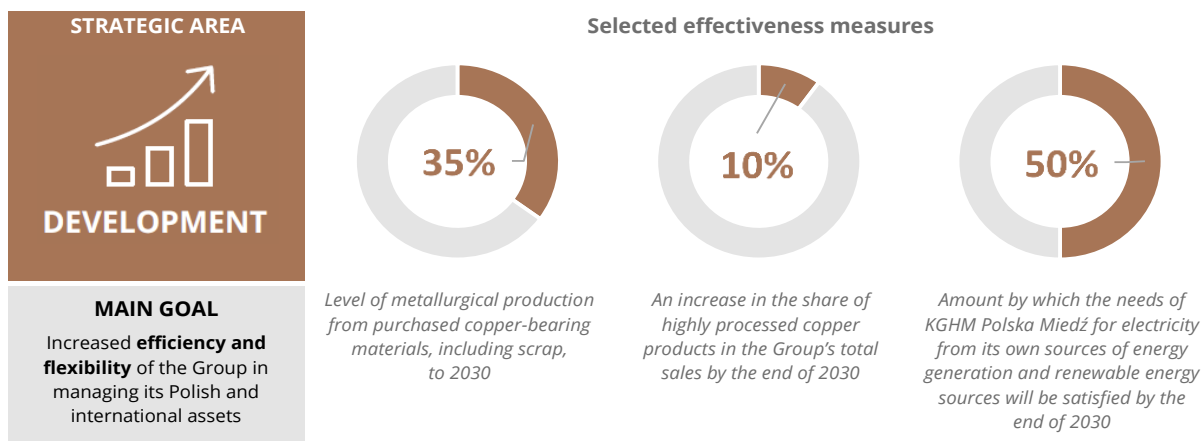
In advancing the Strategy, the Company in 2021 endeavoured to maintain stable production in its domestic and international assets, and a level of costs guaranteeing financial security while ensuring safe working conditions and minimising its impact on the environment and surroundings, pursuant to the idea of sustainable development. To enhance the effectiveness of the actions undertaken, the decision was made to define and establish Strategic Programs.

Following is information on key actions taken in 2021 in individual strategic areas:



KEY ACTIONS TAKEN IN 2021 IN THE AREA OF PRODUCTION:

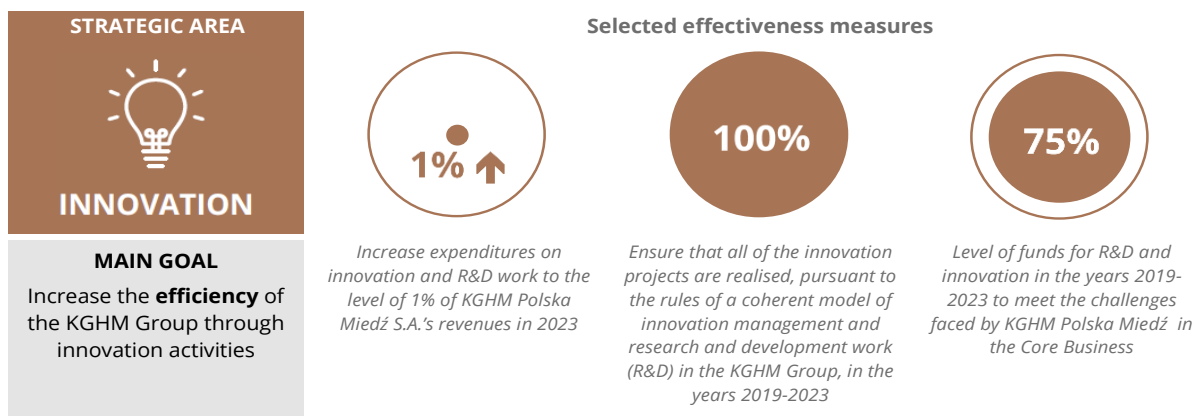
- Mined production in Poland in 2021 amounted to 442.6 thousand tonnes of copper in ore with a C1 cost of 4 981 USD/t (2.26 USD/lb) of payable copper.
- Payable copper production abroad:
 - Sierra Gorda: 104.4 thousand tonnes (on a 55% basis); Achieved EBITDA and payable copper production exceeded target amounts,
 - Robinson: 53.6 thousand tonnes,
 - Carlota: 5.5 thousand tonnes,
 - Franke: 10.7 thousand tonnes,
 - Sudbury Basin: 1.9 thousand tonnes.
- Metallurgical production in 2021 amounted to 577.6 thousand tonnes.
- Advancement continued on projects aimed at the automatization of production in KGHM's Mining Divisions, under the KGHM 4.0 Strategic Program in the area Industry:
 - Equipment and elements of the de-watering monitoring system were completed, which were built and brought into operation in the Polkowice-Sieroszowice Mine Division together with visualisation in the dispatcher control room.
 - As part of the work on the „Center of Advanced Data Analysis (Centrum Zaawansowanych Danych Analitycznych - CZAD)”: the users positively verified the algorithms involving analysis of the loads borne by the conveyor belts in the mines, developed by KGHM Cuprum. Implementation of the algorithms in a production environment using the EKSPERT system platform is underway.
- Work was carried out on increasing energy generation from own sources, including RES:
 - Talks are underway on the acquisition of photovoltaic farms. A project to construct a photovoltaic power plant of approx. 1.5 MWe at the Cedyňa Wire Rod plant was prepared for execution (the contractor selection process is underway). Preparatory work is underway for the execution of 2 subsequent photovoltaic farm projects on grounds belonging to KGHM with a total capacity of around 6.5 MWe. Analytical work is in progress on the utilisation of other grounds belonging to KGHM to develop renewable energy sources.
 - On 30 November 2021 the Town Council of Głogów adopted a change to the municipal land use plan regarding Głogów's copper industry terrain. Requests were prepared and agreed for the issuance of environmental conditions decisions together with Informational Enterprise Cards for each of the 3 planned photovoltaic power plants on the grounds of the Głogów Copper Smelter and Refinery, and preparations were made for the issuance of the technical conditions for connecting to KGHM's power network.
 - Talks are underway on the acquisition of wind farm power plants. On 15 September 2021 the Company joined a sector agreement for the development of off-shore wind power. Currently KGHM is involved in dialogue with potential partners as regards submitting applications for the issuance of siting permits and the development of off-shore wind farms.
 - On 9 September 2021 a letter of intent was signed on the creation of the Lower Silesia Hydrogen Valley. Work is underway on the formula of cooperation.
 - On 23 September 2021 the Company entered into a tripartite agreement involving preparations for the advancement of an investment involving the construction of nuclear energy sources with NuScale Power LLC – a producer which is developing reactors based on SMR (small modular reactor) technology, and PBE Molecule Sp. z o.o. Sp. k. – an advisory company. Execution of the nuclear energy project is planned by the end of 2030, while the Company expects that the first of the nuclear reactors will be in operation in 2029.
 - On 14 December 2021 consent was obtained via administrative decision for the removal of trees and bushes connected with the construction of a photovoltaic power plant at the „Obora” Sandpit.



KEY ACTIONS TAKEN IN 2021 IN THE AREA OF DEVELOPMENT:

- Continued advancement of the Strategic Deposit Access Program:
 - Work on sinking the GG-1 shaft reached a depth of 1293.2 m. Work on Stage VII of sinking the shaft continues within the concrete construction (sinking of the shaft in the 1226-1299.6 m interval). Ventilation outlets were built.
 - Agreements were entered into in the form of notary acts for the purchase of land for the GG-2 „Odra” shaft. Talks are underway with the Gmina (Municipality) of Gaworzyce on building an access road to the shaft as well as procedures involving the selection of a contractor for the following tasks: shaft site drilling, research within the shaft site drillholes, construction of the Primary Transformer Station and of facilities needed to sink the shaft.
 - Talks are underway with the owners of land where the Gaworzyce shaft will be located. The Gmina adopted the requisite resolutions to commence shaft construction. An agreement was signed with the Municipality of Gaworzyce. The terms of purchase of plots of land for the Shaft construction were negotiated.
 - In 2021, 44.3 kilometers of tunneling were excavated in the Rudna and Polkowice-Sieroszowice mining areas, representing 10% more than in 2020. All of the work carried out under the Mine Projects Group enables the successive opening of new mining areas.
 - In terms of the Central Air Conditioning System, work continued on building the Surface-based Air Conditioning Station at the GG-1 Shaft. The main technological and installation work was completed, as well as electrical and automatic work. Technological start-up of the first stage of the installation with a power capacity of around 22 MWt is underway.
 - The technical handover of the first part of the Ice Water Transportation System was completed. Construction continues on building part 2 of the System.
- Continued advancement of Development of the Źelazny Most Tailings Storage Facility:
 - Southern Quarter: Stages 1, 2 and 3 were completed along with operational permitting. Total advancement of the physical scope of work for the Southern Quarter together with slurry, water and power infrastructure reached 99%. Amendments to the task were introduced involving the construction of power and water infrastructure. Tailings continue to be deposited in the Southern Quarter.
 - Tailings Segregation and Thickening Station (TSTS): work was completed on tasks involving the execution of architecture and internal installations of the hall, internal, water-sewage and ventilation installations, as well as the power building. Work is underway on assembling the technological part of the Station. Total advancement of the physical scope of work on Stage 1 is 100%, and 59% for Stage 2. Total advancement of the physical scope of work on the TSTS is 80%. The process of large-grain tailings segregation and thickening is underway for the purpose of deposition in the Southern Quarter.
- Exploration projects with respect to exploring for and evaluating copper ore deposits were carried out pursuant to the concessions:
 - In 2021, in the concession areas „Retków-Ścinawa” and „Głogów” geological and other work continued which included the sinking of two drillholes. In the fourth quarter of 2021 the process of altering the Głogów concession commenced.
 - Geological work continued within the Synklina Grodziecka and Konrad concession areas. In the first quarter of 2021 a change to the „Synklina Grodziecka” concession was obtained.

- In the second quarter of 2021 concessions were obtained for the areas „Bytom Odrzański” and „Kulów-Luboszyce”. In the fourth quarter of 2021 a drillhole for exploratory and evaluation purposes was sunk in the concession area Bytom Odrzański and the sinking of an exploratory drillhole in the concession area „Kulów-Luboszyce” commenced.
- In the second quarter of 2021 a concession was obtained to explore for and evaluate the Radwanice-Gaworzyce deposit in the „Radwanice” area. At the end of the third quarter of 2021 geological work commenced.
- Exploration projects were carried out with respect to exploring for and evaluating of other deposits pursuant to the concessions:
 - On the terrain of the Puck concession in the first half of 2021 laboratory and analytical work was carried out. At the turn of the third and fourth quarters of 2021 two drillholes were sunk.
 - On the terrain of the Nowe Miasteczko concession analysis was performed on the results of geophysical research. A concept was developed to conduct further geological work.
- Projects involving development of the international assets were continued:
 - In 2021, Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation decided to sell all of the shares they held in the joint venture Sierra Gorda SCM to the Australian mining group South32. The Management Board of KGHM Polska Miedź S.A. decided not to exercise its right of first refusal to acquire the shares of the company Sierra Gorda SCM.
 - Sierra Gorda Oxide: actions continued aimed at preparing for the next stage of project development, involving among others the commencement of work related to updating project documentation. In the fourth quarter of 2021, an agreement was entered into involving the transfer of the Oxide project from the structure of KGHM Chile SpA to Sierra Gorda SCM. At present most of the oxide ore planned for processing has already been excavated and is currently stored near the site of the future copper leaching and recovery (SX-EW) plant.
 - Victoria project: in 2021, based on exploratory work performed, approx. 6 million tonnes of project resources were re-categorised to a higher recognition category (from Inferred to Indicated). In addition, work focused on preparing the foundations for the shaft’s headframe, the waste rock containment pad (a storage site for potentially-acidifying barren rock), preparation of a parking area and a water treatment plant. The electrical infrastructure located on the grounds of the project was connected to the external power network. Work also continued aimed at maintaining good relations with key stakeholders in the project along with actions related to preparing selected elements of the infrastructure, as the preparatory phase for further development of the project. In 2021 the process of acquiring rights to project terrain was finalised.
 - Ajax project: work involved monitoring and securing the project’s terrain, in accordance with law in force. Actions continued aimed at dialogue with stakeholders in the project.
- Work continued on an investment project involving documentation for the construction of a second Upcast line to produce oxygen-free CuOFE copper at the Cdynia Wire Rod plant along with required technical and logistical infrastructure. In 2021, the documentation was reviewed and the economic feasibility study was updated. A decision was also received regarding the project’s environmental impact. In the fourth quarter of 2021, the process of obtaining the requisite administrative decisions necessary to commence the construction continued.
- Under the Strategic Program called Hybrid Legnica Smelter and Refinery the investment project „Documentation for Hybrid Legnica Smelter and Refinery - Legnica Smelter and Refinery Scrap Turnover Base” commenced. Design work was carried out related to the execution of documentation. By the end of 2021 a partial update of the Referential Statement of Costs and Program-Area Use Concept for the Scrap Turnover Base and Hybrid Legnica Smelter and Refinery was received, with respect to production balances.
- In 2021, 18.70% of KGHM’s need for electricity was supplied by its own generating sources, including RES. The lower generation of energy from own generating sources as compared to the prior year was mainly due to restrictions on production compared to the plan for the Gas-Steam Blocks resulting from unfavourable macroeconomic conditions, including high prices of natural gas and CO₂ emissions rights.

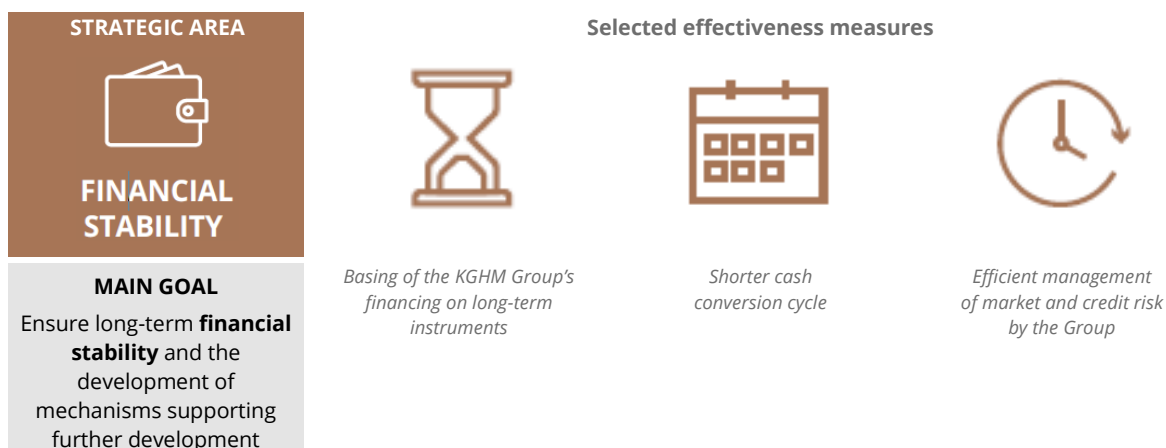


KEY ACTIONS TAKEN IN 2021 IN THE AREA OF INNOVATION:

- Under the CuBR venture, co-financed by the National Centre for Research and Development (NCRD), R&D projects having a total value of over PLN 180 million are underway. Altogether, 25 projects have been implemented under the four editions of the competition:
 - 19 projects have been completed (including 5 projects completed in the fourth quarter of 2021).
 - 6 projects are currently being advanced.
 - It is expected that in 2022 the results of a project to design blasting metrics, developed under the Venture, will be implemented. Testing continues to verify mining machine simulators. In 2021, prototypes were tested on a group of around 100 people. Completion of the project and implementation of its results is expected in the second quarter of 2022.
 - A consortium advancing a project under the Venture in cooperation with the company Tauron utilised a prototype CuAg cable on an existing section of a power line, which is intended to substantially reduce energy transmission losses. The cable is undergoing testing which will last 12 months.
- Advancement of the Implementation Doctorates Program for KGHM employees continued. At the end of the fourth quarter of 2021, 30 Doctoral Students from the two editions were participating in the Program (edition I – 20 members, edition II – 10). During an Underground Mining School in 2021 in Kraków an academic panel dedicated to the Doctoral Students was organised.
- Actions were commenced connected with the testing of pilot flotation machinery in the Concentrators. A portion of the infrastructure equipment was delivered.
- R&D work was commenced involving the utilisation of PbZn concentrate at the Głogów Copper Smelter and Refinery. Actions are underway connected with preparing a concept and preliminary documentation.
- Work continues connected with testing electric, battery-powered self-propelled mining machinery. Testing of a bolting rig and a drilling rig is currently underway in the Lubin mine. In the Polkowice-Sieroszowice mine, tests are being conducted on a transport vehicle adapted to work underground. Preparations are underway to conduct testing of a loader, which should commence in the second quarter of 2022.
- Following conclusion of the „CuValley Hack” Hackathon, under the Dolina Miedziowa (Copper Valley) program, actions are currently underway connected with continuing cooperation with the participants of the event. The possibility and reasons for holding a subsequent edition of the Hackathon are being analysed.
- Construction of an EOIF (Elektroniczny Obieg Informacji Firmowej, or Electronic Company Information Flow) workflow platform for R&D processes in KGHM for R&D activities was completed. A version for all users in KGHM was brought online. In addition, a service for the collection and transfer of knowledge in the Group – uSEARCH KGHM – is being developed.
- Work continues on subsidised research projects and preparing subsidy applications to the following Programs: Horizon Europe, KIC Raw Materials (Knowledge and Innovation Community), the National Environmental Protection Fund and under the European Funds for Modern Economy (successor to the Smart Growth Operational Programme). Actions undertaken by KGHM under subsidised R&D initiatives in 2021 include among others:
 - Commencement of a project called „Application of Reflux Flotation Cell (RFC) Technology”, involving intensification of the recovery of useful mineral grains.
 - Continued advancement of a project called „Intelligent control of production in underground mining SIMS 2 (NEXGEN-SIMS)”.
 - Continued advancement of a project called „Development of assumptions for technology to improve the recovery of useful metals contained in fine particles in the processing of minerals”, in which methods to improve the flotation of fine grains in the Concentrators Division are being researched.

A positive assessment was obtained to advance the following projects:

- An electric hammer for crushing lumps (Echo).
 - Brines in RIS (Regional Innovation Scheme) countries (so-called new European Union states which joined the EU after 2004) as a source of critical commodities and energy (BrineRIS).
 - Agile exploration and geomodeling for European critical commodities (AGAMERA).
 - Identification of critical metals available within the EU (VECTOR).
- In terms of intellectual property:
- Proceedings are underway to obtain legal protection for the word trademark „KGHM”, submitted in an international procedure, on the territory of China.
 - Applications in respect of four trademarks: the word-figurative trademark „KGHM GROUP”, the word trademark „KGHM GROUP”, the word-figurative trademark „GRUPA KGHM”, and the word-figurative trademark „KGHM” were submitted to the European Union Intellectual Property Office (EUIPO) in Alicante. Application proceedings are underway.
 - By decisions dated 30 September 2021 the Patent Office of the Republic of Poland granted legal protection for two word trademarks: „KGHM” and „GRUPA KGHM”.
 - Applications were submitted to expand trademark protection in selected non-European countries and in selected classes: international applications through the World Intellectual Property Organization (WIPO) for the word trademark and the word and figurative trademark „KGHM GROUP” (Canada, USA, Norway, Turkey, Russia, Ghana, Belarus) and a national application on the territory of Chile, a national application of the word and figurative trademark „KGHM” on the territory of China. Proceedings are underway.
 - The word and the word and figurative trademark „KGHM” is being monitored in world trademark bases to verify similar trademarks submitted for protection.
 - The Patent Office of the Republic of Poland granted a patent to two inventions: „Organ urabiający kombajnu ubierkowego” (Mining unit of the open-end miner) to KGHM Polska Miedź S.A. and FAMUR S.A., and „Sposób pozycjonowania urządzenia i/lub ruchomego członu urządzenia, zwłaszcza w przestrzeni wyrobiska górniczego przodka” (Method for positioning of a device and/or movable element of a device, preferably within the area of the mine face) to KGHM Polska Miedź S.A. and Wrocław University of Science and Technology.
 - Proceedings are underway in the Patent Office of the Republic of Poland for the granting of seven patents to protect the submitted inventions.



KEY ACTIONS TAKEN IN 2021 IN THE AREA OF FINANCIAL STABILITY:

- In 2021, advancement of the strategic goal of ensuring long-term financial stability focused on continuing actions aimed at basing the financing structure on diversified sources of financing while taking into account their long-term nature.

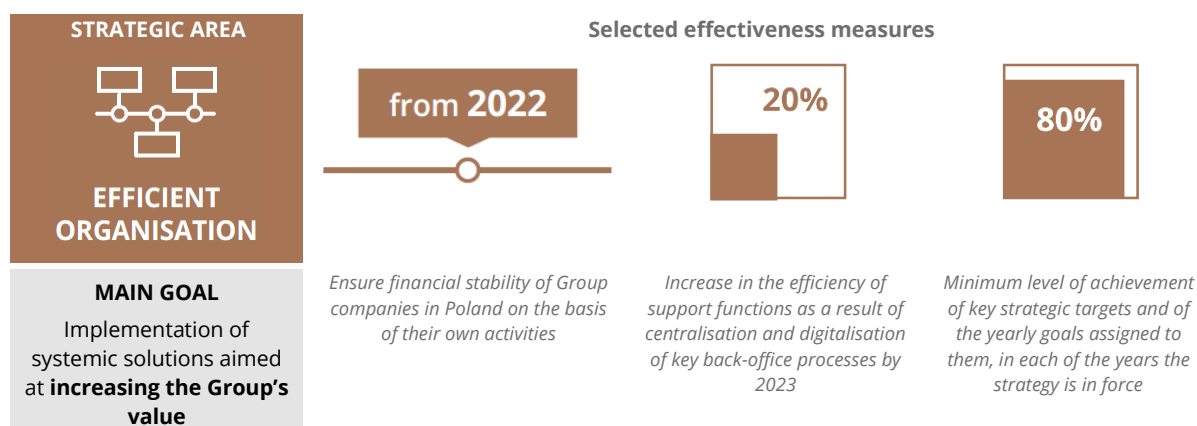
In 2021 the KGHM Polska Miedź S.A. Group was fully capable of meeting its financial obligations. The financial needs of Group companies were met by using intra-group cash transfers. This process is mainly based on managing the Group's current liquidity based on cash pooling and on guarantees and letters of credit, as well as on long-term owner loans.

The Company has developed solutions aimed at enhancing the efficiency of liquidity management by assisting selected Group companies to obtain access to financial instruments of a guarantee nature, and has extended the availability of funds available under the RCF syndicate credit facility granted by the syndicate of banks. In addition, an annex was signed to a loan agreement with the European Investment Bank, granting the possibility of acquiring up to PLN 440 million with flexible instalment draw-down terms and a long utilisation period.

- The Company took actions aimed at optimising the receivables recovery period and the payables payment period, matching them to current needs and market conditions; the reverse factoring and factoring were used for this purpose.
- In terms of advancing the strategic plan of hedging the Company against market risk, in 2021 transactions were entered into on the forward currency market. Put options were purchased to cover in total USD 1 050 million of planned revenues from sales, with maturities falling from February 2021 to June 2022 (including: USD 180 million for the period from January to June 2022). In addition, collar strategies were implemented in the notional amount of USD 240 million with maturities falling from July 2022 to December 2022. Meanwhile in terms of restructuring an open derivatives position, previously-sold put options for the period from February to December 2021 in the notional amount of USD 495 million were redeemed, and put spread options structures were entered into in the notional amount of USD 270 million, aimed at decreasing the strike price of put options sold as part of seagull option structures hedging revenues in the period from July 2022 to December 2023.

In 2021, the Company implemented seagull hedging strategies on the copper market for the period from January 2022 to December 2023 in the total notional amount of 87 thousand tonnes. In addition, a hedged position on the copper market was restructured. Call options were purchased for the period from March to December 2021 in the total notional amount of 155 thousand tonnes, opening at the same time participation in potential further price rises for the collar and seagull options structures held for 2021. As part of this restructuring, the strike price for structures hedging revenues from the sale of copper for the period from October to December 2021 in the total notional amount of 25.5 thousand tonnes was also raised. A position on the forward silver market was also restructured for the period from July 2021 to December 2022. A portion of the notional, previously sold put options (11.7 million ounces) and call options (5.1 million ounces) entered into under seagull hedging structures was redeemed, while the strike price for sold call options for 2022 (6.6 million ounces) was raised.

In 2021, the Company continued actions aimed at reducing its exposure to credit risk by the continuous monitoring of receivables, evaluation and monitoring of the financial condition of customers, setting credit limits, securing receivables and non-recourse factoring.

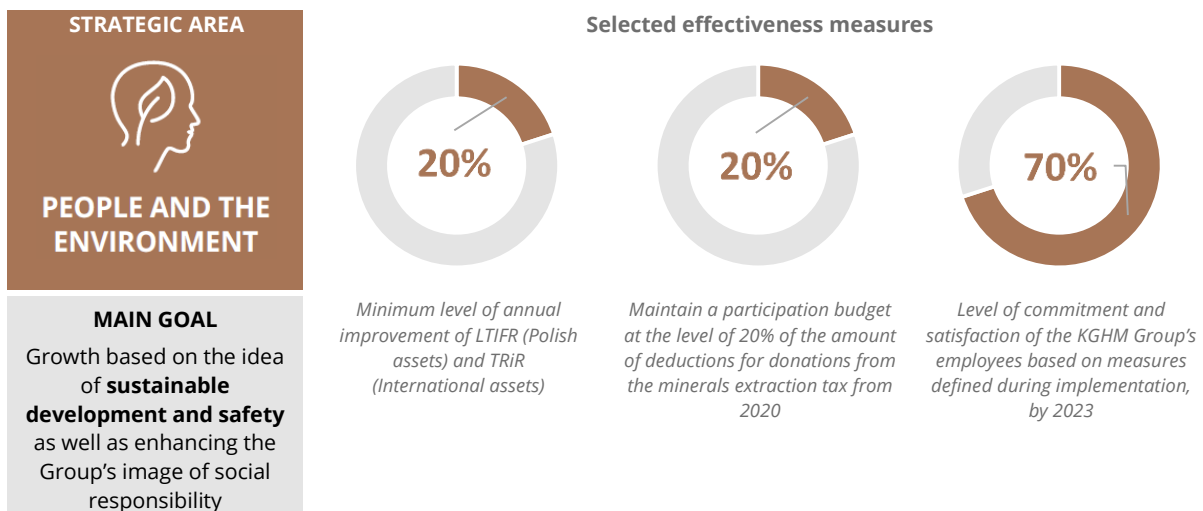


KEY ACTIONS TAKEN IN 2021 IN THE AREA OF EFFICIENT ORGANISATION:

Advancement of the KGHM 4.0 Program continued, divided into two main areas:

- INDUSTRY (industrial production):
 - In terms of implementation of the CMMS system (an automated production support system), supporting production and material logistics in the metallurgical plants, concentrators and tailings storage facility, in the fourth quarter of 2021 work continued on efficiency of the process between operational continuity services and external companies.

- Integration of the implemented anti-collision system with the system for locating and identifying machinery and people in the underground mines continues. The programming of equipment built in the underground mines was altered in order to utilise sub-systems of the anti-collision system in the localisation and identification system.
 - A total of 78 access points were built in the wi-fi system, used mainly in the transmission of data from mining machinery.
 - In accordance with the schedule for the project called „CuXRF Robot - Robotisation of production and auxiliary processes”: stage I of modernisation of the x-ray head for measuring copper content at the working faces was completed, in terms of its utilisation in the CuXRF robot. Work is underway connected with building an electric, battery-powered mobile platform, onto which the arm of the aforementioned CuXRF robot will be set. A tender for selecting a contractor to build the framework manipulator and to integrate all elements of the robot was developed and a wide range of bidders was invited, with the deadline for submitting bids scheduled at the first quarter of 2022.
- ICT (Information and Communication Technology):
- In 2021, under a project called „Optimisation of the Production Planning and Settlement Process” in terms of implementation of the FIORI eReport system services, aimed at improving quality in terms of working time planning in the Divisions of KGHM, the entire process of planning production in KGHM for 2021 was tested (the result of the test was positive).
 - In 2021, modules for the measurement sector in the Mining Divisions in terms of copper and rock salt deposits were brought into operational use, and the first handovers of mining work using the new tools were carried out. As a result of implementation of the „super-aggregate” module, servicing of the process of generating various types of data reporting sets was improved.
 - As part of the advancement of the project called Modernisation of the Central Balancing and Electricity Settlement System, work was carried out involving the analysis of settlement, reporting and balancing data from the electricity and natural gas measurement systems.
 - Assumptions representing the basis for the preparation, creation and implementation of a Digital Workplace, based on solutions supplied under the Microsoft 365 package, were defined.
 - There were no interruptions recorded in the business operations of the KGHM Polska Miedź S.A. Group and safety processes were supported as a result of work related to ensuring the continuity of the Core Business and administrative services due to the pandemic situation.



KEY ACTIONS TAKEN IN 2021 IN THE AREA OF PEOPLE AND THE ENVIRONMENT:

- An investment project supporting workplace safety called „Dostawa, montaż i uruchomienie systemu wspierania pracy operatora w zakresie antykolizji” (Supply, assembly and start-up of an anti-collision operator support system) was completed. The system has been installed on 1 292 mining machines. Under this project testing equipment, synchronisation gates, units to load data from the machines and 20 081 tags in miners lamps were installed. 100% of the work on the entire project was completed in all of the mining divisions.
- The Occupational Health and Safety Program was continued in KGHM Polska Miedź S.A.:

- The LTIFR KGHM ratio in 2021 amounted to 5.63 and was lower than the level recorded in 2020 by 23.0%. The number of workplace accidents decreased in 2021 from 213 to 165 persons injured. The TRIR ratio for the international assets (total for the employees of the KGHM INTERNATIONAL LTD. Group and Sierra Gorda S.C.M. as well as contractors for these entities) amounted to 0.32.
 - An active model of coordination of the work of OHS units was applied: in terms of operational controlling, the level of OHS was assessed on a weekly basis in individual Divisions of the Company, as well as evaluations of planned operational goals.
 - A campaign of prevention was launched involving the effects of the use of psychoactive substances called „Psychoactive stimulation at work: Be responsible, react!”.
 - Active forms of education and employee support were prepared in the form of interactive instructional films, reconstructions and leaflets.
 - The planned scope of work involving the digitalisation of OHS analytical and reporting data was performed. In terms of operational actions, planned actions were expanded to include the adaptation of LIMS conformatory system (a laboratory information management system) to the needs of the workplace environment, and research measurement and results cards in electronic form were archived.
 - Planned activities related to mitigating the threat arising from the SARS-CoV-2 pandemic were successively carried out, which were expanded by vaccinations for Company employees.
 - Cooperation with domestic and international academic institutions and opinion makers was engaged in: a proposal of the Company regarding projected changes in hygienic and biological standards for heavy metals was prepared, and the Company's position in terms of recommendations as to verification of the approach to standards for exposure to diesel exhaust fumes in underground mines was presented.
- The Program to adapt the technological installations of the Company to the requirements of BAT conclusions for the nonferrous metals industry and to restrict emissions of arsenic (BATAs) was continued. At the Głogów and Legnica Copper Smelters and Refineries 12 projects were advanced, of which by the end of 2021 realisation and settlement of the following was completed:
- A de-lead slag transport installation (Głogów Copper Smelter and Refinery).
 - A warehouse and storage area for lead-bearing materials (Głogów Copper Smelter and Refinery).
 - An installation to remove sulphur from gases from the Kaldofurnace (Głogów Copper Smelter and Refinery).
 - Bypass gas pipelines for the flash furnaces (Głogów Copper Smelter and Refinery).
 - An installation to remove particulates from gases emitted from the slag and copper outlets of the flash furnace of the Głogów II Copper Smelter and Refinery (Głogów Copper Smelter and Refinery).
 - Partitions in the settlement chambers of the flash furnaces.

5.4. THE STRATEGY OF KGHM POLSKA MIEDŹ S.A. AND CLIMATE-RELATED ACTIONS

KEY EFFECTS OF THE EU'S TIGHTENING CLIMATE POLICY

The EU's tightening climate policy, in particular the European Green Deal and the „Fit for 55” package, have a decisive impact on the functioning conditions of Polish industry. The radical jump in wholesale electricity prices seen over the last several months affects the competitiveness of Polish producers at the international level, not only in relation to producers outside of Europe who are not limited by restrictive environmental protection regulations, but also those from other EU countries where – in principle – a more balanced energy mix enables them to acquire energy at a substantially lower cost.

The revision of the EU's ETS system (the EU's system of trading emissions rights) resulting from introduction of the “Fit for 55” package means that as a result of an increase in the emissions reduction goal to -61% by 2030 (from the current level of -43%), the Company is experiencing a significant increase in costs connected with the purchase of greenhouse gas emission rights. According to estimates by KGHM Polska Miedź S.A., additional costs connected with the purchase of emission rights under the EU ETS system in the years 2021-2030 amount to approx. PLN 1.04 billion.

The Company also expects that the introduced changes will result in additional costs connected with the purchase of electricity due to higher unit market prices. If it is assumed that the current volume of electricity purchased from the market remains unchanged (approx. 2.24 TWh in 2020), these additional costs will amount to approx. PLN 2.96 billion in the years 2021-2030.

KGHM Polska Miedź S.A. anticipates that the costs associated with implementation of the EU's ambitious climate goals would amount in total to PLN 4 billion in the years 2021-2030. Because of this, the Company will intensify its existing decarbonisation efforts and will commence new projects in this regard. These actions will be shaped by the adopted Climate Policy.

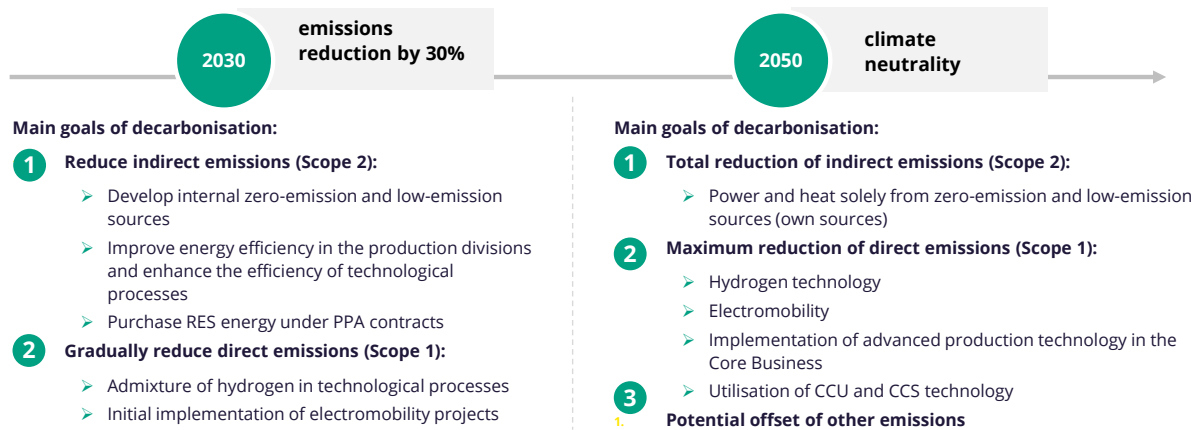
ADOPTION OF THE CLIMATE POLICY OF KGHM POLSKA MIEDŹ S.A.

On 16 November 2021 the Management Board of KGHM Polska Miedź S.A. passed a resolution on the adoption of the Climate Policy of KGHM Polska Miedź S.A. – a document setting forth the Company's goals as regards the reduction of greenhouse gas emissions over the timeframe of 2030 and 2050 as well as the scope and extent of changes required for its achievement. The scope and impact of the Climate Policy encompasses KGHM Polska Miedź S.A., which will subsequently transfer its principles to its subsidiaries.

The primary goal of the Climate Policy of KGHM is for the Parent Entity of the KGHM Polska Miedź S.A. Group to achieve climate neutrality by 2050 with respect to Scope 1 greenhouse emissions - direct emissions primarily related to the Company's production activities, and Scope 2 - indirect emissions associated with the use of electricity and heat acquired from the market, with their maximum possible reduction.

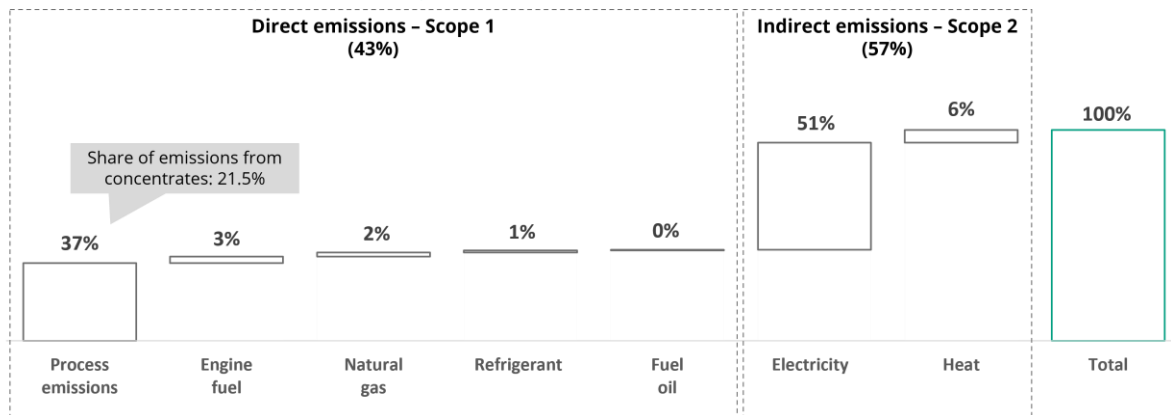
The intermediate target is to reduce total Scope 1 and Scope 2 emissions by 30% by 2030, compared to the emission levels of 2020. The reduction targets for the entire Group will be published no later than in the first half of 2023.

Diagram 10. Emissions reduction targets of KGHM and main decarbonisation directions



The Climate Policy will be followed by the Decarbonisation Program of the Group, which will provide details on how the Climate Policy's goals will be attained, as well as total capital expenditures on the realisation of activities aimed at reducing the emission of greenhouse gases. KGHM Polska Miedź S.A. emits approximately 3.3 million tonnes of CO₂ equivalent annually, approximately 40% of which consists of Scope 1 emissions and 60% of which are Scope 2 emissions. Scope 1 emissions are direct emissions related above all to the Company's production activity, i.e. in particular emissions from metallurgical processes, emissions related to the use of engine fuels by mining vehicles and machines in the mines, and emissions related to the generation of energy from own sources with the use of natural gas. Scope 2 emissions, in turn, are indirect emissions related to the use of the electricity and heat purchased on the market. Scope 3 emissions are indirect emissions in the supply chain of equipment, machines, parts, production materials etc., but also services and business travel.

Chart 15. Greenhouse gas emissions at production divisions of KGHM in 2020 according to the emission sources [%]



In 2022, the Company will conduct a full survey of Scope 1 and Scope 2 emissions at its subsidiaries, so that, no later than in the first half of 2023, it will announce the total Scope 1 and Scope 2 emissions for the entire organisation. The Company will publish data concerning Scope 3 emissions for the Group no later than in the first half of 2024. For the purpose of ensuring compliance of activities with the best market practices, the Company will strive to implement a climate reporting system based on the Recommendations of the Task Force on Climate-Related Financial Disclosures of 2017 (TCFD). The first

step towards this end will be the implementation of changes in key management and business processes. The scope of changes will encompass all four areas of the TCFD Recommendations.

UTILISATION OF WASTE MATERIALS

Every year, KGHM endeavours to implement effective solutions in demonstration of its concern to operate in compliance with the Circular Economy idea. One of the elements representing a substantial expression of the circular economy is the production of road-building material from de-copperised slag. This slag is waste (a by-product) from the metallurgical production process. Every year, the Legnica Copper Smelter and Refinery produces around 180 thousand tonnes, and the Głogów Copper Smelter and Refinery approx. 450 – 500 thousand tonnes, of mastic slag. Thanks to our know-how and technology, this material does not end up on a waste heap, but using the technology employed by companies in the Group, this waste is processed into a full-fledged product, used in road building as a high-quality aggregate. In this way all of the de-copperised slag which arises in the Company is put to use. What is more, the process of producing aggregate based on material supplied by the Company's smelters also helps to reduce emissions which would otherwise be generated from the traditional process of producing aggregate. Over the last 10 years, the Group company KGHM Metraco has utilised around 10 million tonnes of slag, meaning that the same amount of this material did not need to be acquired from natural deposits, and at the same time such a large volume of waste did not end up being stored on a waste heap.

The aggregate produced in the Group has been utilised in investments such as the building of the S3, S5 and S6 expressways as well as in the S11 expressway currently under construction. Material from the metallurgical plants, after undergoing required processing, also found a use in the construction of the Southern Quarter of the Żelazny Most Tailings Storage Facility. A substantial amount of this material is also used by local customers involved in infrastructural investments ordered by local governments. The main customers are the largest construction firms specialising in roadway construction.

UTILISATION OF SCRAP

At the Legnica Copper Smelter and Refinery a high-quality copper scrap processing line was built, as the first step for the planned Hybrid Smelter and Refinery in Legnica. The plant will include a Scrap Turnover Base, where charge material for a dedicated installation for the processing of other copper-bearing materials from recycling will be prepared as well as technological changes to enable the processing of low grade scrap.

As part of the first stage in the Hybrid Smelter and Refinery in Legnica, copper scrap processing technology was employed using a Revolving-Casting-Refining (RCR) furnace. The RCR furnace enables the processing of copper scrap with average copper content of 95% and a capacity of at least 80 thousand tonnes of anode copper per year. The total production of anode copper at the Legnica Copper Smelter and Refinery in 2021 amounted to 167.6 thousand tonnes, including 58.8 thousand tonnes from the RCR furnace. This process augments the co-processing scrap in the converter furnaces which has been done for many years. In 2021 a total of 96 thousand tonnes of scrap was processed at the Legnica Copper Smelter and Refinery, and which therefore was brought back into use pursuant to the idea of the Circular Economy.

ELECTROMOBILITY AND LOW-EMISSION MINING MACHINERY

One of the main infrastructural barriers to the development of electromobility is the current lack of a sufficient number of rapid charging points covering an incomplete road network in Poland and Europe. The rapid development of transportation based on electricity will represent an enormous challenge for electricity producers and distributors, but will also guarantee them an increase in their customer base by up to 20%. In light of the above considerations, KGHM Polska Miedź S.A. in 2018 commenced definitive actions in the sphere of electromobility, not only by the successive and consistent replacement of its own transportation fleet with zero-emission electric vehicles, but above all by developing a network of generally available, ultra-fast charging stations in the Legnica-Głogów Copper Belt. The first station arose at the Head Office of KGHM in December 2018, with the next coming in 2019 at the Głogów and Legnica Copper Smelters and Refineries and the Lubin mine. Every electric vehicle charging station has three types of plugs, which ensures full compatibility with the vehicles available on the market. Back-end and front-end services are provided by Tauron Nowe Technologie S.A. - based on an agreement and a letter of intent on joint support of electromobility development. To support the development of the electromobility program, acting to protect the environment and climate, the charging is freely provided to users.

Additionally, to support actions aimed at protecting the environment and climate, as well as the health and workplace comfort of employees, work is underway in the Company aimed at reducing emissions from engines of mining machinery, in particular nitrous oxide and particulate matter. The goal is to reduce employee exposure to nitrous oxide in the workplace and achieve concentrations of below 2.5 mg/m³ as well as to reduce exposure to carcinogenic factors to the level of 0.05 mg/m³ converted to elemental carbon.

Currently the Company is in the process of purchasing machinery, which includes the gradual introduction of mining machinery equipped with so-called Stage IV- and V-standard low-emissions engines, thanks to which it is possible to reduce emissions by several times. At present, of the 1257 machines used by the Company, around 12% are low-emission machines. All of the newly-purchased machines have engines of the highest emissions cleanliness standards. Replacement of the entire machinery park will be possible by the end of 2026.

The Company is also working with external producers on testing the functionality and efficiency of electric battery-powered mining machinery. As a result of these actions, tests are underway in the Lubin mine of a battery-powered bolting rig and a battery-powered drilling rig. In 2021, a prototype, electric transport vehicle underwent manufacturer testing in underground mining conditions. Based on the results of these trials, design work commenced on a prototype, battery-

powered transport vehicle to carry people and materials. In addition, advanced work is underway to conduct trials of electric shovel loaders in the Rudna mine.

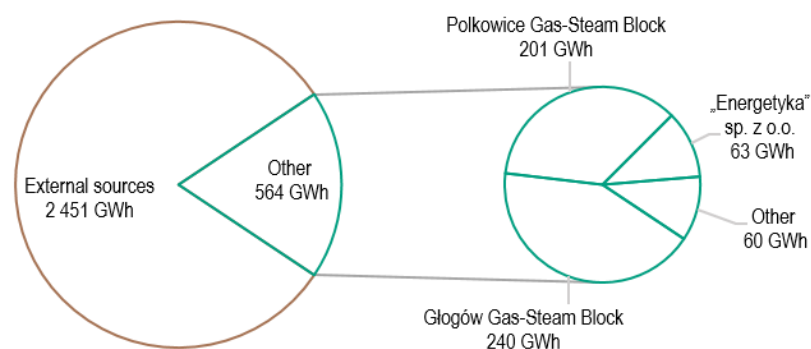
ENERGY FROM INTERNAL SOURCES AND RES

In 2021, the Gas-fired Steam Power Blocks generated in total around 435.6 GWh of electrical energy, representing nearly 14.5% of the Company's total need for electricity. In the fourth quarter of 2021, energy generation was restricted compared to the plan, involving the shut-down of the Gas-Steam Block in Polkowice for the period from 14 October 2021 to year's end due to unfavourable macroeconomic conditions, including high prices of natural gas and CO₂ emissions rights.

The recipients of this energy are the Rudna and Polkowice-Sieroszowice mines and the Głogów Copper Smelter and Refinery. The power produced by the blocks comes from four 14.7 MWe Titan 130 Gas Turbines from the company Turbomach and two Steam Turbines, each with a capacity of 12.3 MWe, from the company Siemens.

The Group also has other internal energy generating sources, which together with the aforementioned Gas-fired Steam Power Blocks, provided 18.70% of the total amount of energy consumed by KGHM in 2021. Following is a chart with a breakdown of the sources of internally-generated energy in 2021.

Chart 16. Power sources of KGHM Polska Miedź S.A. in 2021



KGHM Polska Miedź S.A. in 2021 also continued a variety of actions aimed at developing renewable energy sources:

- the Study of the Conditions and Directions of Spatial Development for the project „Construction of the Obora I Sandpit photovoltaic power plant” with potential installed capacity of 8 MW was approved by the Gmina (Municipality) of Lubin and amendments to Local Spatial Development Plan were made for permission for the siting of the photovoltaic installations.
- Study of the Conditions and Directions of Spatial Development and Local Spatial Development Plan planning documentation for the project „ Construction of the photovoltaic power plants complex HMG I-III with potential installed capacity of 6.5MW” were approved by the municipal government of Głogów, enabling the siting of the photovoltaic installations.
- Talks were held with entities developing photovoltaic projects aimed at the advancement and/or acquisition of projects to meet the needs of KGHM Polska Miedź S.A.
- Talks were held with entities developing wind farm power plant projects aimed at their acquisition at various stages of development.
- Dialogue commenced with potential partners to develop off-shore wind farms. On 15 September 2021 the Company KGHM signed a sector agreement to develop off-shore wind farms in Poland.

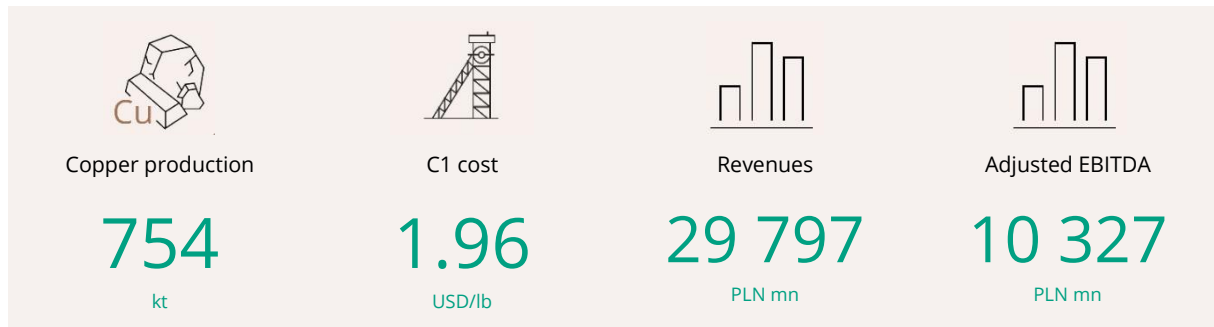
In addition, the Company, as one of the initiators in the founding of the Lower Silesia Hydrogen Valley, on 9 September 2021 signed a letter of intent in this matter.

On 23 September 2021 the Company KGHM signed an agreement involving preparations for the advancement of an investment involving the construction of nuclear energy sources with the company NuScale Power LLC – a producer of nuclear reactors based on SMR technology.

REDUCTION OF EMISSIONS FROM THE METALLURGICAL PLANTS

To minimise the negative impact of metallurgical technology on the environment and to maintain the full technical functionality of equipment to protect the environment, the Company is engaged in the successful adaptation of these installations to BAT conclusions for the nonferrous metals industry together with the restriction of arsenic emissions. The parameters achieved thanks to a broad range of investments remain at substantially better levels than is required by law. The details of concluded investments may be found in the “Non-financial report of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group for 2021”.

6. ECONOMIC PERFORMANCE OF THE GROUP



6.1. PRODUCTION

In 2021, copper production by the Group was higher by 6%, or by 44.6 thousand tonnes compared to 2020. The increase was in respect of all the Group's segments, in particular Sierra Gorda SCM (+22.6 thousand tonnes on a 55% basis) and KGHM Polska Miedź S.A. (+17.2 thousand tonnes).

The increase in copper production by Sierra Gorda SCM was due to higher copper content in ore, higher recovery and higher ore processing.

The higher production of copper by KGHM Polska Miedź S.A. in 2021 was due to an increase in production from purchased copper-bearing materials as a result of higher availability of the production line.

The increase in copper production by 4.8 thousand tonnes in the segment KGHM INTERNATIONAL LTD. was due to higher production by the Robinson mine by 6.2 thousand tonnes. Lower production was recorded by the Sudbury Basin and by the Franke mine.

Detailed information on production results may be found in the sections dedicated to individual segments. The Group's production is shown below.

Table 4. Production in the Group

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Payable copper (kt)							
Group	753.7	709.1	6.3%	179.8	193.2	195.2	185.5
- KGHM Polska Miedź S.A.	577.6	560.4	3.1%	137.5	146.9	146.8	146.4
- KGHM INTERNATIONAL LTD.	71.7	66.9	7.2%	16.3	19.1	20.1	16.2
- Sierra Gorda S.C.M. ⁽¹⁾	104.4	81.8	27.6%	26.0	27.2	28.3	22.9
TPM (koz t)							
Group	163.5	194.3	-15.9%	39.3	45.5	43.3	35.4
- KGHM Polska Miedź S.A.	81.3	96.8	-16.0%	19.9	23.3	21.5	16.6
- KGHM INTERNATIONAL LTD.	51.3	66.1	-22.4%	11.4	13.6	14.1	12.2
- Sierra Gorda S.C.M. ⁽¹⁾	30.9	31.4	-1.6%	8.0	8.6	7.7	6.6
Silver (t)							
Group	1 366.1	1 352.2	1.0%	358.5	331.4	369.2	307.0
- KGHM Polska Miedź S.A.	1 332.2	1 322.9	0.7%	349.6	323.2	360.8	298.6
- KGHM INTERNATIONAL LTD.	2.0	1.7	17.6%	0.4	0.4	0.6	0.6
- Sierra Gorda S.C.M. ⁽¹⁾	31.9	27.6	15.6%	8.5	7.8	7.8	7.8
Molybdenum (mn lbs)							
Group	8.4	9.4	-10.6%	1.2	2.5	2.7	2.0
- KGHM Polska Miedź S.A.	-	-	-	-	-	-	-
- KGHM INTERNATIONAL LTD.	0.2	0.4	-50.0%	0.0	0.1	0.0	0.1
- Sierra Gorda S.C.M. ⁽¹⁾	8.2	9.0	-8.9%	1.2	2.4	2.7	1.9

¹⁾ 55% share of the Group

6.2. STRUCTURE OF CONSOLIDATED SALES REVENUE

The geographic and product structure of the consolidated sales revenue of the Group is presented in the following charts. In accordance with the adopted principle of consolidation by the equity method, sales revenue do not include revenues of the segment Sierra Gorda S.C.M. Detailed information on segment sales is presented in the sections devoted to the results of individual segments.

Chart 17. Geographic structure of Group sales

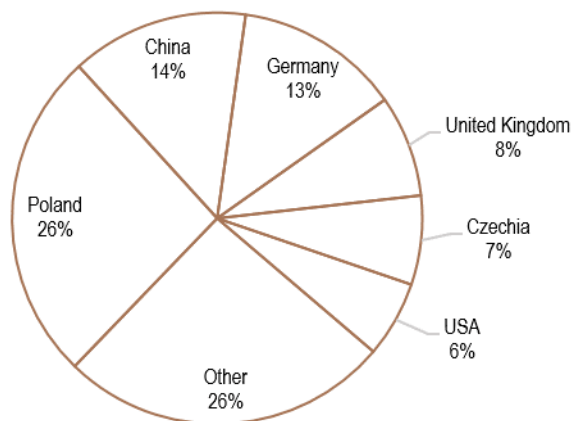
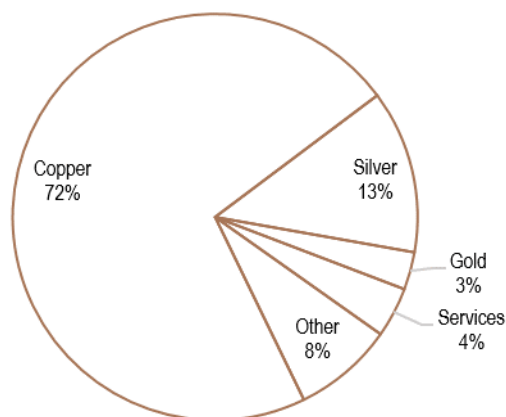


Chart 18. Product structure of Group sales



6.3. C1 COST OF PRODUCING PAYABLE COPPER IN THE GROUP

Unit costs by Group segments are presented in the table below. Detailed descriptions of individual items are presented in the sections devoted to individual segments.

Table 5. C1 cost of producing payable copper in the Group (USD/lb)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Group	1.96	1.59	+23.3	2.00	2.03	1.96	1.82
- KGHM Polska Miedź S.A.	2.26	1.62	+39.5	2.32	2.48	2.30	1.93
- KGHM INTERNATIONAL LTD.	2.01	1.91	+5.2	2.27	1.67	1.83	2.32
- Sierra Gorda S.C.M.	0.78	1.19	(34.5)	0.69	0.71	0.81	0.93

6.4. FINANCIAL RESULTS

STATEMENT OF PROFIT OR LOSS

Table 6. Financial results of the Group (in PLN million)

	2021	2020	Change (%)	IVQ'21	IIIQ'21	IIQ'21	IQ'21
Revenues from contracts with customers	29 803	23 632	+26.1	8 068	7 229	7 761	6 745
Cost of sales, selling costs and administrative expenses	(25 093)	(20 471)	+22.6	(7 229)	(6 164)	(6 397)	(5 303)
Profit on sales	4 710	3 161	+49.0	839	1 065	1 364	1 442
Profit or loss on involvement in a joint venture	2 874	247	×11.6	897	128	1 752	97
Other operating income and (costs)	711	(624)	×	80	448	(442)	625
Finance income / (costs)	(471)	(28)	×16.8	(97)	(165)	93	(302)
Profit before income tax	7 824	2 756	×2.8	1 719	1 476	2 767	1 862
Income tax expense	(1 669)	(959)	+74.0	(326)	(437)	(409)	(497)
Profit for the period	6 155	1 797	×3.4	1 393	1 039	2 358	1 365
Adjusted EBITDA¹⁾	10 327	6 623	+55.9	2 597	2 417	2 705	2 608

¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses) according to part 2 of the consolidated financial statements – together with Sierra Gorda S.C.M.

Table 7. Main factors impacting the change in profit or loss of the Group

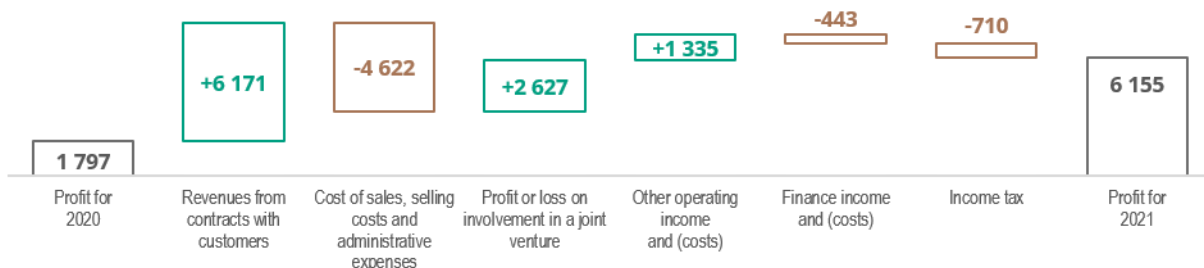
Item	Impact on change of profit or loss (in PLN million)	Description
Revenues from contracts with customers	+6 171	An increase in revenues mainly due to revenues from sales of copper +PLN 5 519 million, silver +PLN 524 million, with lower revenues from sales of gold, -PLN 202 million. Detailed reasons for the changes in revenues in the segments KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. are described in parts 7 and 8 of this report.
Cost of sales, selling costs and administrative expenses	(4 622)	An increase in cost of sales, selling costs and administrative expenses due to: <ul style="list-style-type: none"> - an increase in expenses by nature by PLN 6 836 million, mainly due to an increase in costs of materials and energy by PLN 4 048 million, including a higher volume of purchased metal-bearing materials used in the production, alongside a higher purchase price in KGHM Polska Miedź S.A. (+PLN 3 158 million), the minerals extraction tax charge by PLN 1 923 million and employee benefits costs by PLN 559 million, - an increase in inventories by PLN 2 018 million (change in 2021: -PLN 1 544 million; in 2020: +PLN 474 million), - an adjustment in costs of producing products for internal use by PLN 314 million (-PLN 1 690 million in 2021; -PLN 1 376 million in 2020), - an increase in the value of goods and materials sold by PLN 118 million.
Profit or loss on involvement in a joint venture	+2 627	An increase in the result on involvement in a joint venture, from PLN 247 million to PLN 2 874 million, comprised of: <ul style="list-style-type: none"> - an increase in gains due to the reversal of allowances for impairment of loans granted to a joint venture, PLN 2 306 million, - lack of share in the losses of a joint venture accounted for using the equity method (in 2020: -PLN 204 million), - an increase in interest income on loans granted by PLN 117 million.
Other operating income and costs	+1 335	An increase in the result on other operating activities, from -PLN 624 million to PLN 711 million, mainly comprised of: <ul style="list-style-type: none"> - an increase by PLN 1 385 million in the result on exchange differences on assets and liabilities other than borrowings, - a decrease by PLN 166 million in the result from the measurement and realisation of derivatives.
Finance income and costs	(443)	A decrease in the result on finance income and costs, from -PLN 28 million to -PLN 471 million, mainly comprised of:

- a decrease by PLN 487 million in the result on exchange differences on measurement and realisation of liabilities due to borrowings,
- a decrease by PLN 37 million on interest costs on borrowings.

Income tax (710) An increase in income tax mainly due to:

- higher current income tax by PLN 794 million,
- a lower deferred income tax by PLN 67 million.

Chart 19. Change in profit/loss for 2021 (in PLN million)



CASH FLOW

Table 8. Cash flow of the Group (in PLN million)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Profit before income tax	7 824	2 756	×2.8	1 719	1 476	2 767	1 862
Exclusions of income and costs, total	(51)	2 395	×	(50)	211	(537)	325
Income tax paid	(740)	(667)	+10.9	(171)	(179)	(190)	(200)
Changes in working capital	(2 767)	1 172	×	102	(1 159)	(650)	(1 060)
Net cash generated from operating activities	4 266	5 656	(24.6)	1 600	349	1 390	927
Expenditures on property, plant and equipment and intangible assets	(3 890)	(3 457)	+12.5	(1 287)	(940)	(849)	(814)
Repayment of loans granted to a joint venture	1 259	-	×	1 259	-	-	-
Acquisition of newly-issued shares of a joint venture	-	(207)	×	-	-	-	-
Other cash flow from investing activities	105	3	×35.0	8	1	(4)	100
Net cash used in investing activities	(2 526)	(3 661)	(31.0)	(20)	(939)	(853)	(714)
Proceeds from / repayments of borrowings	(1 720)	(266)	×6.5	(120)	(74)	(447)	(1 079)
Interest paid	(94)	(177)	(46.9)	(14)	(16)	(23)	(41)
Dividends paid to shareholders of the Parent Entity	(300)	-	×	-	-	(300)	-
Other cash flow from financing activities	(86)	(105)	(18.1)	(20)	(1)	(56)	(9)
Net cash used in financing activities	(2 200)	(548)	×4.0	(154)	(91)	(826)	(1 129)
NET CASH FLOW	(460)	1 447	×	1 426	(681)	(289)	(916)
Exchange differences	(158)	59	×	(90)	(19)	(9)	(40)
Cash and cash equivalents at beginning of the period	2 522	1 016	×2.5	568	1 268	1 566	2 522
Cash and cash equivalents at end of the period	1 904	2 522	(24.5)	1 904	568	1 268	1 566

Net cash generated from operating activities in 2021 amounted to +PLN 4 266 million and was comprised of profit before income tax of +PLN 7 824 million, increased mainly by adjusted depreciation/amortisation in the amount of +PLN 2 123 million, the reclassification of other comprehensive income to profit or loss due to the realisation of hedging derivatives in the amount of +PLN 2 030 million and a change in other receivables and liabilities other than working capital of +PLN 610 million.

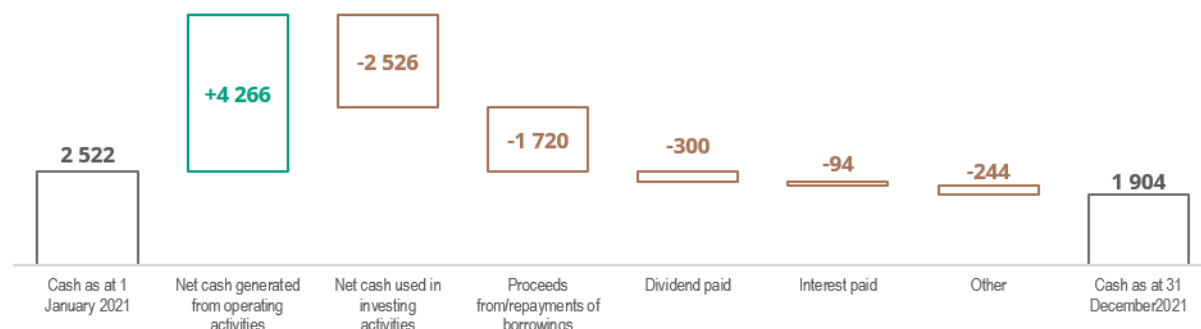
The decrease in cash generated from operating activities in 2021 was mainly due to the change in working capital of -PLN 2 767 million, an adjustment of gains due to the reversal of allowances for impairment of loans granted to a joint venture of -PLN 2 380 million, a change in assets and liabilities due to derivatives of -PLN 1 921 million, an adjustment of interest on loans granted to a joint venture of -PLN 494 million, income tax paid of PLN 740 million and exchange differences of -PLN 446 million.

Net cash used in investing activities in 2021 amounted to -PLN 2 526 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of PLN 3 890 million and income from repayment of loans granted to a joint venture, PLN 1 259 million.

Net cash used in financing activities in 2021 amounted to -PLN 2 200 million and mainly comprised the balance of proceeds from and repayments of borrowings, -PLN 1 720 million, the dividends paid to shareholders of the Parent Entity in the amount of PLN 300 million and interest paid in the amount of PLN 94 million.

After reflecting exchange differences on cash and cash equivalents, cash and cash equivalents decreased by PLN 618 million and at the end of 2021 amounted to PLN 1 904 million.

Chart 20. Cash flow in 2021 (in PLN million)



ASSETS

Table 9. Consolidated assets (in PLN million)

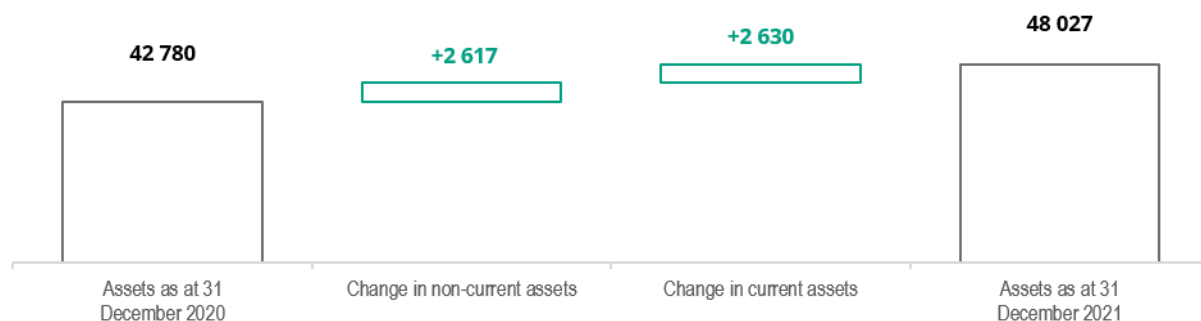
	31.12.2021	31.12.2020	Change (%)	30.09.2021	30.06.2021	31.03.2021
Property, plant and equipment and intangible assets	26 723	25 598	+4.4	26 322	25 766	25 812
Joint ventures – loans granted	7 867	6 069	+29.6	8 521	7 992	6 508
Financial instruments	1 728	2 026	(14.7)	1 835	1 830	1 845
Deferred tax assets	185	193	(4.1)	218	216	332
Other non-financial assets	161	161	-	167	165	144
Non-current assets	36 664	34 047	+7.7	37 063	35 969	34 641
Inventories	6 337	4 459	+42.1	6 106	5 794	5 485
Trade receivables	1 009	834	+21.0	1 115	881	958
Tax assets	364	295	+23.4	254	235	404
Derivatives	254	210	+21.0	333	294	216
Joint ventures – loans granted	447	-	x	-	-	-
Other financial assets	172	210	(18.1)	148	96	320
Other non-financial assets	162	142	+14.1	227	251	222
Cash and cash equivalents	1 884	2 522	(25.3)	457	1 189	1 566
Assets held for sale (disposal group)	734	61	x12.0	443	346	-
Current assets	11 363	8 733	+30.1	9 083	9 086	9 171
TOTAL ASSETS	48 027	42 780	+12.3	46 146	45 055	43 812

At the end of 2021, total assets in the consolidated statement of financial position amounted to PLN 48 027 million and were higher as compared to 31 December 2020 by PLN 5 247 million.

Non-current assets as at 31 December 2021 amounted to PLN 36 664 million and were higher by PLN 2 617 million compared to the end of 2020. The increase in non-current assets was mainly with respect to loans granted to joint ventures by PLN 1 798 million and property, plant and equipment and intangible assets by PLN 1 125 million. Compared to 2020 mainly financial instruments were lower by PLN 298 million.

Current assets increased by PLN 2 630 million, mainly due to inventories by PLN 1 878 million, assets held for sale by PLN 673 million and loans granted to a joint venture by PLN 447 million alongside a decrease in cash and cash equivalents by PLN 638 million.

Chart 21. Change in assets in 2021 (in PLN million)



EQUITY AND LIABILITIES

Table 10. Consolidated equity and liabilities (in PLN million)

	31.12.2021	31.12.2020	Change (%)	30.09.2021	30.06.2021	31.03.2021
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	(1 705)	(1 430)	+19.2	(1 452)	(2 076)	(2 189)
Accumulated other comprehensive income other than from measurement of financial instruments	2 219	1 728	+28.4	1 817	1 755	1 550
Retained earnings	24 532	18 694	+31.2	23 138	22 101	20 042
Equity attributable to shareholders of the Parent Entity	27 046	20 992	+28.8	25 503	23 780	21 403
Equity attributable to non-controlling interest	92	89	+3.4	90	87	88
Equity	27 138	21 081	+28.7	25 593	23 867	21 491
Borrowings, leases and debt securities	5 409	6 928	(21.9)	5 554	5 505	6 106
Derivatives	1 134	1 006	+12.7	975	1 156	1 253
Employee benefits liabilities	2 306	3 016	(23.5)	2 884	2 942	3 048
Provisions for decommissioning costs of mines and other facilities	1 242	1 849	(32.8)	1 601	1 566	1 838
Deferred tax liabilities	643	442	+45.5	595	374	381
Other liabilities	617	551	+12.0	635	605	558
Non-current liabilities	11 351	13 792	(17.7)	12 244	12 148	13 184
Borrowings, leases and debt securities	455	407	+11.8	462	428	441
Derivatives	889	688	+29.2	787	1 163	1 265
Trade and similar payables	2 974	3 593	(17.2)	2 414	3 023	3 379
Employee benefits liabilities	1 437	1 313	+9.4	1 303	1 397	1 384
Tax liabilities	1 453	537	+2.7	1 285	1 135	1 086
Provisions for liabilities and other charges	207	162	+27.8	189	179	189
Other liabilities	1 661	1 202	+38.2	1 445	1 304	1 393
Liabilities associated with disposal group	462	5	+92.4	424	411	-
Current liabilities	9 538	7 907	+20.6	8 309	9 040	9 137
Non-current and current liabilities	20 889	21 699	(3.7)	20 553	21 188	22 321
TOTAL EQUITY AND LIABILITIES	48 027	42 780	+12.3	46 146	45 055	43 812

Equity as at the end of 2021 amounted to PLN 27 138 million and was higher by PLN 6 057 million than at the end of 2020, mainly due to an increase in retained earnings by PLN 5 838 million.

Non-current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2021 amounted to PLN 11 351 million and were lower by PLN 2 441 million compared to the end of 2020, mainly due to a decrease in the value of borrowings, leases and debt securities by PLN 1 519 million, employee benefits liabilities by PLN 710 million and provisions for decommissioning costs of mines and other facilities by PLN 607 million.

Current liabilities of the KGHM Polska Miedź S.A. Group as at 31 December 2021 amounted to PLN 9 538 million and were higher by PLN 1 631 million compared to the end of 2020, mainly due to an increase in tax liabilities by PLN 916 million, liabilities associated with disposal group by PLN 457 million and other liabilities by PLN 459 million. The main decrease in current liabilities was in respect of trade and similar payables by PLN 619 million.

Chart 22. Change in equity and liabilities in 2021 (in PLN million)



CONTINGENT ASSETS AND LIABILITIES DUE TO GUARANTEES GRANTED

As at 31 December 2021, the Group held contingent assets in the amount of PLN 508 million, which mainly related to the securities of proper execution of agreements in the amount of PLN 325 million and promissory notes receivables in the amount of PLN 134 million.

As at 31 December 2021, the Group held liabilities due to guarantees and letters of credit granted in the amount of PLN 849 million and promissory notes payables in the amount of PLN 173 million.

The most important items are liabilities of the Parent Entity aimed at securing liabilities:

- Sierra Gorda S.C.M. – a corporate guarantee in the amount of PLN 670 million securing the repayment of a long-term bank loan,
- other entities, including the Parent Entity:
 - a guarantee in the amount of PLN 124 million securing the proper execution of future environmental obligations of the Parent Entity to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility,
 - guarantees and letters of credit in the total amount of PLN 39 million securing the proper execution of agreements entered into by the Parent Entity and companies in the Group.

6.5. 2021 TARGETS VERSUS ACHIEVEMENTS AND TARGETS FOR 2022

KGHM Polska Miedź S.A. does not publish forecasts of financial results. However, in regulatory filings dated 28 January 2021 and 14 January 2022 the Company published its main Budget assumptions respectively for 2021 and 2022, which are presented in the table below.

Table 11. 2021 targets versus achievements and targets for 2022

		Execution 2021	Budget 2021	Execution (%)	Budget 2022	Change (%)
KGHM Polska Miedź S.A.						
Production of copper in concentrate	kt	391.3	390.0	100.3	392.0	+0.2
Production of silver in concentrate	t	1 303	1 200	108.6	1 280	(1.8)
Electrolytic copper production, including:	kt	577.6	573.0	100.8	585.0	+1.3
- from own concentrate	kt	381.4	385.0	99.1	394.0	+3.3
Metallic silver production	t	1 332	1 197	111.3	1 222	(8.3)
Copper products sales volume	kt	561.5	566.3	99.2	583.0	+3.8
Silver products sales volume	t	1 249	1 165	107.2	1 278	+2.3
Total unit cost of electrolytic copper production from own concentrate	PLN/t	22 210	20 248	109.7	26 455	+19.1
Capital expenditures on property, plant and equipment ⁽¹⁾	PLN mn	2 404	2 853	84.3	2 835	+17.9
Other expenditures, including loans ⁽²⁾	PLN mn	58	306	19.0	202	×3.5
KGHM INTERNATIONAL LTD.						
Payable copper production	kt	71.7	73.9	97.0	54.1	(24.5)
TPM production	koz t	51.3	53.7	95.5	53.1	+3.5
Sierra Gorda (55%)						
Payable copper production	kt	104.4	98.9	105.6	90.8	(13.0)
Molybdenum production	mn lbs	8.2	6.7	122.4	2.9	(64.6)

¹⁾ excluding costs of borrowing, leases per IFRS 16 unrelated to an investment project as well as expenditures on development work - uncompleted, the budget for 2021 contains a reserve of PLN 100 million

²⁾ acquisition of shares and investment certificates of subsidiaries and loans granted to them

ACHIEVEMENT OF TARGETS IN 2021

In 2021, production of electrolytic copper by the Company was 4.6 thousand tonnes of copper (+1%) higher than the target in the 2021 Budget, with lower production from own concentrate by 3.6 thousand tonnes and higher production from purchased metal-bearing materials by 8.2 thousand tonnes. Silver production was higher by 135 t (+11%). As a result, sales of silver were higher than planned (+84 t, or 7%). Copper sales were however lower than the target in the Budget by 4.8 thousand tonnes (-1%) due to a change in the schedule of deliveries.

Production of payable copper and precious metals by KGHM INTERNATIONAL LTD. was lower than assumed in the Budget respectively by 2.2 thousand tonnes (-3%) and 2.4 thousand troy ounces (-4%) mainly due to lower quality ore.

Sierra Gorda ended 2021 with payable copper production which was 5.5 thousand tonnes (+6%) higher than planned in the Budget, due to higher copper content in ore and higher recovery.

The total unit cost of electrolytic copper production from own concentrate in KGHM Polska Miedź S.A. was higher than planned by 10%, mainly due to a higher minerals extraction tax charge. The unit cost of copper production excluding this tax was lower than planned, despite lower copper production from own concentrate and higher prices of materials and technological fuels.

Capital expenditures on property, plant and equipment by KGHM Polska Miedź S.A. in 2021 (excluding costs of borrowing, leases per IFRS 16 unrelated to an investment project and expenditures on uncompleted development work) were PLN 449 million (-16%) lower than planned, including PLN 100 million of unutilised reserves.

Other expenditures were also lower by PLN 248 million, mainly due to the lack of a loan granted to finance the international projects (Victoria and SG Oxide) advanced using the resources of KGHM INTERNATIONAL LTD. and to the lack of an increase in share capital for PMT LK and Pol-Miedź Trans, due to postponements in the schedule.

TARGETS FOR 2022

Production - lower copper production by the Group in 2022 by 24.0 thousand tonnes (-3%) compared to the amount recorded in 2021, of which from:

- KGHM Polska Miedź S.A. +7.4 thousand tonnes (+1%), with higher production from own concentrate by 12.6 thousand tonnes,
- KGHM INTERNATIONAL LTD. -17.6 thousand tonnes (-25%) – mainly lower copper production by Robinson (lower copper content in ore and lower recovery) and the sale of the assets of Franke,
- Sierra Gorda -13.6 thousand tonnes (-13%) – the main reason for the lower production is operating in regions with lower metal content. At the same time an increase in the amount of ore processed by 2% is expected.

Sales of KGHM Polska Miedź S.A. – as a result of higher production and lower inventories of finished products, it is expected that copper sales will be higher by 21.5 thousand tonnes (+4%).

Total unit cost of electrolytic copper production from own concentrate (KGHM Polska Miedź S.A.) will increase by 19% due to the adopted assumptions regarding higher prices of materials and technological fuels as well as energy-related factors.

Investments (excluding costs of borrowing, leases per IFRS 16 unrelated to an investment project and expenditures on uncompleted development work) - an increase in capital expenditures on property, plant and equipment in KGHM Polska Miedź S.A. by PLN 431 million (+18%) due to an increase in the scope of mining machinery purchases compared to 2021, higher prices and reflecting in the investment portfolio the development of underground dewatering systems in the mining divisions securing the increased inflow of water in the mines, as well as deliveries/work and services expected to be advanced during the technological shutdown of the main production line of the Głogów II Copper Smelter and Refinery.

6.6. FINANCING IN THE GROUP

The KGHM Polska Miedź S.A. Group manages its financial resources based on the approved Financial Liquidity Management Policy in the Group. Its primary goal is to ensure continuous operations by securing the availability of funds required to achieve the Group's business goals, while optimising incurred costs. Moreover, the Policy regulates the Group's borrowing principles, the principles of managing debt and monitoring the level of the Group's debt. Financial liquidity management involves securing an appropriate amount of cash and available lines of credit in the short, medium and long term.

NET DEBT IN THE GROUP

Liabilities due to borrowings of the Group at the end of 2021 amounted to PLN 5 949 million and decreased as compared to 2020, while maintaining a structure based on diversified and long-term financing sources, ensuring financial stability over the long term.

The Group's free cash and cash equivalents, which at 31 December 2021 amounted to PLN 1 880 million, are of a short term nature.

Table 12. Net debt structure of the Group (in PLN million)

	31.12.2021	31.12.2020	Change (%)	30.09.2021	30.06.2021	31.03.2021
Liabilities due to:	5 949	7 335	(18.9)	6 019	5 937	6 547
Bank loans	735	1 994	(63.1)	725	689	1 114
Other loans	2 568	2 685	(4.4)	2 643	2 607	2 768
Debt securities	2 001	2 000	0.1	2 009	2 000	2 009
Leases	645	656	(1.7)	642	641	656
Free cash and cash equivalents	1 880	2 501	(24.8)	541	1 246	1 547
Net debt	4 069	4 834	(15.8)	5 478	4 691	5 000

Table 13. Net debt structure of the Parent Entity (in PLN million)

	31.12.2021	31.12.2020	Change (%)	30.09.2021	30.06.2021	31.03.2021
Liabilities due to:	5 922	7 115	(16.8)	5 911	5 790	6 249
Bank loans	593	1 860	(68.1)	582	553	974
Other loans	2 387	2 461	(3.0)	2 416	2 366	2 537
Debt securities	2 001	2 000	0.1	2 009	2 000	2 009
Cash pooling	360	284	26.8	409	372	220
Leases	581	510	13.9	495	499	509
Free cash and cash equivalents	1 318	2 120	(37.8)	373	696	1 141
Net debt	4 604	4 995	(7.8)	5 538	5 094	5 108

SOURCES OF FINANCING IN THE GROUP

As at 31 December 2021, the Group held open lines of credit, loans and debt securities with a total available amount of PLN 14 505 million, out of which PLN 5 304 million had been drawn.

Unsecured, revolving syndicated credit facility in the amount of USD 1.5 billion	<p>A credit facility in the amount of USD 1 500 million (PLN 6 090 million), acquired on the basis of a financing agreement entered into by the Parent Entity with a syndicate banks group in 2019, with maturity falling on 19 December 2024 and the option of extending for a further 2 years (5+1+1). In 2021, the Parent Entity received a consent of the Syndicate Members to extend the term of the agreement by another year, that is to 20 December 2026. The amount of available financing during the extension period will amount to USD 1 438 million (PLN 5 838 million). Interest is based on LIBOR plus a margin, which depends on the net debt/EBITDA ratio.</p> <p>The funds acquired under this credit facility are used to finance general corporate purposes.</p>
Investment loans, including from the European Investment Bank in the total amount of PLN 3.3 billion with financing periods of up to 12 years	<p>Financing agreements signed by the Parent Entity with the European Investment Bank:</p> <ul style="list-style-type: none"> - in August 2014 in the amount of PLN 2 000 million, which was drawn in the form of three instalments with maturities falling on 30 October 2026, 30 August 2028 and 23 May 2029 and used to the full available amount. The funds acquired through this loan were used to finance selected investment projects related to modernisation of metallurgy and development of the “Żelazny Most” tailings storage facility, - in December 2017 in the amount of PLN 1 340 million, under which three instalments were drawn with the payback period expiring on 28 June 2030, 23 April 2031 and 11 September 2031. The deadline for accessing the unused amount of PLN 440 million, by which amount the available financing was increased in June 2021, falls in April 2023. The funds acquired through this loan were used to finance the Parent Entity's development and replacement projects at various stages of the production line. <p>Interest on the instalments drawn is based on a fixed interest rate.</p>
Debt securities in the amount of PLN 2.0 billion	<p>The program to issue bonds on the Polish market was established under an issue agreement dated 27 May 2019. The issue had a nominal value of PLN 2 000 million, under which 5-year bonds were issued in the amount of PLN 400 million with maturity falling on 27 June 2024 and 10-year bonds in the amount of PLN 1 600 million with maturity falling on 27 June 2029. Interest is based on WIBOR plus a margin.</p> <p>The funds obtained from the bond issue were used to finance general corporate goals.</p>
Bilateral bank loans in the amount of up to PLN 2.9 billion	<p>The Group holds lines of credit in the form of short-term and long-term bilateral agreements in the total amount of PLN 2 877 million. Interest is based on a fixed interest rate or on the variable interest rates WIBOR, LIBOR, EURIBOR plus a margin.</p> <p>The funds obtained under the aforementioned bank loan agreements are a tool supporting the management of current financial liquidity and support the financing of investments.</p>

Detailed information on the above loans is presented in notes 8.4.3 of the financial statements.

Another source supporting the Group's liquidity is reverse factoring. The main goal of the reverse factoring program was to guarantee the effective management of working capital while ensuring the timely execution of trade payables towards the Group. It should be assumed that reverse factoring a tool used by the Group as reasonably needed. Agreements with factors were entered into for an unspecified period of time and remain active with the possibility of immediately utilising the offered limits. Reverse factoring is one of the elements available to finance debt which the Group does not plan on withdrawing from, and treats the available program as an effective tool to manage working capital in a situation of negative changes in the economic environment or other factors.

The aforementioned sources fully cover the current, medium- and long-term liquidity needs of the Group.

DEBT POSITION AS AT 31 DECEMBER 2021

The following table presents the Group's borrowing structure and the extent to which borrowing was utilised.

Table 14. Amount available and drawn by the Group (in PLN million)

	Amount drawn as at 31.12.21	Amount drawn as at 31.12.20	Change (%)	Amount available as at 31.12.21	Amount drawn (%) as at 31.12.21
Unsecured, revolving syndicated credit facility	(14)	(17)	(17.6)	6 090	(0.2)
Loans	2 568	2 685	(4.4)	3 538	72.6
Bilateral bank loans	749	2 011	(62.8)	2 877	26.0
Debt securities	2 001	2 000	(0.1)	2 000	100.1
Total	5 304	6 679	(20.6)	14 505	36.6

As at 31 December 2021, 56% of the Group's debt came from loans drawn in USD, 42% in PLN, and 1% each in the currencies: EUR and CAD.

EVALUATION OF FINANCIAL RESOURCES MANAGEMENT

In 2021, the KGHM Polska Miedź S.A. Group was fully capable of meeting its obligations with respect to liabilities drawn. The cash and cash equivalents held by the Group along with the external financing obtained ensure that liquidity will be maintained and will enable the achievement of investment goals.

As at 31 December 2021, the Group held PLN 1 880 million of free cash and cash equivalents and had open credit lines for total available financing in the amount of PLN 14 505 million, out of which PLN 5 304 million had been drawn.

In 2021, the Group continued activities aimed at ensuring long-term financial stability and optimising short-term sources of financing.

In December 2021, the Parent Entity used the option to extend for a second time the maturity of an unsecured revolving syndicated credit facility agreement in the amount of USD 1 500 million (PLN 6 090 million) entered into in 2019. As a result of the Syndicate Members' decision, the amount of credit available under this facility during the extension period, i.e. to 20 December 2026, amounts to USD 1 438 million (PLN 5 838 million).

Under the unsecured, syndicated credit facility, the two bilateral bank loans and the investment loans from the European Investment Bank, the Group is obliged to maintain financial covenants at specified levels. At the reporting date, during the financial year and following the reporting date, up to the date of publication of this report, the level of reportable financial covenants as at 30 June 2021 and 31 December 2021, met the amounts specified in agreements.

Table 15. Net debt / EBITDA of the Group

	31.12.21	31.12.20	Change (%)	30.09.21	30.06.21	31.03.21
Net debt / EBITDA¹	0.6	0.9	(33.3)	0.8	0.7	0.8

¹⁾ adjusted EBITDA for the 12 month period, ending on the last day of the reporting period, excluding EBITDA of the joint venture Sierra Gorda S.C.M.

LOANS GRANTED BY GROUP COMPANIES

As at 31 December 2021, the balance of receivables due to loans granted by the Parent Entity, in accordance with the measurement pursuant to IFRS 9, amounted to PLN 8 366 million, while the balance of receivables due to loans granted by the Group, in accordance with the measurement pursuant to IFRS 9, amounted to PLN 8 336 million.

Table 16. The most significant¹ loans granted by companies of the Group as at 31 December 2021

<i>Lender</i>	<i>Borrower</i>	<i>Year granted</i>	<i>Total amount of loans</i>	<i>Total balance of receivables due to loans granted²</i>		<i>Maturity</i>
Loans granted within the Group						
KGHM Polska Miedź S.A.	KGHM ZANAM S.A.	2020	PLN 30 mn	PLN 30 mn		29.05.2025
KGHM Polska Miedź S.A.	POL-MIEDŹ TRANS Sp. z o.o.	2020	PLN 25 mn	PLN 25 mn		31.12.2025
		2021	PLN 20 mn	PLN 20 mn		31.12.2026
KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	2015	USD 28 mn	USD 33 mn	PLN 132 mn	31.12.2027
KGHM Polska Miedź S.A.	Future 1 Sp. z o.o.	2013-2016	USD 874 mn	USD 1 258 mn	PLN 5 109 mn	31.12.2024
		2017	PLN 9 mn		PLN 10 mn	31.12.2024
KGHM Polska Miedź S.A.	Quadra FNX Holdings Chile Limitada	2015-2017	USD 442 mn	USD 132 mn	PLN 543 mn	31.12.2024
KGHM Polska Miedź S.A.	Quadra FNX FFI S.à r.l.	2017-2020	USD 585 mn	USD 611 mn	PLN 2 481 mn	15.12.2024
						31.12.2024
Future 1 Sp. z o.o.	KGHM INTERNATIONAL LTD.	2012	USD 453 mn	USD 540 mn	PLN 2 193 mn	31.12.2027
Future 1 Sp. z o.o.	Quadra FNX FFI S.à r.l.	2017	USD 1 419 mn	USD 1 375 mn	PLN 5 581 mn	15.12.2024
KGHM INTERNATIONAL LTD.	Sociedad Contractual Minera Franke	2010	USD 100 mn	USD 88 mn	PLN 357 mn	on demand
KGHM INTERNATIONAL LTD.	FNX Mining Company Inc.	2015	USD 140 mn	USD 81 mn	PLN 329 mn	on demand
KGHM INTERNATIONAL LTD.	Robinson Holdings USA Ltd.	2018	USD 208 mn	USD 217 mn	PLN 879 mn	on demand, no later than 30.06.2025
FNX Mining Company Inc.	KGHM Chile SpA	2012	USD 56 mn	USD 16 mn	PLN 66 mn	on demand
FNX Mining Company Inc.	KGHM INTERNATIONAL LTD.	2014	USD 200 mn	USD 111 mn	PLN 452 mn	on demand, no later than 30.06.2025
Robinson Nevada Mining Company	Robinson Holdings USA Ltd.	2016	USD 200 mn	USD 106 mn	PLN 429 mn	on demand
Quadra FNX Holdings Chile Limitada	KGHM Chile SpA	2016-2017	USD 5 mn	USD 8 mn	PLN 33 mn	31.12.2024
Sociedad Contractual Minera Franke	KGHM Chile SpA	2017	USD 16 mn	USD 10 mn	PLN 39 mn	on demand
Quadra FNX FFI S.à r.l.	Quadra FNX Holdings Chile Limitada	2018-2020	USD 348 mn	USD 412 mn	PLN 1 673 mn	31.12.2024
Quadra FNX FFI S.à r.l.	KGHM Chile SpA	2021	USD 7 mn	USD 7 mn	PLN 27 mn	31.12.2024
DMC Mining Services Ltd.	DMC Mining Services Chile SpA	2019-2021	USD 22 mn	USD 23 mn	PLN 92 mn	on demand
FNX Mining Company Inc./ DMC Division	DMC Mining Services Ltd.	2019-2021	CAD 73 mn	CAD 73 mn	PLN 235 mn	on demand
Loans granted to other entities						
Quadra FNX FFI S.à r.l.	Sierra Gorda S.C.M.	2012	USD 1 700 mn	USD 2 048 mn	PLN 8 314 mn	on demand, no later than 15.12.2024

1) the balance of receivables over PLN 25 million

2) Including accrued, unpaid interest as at 31 December 2021

The following table presents the major loans granted in 2021 between Group companies together with the balance of receivables due to loans granted as at the end of 2021 (including accrued interest, write-offs and measurement pursuant to IFRS 9).

Table 17. The loans granted by companies of the Group in 2021

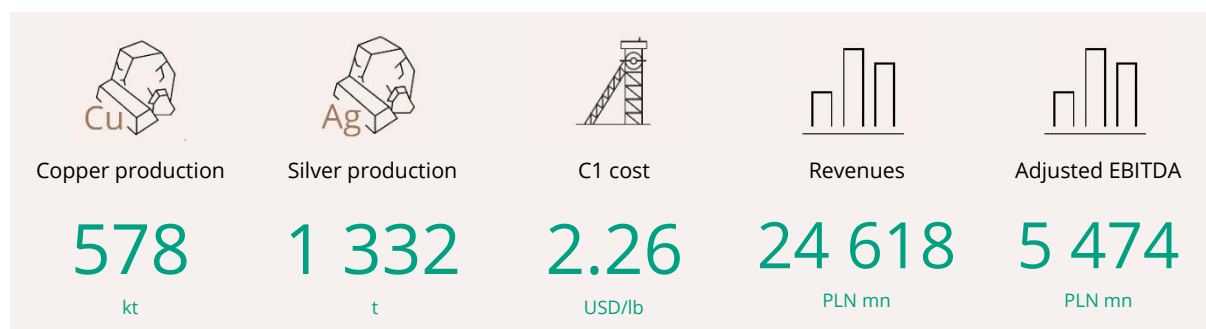
<i>Lender</i>	<i>Borrower</i>	<i>Year granted</i>	<i>Total amount of loans</i>	<i>Total balance of receivables due to loans granted⁽¹⁾</i>		<i>Interest of loans as at 31.12.2021</i>	<i>Maturity</i>
Loans granted within the Group							
KGHM Polska Miedz S.A.	POL-MIEDŹ TRANS Sp. z o.o.	2021	PLN 20 mn	PLN 20 mn		4.63%	31.12.2026
KGHM INTERNATIONAL LTD.	KGHM Chile SpA	2021	3.5 mn USD	USD 4 mn	PLN 15 mn	5.00%	31.12.2024
KGHM INTERNATIONAL LTD.	DMC Mining Services LTD.	2021	2 mn CAD	CAD 2 mn	PLN 6 mn	2.00%	28.02.2023
Quadra FNX FFI S.à r.l	KGHM Chile SpA	2021	USD 7 mn	USD 7 mn	PLN 27 mn	3.11%	31.12.2024
DMC Mining Services Ltd.	DMC Mining Services Chile SpA	2021	USD 16 mn	USD 16 mn	PLN 65 mn	3.36%	on demand
DMC Mining Services UK	FNX Mining Company Inc./Oddział DMC	2021	USD 1.32 mn	USD 1.35 mn	PLN 5 mn	3.84%	31.12.2022
DMC Mining Services UK	FNX Mining Company Inc./Oddział DMC	2021	GBP 4.10 mn	GBP 4.11 mn	PLN 23 mn	1.38%	31.12.2022
DMC Mining Services UK	FNX Mining Company Inc./Oddział DMC	2021	EUR 0.08 mn	EUR 0.08 mn	PLN 0.4 mn	0.23%	31.12.2022
FNX Mining Company Inc./ DMC Division	DMC Mining Services Ltd.	2021	CAD 16 mn	CAD 16 mn	PLN 53 mn	0%	on demand
Loans granted to other entities							
KGHM INTERNATIONAL LTD.	Abacus Mining & Exploration Corporation	2015-2021	CAD 13 mn	CAD 5.4 mn	PLN 22 mn	10.00%	31.12.2022

¹⁾ Including accrued, unpaid interest as at 31 December 2021

CASH POOLING IN THE GROUP

In managing its financial liquidity, the Group utilises tools which support its efficiency. One of the basic instruments used by the Group is the cash pooling management system - domestically in PLN, USD and EUR and abroad in USD, and additionally in CAD in the KGHM INTERNATIONAL LTD. Group. The cash pooling system is aimed at optimising cash management, limiting interest costs, the effective financing of current needs in terms of working capital and supporting short term financial liquidity in the Group.

7. ECONOMIC RESULTS OF KGHM POLSKA MIEDŹ S.A.



7.1. PRODUCTION

The main goals set by the Management Board in terms of production and occupational health and safety for 2021 were:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of copper content in ore and concentrate.

The goals set required advancement of the following actions:

in mining

- expanding mining operations within the Deep Głogów (Głogów Głęboki-Przemysłowy) area,
- improvement of the ore extraction technology, greater mining efficiency and improved occupational health and safety, by:
 - adapting the geometry of mining systems to local geological and mining conditions,
 - improving the efficiency of technological and active methods of limiting the threat of rock bursts and of other associated natural threats, and
 - proper barren rock management in mining areas (selective extraction, siting of rock, mechanical ore mining),
- a greater scope of work with respect to identifying gas-related threats and the use of new technical solutions and means of prevention to counteract this threat,
- maintaining the efficiency of mining vehicles in an assortment required to execute production tasks,
- realisation of the planned scope of mine development and access work using the commissioning system at the level of 59.1 thousand meters.

in ore processing

- maintaining the production capacity of individual Concentrators Division Areas to process the amount and quality of ore supplied,
- maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters and refineries,
- improving flotation enrichment technology,
- the replacement of hydrocyclone batteries in the Lubin Concentrator was completed, under the strategic task „Modernisation of classification systems”,
- the continuity of deliveries of concentrate in the Rudna Concentrator was maintained, despite the simultaneous advancement of investments and breakdowns of a technical-construction nature (a limited amount of thickeners, modernisation of press filters, driers, modernisation of concentrate loading and haulage),

in metallurgy

- increased share of imported concentrates to achieve a high level of electrolytic copper production alongside a decrease in the production of own concentrate,
- planned 2-week maintenance of the flash furnace at the Głogów II Copper Smelter and Refinery in April,
- minimising of environmental impact by actions aimed at improving the efficiency of dedusting and hermetic sealing processes and optimisation of water-effluents management,
- optimum utilisation of infrastructure enabled production targets to be fully met with respect to basic products,
- increasing the share of recycling in copper production due to an increase in scrap processing in the furnaces of the Głogów Copper Smelter and Refinery as well as maximising the processing of scrap at all firing stages at the Legnica Copper Smelter and Refinery,

in occupational health and safety	<ul style="list-style-type: none"> - consistent application of developed solutions and the successive implementation of tools to effectively mitigate the threat of the SARS-CoV-2 virus pandemic, including the campaign to vaccinate Company employees, - implementation of the agreed elements of a Program to negate the most common safety hazards by using innovative technology, - constant monitoring of occupational hazards and execution of organisational and technical goals aimed at limiting occupational risks and accidents, - commencing additional organisational and technical initiatives aimed at improving occupational health and safety, in particular in the Company's mines.
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MINE PRODUCTION

In 2021 extraction of ore (dry weight) amounted to 30.0 million tonnes and was higher by 0.3 million tonnes than in 2020.

Average copper content in extracted ore amounted to 1.48% and was lower than the level achieved in 2020. In the case of silver in ore, content was substantially higher and amounted to 50.72 g/t.

As a result the amount of copper in extracted ore was higher than in 2020 by 0.6 thousand tonnes of copper and amounted to 442.6 thousand tonnes. The volume of silver in ore increased by 99 tonnes and amounted to 1 522 tonnes.

In 2021, 29.9 million tonnes of ore (dry weight) were processed (or 251 thousand tonnes more compared to 2020). The higher amount of ore extracted by the Mining Divisions, of a lower copper content, directly affected the obtained lower amount of copper in concentrate, which amounted to 391.3 thousand tonnes.

The production of concentrate (dry weight) increased slightly as compared to 2021.

The amount of silver in concentrate was higher than in 2020 by 7%.

Table 18. Mine production of KGHM Polska Miedź S.A.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Mined ore (wet weight)	mn t	31.6	31.2	+1.3	7.6	8.2	7.9	7.9
Mined ore (dry weight)	mn t	30.0	29.7	+1.0	7.2	7.8	7.5	7.5
Copper grade	%	1.48	1.49	(0.7)	1.48	1.47	1.47	1.48
Copper in ore	kt	442.6	442.0	+0.1	106.7	114.9	110.6	110.4
Silver grade	g/t	50.7	48.0	+5.6	52.2	50.7	50.8	49.3
Silver in ore	t	1 522	1 423	+7.0	378	395	381	368
Production of concentrate (dry weight)	kt	1 741	1 740	+0.1	425	451	437	429
Copper in concentrate	kt	391.3	392.7	(0.4)	95.2	100.9	98.2	96.9
Silver in concentrate	t	1 303	1 218	+7.0	326	337	327	313

METALLURGICAL PRODUCTION

The production of electrolytic copper as compared to 2020 increased by 17.2 thousand tonnes, or by 3.1%. The higher production of electrolytic copper was the result of an increase in the supply of purchased metal-bearing materials. By supplementing own concentrate with purchased metal-bearing materials in the form of scrap, copper blister and imported concentrate, existing technological capacity was effectively used.

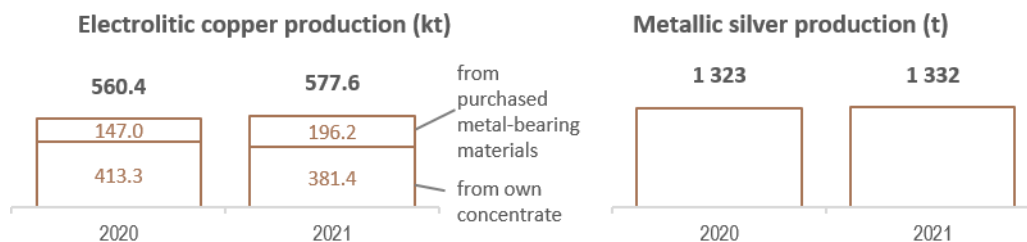
The production of other metallurgical products (silver, wire rod and OFE rod) derives from the level of electrolytic copper production and depends on the type of raw material used, and above all on market demand.

In comparison to 2020, the production of metallic gold decreased by 481 kg, or 16.0%, while metallic silver production was higher by 9.3 tonnes, closing the year at 1 332 t.

Table 19. Metallurgical production of KGHM Polska Miedź S.A.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Electrolytic copper, including:	kt	577.6	560.4	+3.1	137.4	146.9	146.8	146.4
- production from own concentrates	kt	381.4	413.3	(7.7)	95.3	93.9	92.6	99.6
- production from purchased metal-bearing materials	kt	196.2	147.0	+33.5	42.1	53.1	54.2	46.8
Wire rod, OFE and CuAg rod	kt	281.9	259.5	+8.6	61.2	77.2	71.9	71.6
Metallic silver	t	1 332	1 323	+0.7	350	323	361	299
Metallic gold	koz t	81.3	96.8	(16.0)	19.9	23.3	21.5	16.6
Refined lead	kt	30.1	30.2	(0.3)	8.0	6.4	7.9	7.8

Chart 23. Production of electrolytic copper (thousand tonnes) and metallic silver (t)



MAIN PRODUCTION GOALS

The main goals set by the Management Board in terms of production and occupational health and safety for 2022 are a continuation of actions taken in 2021, i.e.:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of copper content in ore and concentrate.

Key tasks in 2022:

in mining	<ul style="list-style-type: none"> - access and development work to intersect the deposit in the Deep Głogów (Głogów Głęboki-Przemysłowy) and Gaworzyce mining areas, - continuation of work related to prevention of gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat, - continuation of work related to utilising the capacity of the input and output ventilation shafts in the interconnected mine ventilation system, - maintaining the efficiency of mining vehicles in an assortment required to execute production tasks, - realisation of the planned scope of mine development and access work using the commissioning system in 2022,
in ore processing	<ul style="list-style-type: none"> - optimising control of visual product parameters during the production process, - maintaining the availability of the machine park and the production capacity of individual Concentrators Division Areas to the amount of ore supplied, - maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the smelters and refineries, - searching for ways to utilise alternative and renewable energy sources in the Concentrators Division, - monitoring and assessing the impact of technological water to the technological parameters and state of technical infrastructure,
in metallurgy	<ul style="list-style-type: none"> - the planned execution of a maintenance shutdown of the flash furnace complex at the Głogów II Copper Smelter and Refinery with the full scope of maintenance, - increasing the share of recycling in copper production as a result of an increase in the processing of scrap in the furnaces of Głogów Copper Smelter and Refinery and maximisation of scrap processing in all fire phases in Legnica Copper Smelter and Refinery, - maintaining the high level of electrolytic copper production by the Legnica Copper Smelter and Refinery and Głogów Copper Smelter and Refinery. - further minimisation of environmental impact by actions directed towards improving the effectiveness of the dedusting and hermetic sealing processes to decrease fugitive emissions as well as optimisation of water-effluents management, - optimum management of half-finished products between the metallurgical facilities,
in occupational health and safety	<ul style="list-style-type: none"> - advancing a package of actions which further effectively mitigate the external threat of the SARS-Cov – 2 pandemic, - improvement of the occupational safety and hygiene management system implemented by the Company in 2020 pursuant to the OHS ISO 45001:2018 standard, - introduction of further technical and organisational solutions decreasing the risk of workplace accidents in the Company's divisions, - continuous improvements in the monitoring of workplace hazards and the advancement of organisational and technical goals aimed at further limitation of professional risks and accident rates,

- implementation of IT solutions in the area of workplace safety, in particular workplace data and information analytics.

7.2. SALES

In 2021, the level of sales of copper products by the Company did not differ significantly from that achieved in 2020 and amounted to 561.5 thousand tonnes, versus 561.0 thousand tonnes in the prior year. In 2021, sales of copper cathodes amounted to 279.3 thousand tonnes, meaning a 7% decrease compared to 2020. Sales of copper wire rod and OFE rod increased however by 8%, amounting to 278 thousand tonnes in 2021. The change in the structure of sales of copper products results from the year-long high demand of higher-margin products compared to processed copper cathodes.

Sales of metallic silver in 2021 amounted to 1 249 t, meaning a 9% decrease compared to 2020, alongside a slight increase in production. Silver inventory at the end of 2021 was designated to meet the sales schedule in 2022. Sales of gold in 2021 amounted to 78 thousand troy ounces, which means a decrease compared to data for 2020 (-22%).

Table 20. Sales volume of basic products of KGHM Polska Miedź S.A.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Cathodes and cathodes parts	kt	279.3	300.7	(7.1)	77.5	62.0	74.5	65.3
Copper wire rod and OFE rod ¹	kt	278.0	256.4	+8.4	66.0	69.4	72.6	70.0
Other copper products ¹	kt	4.2	3.9	+7.7	0.9	0.7	1.3	1.3
Total copper and copper products	kt	561.5	561.0	+0.1	144.4	132.1	148.4	136.6
Metallic silver	t	1 249	1 369	(8.8)	298	331	340	279
Metallic gold	koz t	78.0	100.1	(22.1)	19.5	20.5	19.4	18.6
Refined lead	kt	30.7	29.0	+5.9	7.8	6.3	8.2	8.3

¹) the volume of sales of ETP/OFE grains was moved from the item „Copper wire rod and OFE rod” to the item „Other copper products” (the change of 2.2 kt refers to 2020)

Total revenues from sales by KGHM Polska Miedź S.A. in 2021 amounted to PLN 24 618 million, representing an increase by 27% versus 2020, when revenues reached PLN 19 326 million.

Revenues from sales of copper products in 2021 increased by 34% and amounted to PLN 19 079 million (compared to revenues in 2020 of PLN 14 258 million).

Revenues from metallic silver sales in 2021 also increased (+16%) to PLN 3 990 million compared to PLN 3 453 million in 2020. Revenues from sales of metallic gold in 2021 decreased to PLN 548 million, versus PLN 690 million in 2020 (-21%).

The increase in revenues from contracts with customers compared to 2020 by PLN 5 292 million was mainly due to higher prices of copper, silver and gold (+PLN 7 807 million), with lower revenues connected with:

- a change in the adjustment of revenues due to hedging transactions (-PLN 1 974 million),
- lower volumes of sales of silver and gold, respectively by 9% and 22% with higher sales of copper by 0.1% (-PLN 443 million), and
- a less favourable USD/PLN exchange rate (-PLN 173 million).

Table 21. Revenues from contracts with customers of KGHM Polska Miedź S.A. (in PLN million)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Cathodes and cathodes parts	9 462	7 593	+24.6	2 848	2 016	2 562	2 038
Copper wire rod and OFE rod ¹	9 461	6 567	+44.1	2 383	2 360	2 499	2 219
Other copper products ¹	156	98	+59.2	38	27	48	44
Total copper and copper products	19 079	14 258	+33.8	5 269	4 403	5 108	4 300
Metallic silver	3 990	3 453	+15.6	942	1 052	1 096	900
Metallic gold	548	690	(20.6)	145	142	133	129
Refined lead	271	220	+23.2	76	59	68	68
Other goods and services	452	336	+34.5	127	106	112	107
Merchandise and materials	278	369	(24.7)	89	65	59	65
Total sales revenue	24 618	19 326	+27.4	6 648	5 826	6 575	5 569

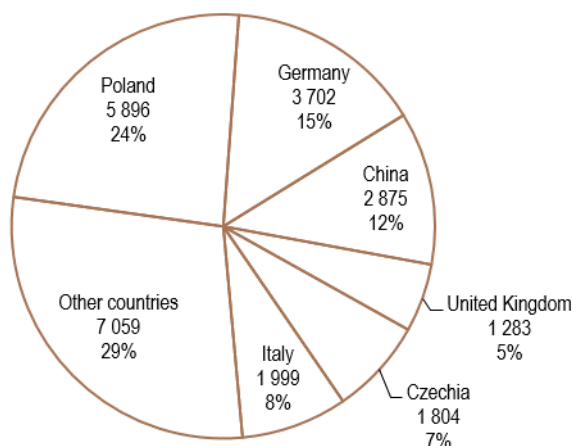
¹) the volume of sales of ETP/OFE grains was moved from the item „Copper wire rod and OFE rod” to the item „Other copper products” (the change of PLN 56 million refers to 2020)

GEOGRAPHICAL BREAKDOWN OF SALES

In 2021, KGHM Polska Miedź S.A. earned most of its revenues from domestic sales, which amounted to 24% of total revenues. The remaining major customers of KGHM came from Germany (15%), China (12%), Italy (8%), Czechia (7%), and the United Kingdom (5%).

The following chart shows the geographic structure of revenues in 2021. Sales revenue includes the result from the settlement of hedging instruments.

Chart 24. Sales revenue of KGHM Polska Miedź S.A. by market (in PLN million)



7.3. COSTS

The Company's cost of sales, selling costs and administrative expenses (cost of products, merchandise and materials sold plus selling costs and administrative expenses) in 2021 amounted to PLN 20 514 million and was 27% higher as compared to the corresponding period of 2020. The Company's cost of sales, selling costs and administrative expenses was substantially affected by the utilisation of inventories, which led to a higher sales volume.

Total expenses by nature in 2021 as compared to 2020 were higher by 42% mainly due to higher consumption of purchased metal-bearing materials by PLN 3 158 million (a higher amount by 45 thousand tonnes and a higher price by 40%) as well as a higher minerals extraction tax charge (+PLN 1 923 million).

Table 22. Expenses by nature of KGHM Polska Miedź S.A. (in PLN million)

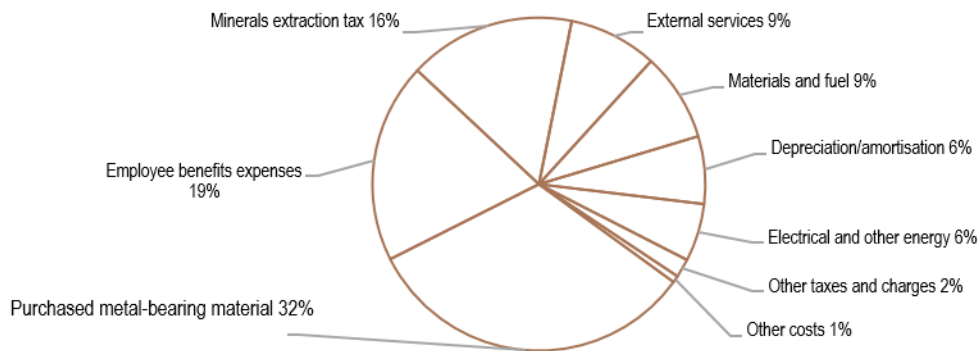
	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Depreciation of property, plant and equipment and amortisation of intangible assets	1 435	1 364	+5.2	356	363	360	356
Employee benefits expenses	4 249	3 835	+10.8	1 097	1 083	1 114	955
Materials and energy, including:	10 242	6 326	+61.9	2 681	2 541	2 673	2 347
- purchased metal-bearing materials	7 132	3 974	+79.5	1 769	1 707	1 989	1 667
- electrical and other energy	1 230	988	+24.5	284	351	299	296
External services	1 884	1 716	+9.8	545	457	457	425
Minerals extraction tax	3 548	1 625	+118.3	1 009	904	917	718
Other taxes and charges	398	397	+0.3	(74)	189	143	140
Other costs	145	123	+17.9	54	18	60	13
Total expenses by nature	21 901	15 386	+42.3	5 668	5 555	5 724	4 954

Expenses by nature, excluding purchased metal-bearing materials and the minerals extraction tax, amounted to PLN 11 221 million and were higher as compared to the corresponding period of 2020 by PLN 1 434 million, mainly due to an increase in the following:

- consumption of materials and energy (+PLN 758 million) – mainly due to higher prices for natural gas, electricity, coke and technological materials,
- labour costs (+PLN 414 million) – due to an increase in remuneration and a higher provision for the annual bonus,
- external services (+PLN 168 million) – mainly due to an increase in transportation services, repairs and maintenance and mine development work,
- depreciation /amortisation (+PLN 71 million) – an increase due to investments advanced in prior periods.

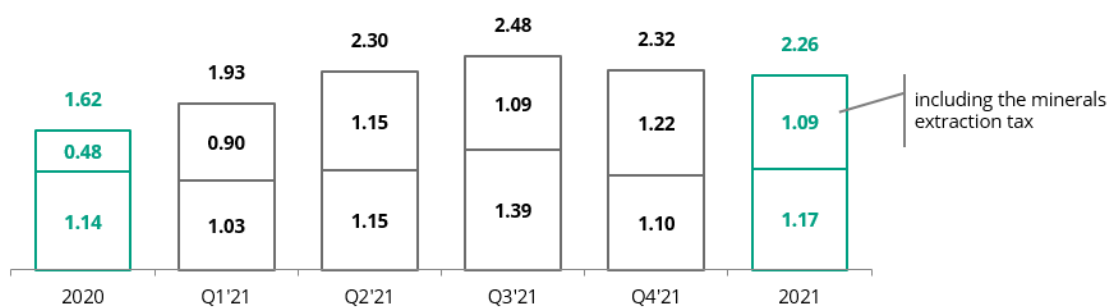
The structure of expenses by nature in 2021 is presented below. As compared to the prior year, they were at a very similar level.

Chart 25. Structure of expenses by nature in 2021



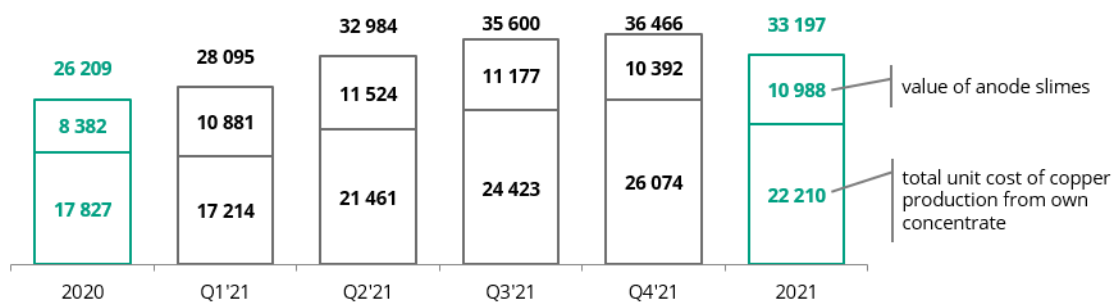
The Company's operating costs are decisively impacted by the costs of electrolytic copper production (prior to decrease by the value of by-products), whose share is around 96%.

Chart 26. Cost of producing payable copper in concentrate – C1 (USD/lb)



Cost of producing copper in concentrate - C1 (unit cash cost of producing payable copper in concentrate, reflecting costs of ore extraction and processing, transport costs, the minerals extraction tax, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products) amounted to respectively: in 2020: 1.62 USD/lb and 2021: 2.26 USD/lb. The increase in this cost by 40% was mainly due to a higher minerals extraction tax charge. C1 cost excluding this tax rose by 2.6% and was due to a strengthening in the PLN as compared to the USD and lower production of copper from own concentrate.

Chart 27. Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate (PLN/t)



The pre-precious metals credit unit cost of copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) was higher than that recorded in 2020 by 6 988 PLN/t (27%), alongside lower production from own concentrate by 32 thousand tonnes of copper (7.7%). The increase in the unit cost was mainly due to the higher minerals extraction tax charge (+4 662 PLN/t), higher prices of energy, fuels and technological materials and higher costs of labour. The total unit cost of copper production from own concentrate was higher compared to 2020 by 4 383 PLN/t (25%) with a higher valuation of anode slimes due to higher silver prices.

7.4. FINANCIAL RESULTS

STATEMENT OF PROFIT OR LOSS

The Company recorded a profit for 2021 in the amount of PLN 5 169 million, or by PLN 3 390 million (2.9-times) higher than the profit for the prior year.

Table 23. Basic items of the statement of profit or loss of KGHM Polska Miedź S.A. (in PLN million)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers	24 618	19 326	+27.4	6 648	5 826	6 575	5 569
- adjustment to revenues due to hedging transactions	(1 651)	323	×	(491)	(418)	(476)	(266)
Cost of sales, selling costs and administrative expenses	(20 514)	(16 161)	+26.9	(5 794)	(5 070)	(5 440)	(4 210)
Profit or loss on sales	4 104	3 165	+29.7	854	756	1 135	1 359
Other operating income and (costs)	3 088	(398)	×	(109)	404	2 425	368
- exchange differences on assets and liabilities other than borrowings	511	(269)	×	135	229	(211)	358
- measurement and realisation of derivatives	(445)	(240)	+85.4	(167)	(145)	47	(180)
- interest on loans granted and other financial receivables	304	269	+13.0	79	94	64	67
- fair value gains on financial assets measured at fair value through profit or loss	1 070	149	×7.2	(243)	175	1 025	113
- fair value losses on financial assets measured at fair value through profit or loss	(63)	(169)	(62.7)	21	(5)	(36)	(43)
- reversal of impairment losses on shares in subsidiaries	1 010	-	×	-	-	1 010	-
- impairment losses on shares and investment certificates in subsidiaries	(182)	(141)	+29.1	(182)	-	3	(3)
- reversal of impairment losses on financial instruments measured at amortised cost	807	21	×38.4	273	26	494	14
- impairment losses on financial instruments measured at amortised cost	(4)	(82)	(95.1)	7	(3)	(7)	(1)
- other	80	64	+25.0	(32)	33	36	43
Finance income and (costs)	(476)	-	×	(99)	(168)	93	(302)
- exchange differences on borrowings	(338)	190	×	(54)	(146)	135	(273)
- interest on borrowings	(92)	(148)	(37.8)	(30)	(14)	(30)	(18)
- other	(46)	(42)	+9.5	(15)	(8)	(12)	(11)
Profit before income tax	6 716	2 767	×2.4	646	992	3 653	1 425
Income tax expense	(1 547)	(988)	+56.6	(329)	(366)	(402)	(450)
PROFIT FOR THE PERIOD	5 169	1 779	×2.9	317	626	3 251	975
Depreciation/amortisation recognised in profit or loss	(1 363)	(1 293)	+5.4	(348)	(359)	(347)	(309)
Adjusted EBITDA¹⁾	5 474	4 458	+22.8	1 202	1 115	1 482	1 675

¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses

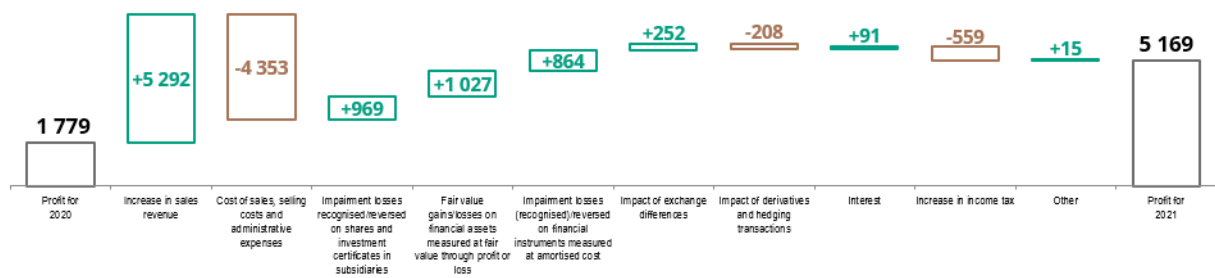
Table 24. Main factors impacting the change in profit or loss of KGHM Polska Miedź S.A.

Item	Impact on change in result (in PLN million)	Description
	+7 807	An increase in revenues due to higher prices of copper (+3 136 USD/t, +51%), silver (+4.60 USD/oz t, +22%) and gold (+36 USD/oz t, +2%)
	(1 974)	Change in the adjustment of revenues due to hedging transactions, from +PLN 323 million to -PLN 1 651 million
Increase in revenues from contracts with customers (+PLN 5 292 million)	(443)	A decrease in revenues due to a lower volume of sales of silver (-120 t, -9%) and gold (-22.1 koz t, -22%), with a higher copper sales volume (+0.5 kt, +0.1%)
	(173)	A decrease in revenues from sales of basic products (copper, silver, gold) due to a less favourable average annual USD/PLN exchange rate (a change from 3.90 to 3.86 USD/PLN)
	+75	An increase in other revenues from sales, including revenues from the sale of refined lead (+PLN 51 million), sulphuric acid (+PLN 48 million) and rhenium (+PLN 19 million) with lower revenues from the sale of merchandise, waste and production materials (-PLN 90 million)

	(3 158)	Higher by 45 thousand tonnes of copper (+29%) consumption of purchased metal-bearing materials at a higher by 40% purchase price
An increase in cost of sales, selling costs and administrative expenses¹⁾ (-PLN 4 353 million)	+2 138	Higher inventories (change in 2021: -PLN 1 562 million, in 2020: +PLN 576 million)
	(3 333)	Mainly an increase in other expenses by nature by PLN 3 357 million, mainly due to higher costs: minerals extraction tax charge (higher by PLN 1 923 million), other materials (higher by PLN 516 million), employee benefits (higher by PLN 414 million), electrical and other energy (higher by PLN 242 million) and external services (higher by PLN 168 million).
Reversal of impairment losses on shares in subsidiaries	+1 010	The total amount is in respect of 2021 and shares of the holding company Future 1 Sp. z o.o. which holds indirectly 100% of the shares of KGHM INTERNATIONAL LTD.
Impairment losses on shares and investment certificates in subsidiaries	(41)	An increase in impairment losses, from -PLN 141 million to -PLN 182 million. In 2020 impairment losses were in respect of: -PLN 85 million in the holding company Future 1 Sp. z o.o., -PLN 44 million in KGHM VII FIZAN, and -PLN 12 million in KGHM VI FIZAN. In 2021, the entirety of the impairment losses were in respect of shares of "Energetyka" sp. z o.o.
Fair value gains on financial assets measured at fair value through profit or loss	+921	An increase in fair value gains on financial assets measured at fair value through profit or loss, from PLN 149 million to PLN 1 070 million. Most of this increase (+PLN 938 million) is in respect of loans (an increase from PLN 118 million to PLN 1 056 million).
Fair value losses on financial assets measured at fair value through profit or loss	+106	A decrease in fair value losses on financial assets measured at fair value through profit or loss, from -PLN 169 million to -PLN 63 million. The decrease in losses (+PLN 119 million) is mainly in respect of loans (a decrease from -PLN 128 million to -PLN 9 million).
Reversal of impairment losses on financial instruments measured at amortised cost	+786	An increase in the reversal of impairment losses on financial instruments measured at amortised cost, from PLN 21 million to PLN 807 million. This increase is mainly (+PLN 734 million) in respect of loans to Future 1 sp. z o.o. and the KGHM INTERNATIONAL LTD. Group (an increase from PLN 18 million to PLN 752 million).
Impairment losses on financial instruments measured at amortised cost	+78	A decrease in impairment losses on financial instruments measured at amortised cost, from -PLN 82 million to -PLN 4 million.
Impact of exchange differences	+252	An increase by PLN 780 million in the result due to exchange differences on assets and liabilities other than borrowings – in other operating activities
		A decrease by PLN 528 million in the result due to exchange differences on borrowings (presented in finance costs)
Impact of derivatives and hedging transactions	(208)	A decrease by PLN 205 million in the result due to the measurement and realisation of derivatives in other operating activities
		A decrease by PLN 3 million in the result due to the measurement and realisation of derivatives in financing activities
Change in the balance of income and costs due to interest on borrowings	+91	An increase by PLN 35 million in interest income on loans granted
		A decrease by PLN 56 million in interest costs on borrowings
Provisions (recognised)/released	(50)	An increase by PLN 51 million in provisions recognised
		An increase by PLN 1 million in provisions released
Refund of excise tax from prior years	(48)	A decrease in the amount of refunded excise tax from prior years (PLN 53 million in 2020 versus PLN 5 million in 2021)
Increase in income tax	(559)	The increase in income tax resulted from an increase in current income tax by PLN 667 million, with a decrease in deferred income tax by PLN 91 million and a higher negative adjustment of current tax for prior periods by PLN 17 million

¹⁾ Cost of products, merchandise and materials sold plus selling costs and administrative expenses

Chart 28. Change in profit for the period of KGHM Polska Miedź S.A. (in PLN million)



CASH FLOWS

Table 25. Statement of cash flows of KGHM Polska Miedź S.A. (in PLN million)

	2021	2020	Change (%)	IVQ'21	IIIQ'21	IIQ'21	IQ'21
Profit before income tax	6 716	2 767	×2.4	828	992	3 653	1 425
Exclusions of income and costs, total	(1 216)	1 709	×	(161)	80	(1 988)	671
Income tax paid	(707)	(730)	×1.0	(167)	(172)	(180)	(188)
Changes in working capital	(2 830)	1 070	×	62	(1 179)	(692)	(1 021)
Net cash generated from/(used in) operating activities	1 963	4 816	×0.4	562	(279)	793	887
Expenditures on property, plant and equipment and intangible assets	(2 407)	(2 422)	×1.0	(662)	(538)	(544)	(663)
Proceeds/expenditures due to loans granted	1 655	(270)	×	1 228	427	-	-
Other	145	(72)	×	(14)	130	(2)	31
Net cash generated from/(used in) investing activities	(607)	(2 764)	×0.2	552	19	(546)	(632)
Proceeds/expenditures due to loans drawn	(1 684)	(426)	×4.0	(73)	(68)	(458)	(1 085)
Expenditures due to dividends paid to shareholders of the Company	(300)	-	×	-	-	(300)	-
Other	(107)	(81)	×1.3	(98)	18	75	(102)
Net cash used in financing activities	(2 091)	(507)	×4.1	(171)	(50)	(683)	(1 187)
NET CASH FLOW	(735)	1 545	×	943	(310)	(436)	(932)
Exchange differences on cash and cash equivalents	(68)	74	×	(4)	(8)	(8)	(48)
Cash and cash equivalents at beginning of the period	2 135	516	×4.1	393	711	1 155	2 135
Cash and cash equivalents at end of the period	1 332	2 135	×0.6	1 332	393	711	1 155

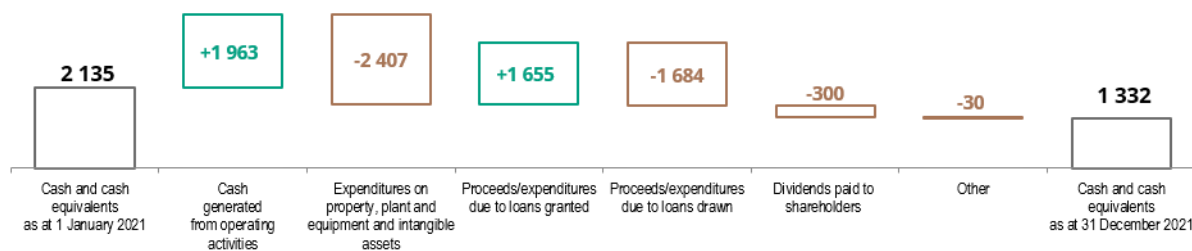
Net cash generated from operating activities in 2021 amounted to +PLN 1 963 million and mainly comprised profit before income tax in the amount of PLN 6 716 million, adjusted by the exclusion of income and costs in the amount of -PLN 1 216 million (including depreciation/amortisation recognised in the financial result, +PLN 1 363 million, the reversal of impairment losses on non-current assets, -PLN 1 762 million and fair value gains/(losses) on financial assets measured at fair value through profit or loss, -PLN 1 029 million), less income tax paid in the amount of PLN 707 million and a decrease in working capital by PLN 2 830 million. The change in working capital was mainly due to the following: a decrease in inventories (-PLN 1 824 million) and a decrease in trade payables transferred to factoring by PLN 1 154 million.

Net cash used in investing activities in 2021 amounted to -PLN 607 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of PLN 2 407 million and the balance of proceeds and expenditures due to loans granted, +PLN 1 655 million.

Net cash used in financing activities during the same period amounted to -PLN 2 091 million and mainly comprised the balance of proceeds and expenditures due to borrowings drawn in the amount of -PLN 1 684 million and dividends paid to shareholders in the amount of PLN 300 million.

After reflecting exchange differences on cash and cash equivalents, in 2021 cash and cash equivalents decreased by PLN 803 million and amounted to PLN 1 332 million.

Chart 29. Cash flow of KGHM Polska Miedź S.A. (in PLN million)



ASSETS, EQUITY AND LIABILITIES

Table 26. Assets of KGHM Polska Miedź S.A. (in PLN million)

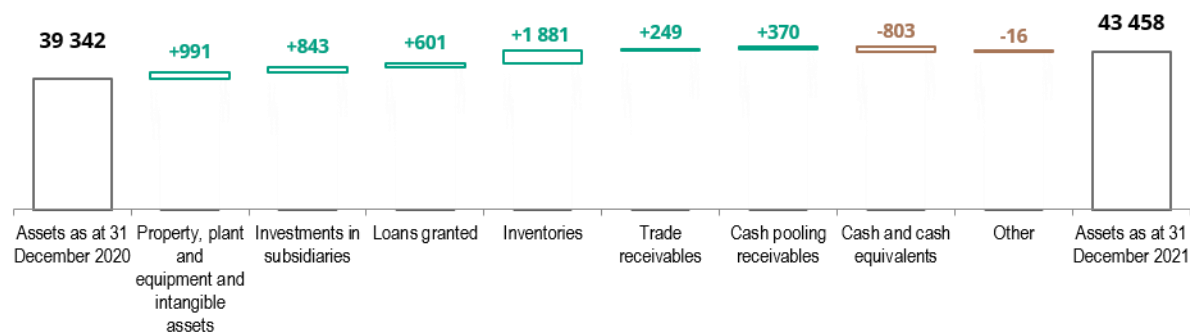
	31.12.2021	31.12.2020	Change (%)	30.09.2021	30.06.2021	31.03.2021
Property, plant and equipment and intangible assets	20 995	20 004	+5.0	20 314	20 158	20 045
Investments in subsidiaries	3 691	2 848	+29.6	3 862	3 851	2 845
Financial instruments, including:	9 931	9 459	+5.0	11 212	11 200	9 700
- loans granted	8 249	7 648	+7.9	9 410	9 406	8 092
Other non-financial assets	54	56	(3.6)	64	63	174
Non-current assets	34 671	32 367	+7.1	35 452	35 272	32 764
Inventories	5 436	3 555	+52.9	5 209	4 883	4 522
Trade receivables	600	351	+70.9	773	490	427
Tax assets	301	217	+38.7	194	181	337
Derivatives	254	210	+21.0	333	293	216
Cash pooling receivables	498	128	+3.9	21	4	12
Other financial assets	289	268	+7.8	124	113	382
Other non-financial assets	77	66	+16.7	103	162	115
Cash and cash equivalents	1 332	2 135	(37.6)	393	712	1 155
Non-current assets held for sale	-	45	x	-	-	-
Current assets	8 787	6 975	+26.0	7 150	6 838	7 166
TOTAL ASSETS	43 458	39 342	+10.5	42 602	42 110	39 930

As at 31 December 2021, total assets amounted to PLN 43 458 million, or an increase as compared to the end of 2020 by PLN 4 116 million, or by 10%, mainly due to increases in the following items:

- property, plant and equipment and intangible assets by PLN 991 million, resulting from advancement of investments – cash expenditures on property, plant and equipment and intangible assets in 2021 amounted to PLN 2 407 million,
- investments in subsidiaries by PLN 843 million,
- long-term financial instruments by PLN 472 million, including loans granted (+PLN 601 million),
- inventories by PLN 1 881 million,
- trade receivables by PLN 249 million,
- receivables due to cash pooling by PLN 370 million,

alongside a decrease in the value of cash and cash equivalents by PLN 803 million.

Chart 30. Change in assets of KGHM Polska Miedź S.A. in 2021 (in PLN million)



The carrying amounts of equity and liabilities as at 31 December 2021 are presented below.

Table 27. Equity and liabilities of KGHM Polska Miedź S.A. (in PLN million)

	31.12.2021	31.12.2020	Change (%)	30.09.2021	30.06.2021	31.03.2021
Share capital	2 000	2 000	-	2 000	2 000	2 000
Other reserves from measurement of financial instruments	(1 670)	(1 390)	+20.1	(1 412)	(2 041)	(2 151)
Accumulated other comprehensive income	(329)	(872)	(62.3)	(717)	(819)	(903)
Retained earnings	25 839	20 988	+23.1	25 522	24 896	21 945
Equity	25 840	20 726	+24.7	25 393	24 036	20 891
Borrowings, lease and debt securities	5 180	6 525	(20.6)	5 143	5 096	5 695
Derivatives	1 133	981	+15.5	974	1 155	1 227
Employee benefits liabilities	2 040	2 724	(25.1)	2 583	2 649	2 756
Provisions for decommissioning costs of mines and other technological facilities	811	1 185	(31.6)	1 188	1 168	1 153
Other non-current liabilities	543	272	+99.6	422	238	180
Non-current liabilities	9 707	11 687	(16.9)	10 310	10 306	11 011
Borrowings, lease and debt securities	382	306	+24.8	359	322	334
Cash pooling liabilities	360	284	+26.8	409	372	220
Derivatives	888	653	+36.0	786	1 162	1 222
Trade and similar payables	2 613	3 334	(21.6)	2 148	2 775	3 064
Employee benefits liabilities	1 130	1 042	+8.4	1 018	1 111	1 104
Tax liabilities	1 291	369	+3.5	1 118	971	872
Provisions for liabilities and other charges	98	77	+27.3	76	72	79
Other current liabilities	1 149	864	+33.0	985	983	1 133
Current liabilities	7 911	6 929	+14.2	6 899	7 768	8 028
Non-current and current liabilities	17 618	18 616	(5.4)	17 209	18 074	19 039
TOTAL EQUITY AND LIABILITIES	43 458	39 342	+10.5	42 602	42 110	39 930

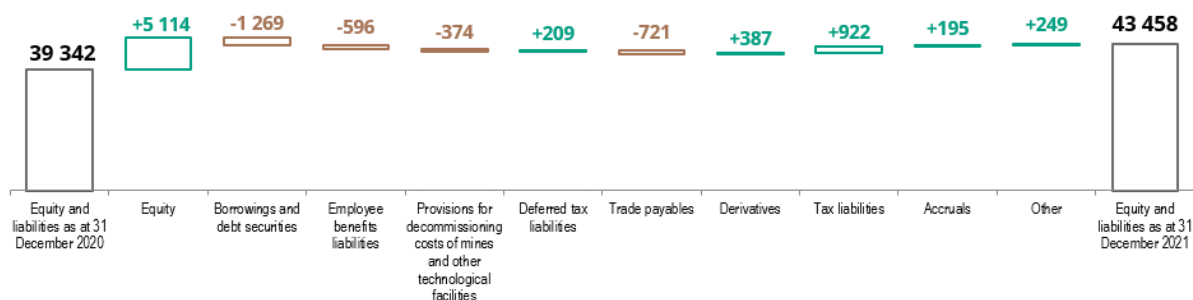
There was an increase in equity and liabilities, mainly due to increases in the following items:

- equity by PLN 5 114 million, mainly with respect to the profit for 2021 in the amount of PLN 5 169 million,
- deferred tax liabilities (+PLN 209 million),
- derivatives (+PLN 387 million),
- tax liabilities (+PLN 922 million),
- accruals (+PLN 195 million)

alongside a decrease in:

- borrowings, lease and debt securities (-PLN 1 269 million),
- employee benefits liabilities (-PLN 596 million),
- provisions for decommissioning costs of mines and other technological facilities (-PLN 374 million),
- trade and similar payables (-PLN 721 million).

Chart 31. Change in equity and liabilities of KGHM Polska Miedź S.A. in 2021 (in PLN million)



CONTINGENT ASSETS AND LIABILITIES DUE TO GUARANTEES GRANTED

As at 31 December 2021, contingent assets amounted to PLN 485 million and related mainly to guarantees received by the Company in the amount of PLN 250 million and promissory notes receivables in the amount of PLN 207 million.

As at 31 December 2021, liabilities due to guarantees granted amounted to PLN 1 236 million, including:

- a security for the repayment of a bank loan entered into by Sierra Gorda S.C.M. in the amount of PLN 670 million,
- a security for the restoration costs of the Robinson mine, Podolsky mine and the Victoria project, in the amount of PLN 402 million,

- a security for the proper execution by KGHM Polska Miedź S.A. of future environmental obligations related to the obligation to restore terrain, following the conclusion of operations of the Żelazny Most tailings storage facility, in the amount of PLN 124 million,
- security of obligations for the proper execution of agreements entered into by the Parent Entity and Group companies in the amount of PLN 40 million.

As far as the Company is aware, at the end of the reporting period the Company determined the probability of paying the amounts related to guarantees granted as low.

Other liabilities not recognised in the statement of financial position represent liabilities towards local government entities due to expansion of the tailings storage facility in the amount of PLN 99 million.

7.5. CAPITAL EXPENDITURES

In 2021, capital expenditures on property, plant and equipment amounted to PLN 2 523 million. Together with expenditures incurred on uncompleted development work, capital expenditures amounted to PLN 2 586 million and were higher than in the prior year by 4%.

Table 28. Structure of expenditures on property, plant and equipment and intangible assets of KGHM Polska Miedź S.A. (in PLN million)

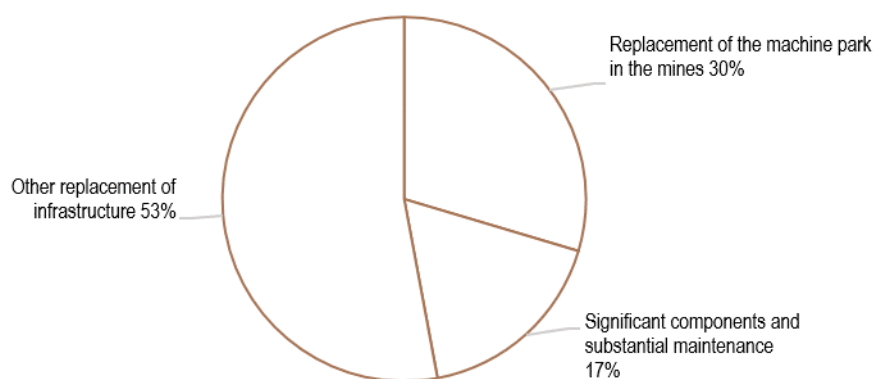
	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Mining	1 747	1 649	+5.9	642	379	399	327
Metallurgy	664	732	(9.3)	345	102	132	85
Other activities	91	32	+2.8	44	15	17	15
Development work - uncompleted	7	4	+75.0	6			1
Leases per IFRS 16 ¹	77	63	+22.2	9	8	41	19
Total	2 586	2 480	+4.3	1 046	504	589	447
<i>including borrowing costs</i>	119	116	+2.6	29	28	31	31

¹reflects PLN 21 million incurred in 2021 due to leases of property, plant and equipment

Investment activities comprised projects related to the replacement of equipment and maintaining mine production, as well as development projects:

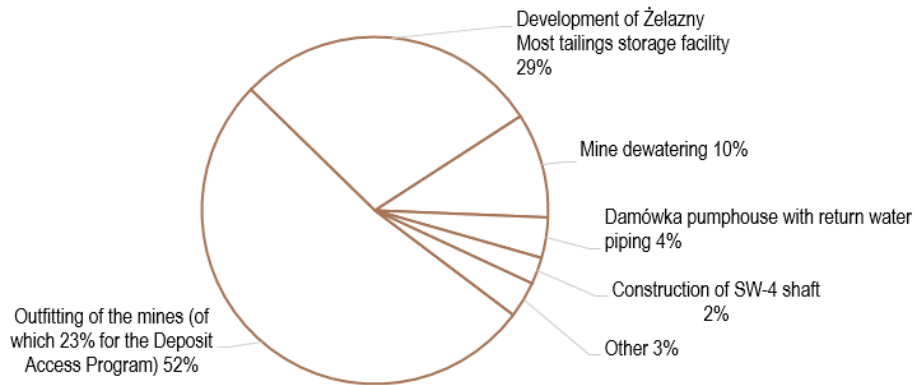
Projects related to the replacement of equipment aimed at maintaining production equipment in an undeteriorated condition, represent 33% of total expenditures incurred.

Chart 32. Structure of expenditures on the replacement of equipment



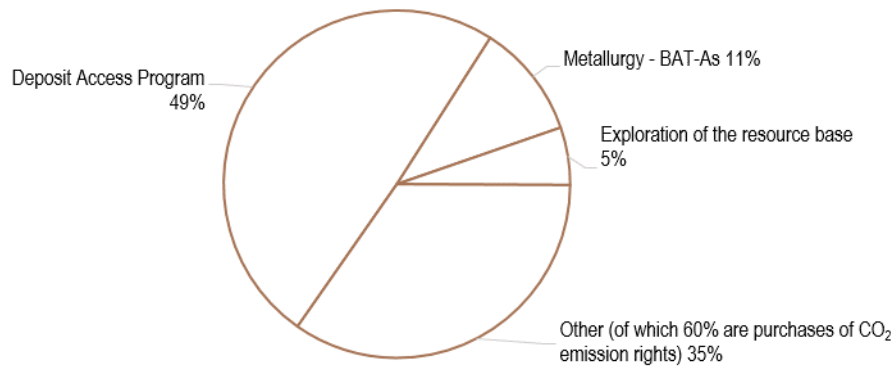
Projects related to maintaining mine production aimed at maintaining mine production on the level set in approved Production Plan (development of infrastructure to match mine advancement) represent 29% of total expenditures incurred.

Chart 33. Structure of expenditures on maintaining mine production



Development projects aimed at increasing production volume of the core business, implementation of technical and technological activities optimising use of existing infrastructure, maintaining production costs and adaptation of the company's operations to changes in standards, laws and regulations (confirmatory projects and those related to environmental protection) represent 38% of total expenditures incurred.

Chart 34. Structure of expenditures on development



Detailed information on the advancement of key investment projects may be found in part 5 of this Report in the section on advancement of the Strategy in 2021.

8. ECONOMIC RESULTS OF KGHM INTERNATIONAL LTD.



The presented economic and financial results of KGHM INTERNATIONAL LTD. include the results of the Franke and Carlota mines, assets which are in the process of being sold.

8.1. PRODUCTION

Table 29. Production of KGHM INTERNATIONAL LTD.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Payable copper, including:	kt	71.7	66.9	+7.2	16.3	19.1	20.1	16.2
- Robinson mine (USA)	kt	53.6	47.4	+13.1	11.6	14.3	15.8	11.9
- Franke mine (Chile)	kt	10.7	12.5	(14.4)	2.8	2.9	2.4	2.6
- Sudbury Basin mines (Canada) ⁽¹⁾	kt	1.9	2.1	(9.5)	0.5	0.4	0.5	0.5
Payable nickel	kt	0.5	0.4	+25.0	0.3	0.0	0.1	0.1
Precious metals (TPM), including:	koz t	51.3	66.1	(22.4)	11.4	13.6	14.1	12.2
- Robinson mine (USA)	koz t	38.1	36.1	+5.5	8.9	10.1	10.4	8.7
- Sudbury Basin mines (Canada) ⁽¹⁾	koz t	13.2	29.9	(55.9)	2.5	3.5	3.7	3.5

¹⁾ McCreehy West mine in the Sudbury Basin

In 2021, copper production in the segment KGHM INTERNATIONAL LTD. amounted to 71.7 thousand tonnes, or an increase by 4.8 thousand tonnes (+7%) compared to 2020. The increase in copper production was in respect of the Robinson mine (+6.2 thousand tonnes; +13%) and was mainly due to the extraction of higher-quality copper ore and higher recovery during ore processing, which was partially offset by a lower volume of ore processed. The increase in TPM production by this mine by 2 thousand troy ounces (+6%) is due to higher gold recovery.

Lower copper content in extracted ore was the main reason for the decrease in payable copper production by the Franke mine by 1.8 thousand tonnes (-14%), while the lower production of copper by the McCreehy West (Sudbury Basin) mine by 0.2 thousand tonnes (-10%) was due to the lower volume of ore extracted. This factor was partially offset by higher recovery of copper in ore. The decrease in precious metals production by 16.7 thousand troy ounces (-56%) by this mine was due to the lower volume of ore extracted and the mining of areas with lower TPM content in ore compared to 2020.

8.2. REVENUES

Table 30. Volume and sales revenue of KGHM INTERNATIONAL LTD. (in USD million)

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers ⁽¹⁾ , including:	USD mn	806	692	+16.5	206	228	175	197
- copper	USD mn	600	412	+45.6	149	179	129	143
- nickel	USD mn	8	6	+33.3	4	1	1	2
- TPM – precious metals	USD mn	82	115	(28.7)	20	21	18	23
Copper sales volume	Kt	66.2	71.9	(7.9)	15.1	20.0	13.7	17.4
Nickel sales volume	Kt	0.5	0.4	+25.0	0.3	0.0	0.1	0.1
TPM sales volume	koz t	46.7	71.3	(34.5)	10.1	14.0	10.6	12.0

¹⁾ reflects processing premium

Table 31. Sales revenue of KGHM INTERNATIONAL LTD. (in PLN million)

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers ⁽¹⁾ , including:	PLN mn	3 125	2 703	+15.6	833	885	657	750
- copper	PLN mn	2 325	1 610	+44.4	604	693	484	544
- nickel	PLN mn	31	23	+34.8	16	4	3	8
- TPM – precious metals	PLN mn	318	449	(29.2)	81	82	67	88

¹⁾ reflects processing premium

The sales revenue of the segment KGHM INTERNATIONAL LTD. in 2021 amounted to USD 806 million, or an increase by USD 114 million (+17%) mainly due to higher copper prices. This factor was partially offset by a lower volume of metals sold and lower revenues due to the sale of services of companies operating under the brand of DMC Mining Services („DMC“).

Revenues from the sale of copper amounted to USD 600 million and were higher by USD 188 million compared to 2020 due to an increase in the achieved sales price by 52% (9 440 USD/t in 2021 compared to 6 209 USD/t in 2020), with a lower volume of copper sold by 5.7 thousand tonnes (-8%).

Revenues from TPM sales decreased by USD 33 million (-29%) due to a lower sales volume (-24.6 thousand troy ounces; -35%), which was not offset by higher precious metals prices.

Revenues from the sales of services by DMC in 2021 amounted to USD 104 million, or a decrease by USD 40 million (-28%) compared to the level achieved in 2020. The decrease was due to the completion on 28 August 2020 of a contract related to a large project carried out in the United Kingdom. As respects projects advanced in the Sudbury region (Canada) and in Chile, revenues were higher compared to 2020.

8.3. COSTS

Table 32. C1 payable copper production cost of KGHM INTERNATIONAL LTD.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
C1 payable copper production cost ⁽¹⁾	USD/lb	2.01	1.91	+5.2	2.27	1.67	1.83	2.32

¹⁾ C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value

The average weighted unit cash cost of copper production for all mines in the segment KGHM INTERNATIONAL LTD. in 2021 amounted to 2.01 USD/lb, or an increase by 5% compared to the corresponding period of 2020. The increase in C1 was due to a lower copper sales volume and lower revenues from sales of associated metals (-29%), which decrease C1.

8.4. FINANCIAL PERFORMANCE

Table 33. Financial results of KGHM INTERNATIONAL LTD. (in USD million)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers	806	692	+16.5	206	228	175	197
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(633)	(655)	(3.4)	(196)	(150)	(121)	(166)
- recognition/reversal of impairment losses on non-current assets	(40)	(2)	x20.0	(48)	-	7	1
Profit/(loss) on sales	173	37	x4.7	10	78	54	31
Profit/(loss) before taxation, including:	679	(177)	x	187	46	452	(6)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	(52)	(100.0)	-	-	-	-
Income tax	0	0	x	6	(2)	(2)	(2)
PROFIT/LOSS FOR THE PERIOD	679	(177)	x	193	44	451	(9)
Depreciation/amortisation recognised in profit or loss	(133)	(117)	+13.7	(28)	(41)	(31)	(33)
Adjusted EBITDA⁽²⁾	346	156	x2.2	86	119	78	63

Table 34. Financial results of KGHM INTERNATIONAL LTD. (in PLN million)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers	3 125	2 703	+15.6	833	885	657	750
Cost of sales, selling costs and administrative expenses, including: ⁽¹⁾	(2 463)	(2 559)	(3.8)	(794)	(583)	(452)	(634)
- recognition/reversal of impairment losses on non-current assets	(162)	(8)	x20.3	(193)	1	26	4
Profit/(loss) on sales	662	144	x4.6	39	302	205	116
Profit/(loss) before taxation, including:	2 631	(690)	x	754	189	1 713	(25)
- share of losses of Sierra Gorda S.C.M. accounted for using the equity method	-	(204)	(100.0)	-	-	-	-
Income tax	1	(1)	x	23	(7)	(7)	(8)
PROFIT/LOSS FOR THE PERIOD	2 632	(691)	x	777	182	1 706	(33)
Depreciation/amortisation recognised in profit or loss	(516)	(456)	+13.2	(115)	(159)	(116)	(126)
Adjusted EBITDA⁽²⁾	1 340	608	x2.2	347	460	295	238

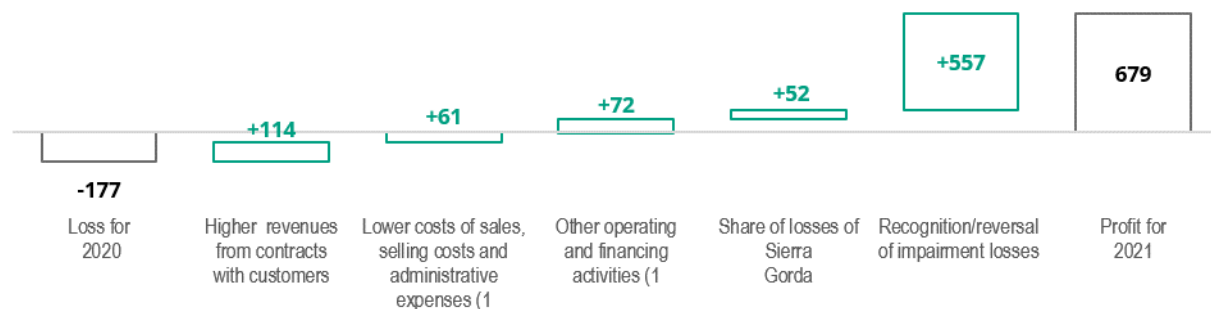
¹⁾ Cost of products, merchandise and materials sold, selling costs and administrative expenses

²⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment losses (-reversal of impairment losses) on non-current assets, recognised in cost of sales, selling costs and administrative expenses

Table 35. Key factors impacting the change in financial result of KGHM INTERNATIONAL LTD.

Item	Impact on change of profit or loss (in USD million)	Description
Higher revenues (+USD 114 million)	+244	Higher revenues due to higher prices of basic products, including copper +USD 232 million
	(111)	Lower revenues due to lower sales volume, including copper (-USD 53 million) and TPM (-USD 46 million)
	(40)	Lower revenues realised by companies operating under the DMC brand
	+21	Other factors
Lower costs of sales, selling costs and administrative expenses (+USD 23 million)	+37	Lower costs of external services mainly of companies operating under the DMC brand
	+34	Lower costs of materials and energy and labour costs, mainly due to allocation of capitalised stripping costs of the Robinson mine
	+14	Change in inventories
	(38)	Recognition/reversal of impairment losses on property, plant and equipment in 2021: +USD 10 million is a reversal of impairment losses on the Robinson mine, impairment losses on non-current assets in Sudbury (-USD 41) million, in the Franke mine (-USD 3 million) and Carlota (-USD 6 million). In 2020 an impairment loss was recognised on the assets of the Franke mine (-USD 2 million).
	(20)	Higher depreciation/amortisation
	(4)	Other factors
Impact of other operating and financing activities (+USD 667 million)	+595	Reversal of allowance for impairment of loans granted for the construction of the Sierra Gorda mine in the amount of USD 614 million in 2021 versus USD 19 million in 2020.
	+72	Other factors, including +USD 31 million due to higher interest on a loan granted to the Sierra Gorda mine (as a result of reversal of allowance for impairment)
Share of losses of entities accounted for using the equity method (USD +52 million)	+52	Recognition in 2020 of the share of the loss of Sierra Gorda S.C.M. to the amount of the increase in capital, i.e. in the amount of USD 52 million (in 2021 no increase in capital in Sierra Gorda S.C.M.).

Chart 35. Change in profit or loss of KGHM INTERNATIONAL LTD. (in USD million)



1) Excludes recognition/reversal of impairment losses on property, plant and equipment and recognition/reversal of allowances for impairment of loans granted for the construction of the Sierra Gorda mine

8.5. CASH EXPENDITURES

Table 36. Cash expenditures of KGHM INTERNATIONAL LTD. (in USD million)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Victoria project	38	7	x5.4	16	11	7	4
Sierra Gorda Oxide project	1	1	-	-	-	1	-
Stripping and other	223	145	+53.8	74	52	55	42
Total	262	153	+71.2	90	63	64	45

Financing for Sierra Gorda S.C.M. – increase in the share capital	-	52	(100.0)	-	-	-	-
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Table 37. Cash expenditures of KGHM INTERNATIONAL LTD. (in PLN million)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Victoria project	147	27	x5.4	63	42	27	15
Sierra Gorda Oxide project	4	4	-	-	-	4	-
Stripping and other	863	566	+52.5	295	203	207	158
Total	1 014	597	+69.8	358	245	238	173
Financing for Sierra Gorda S.C.M. – increase in the share capital	-	204	(100.0)	-	-	-	-

Cash expenditures by the segment KGHM INTERNATIONAL LTD. in 2021 amounted to USD 262 million, and were higher by USD 109 million (+71%) compared to 2020. The increase was mainly in respect of the Robinson mine and was mainly due to a higher scope of stripping work to gain access to further areas of the deposit. In 2021, the share of the Robinson mine in total investments by KGHM INTERNATIONAL LTD. amounted to nearly 80%.

Expenditures on the Victoria project amounted to USD 38 million, mainly constructing surface-based infrastructure (such as preparing the foundations of the shaft's headframe, the waste rock containment pad, preparing a parking area and building a water treatment plant).

In 2021, there was no financing provided to the Sierra Gorda mine (in 2020: USD 52 million).

9. ECONOMIC RESULTS OF SIERRA GORDA S.C.M.



The segment Sierra Gorda S.C.M. is a joint venture (under the JV company JV Sierra Gorda S.C.M.), whose owners as at 31 December 2021 remained the companies KGHM INTERNATIONAL LTD. (55%) and Sumitomo Metal Mining and Sumitomo Corporation (45%). In 2021, the process of disposing of the shares held by Sumitomo Metal Mining and Sumitomo Corporation to the Australian mining group South32 commenced. The acquisition was finalised on 22 February 2022.

The following production and financial data are presented on a 100% basis for the joint venture and proportionally to the interest in the company Sierra Gorda S.C.M. (55%), pursuant to the methodology of presentation of data in note 2 of the consolidated financial statements.

9.1. PRODUCTION

In 2021, Sierra Gorda S.C.M. substantially increased its production of copper compared to the amount produced in 2020, while molybdenum production was lower.

Table 38. Production of copper, molybdenum and precious metals by Sierra Gorda S.C.M.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Copper production ⁽¹⁾	kt	189.8	148.7	+27.6	47.2	49.5	51.5	41.6
Copper production – segment (55%)	kt	104.4	81.8	+27.6	26.0	27.2	28.3	22.9
Molybdenum production ⁽¹⁾	mn lbs	14.9	16.3	(8.6)	2.1	4.4	4.9	3.5
Molybdenum production – segment (55%)	mn lbs	8.2	9.0	(8.6)	1.2	2.4	2.7	1.9
TPM production – gold ⁽¹⁾	koz t	56.1	57.2	(1.9)	14.4	15.7	13.9	12.1
TPM production – gold – segment (55%)	koz t	30.9	31.4	(1.9)	8.0	8.6	7.7	6.6

¹⁾ Payable metal in concentrate

The increase in copper production by 28% is mainly the result of two factors – higher copper content in processed ore (+21% compared to the level in 2020) and a higher volume of ore processed (+4%), due to an increase in production capacity to 129 thousand tonnes of ore per day.

Molybdenum production was 9% lower compared to 2020 and was the result of planned mining of areas with lower molybdenum content (-22%). The resulting decrease in payable metal production was partially offset by an increase in the amount of ore processed and improved molybdenum recovery.

9.2. SALES

Revenues from sales in 2021 amounted to USD 2 151 million (on a 100% basis), or PLN 4 585 million respectively to the 55% interest held by KGHM Polska Miedź S.A.

Table 39. Sales volume and revenues of Sierra Gorda S.C.M.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers,⁽¹⁾ including from the sale of:	USD mn	2 151	1 210	+77.8	590	530	582	449
- copper	USD mn	1 762	929	+89.7	483	430	484	365
- molybdenum	USD mn	244	142	+71.8	69	62	62	51
- TPM (gold)	USD mn	100	104	(3.8)	28	27	24	21
Copper sales volume	kt	185.9	147.6	+25.9	46.6	50.6	49.3	39.4
Molybdenum sales volume	mn lbs	14.7	16.9	(13.0)	3.9	3.1	3.5	4.2
TPM (gold) sales volume	koz t	55.9	56.6	(1.2)	15.2	15.2	13.3	12.2
Revenues from contracts with customers⁽¹⁾ - segment (55%)	PLN mn	4 585	2 599	+76.4	1 308	1 133	1 202	942

¹⁾ reflecting treatment/refining and other charges

The increase in revenues by USD 941 million (+78%) compared to 2020 was mainly due to an improved situation on the metals market, as reflected in the substantial increase in copper and molybdenum prices. Another significant factor for the increase in revenues was the increase in processing capacity, which together with the increase in copper content in ore, enabled higher production and sales volume of payable copper.

Revenues from sales of molybdenum amounted to USD 244 million, or 72% higher than in 2020, mainly due to the doubling of the price of this metal. Higher revenues were achieved despite the drop in sales volume.

The detailed impact of individual factors on changes in revenues is presented in the subsection discussing the financial results of Sierra Gorda S.C.M.

9.3. COSTS

Sierra Gorda carried out an analysis of indicators which could impact the fair value of its non-current assets and as a result, the possibility was identified for a reversal of impairment losses recognised in prior periods. As a result of the test conducted, the fair value of assets as at 31 December 2021 was determined, which, after decreasing by costs to sell, exceeded the existing carrying amount of net non-current assets by USD 1 182 million. The reversal of the impairment loss does not affect the amount of adjusted EBITDA for 2021 or calculation of C1 cost.

Table 40. Cost of sales, selling costs and administrative expenses and production cost of payable copper (C1) of Sierra Gorda S.C.M.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Cost of sales, selling costs and administrative expenses (prior to the reversal of the impairment loss)	USD mn	(1 030)	(958)	+7.5	(268)	(264)	(264)	(234)
Reversal of impairment loss on non-current assets	USD mn	1 182	-	x	1 182	-	-	-
C1 unit cost⁽¹⁾	USD/lb	0.78	1.19	(34.5)	0.69	0.71	0.81	0.93

¹⁾ C1 unit production cost of copper - cash cost of payable copper production, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining phase and smelter treatment and refining charges (TC/RC) less by-product value

The cost of sales, selling costs and administrative expenses, prior to reflecting the reversal of the impairment loss on non-current assets (USD 1 030 million), was higher by 8% than costs incurred in 2020. One of the main factors was the increase in prices of materials, including mainly diesel fuel, steel, explosives, higher prices for maintenance services and land/sea transport rates. These factors, which to a large degree are beyond the company's control, led to an increase in expenses by nature as regards external services (+7%), costs of materials (+5%), fuel and oils (+50%) and transport costs (+38%).

There was also a significant increase in labour costs (+45%) as a result of reflecting the impact of wage agreements signed in 2021 (payment of one-off premium).

Despite the increase in prices of materials and services, the unit cost of processing ore in 2021 was not substantially different compared to 2020, due among others to an increase in production capacity and consequently a higher volume of ore processed (+4%). Similarly, the increase in the volume of copper produced and sold led to a decrease in the cash cost of copper production (C1) from 1.19 USD/lb in 2020 to 0.78 USD/lb in 2021. Moreover, the doubling of the achieved prices of molybdenum sold was also significant, as well as the substantial increase in deduction from revenues from the sale of associated metals.

9.4. FINANCIAL RESULTS

STATEMENT OF PROFIT OR LOSS

In 2021, adjusted EBITDA amounted to USD 1 485 million, of which proportionally to the interest held (55%) PLN 3 167 million is attributable to the KGHM Group.

Table 41. Results of Sierra Gorda S.C.M. in USD million (on a 100% basis)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers	2 151	1 210	+77.8	590	530	582	449
Cost of sales, selling costs and administrative expenses (prior to the reversal of the impairment loss)	(1 030)	(958)	+7.5	(268)	(264)	(264)	(234)
Reversal of the impairment loss on non-current assets	1 182	-	x	1 182	-	-	-
Profit/(loss) on sales	2 303	252	x9.1	1 504	266	318	215
PROFIT/LOSS FOR THE PERIOD	1 435	(58)	x	1 084	122	153	76
Depreciation/amortisation recognised in profit or loss	(365)	(374)	(2.4)	(98)	(89)	(87)	(91)
Adjusted EBITDA⁽¹⁾	1 485	626	x2.4	419	355	405	306

Table 42. Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Revenues from contracts with customers	4 585	2 599	+76.4	1 308	1 133	1 202	942
Cost of sales, selling costs and administrative expenses (prior to the reversal of the impairment loss)	(2 196)	(2 057)	+6.8	(595)	(565)	(546)	(490)
Reversal of the impairment loss on non-current assets	2 639	-	x	2 639	-	-	-
Profit/(loss) on sales	5 029	542	×9.3	3 353	568	656	452
PROFIT/LOSS FOR THE PERIOD	3 178	(125)	x	2 441	261	316	160
Depreciation/amortisation recognised in profit or loss	(777)	(804)	(3.4)	(216)	(191)	(179)	(191)
Adjusted EBITDA⁽¹⁾	3 167	1 346	×2.4	930	759	835	643

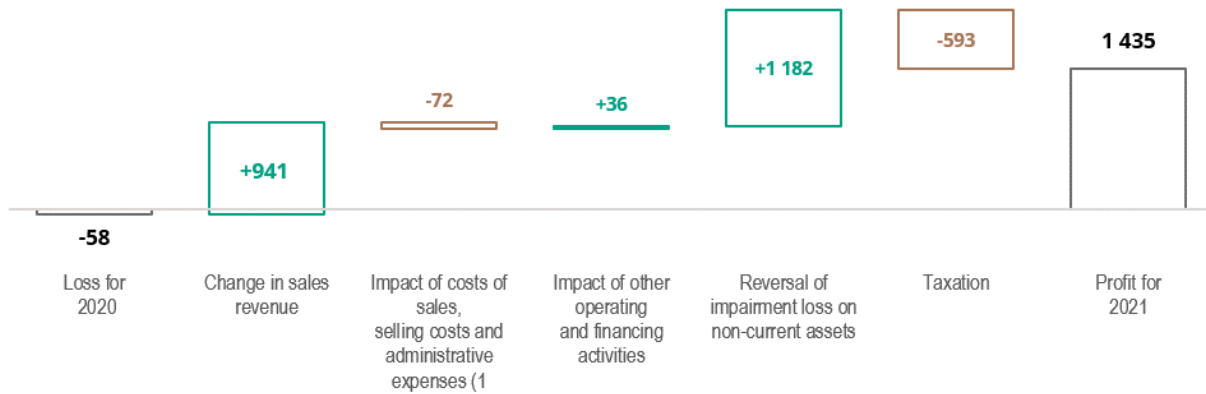
¹⁾ Adjusted EBITDA = profit on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets recognised in cost of sales, selling costs and administrative expenses

A summary of the major factors affecting revenues and costs, and therefore EBITDA, is presented in the following list of the major factors responsible for the higher profit for the period of Sierra Gorda S.C.M. by USD 1 493 million.

Table 43. Main factors impacting the change in the financial result of the segment Sierra Gorda S.C.M.

Item	Impact on change of profit or loss (in USD million)	Description
Higher sales revenue – impact on result +USD 940 million	+833	Higher revenues from copper sales due to: <ul style="list-style-type: none"> – higher sales prices by 56% (+USD 533 million), with a less favourable than in 2020 „Mark to Market” adjustment (-USD 87 million) – higher sales volume by 38 kt (+USD 387 million),
	+102	Higher revenues from molybdenum sales due to a doubling of sales prices (+USD 140 million), with a more favourable „Mark to Market” adjustment (-USD 3 million) and lower sales volume by 13% (-USD 35 million)
	+6	<ul style="list-style-type: none"> – higher revenues from sales of silver by USD 10 million (higher sales volume and higher prices), – lower revenues from sales of gold by USD 4 million (lower prices and sales volume)
Change in cost of sales, selling costs and administrative expenses – impact on result +USD 1 110 million	-72	Higher cost of sales, selling costs and administrative expenses prior to reflecting the reversal of the impairment losses, mainly as regards labour costs, fuel costs, external services
	+1 182	Reversal of impairment losses on non-current assets recognised in prior years
Impact of other operating and financing activities	+36	<ul style="list-style-type: none"> – a higher result on other operating activities (+USD 13 million), mainly due to more favourable exchange differences, – a higher result on financing activities (+USD 23 million), mainly due to lower guarantee fees and interest costs
Taxation	-593	<ul style="list-style-type: none"> – income tax -USD 535 million (profit before income tax USD 1 931 million versus a loss of 155 million USD in 2020) – other, including mining tax -USD 58 million (in 2020 this tax did not occur)

Chart 36. Change in profit/loss for the period (in USD million)



1) Excludes reversal of impairment losses on non-current assets

9.5. CASH EXPENDITURES

In 2021, cash expenditures on property, plant and equipment and intangible assets, reflected in the statement of cash flows of Sierra Gorda S.C.M. amounted to USD 284 million, of which the majority, or USD 169 million (60%) were cash expenditures incurred on stripping to gain access to further areas of the deposit, with the rest related to development work and the replacement of property, plant and equipment.

Table 44. Cash expenditures of Sierra Gorda S.C.M.

	Unit	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Cash expenditures on property, plant and equipment	USD mn	284	253	+12,3	73	66	75	70
Cash expenditures on property, plant and equipment – segment (55% interest)	PLN mn	605	544	+11,2	163	141	154	147

The increase in cash expenditures by 12% compared to 2020 was mainly due to the tailings storage facility and replacement of the machine park.

The funds used for these investments came mainly from operating activities, which in 2021 were several-times higher than cash expenditures. The Company did not utilise financing in the form of increases in share capital, however in 2021 a portion of the interest (USD 560 million) on an owner loan granted by the shareholders to build the mine was repaid. Moreover, in June 2021 Sierra Gorda S.C.M. repaid the final instalment on the loan granted by Japanese banks.

10. FINANCIAL RESULTS OF OTHER SEGMENTS

Companies in the remaining segments are very diversified in their operations. They include companies supporting the core business and others of an equity investment nature, as well as companies playing an important role in fulfilling the policy of corporate social responsibility. The segment in addition includes closed-end non-public investment funds and their portfolio companies (including those forming the Polska Grupa Uzdrowisk).

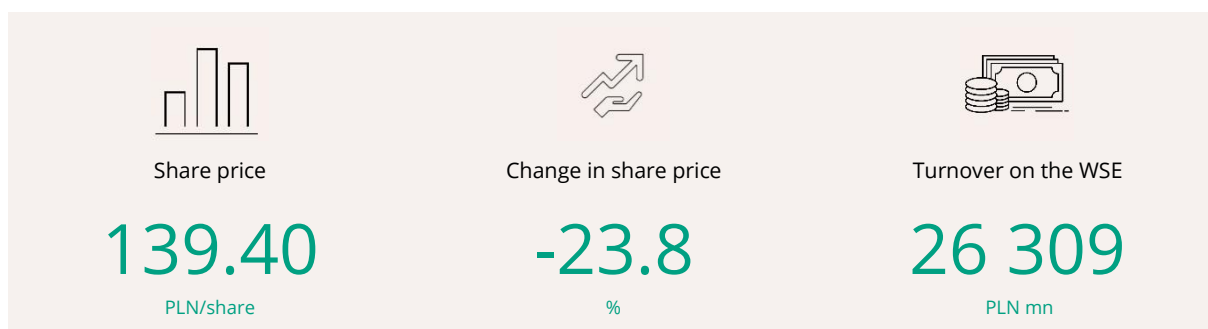
Table 45. Financial results of other segments (prior to consolidation adjustments)

	2021	2020	Change (%)	4Q'21	3Q'21	2Q'21	1Q'21
Sales revenue	10 329	7 881	+31.1	2 839	2 506	2 612	2 372
- including from external clients	2 468	1 926	+28.1	686	589	633	560
Profit/loss on sales	(39)	(96)	(59.4)	(76)	18	28	(9)
PROFIT/LOSS FOR THE PERIOD	(140)	(37)	+3.8	(217)	12	52	13
Depreciation/amortisation recognised in profit or loss	(258)	(241)	+7.1	(67)	(65)	(64)	(62)
Adjusted EBITDA¹⁾	346	211	+64.0	118	83	93	52

¹⁾ Adjusted EBITDA = profit/(loss) on sales + depreciation/amortisation (recognised in profit or loss) + impairment loss (-reversal of impairment losses) on non-current assets (recognised in cost of sales, selling costs and administrative expenses)

In 2021, other segments recorded a loss on sales, prior to recognition of consolidation adjustments, in the amount of PLN 140 million, or a deterioration as compared to 2020 by PLN 103 million (the loss for 2020 amounted to PLN 37 million). The significant increase in the loss for the period was mainly due to impairment losses recognised on the assets of the companies Energetyka Sp. z o.o. and WPEC S.A. (impact on the result on sales in the amount of PLN 129 million) and impairment losses recognised on the shares of the company WPEC S.A. in the amount of PLN 106 million. At the same time impairment losses on shares of the company CENTROZŁOM WROCŁAW S.A. in the amount of PLN 20 million were reversed.

11. Shareholders and the capital market



11.1. SHAREHOLDER STRUCTURE OF KGHM POLSKA MIEDŹ S.A.

As at 31 December 2021 and as at the date of signing this report, the share capital of the Company, in accordance with the entry in the register of entrepreneurs of the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company does not hold any treasury shares.

In the years ending 31 December 2021 and 31 December 2020 there was no change in either registered share capital or in the number of outstanding shares issued. Moreover, in 2021 and 2020 there were no changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A.

The Company's shareholder structure as at 31 December 2021 and at the date this report was signed, established on the basis of notifications received by the Company pursuant to art. 69 of the Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies, was as follows:

Table 46. Shareholder structure as at 31 December 2021 and at the date this report was signed

Shareholder	Number of shares/votes	Interest in the share capital/total number of votes
State Treasury ¹	63 589 900	31.79%
Nationale-Nederlanden Otworthy Fundusz Emerytalny ²	10 104 354	5.05%
Aviva Otworthy Fundusz Emerytalny Aviva Santander ³	10 039 684	5.02%
Other shareholders	116 266 062	58.14%
Total	200 000 000	100.00%

¹⁾ based on a notification received by the Company dated 12 January 2010

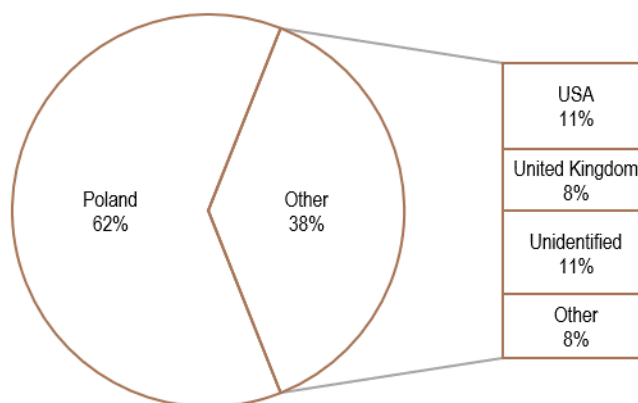
²⁾ based on a notification received by the Company dated 18 August 2016

³⁾ based on a notification received by the Company dated 17 July 2018

Other shareholders, whose combined interest in the share capital and in the total number of votes amounts to 58.14%, are mainly institutional investors, both international and domestic.

Following is the geographic distribution of the shareholder structure of KGHM Polska Miedź S.A. The data is based on research into the Company's shareholder structure performed in February 2022.

Chart 37. Geographic shareholder structure of KGHM Polska Miedź S.A. (%)



Source: CMi2i, February 2022

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of the Company's shares held by present shareholders in the future and bondholders. Similarly, the Management Board is unaware of any agreements between bondholders, which could result in changes in the number of bonds held by them.

Based on information held by KGHM Polska Miedź S.A., as at 31 December 2021 and as at the date this report was signed, neither the Members of the Management Board nor of the Supervisory Board of the Company held shares of KGHM Polska Miedź S.A. or rights to them.

Based on the knowledge of the Company, as at 31 December 2021 and as at the date this report was signed, neither the Members of the Management Board nor of the Supervisory Board of KGHM Polska Miedź S.A. held shares of the related parties of KGHM Polska Miedź S.A.

In 2021, the Company did not have an employee share incentive program.

BONDS OF KGHM POLSKA MIEDŹ S.A. ON THE CATALYST MARKET

On 27 May 2019 an issue agreement was signed under which the Management Board of KGHM Polska Miedź S.A. established a bond issue program to the amount of PLN 4 billion. The Parties to the Issue Agreement were KGHM Polska Miedź S.A. as Issuer and Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, Bank Handlowy w Warszawie Spółka Akcyjna, Bank Polska Kasa Opieki Spółka Akcyjna and Santander Bank Polska Spółka Akcyjna as Organizers and Dealers. The issue took place in June 2019, the maximum total nominal value of bonds amounted to PLN 2 billion. Under the Bond Issue Program, Series A and Series B bonds were issued. The bond offer was made through a private placement and was directed toward no more than 149 investors and was offered exclusively in Poland.

On 20 September 2019, by a resolution of the Management Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) bearer bonds Series A and Series B of KGHM Polska Miedź S.A. were introduced to the alternative trading system on the Catalyst. The first day of trading of the bonds on the Alternative Trading System was set at 3 October 2019.

Detailed information is available on the Company's website, www.kghm.com in the section Investors – Shares and bonds – Bonds.

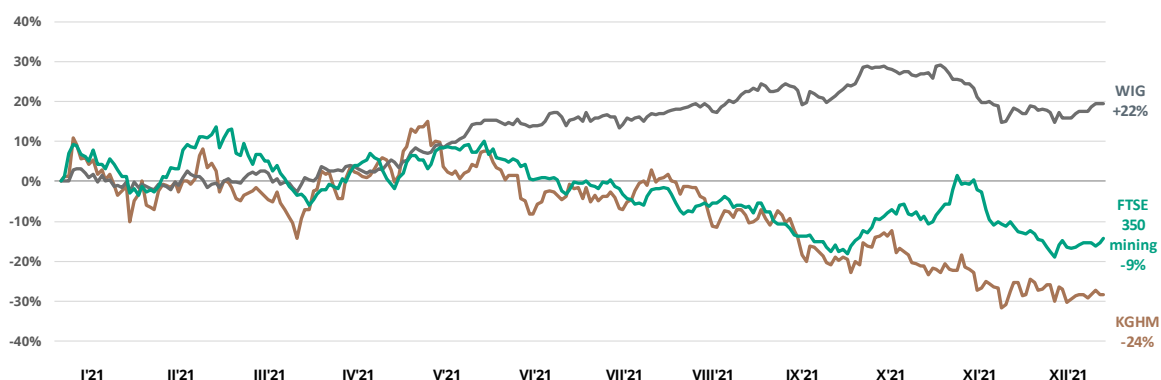
11.2. KGHM POLSKA MIEDŹ S.A. ON THE WARSAW STOCK EXCHANGE

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange (WSE) in July 1997. The Company's shares are traded on the primary market of the WSE in the continuous trading system and are a component of the WIG, WIG20 and WIG30 main indices as well as the WIG-ESG index published since 3 September 2019, comprising listed companies which adhere to the principles of corporate social responsibility.

KGHM Polska Miedź S.A. is also a component of the sector index WIG-Mining, which in the past year was generally in a rising trend. Moreover, KGHM Polska Miedź S.A. is a component company of the prestigious FTSE4Good Index Series. The FTSE4Good Index Series is part of the group of ethical investment indicators, reflecting criteria of corporate social responsibility and ESG risk management.

In 2021, the share price of KGHM Polska Miedź S.A. on the WSE recorded new historic records numerous times. Already in January the Company's share price exceeded PLN 200, and on 13 May reached the highest closing price during the year of PLN 223.80. From that time the share price of KGHM Polska Miedź S.A. entered into a declining trend, with the minimum closing price of PLN 133.10 being reached on 26 November. Ultimately, the Company's share price had fallen by 24% and at the close of trade on 30 December 2021 amounted to PLN 139.40. During the same period the price of copper – the Company's main product – recorded an increase of 25%, alongside an increase in the average USD/PLN exchange rate by 8.0%. At the same time the market indices WIG, WIG20 and WIG30 increased respectively by 22%, 14% and 20%. In contrast the London-based FTSE 350 mining index – comprised of companies from the mining sector listed on the London Stock Exchange – fell by 9%.

Chart 38. Percentage change of share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index (compared to the quotations from the last trading day in 2020)



Source: own work, Bloomberg

Key share price data of KGHM Polska Miedź S.A. on the WSE in the years 2020-2021 are presented in the following table:

Table 47. Key share price data of the Company on the Warsaw Stock Exchange

<i>Symbol: KGH, ISIN: PLKGHM000017</i>	<i>Unit</i>	<i>2021</i>	<i>2020</i>
Number of shares issued	million	200	200
Market capitalisation of the Company at year's end	PLN bn	27.9	36.6
Average trading volume per session	shares	584 783	720 721
Turnover	PLN mn	26 308.89	18 784.44
Change in share price from the end of the prior year	%	-23.8	+91.5
Highest closing price during the year	PLN	223.80	189.35
Lowest closing price during the year	PLN	133.10	49.40
Closing price from the last day of trading in the year	PLN	139.40	183.00

Source: own work, WSE Statistic Bulletin for 2020 and 2021, Bloomberg

DIVIDEND

In accordance with Resolution No. 7/2021 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 7 June 2021 regarding the appropriation of profit for the year 2020, the profit in the amount of PLN 1 779 million, was appropriated as follows: as a shareholders dividend in the amount of PLN 300 million (1.50 PLN/share) while the amount of PLN 1 479 million was transferred to the Company's reserve capital. The Ordinary General Meeting of KGHM Polska Miedź S.A. set the dividend date for 2020 at 21 June 2021 and the dividend payment date for 2020 at 29 June 2021.

All of the Company's shares are ordinary shares.

INVESTOR RELATIONS

The Investor Relations team, on behalf of the Management Board of KGHM Polska Miedź S.A., maintains an open dialogue with capital market participants pursuant to its policy of ensuring a transparent company and adherence to stock exchange Best Practices. For KGHM Polska Miedź S.A., as a global company operating on four continents, it is a priority to ensure equal access to information to all members of the global capital markets. KGHM Polska Miedź S.A.'s actions are aimed at maintaining regular communication and transparent dialogue with analysts, institutional and individual investors as well as at ensuring conformance with regulatory legal obligations. The Company fulfils its disclosure obligations by publishing regulatory filings and periodic reports via the official reporting system (ESPI).

2021 was another year of intense activities by KGHM Polska Miedź S.A. in terms of communicating with investors. The COVID-19 pandemic affected the manner in which communicating with capital market participants was conducted. During this period, activities aimed at maintaining relations with investors using a virtual, online format were successfully engaged. The main actions taken by the Company were as follows:

Domestic and international investor conferences	The Company actively meets with investors and analysts in Poland and abroad during conferences organised by brokers. In 2021, the Company took part in more than a dozen investor conferences and in about 100 meetings with portfolio managers and analysts representing investment and pension funds as well as other asset management firms.
Results conferences	The Investor Relations Department organises meetings with the Management Board to discuss the financial results of the Company and Group. In 2021, the publication of financial results was accompanied by results conferences open to all stakeholders via webcasts in Polish and English, with the possibility of submitting questions by email. Video recordings of these conferences are available on the Company's website, www.kghm.com , in the section Investors.
Capital Market Days	The Company regularly organises events for the capital market. This type of meeting is aimed at familiarising investors with the degree of advancement of the development strategy as well as with the current operating and financial situation of the KGHM Group and its individual assets. In 2021, due to the COVID-19 pandemic as well as concern for the health and well-being of our employees and investors, the Company decided to defer the organisation of an Analyst Day and an Individual Investor Day.
WallStreet 25 online conference	In 2021, KGHM Polska Miedź S.A., once again actively participated in the WallStreet conference and was a Strategic Partner for the 25th edition of the Conference. The situation related to the epidemic meant that once again, the largest meeting of individual investors in Poland and was conducted online. As part of activities, representatives of KGHM took part in the discussion panel and in the online Your Investments Forum, as well as conducted a thematic discussion and provided an interview in the investor magazine <i>Akcjonariusz</i> . Throughout the conference KGHM maintained a virtual stand on the conference website.
Investor chats	Representatives of the Company are available to individual investors during on-line chats. These are organised on a regular basis following the publication of the Company's financial statements. In 2021, four investor chats were held.
ESG	The Company continues its participation in processes related to ESG (Environmental, Social & Corporate Governance) and in accordance with the adopted Strategy engages in communicating in this area with the capital market, investors and rating agencies. An expression of our concern for

stakeholders is the creation and continuous development of our ESG section under Investors tab on the Company's corporate website, which is dedicated to the ESG issues in a broad sense and facilitates access to a broad scope of information related to non-financial and integrated reporting by KGHM Polska Miedź S.A. In 2021, the Company for the second time submitted to the CDP Climate survey and provided a broader scope of information, such as on Scope 3 emissions. Moreover, two of KGHM's metallurgical facilities received the prestigious Copper Mark certificate. The Company also published the Climate Policy of KGHM Polska Miedź S.A. To maintain the highest diligence, transparency and compliance with best practice of listed companies, the Investor Relations team regularly provides responses to surveys, questionnaires or information requests regarding ESG, among others: Sustainalytics, CDP, FTSE Russell, MSCI, Refinitiv, Vigeo Eiris, Corporate Knights and BlackRock.

Quarterly IR Newsletter

The initiative related to publication of the IR Newsletter for Investors was continued, which summarises the most important quarterly events and is distributed to subscribers via email. The goal of the IR Newsletter is to assure its recipients with an accurate source of knowledge about KGHM and the global copper market and to facilitate analysis and assessment of the possibilities associated with investing in the Company's shares. The IR Newsletter has met with the appreciation of Investors and other participants in the capital market.

KGHM IR profile on LinkedIn

A KGHM Investor Relations profile was created on the social media platform LinkedIn, which is dedicated to investors and analysts. This is a place where, in addition to the official reporting system (ESPI), we share news which might be of interest to capital market participants.

In 2021, sell-side reports on KGHM Polska Miedź S.A. were published by 9 sell-side analysts based in Poland and 8 based abroad.

Table 48. Brokerages which prepare reports on KGHM Polska Miedź S.A.

Poland		
Biuro Maklerskie mBanku	Dom Maklerski BOŚ	Santander Biuro Maklerskie
Dom Maklerski Banku Handlowego	Erste Group	IPOPEMA Securities
Biuro Maklerskie PKO BP	Trigon Dom Maklerski	Pekao Investment Banking
Abroad		
Bank of America Merrill Lynch	Global Mining Research	Goldman Sachs
Morgan Stanley	UBS	WOOD & Company
JP Morgan	EVA Dimensions	

AWARDS AND DISTINCTIONS IN 2021 FOR ACTIVITIES RELATED TO COMMUNICATING WITH INVESTORS AND BEING PRESENT ON THE CAPITAL MARKET:

- **Best Investor Relations amongst individual investors** – 1st place for the KGHM IR Team as judged by individual investors, in a survey on IR quality by the magazine „Parkiet” and the Brokerages Council,
- **Company of the Year from the WIG 20 index** – the jury of the market newspaper Gazeta Giełdy i Inwestorów „Parkiet”, comprised of journalists and editors, decided to award KGHM Polska Miedź with the title „Company of the Year from the WIG 20 index”,
- **The Best of the Best** – KGHM Polska Miedź S.A. was again awarded the title The Best of The Best in the competition „The Best Annual Report 2020” organised by the Institute of Accounting and Taxes.

12. RISK MANAGEMENT IN THE GROUP



12.1. COMPREHENSIVE RISK MANAGEMENT SYSTEM IN THE KGHM POLSKA MIEDŹ S.A. GROUP

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current and future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to risk.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee, the process of corporate risk management in the KGHM Polska Miedź S.A. Group is consistently performed. KGHM Polska Miedź S.A. oversees the process of managing corporate risk in the KGHM Polska Miedź S.A. Group, while in the companies of the KGHM Polska Miedź S.A. Group, documents regulating the management of corporate risk are consistent with those of the Parent Entity.

The Corporate Risk Management Policy of the KGHM Polska Miedź S.A. Group is available on the Company's website, www.kghm.com.

Each year, the process of managing corporate risk is subjected to an efficiency audit compliant with the guidelines of "Best Practice for GPW Listed Companies 2021", which came into force on 1 July 2021 (previously in compliance with the guidelines „Best Practice for GPW Listed Companies 2016“).

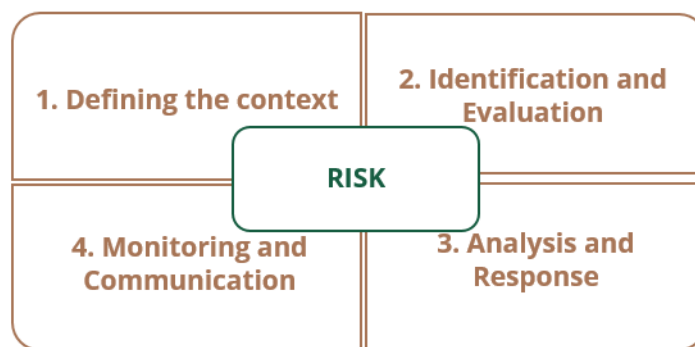
Risk factors in various areas of the KGHM Polska Miedź S.A. Group's operations are continuously identified, assessed and analysed in terms of their possible limitation. Key risk factors in the KGHM Polska Miedź S.A. Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risk factors undergo monitoring by the Department of Corporate Risk Management and Compliance, and in terms of financial risk by the division of the Executive Director for Financial Management.

In order to unify the approach to the systematic identification, evaluation and analysis of the risk of a loss of compliance, defined as adherence to the requirements arising from existing laws (external and internal) or from voluntarily-assumed legal obligations and standards (including ethical standards), since 2020 a Compliance Management Policy for the KGHM Polska Miedź S.A. Group together with a Procedure and Methodology for managing compliance in KGHM Polska Miedź S.A. as adopted by the Management Board of KGHM Polska Miedź S.A. has been in force. The process of managing compliance, which is connected with the process of managing corporate risk within the in KGHM Polska Miedź S.A. Group, is an important business tool for the prevention of events which could lead to the imposition of penalties.

In 2021, the process began of implementing a comprehensive system to manage operational continuity, which also enables a detailed breakdown of the scope of actions undertaken as regards managing corporate risk in terms of the risk of a catastrophic impact and the small probability of their occurrence. This is expressed in the Operational continuity management policy of KGHM Polska Miedź S.A. along with the Procedure and Methodology of managing compliance in KGHM Polska Miedź S.A., adopted by the Management Board of KGHM Polska Miedź S.A. The prepared documentation of the comprehensive operational continuity management system sets forth the principles and requirements to build the robustness of KGHM as regards catastrophic events by sorting out and unifying the existing approach to management of the risk of loss of operational continuity of the core production business and preparing for unforeseen events.

The corporate risk management process adopted in the KGHM Polska Miedź S.A. Group is inspired by the solutions adopted by the ISO 31000 standard, best practice in risk management and the specific nature of the KGHM Polska Miedź S.A. Group, and is comprised of the following stages:

Diagram 11. Corporate risk management process



STEP 1 Defining the context

The first step in the process is comprised of three actions: defining the external context, defining the internal context and the risk management context.

The external context is the environment in which the KGHM Polska Miedź S.A. Group advances its Strategy. Here the definition needs to update the understanding of the social, political, legal, regulatory, financial, economic and technological aspects of the environment which affect its activities. During this step also assessed, based on the results of scenario analysis, the most important factors for transitioning to a low-emission economy and the paths of climate change and weather models, which are processed in subsequent steps of the process.

During the process of defining the internal context, goals are analysed (strategic/business), changes in the organisational structure are planned and performed, new areas of activities, projects, etc.

The last part of this step is to define the risk management context, which comprises the setting or updating of goals, the scope, responsibilities and procedures and methods applied in the risk management process.

STEP 2 Identification and Evaluation

In this step of the process we identify and evaluate risks which could impact the achievement of goals at the level of the KGHM Polska Miedź S.A. Group. The main task in this step is to prepare a complete list of threats which could facilitate, impede, accelerate or delay the achievement of goals. Each identified risk is assigned to a category and a sub-category in the form of a Risk Model, which provides the KGHM Polska Miedź S.A. Group with a consistent risk taxonomy.

Following its identification, each corporate risk is evaluated using a Risk Evaluation Matrix, containing a scaled breakdown of assessments by impact, utility and probability. A risk may have various effects, and therefore in order to ensure the broadest recognition of potential impact and the limitation of subjective evaluation, the following Impact evaluation measures have been defined:

- **Finance** – impact of the effects of a given risk in its financial aspect by applying value ranges.
- **Strategy** – evaluation of the risk's impact on the ability to achieve strategic goals.
- **Reputation and Stakeholders** – impact of the risk on the Company's reputation, trust in the brand, investor relations, relations with stakeholders, also including on the effectiveness of actions related to building a responsible business and sustainable development.
- **Health and Safety** – direct impact on health and safety and human life.
- **Natural environment** – impact of the materialisation of risk on natural environment, the functioning of the ecosystem and the time needed to restore the disturbed balance.
- **Regulations and Laws** – evaluation of the compliance of events with existing laws, the need to participate in proceedings before bodies of public administration of a supervisory and regulatory nature as well as potential penalties as a result of such proceedings.
- **Operational continuity** – evaluation of the impact of risk on interruptions to activities resulting in significant/irreversible effects and loss of access to information important from the point of view of conducted activities.

The results of the identification and evaluation of risk is presented in a graphic form, i.e. Risk Maps. These provide a profile of the given risk and support the process of identifying the key risk.

STEP 3
Analysis and Response

The goal of this step is to deepen knowledge and to understand the specific nature of the types of key risks identified in the previous step. Cause and effect analyses and a more substantive description of the means of dealing with risk are aimed at facilitating decision making on whether to maintain or eventually change current actions.

A directional decision is called a Response to risk. A change in the way an action is taken requires the determination of Corrective Actions, meaning organisational, process, systemic and other changes which are aimed at reducing the level of the key risk.

During this step KRIs – Key Risk Indicators – are also defined, being a set of business process parameters or environmental parameters which reflect changes to a given risk profile.

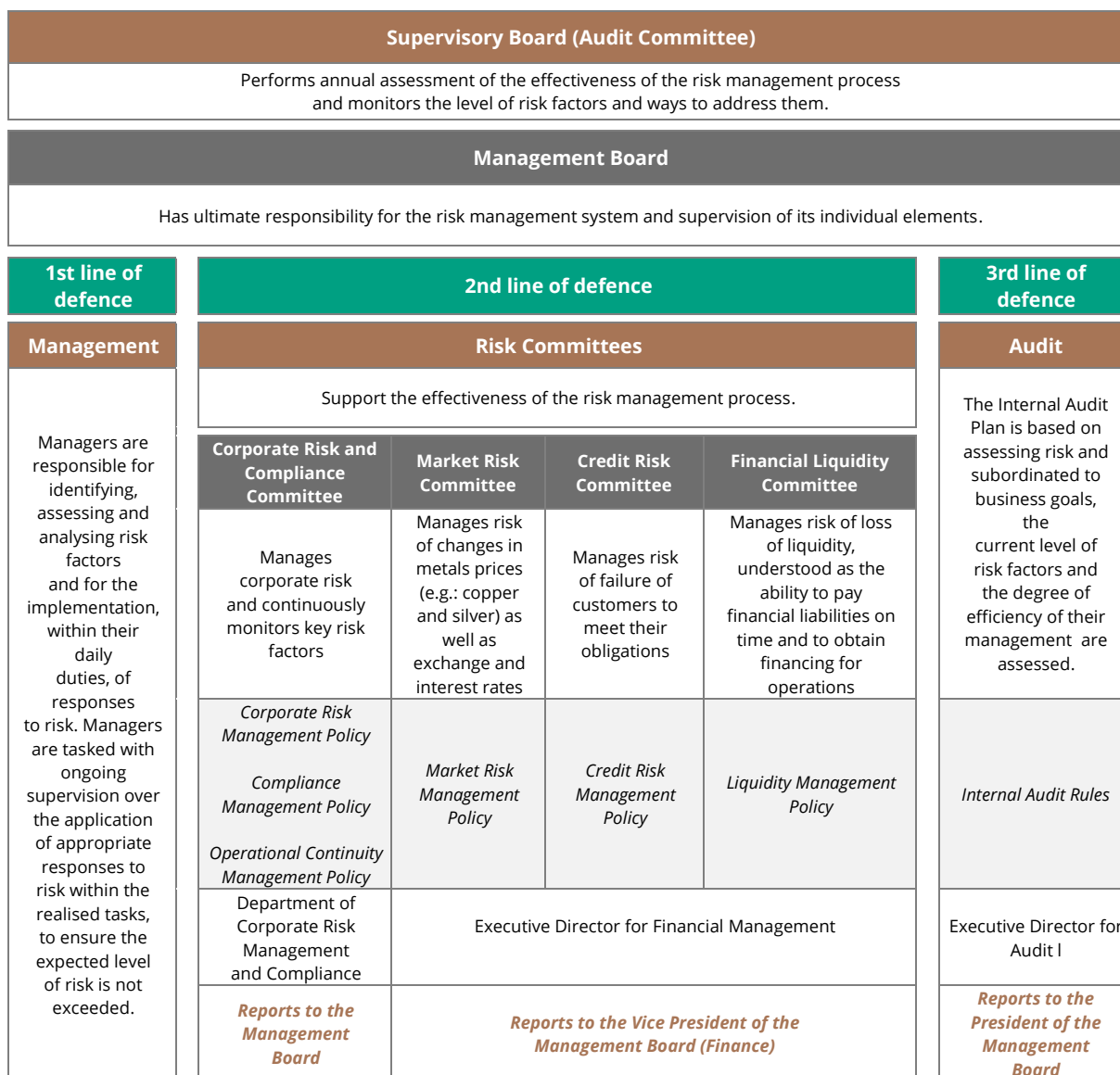
STEP 4
Monitoring and Communication

The goal is to ensure that the adopted Risk Response Plan is effective (ad hoc and periodic reports), new risks are identified (updating of the Risk Registry), changes in the internal and external environments and their impact on activities are uncovered, and appropriate actions are taken in response to incidents (updating of information on Incidents).

Effective, well-planned and appropriately performed monitoring of risk enables flexible and prompt reaction to impending changes in the external and internal environments (e.g. risk escalation, changes in actions related to risk response, or risk evaluation parameters, etc.).

Achievement of this step provides the assurance that risk management in the KGHM Polska Miedź S.A. Group fulfils the expectations of the Management Board of KGHM Polska Miedź S.A., the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. and other stakeholders by supplying reliable information about risk, continuous improvement and adaptation of the quality and effectiveness of Risk Response to the demands of the external and internal context.

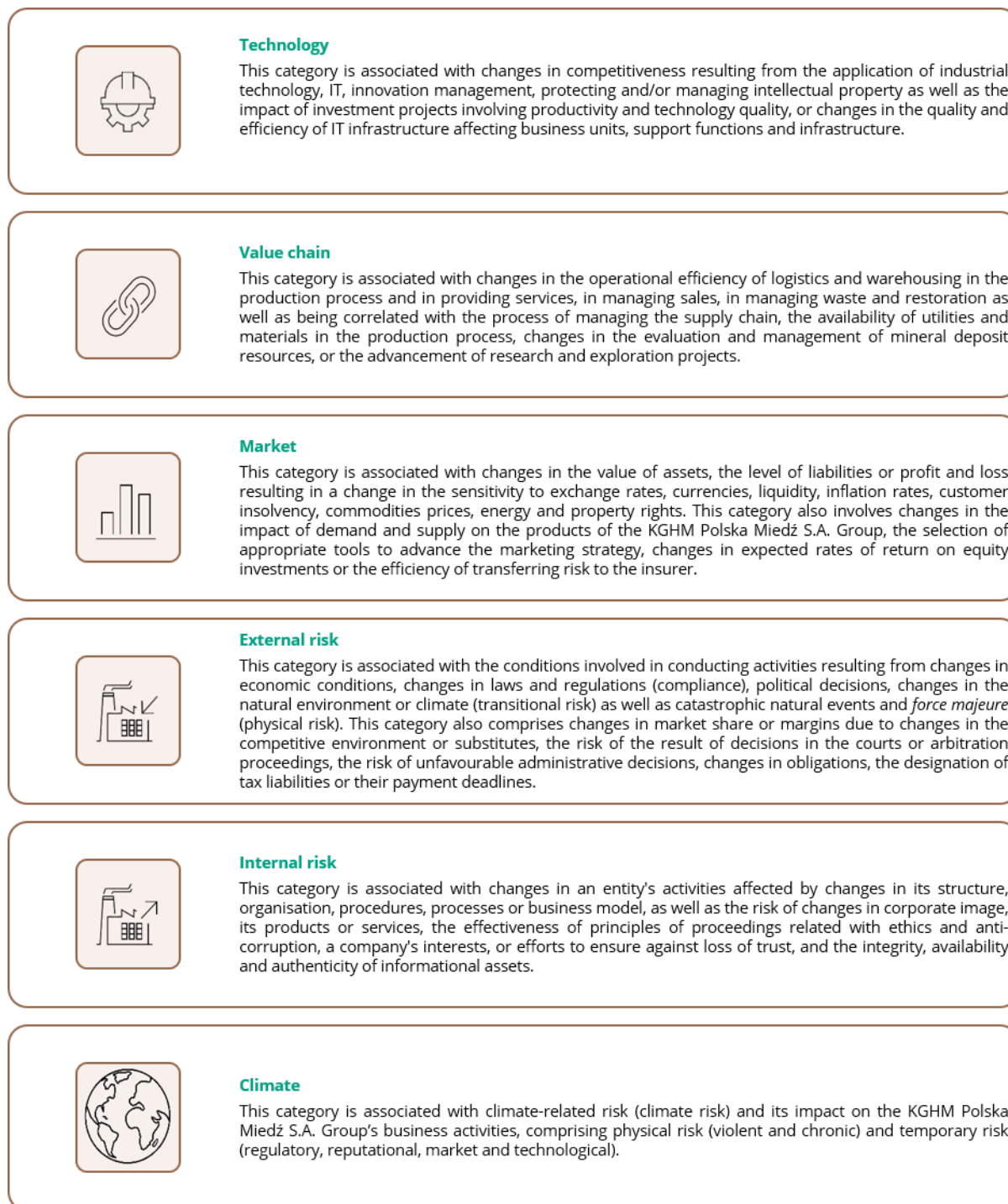
Diagram 12. Organisational structure of risk management in KGHM Polska Miedź S.A



12.2. CORPORATE RISK – KEY RISK FACTORS AND THEIR MITIGATION

A comprehensive approach to risk management is consistent with a strategy of growth as well as with continuous striving to achieve operational excellence and the principles of a sustainable and responsible business. It was designed in such a way as to support the KGHM Polska Miedź S.A. Group in building a resistant corporate structure. A tool used in identifying risk in the KGHM Polska Miedź S.A. Group is the Risk Model. In 2021, actions were taken to adapt the risk taxonomy to include issues related to climate change in accordance with TCFD (Task Force on Climate-Related Financial Disclosures) Recommendations. The Risk Model, whose structure is based on sources of threats, is divided into the following 6 categories: **Technological, Value chain, Market, External, Internal and Climate**. Several dozen sub-categories have been identified and defined for each of these categories, covering particular areas of the operations or management. The KGHM Polska Miedź S.A. Group applies due diligence when undertaking actions aimed at minimising exposure to risk by lowering vulnerability to individual risk factors and reducing the probability of the materialisation of events which such factors could induce. The identification and evaluation of threats is however always associated with uncertainty as to the effectiveness of the preventative measures applied and planned, especially as regards those areas which are beyond the direct control of the KGHM Polska Miedź S.A. Group.

Diagram 13. Risk categories in the Risk Model of KGHM Polska Miedź S.A. and their definitions



Following is a description of the key risk factors in the KGHM Polska Miedź S.A. Group in 2021, broken down into individual categories along with means for their mitigation, including identification of specific risks for the Parent Entity and the KGHM INTERNATIONAL LTD. Group. Key risks are future uncertain events having the greatest impact on the achievement of the business goals of the KGHM Polska Miedź S.A. Group, reflecting an evaluation of vulnerabilities, i.e. the ability of the organisation to limit the possibility of the occurrence of risk and the impact of its materialisation.

The tables below uses the following abbreviations: for the KGHM Polska Miedź S.A. Group – KGHM Group, for the KGHM INTERNATIONAL LTD. Group – KGHM INTERNATIONAL Group, for KGHM Polska Miedź S.A. – the Parent Entity.

CATEGORY – TECHNOLOGY*Risk and description of risk factors***(Parent Entity)****Risk of failure to adhere to the efficient working time parameter and of failure to fully utilise the capacity of metallurgical installations to process own concentrate.**

Sources of risk include potential breakdowns of key elements of the core production line and failure to adapt technology to production requirements, which could affect the availability of metallurgical infrastructure. An important risk factor is the need to maintain the production of concentrates in an amount and quality required to optimise the utilisation of the metallurgical facilities. Exposure to risk is also associated with the need to ensure required utilities to maintain the expected level of infrastructure availability.

Mitigation

Optimum utilisation of infrastructure, maintaining an appropriate selection of concentrates, R&D initiatives and advancement of programs and projects to adapt metallurgical structure and technology to ensure higher processing capacity for own concentrates, imported copper-bearing materials and purchased scrap. Actions are continuously undertaken aimed at guaranteeing the technical efficiency of production continuity and servicing systems. A maintenance policy is applied, breakdown procedures have been developed and suppliers are continuously monitored within the scope set forth in instructions and agreements. Actions undertaken are aimed at maintaining the availability of metallurgical equipment at the expected level and improving the productivity parameters of metallurgical infrastructure, as well as limiting the negative impact of this risk on operations.

CATEGORY – VALUE CHAIN*Risk and description of risk factors***(KGHM Group)****Risk related to an ineffective process of monitoring and providing early warning to management staff on deviations from the budget and financial plans as well as with respect to adopting inappropriate economic parameters related to production, investments, macroeconomics and finance, for forecasts of company results.**

An ineffective process of monitoring and providing early warning to management staff on deviations from the budget and financial plans may impede or delay the appropriate early identification of deviations in respect of forecasted results, at the same time shortening the time for taking appropriate corrective actions. Sources of risk are related to the possibility of ineffective mechanisms to control these processes.

In 2021, an important factor impacting exposure to risk was the general uncertainty on financial markets related to subsequent waves of the pandemic as well as the dynamics of economic activity and the rate of economic recovery from the recession caused by the COVID-19 pandemic.

Mitigation

Forecasts related to specific areas of the operations prepared by appropriate specialised units and ensuring the uniformity of operating plans with strategic plans. Cyclical reporting of execution on forecasts in all critical areas. Regular contacts with and systematic streamlining of the communication process together with setting criteria enabling the identification of symptoms of potential deviations from the expected results of the KGHM Group. Evaluation of key risk factors, on which the coronavirus pandemic has an impact, were subjected to specific analysis by the on-going monitoring of selected information in terms of production, sales, supply chains, management of personnel and finances, aimed at supporting management processes in conditions of heightened uncertainty caused by the pandemic.

(KGHM INTERNATIONAL Group)**Risk related to the precision of estimated costs of decommissioning certain mines.**

With respect to risk factors related to the precision of estimated costs of decommissioning certain mines, there are questions related to the need to meet obligatory environmental conditions connected with realistic concepts for such liquidation.

Estimated costs of restoration and mine decommissioning based on expert reports and providing guarantees of future environmental obligations related to the closure and restoration of mining areas in accordance with existing laws and regulations.

(KGHM INTERNATIONAL Group)**Risk related to the insufficient recognition of deposit parameters and characteristics, both in exploration projects (estimation of preliminary data for deposit evaluation models) as well as in current operations.**

The risk of changes in the evaluation and management of ore resources involves, among others, geological factors

Input data for models are collected in accordance with geological documentation possessed, which is prepared pursuant to laws in force as well as reviewed and consulted internally with experienced staff. The results of current work undergo particular analysis and preliminary project assumptions are updated. Expenditures incurred on exploration and evaluation enable the estimation of

related to the reliable estimation of resources or mining conditions. Risk factors related to the limited reliability and completeness of data, based on which new resource projects are evaluated, may lead to the taking of less than optimal decisions on advancing or suspending projects.

mineral resources and investigation of geological-mining conditions aimed at planning further mining activities.

(Parent Entity)

Risk of the inability to store mine tailings.

The Parent Entity is exposed to the risk of a lack of sufficient tailings storage capacity at the "Żelazny Most" Tailings Storage Facility. Risk factors involve the management and control of the facility, maintaining the technological regime and meeting environmental requirements.. Other source of risk are external factors with respect to administrative bodies and the requirement to obtain the necessary administrative decisions for the functioning of the facility. Exposure to risk is also related with potential unplanned shutdowns resulting from infrastructure breakdowns, which could impact the continuity of the Core Business.

Operating in accordance with the operating instructions. Cooperation with a team of international experts (TIE) and a General Designer. Applying observational methods based on assessing the geotechnical parameters obtained on the basis of evaluations of the results of monitoring, enabling conclusions to be drawn about the functioning of the expanded facility. Systematic supervision and control over the entire "Żelazny Most" Tailings Storage Facility, including cyclical detailed analysis of all risk factors affecting the facility's stability.

(KGHM Group)

Risk related to the lack of availability of required energy sources.

The KGHM Group is exposed to the risk of lack of availability of power sources for its operations. Potential disruptions in the supply of key power sources is mainly related to risk on the part of external suppliers and breakdowns of their distribution infrastructure. Risk is also related to the suspension of delivery of power supplies as a result of long-lasting droughts, leading to periodically lower water levels in rivers, which could cause restrictions in the operations of power plants belonging to KGHM's suppliers. Amongst internal factors, the most important involve questions of maintaining operations, utilisation and investments and modernisation work.

Ensuring back-up systems for the supply of critical utilities and on-going assessment of the security of the power network. Conducting a variety of investments aimed at strengthening energy security. A framework agreement with the company Polskie Górnictwo Naftowe i Gazownictwo S.A. for the sale of natural gas to increase the security of natural gas supply. Systematic limitation of energy consumption under the implemented ISO 50001 compliant Energy Management System and Energy Savings Program. Planned increase in the efficiency and flexibility of the KGHM Group in terms of its Polish and international assets, among others by partially satisfying the needs for electricity from its own sources as well as from renewable energy sources („RES") in accordance with the Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040.

(KGHM Group)

Risk related to infrastructure breakdowns which disrupt the core production operations, related to natural hazards as well as internal factors related to the applied technology.

The KGHM Group is exposed to risk related to the technological potential and efficiency of its infrastructure to meet the needs of the production process. By utilising infrastructure required to maintain its operations, KGHM is exposed to the risk of industrial breakdowns resulting in unplanned shutdowns. Such breakdowns could result both from natural hazards, i.e. catastrophic natural events and *force majeure*, as well as internal factors dependent on the KGHM Group (on-going operations, maintaining production, key suppliers, servicing).

Preventive management of key infrastructure elements affecting production continuity. Appointment of a taskforce and expert teams with respect to counteracting breakdowns of metallurgical infrastructure. On-going analysis of geotechnical risk and the verification of planned recoveries. In terms of ICT (information-communication technology) separating groups of projects related to reducing technological debt. Gradual replacement of older technology with newer solutions, reflecting the corporate architecture standard.

In 2021, the process began of implementing a comprehensive system to manage operational continuity compliant with the ISO 22301 standard, which establishes procedural frameworks at the level of the entire organisation aimed at applying a joint approach to building solutions ensuring operational continuity and enabling its return.

(KGHM Group)**Risk related to the cost efficiency of the production process, mining projects, processing of copper-bearing materials, reflecting the risk of a substantial rise in prices of materials, services, electricity, gas and water and restoration costs.**

The KGHM Group is exposed to the risk of external and internal factors, such as metals prices, exchange rates, costs of supply of purchased metal-bearing materials, the level of TC/RCs and selling premiums and costs of services and utilities (including especially energy). This risk is also related to the estimation of costs of provisions for the restoration of mining terrain based on existing law for the territories in which the KGHM Group operates.

In 2021, an important factor impacting exposure to risk was the general uncertainty on financial markets related to subsequent waves of the pandemic as well as the dynamics of economic activity and the rate of economic recovery from the recession caused by the COVID-19 pandemic.

On-going control of processing costs, monitoring the market situation, optimising costs, including supplies of purchased metal-bearing materials, hedging transactions and management of the net position. Hedging to secure the Company against changes in the USD/PLN exchange rate and metals prices (mainly copper and silver). Creating multi-year plans and budgets enabling the achievement of profitability under conditions prevailing on the market. Evaluation of key risk factors, on which the coronavirus pandemic has an impact, were subjected to specific analysis by the on-going monitoring of selected information in terms of production, sales, supply chains, management of personnel and finances, aimed at supporting management processes in conditions of heightened uncertainty caused by the pandemic.

(KGHM Group)**The risk of interruptions to the continuity of sales and services (including due to the COVID-19 pandemic).**

The KGHM Group, due to its well-developed sales and services structure, is exposed to the risk of interruptions to the continuity of these processes, mainly due to external factors. Sources of risk are changes in demand for certain product groups and on individual geographic markets, production restrictions, transport and logistical interruptions (especially in terms of international transport), *force majeure* (extreme weather phenomena) and operational restrictions due to laws introduced at the domestic and international level. This risk has a substantial potential to decrease the revenues generated by the KGHM Group, and consequently lower operating profits.

In 2021, an important factor impacting exposure to risk was the general uncertainty on financial markets related to subsequent waves of the pandemic as well as the dynamics of economic activity and the rate of economic recovery from the recession caused by the COVID-19 pandemic.

On-going monitoring of the situation prevalent amongst customers, enabling a rapid response to customer needs (such as regular teleconferences, the availability and mobilisation of employees, the utilisation of various channels to exchange information and react to interruptions), analysis of the situation's impact on customers and logistics in individual customer countries as well as transit routes, rapid changes in the structure of sales (changes of sales in individual assortments, amongst customers from individual sectors and on individual geographic markets enabling reaction to potential changes in demand in individual consumer sectors). Diversification made to customer portfolios, providing the possibility to neutralise smaller orders from some customers by selling more to others, participation in the spot market (enabling immediate product allocation given actual customer demand) apart from the main strategy based on carrying out long-term and annual contracts on the basis of long-term business relationships.

In 2021, the COVID-19 pandemic had the greatest impact on the Group's secondary activities comprised of hotel and spa services. A variety of safety procedures were implemented aimed at spa patients, hotel guests employees of companies from the risk of contracting the SARS-CoV-2 virus. The spa and hotel companies of KGHM Polska Miedź S.A. received financing from the Polish Development Fund under the Anti-Crisis Shield 1.0 for large companies and the Anti-Crisis Shield 2.0 for SMEs. By maintaining a sanitary regime and regulatory restrictions as regards permissible occupancy rates in hotels, the companies returned to fully providing commercial and medical services. In the long term, the main factor normalising the situation in the hotel and spa sector will undoubtedly be the ongoing vaccination program.

CATEGORY - MARKET*Risk and description of risk factors**Mitigation***(KGHM Group)****Market risk related to volatility in metals prices and risk of changes in exchange rates and interest rates.**

Market risk is understood as the possibility of a negative impact on the results of the KGHM Group resulting from changes in the market prices of goods, exchange rates and interest rates, as well as changes in the value of debt securities and in the share prices of listed companies.

In 2021, an important factor impacting exposure to risk was the general uncertainty on financial markets related to subsequent waves of the pandemic as well as the dynamics of economic activity and the rate of economic recovery from the recession caused by the COVID-19 pandemic.

This risk is actively managed by the Parent Entity, in accordance with the Market Risk Management Policy. A basic technique for managing market risk in the company are hedging strategies utilising derivatives natural hedging is also applied.

Information on the impact of COVID-19 on the functioning of the Company and Group is described in detail below.

Further information on market risk is presented in section 12.3 Market, credit and liquidity risk.

(KGHM Group)**Credit risk related to trade receivables.**

The KGHM Group sells some of its products with deferred payment terms, as a result of which there may arise the risk of late payments from customers for delivered products.

In 2021, an important factor impacting exposure to risk was the general uncertainty on financial markets related to subsequent waves of the pandemic as well as the dynamics of economic activity and the rate of economic recovery from the recession caused by the COVID-19 pandemic.

This risk is actively managed by the Parent Entity, in accordance with the Credit Risk Management Policy. Exposure to credit risk is limited by evaluating and monitoring the financial condition of customers, setting credit limits and applying creditor security. The companies of the KGHM Group have been working for many years with a large number of customers, which affects the geographic diversification of trade receivables.

Information on the impact of COVID-19 on the functioning of the Company and Group is described in detail below.

Further information on credit risk is presented in section 12.3 Market, credit and liquidity risk.

(KGHM Group)**Liquidity risk.**

The risk of loss of liquidity is understood as the ability to pay liabilities on time and to obtain financing for operations.

In 2021, an important factor impacting exposure to risk was the general uncertainty on financial markets related to subsequent waves of the pandemic as well as the dynamics of economic activity and the rate of economic recovery from the recession caused by the COVID-19 pandemic.

This risk is actively managed in the Parent Entity in accordance with the updated Financial Liquidity Management Policy.

Information on the impact of COVID-19 on the functioning of the Company and Group is described in detail below.

Further information on liquidity risk is presented in section 12.3 Market, credit and liquidity risk.

CATEGORY - EXTERNAL*Risk and description of risk factors**Mitigation***(KGHM Group)****Risk of seismic tremors and associated roof collapses or distressings of the rock mass, and the occurrence of uncontrolled rock bursts.**

The KGHM Group is exposed to the risk of natural hazards and *force majeure* and related insufficient geological knowledge of the rockmass. Key risk factors which affect the materialisation of such risk also involve the results of periodic analyses of the mining situation and the state of hazard and applied measurement methods. Natural hazards associated with the underground mining of copper ore deposits, in particular hazards related to mining tremors and their potential effects in the form of roof and wall collapses. These factors affect safety, as their occurrence can lead to serious or even fatal injuries as well

Actions aimed at preventing rock bursts and roof collapses, such as systematic seismological observations, on-going assessment of the rock mass and the marking off of areas of particular threat of roof collapse. Use of active methods of preventing rock bursts and roof collapses based on provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof. Preparation of reserve fields in the orebody which could handle limited production.

as damage to underground machinery, equipment and infrastructure, along with production downtimes.

(Parent Entity)

Risk of restrictions to production or to the advancement of development work due to geodynamic gas-related events and the occurrence of naturally-occurring gases.

KGHM is exposed to the specific risk of natural hazards and *force majeure* (gas-related geodynamic hazards and the occurrence of naturally-occurring hazardous gases) leading to restrictions in realising production plans and the advance of preparatory work. These factors affect safety, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes.

The risk of gas hazards occurring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odours. The preparation of reserve fields which could take over the restricted production.

(Parent Entity)

Risk of production restrictions due to unfavourable climatic conditions in the mines.

KGHM is exposed to a specific risk related to climatic conditions restricting activities or increasing costs, related to geological conditions, the temperature of the air sent into the mines and the conditions prevalent in the underground mines.

The use of solutions to counteract underground climate risk using neutral means (e.g. the use of short airways and directing air from the lowest temperature rockmass, high-speed air) and through the use of central, workplace and personal air conditioning. The on-going monitoring of microclimate parameters and the introduction of remote control and visualisation systems and monitoring (industrial cameras) in working areas subject to particularly unfavourable climatic parameters. Decreasing external and internal losses and relative air moisture, as well as increasing air movement intensity. The use of shortened working time.

(Parent Entity)

Risk of loss of mine functionality due to underground water hazards.

KGHM is exposed to the risk of natural hazards and *force majeure* in the form of underground water hazards resulting from breakdowns of the main dewatering equipment, human error (actions contrary to the project or technology) or mistaken geological conclusions.

Research into hydrogeological conditions and water hazards, measuring water inflow to the mines, conducting mining operations pursuant with technology for the safe conduct of mining operations in underground mines. Systematic control of mining areas threatened by water inflow, control of water flow pathways and dams according to a set schedule. The preparation and updating of the Rescue Plan in case of water inflow. Development of regional pumps and the piping system, construction of water dams aimed at restricting water inflow, drilling exploratory holes to stabilise uncontrolled water inflow. To minimise the risk of uncontrolled underground water inflow, a project is continued called „Construction of a main dewatering complex in the region of the SW-4 shaft”, aimed at increasing the dewatering capabilities of the mines.

(KGHM Group)

Risk of exceeding the permissible emissions limits set forth in permits.

The KGHM Group is exposed to the risk of impacting individual components of the natural environment resulting from the extraction of copper ore and its subsequent processing at all stages of production, which could result in exceeding permissible emissions limits.

Advancement of actions under Air Protection Programs and R&D.

Advancement of the Program to adapt the technological installations of KGHM to the requirements of BAT conclusions for the nonferrous metals industry along with restriction of particulates emissions.

(Parent Entity)**Risk of restrictions to the ability to sell sulphuric acid (due to loss of market/customers and/or a drop in demand as well as due to the COVID-19 pandemic).**

Risk related to macro- and microeconomic factors involving political actions which result in privileges for a specific group of producers or the introduction of additional fees/legal restrictions. Risk related to unfavourable prices (volatility to the disadvantage of KGHM), high requirements in terms of market parameters for selling sulphuric acid and lower demand for the product on international markets, including as a result of the deterioration in the financial condition of a key customer.

In 2021, one of the factors affecting exposure to risk was the situation on the fertilizers market related to the COVID-19 pandemic.

Increase the number of internal storage facilities at the metallurgical plants as well as of warehouses in Szczecin. Search for new sales markets. Long term contracts. Incur costs of additional storage. Payments to customers and incur transport costs. Search for alternative ways to manage the acid and utilise it in the Concentrators. In 2021, actions were continuously taken related to the situation on the fertilizers market as a result of the COVID-19 pandemic involving volatility in levels of customer demand.

(KGHM Group)**Risk related to interruptions in the supply of strategic materials and components affecting the continuity of production by the Core Business (including due to the COVID-19 pandemic)**

The KGHM Group is exposed to the risk of interruptions in the management of the supply chain resulting mainly from external factors, resulting in an increase in supply chain sensitivity. These factors include unpredictable volatility in supply and demand, changes in supplier bases, technological changes, changes in inventory buffers and in timeframes for realising orders, dependency on suppliers, as well as logistical interruptions, *force majeure* and volatility in exchange rates and metals prices.

In 2021, an important factor impacting exposure to risk was the general uncertainty on financial markets related to subsequent waves of the pandemic as well as the dynamics of economic activity and the rate of economic recovery from the recession caused by the COVID-19 pandemic.

Continuous contact is maintained with suppliers, which enables prompt reaction to delays by utilising the strategy of diversification of suppliers and directions of deliveries applied by the KGHM Group and by applying alternative solutions, for example by using substitutes, changes in production/assembly schedules. Moreover, a plan has been developed for the KGHM Group to maintain operational continuity in case of restrictions, production suspensions or the temporary switch to a stand-by operating mode. Suppliers and inventory levels are continuously monitored. As a result of the COVID-19 pandemic actions are being systematically taken to eliminate sporadic instances of delays by suppliers due to lack of availability of components, logistical restrictions or delays by producers of materials and equipment or parts thereof.

(KGHM Group)**Risk of failure to adhere to established principles and standards of behaviour with respect to counteracting corruption, business ethics and with respect to the procurement processes as well as the risk of incurring losses from actions which are harmful to KGHM.**

The KGHM Group is exposed to the risk of actions which are harmful to KGHM taken by external entities participating in the processes of procurement, sales and investment. Threats are in the form of potential losses by the KGHM Group resulting from the intentional actions of external entities, i.e. collusion over minimum pricing, the insufficient technical and economic potential of contractors, falsification of documentation, fictional contractors, conflicts of interest. Other important risk factors include threats as regards all types of improprieties related to breaching anti-corruption and ethical standards (such as corruption, conflicts of interest, abuse, discrimination, illegality, nepotism) as well as breaches of human rights (such as child labour, forced work, modern slavery, women's rights).

Implementation of the Code of Ethics of the KGHM Polska Miedz S.A. Group as the main tool in the corporate culture of the KGHM Group, and other appropriate policies and procedures ensuring the efficiency of implemented principles and values. Meeting global corporate governance standards and increased stakeholder expectations, including above all those of customers and financial institutions. Application under the Responsible Supply Chain Policy of guarantees of the selection of responsible suppliers, especially in the case of acquiring so-called conflict minerals and ensuring that the goods and services acquired by the KGHM Group will not be used to finance terrorism, and that they will be manufactured or provided while respecting human rights, labour standards, environmental protection and counteracting corruption. Proactive monitoring and analysis of procurement processes in terms of identifying abuse and threats of corruption within the organisation and the supply chain, as well as undertaking actions with respect to ethics and counteracting corruption along with the implementation of corrective actions. Internal control with respect to the identification and uncovering of fraud, abuse and corruption in KGHM Group entities and the prevention of such based on the Internal Control

Procedure in order to eliminate risk at the level of prevention. The management of compliance under a comprehensive compliance management system.

As a result of the implementation of the ISO 37001 standard, in 2021 a new Anti-Corruption Policy was adopted in the KGHM Polska Miedź S.A. Group. Regulations were updated and new ones were developed as regards counteracting corruption, compliant with required standards, aimed at ensuring compliance with the existing Anti-Corruption Policy and which are currently being implemented in all of the KGHM Group's entities.

In 2021, work commenced on the development of a „Human Rights Policy in KGHM Polska Miedź S.A.“, whose aim is to supplement and consolidate aspects of human rights in accordance with the model of sustainable development and which are included in other policies and guidelines of the Company, such as the Code of Ethics, Code of Conduct, OHS Policy, Climate Policy and the Responsible Supply Chain Policy.

(KGHM Group)

Risk of loss of compliance with requirements (general laws in force, internal corporate regulations and voluntarily-adopted legal obligations and standards)

The KGHM Group operates in unstable regulatory environments in many jurisdictions. A consequence of the need for technological and organisational adaptation to a variable legal environment (including environmental and tax requirements) may be higher costs of activities or their limitation. Risk of interruptions to operations or the need to reorganise work as a result of new laws may have a significant impact on the KGHM Group's activities (including the risk of switching to a low-emissions economy, a circular economy).

Active cooperation with the academic environment, which issues opinions on changes to legal acts, and the on-going providing of positions and opinions with respect to numerous areas subject to legislative change (including as part of the membership of numerous organisations at the national and EU level). Cooperation with renowned law firms and the creation of specialised organisational units which monitor the regulatory environment. Taking preventive actions aimed at adapting to organisational, infrastructural and technological changes. In order to have a consistent approach to ensuring compliance, defined as adherence to requirements arising from external (laws in force) and internal regulations or voluntarily-adopted legal obligations and standards (including ethical standards), a Compliance Management Policy for the KGHM Polska Miedź S.A. Group together with a Procedure and Methodology for managing compliance in KGHM Polska Miedź S.A. are in force. Having a consistent compliance system in the KGHM Polska Miedź S.A. Group is an element of effective corporate governance management by among others more efficient reaction to and preparedness for regulatory changes, protecting reputation and building an ethical culture in the organisation as well as increasing awareness and a sense of accountability for compliance amongst employees.

CATEGORY – INTERNAL RISKS

Risk and description of risk factors

Mitigation

(KGHM Group)

The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper protective measures.

The failure to adhere to occupational health and safety rules and procedures, as well as the employment of persons lacking an appropriate psychophysical predisposition, could be a source of potential accidents. Exposure to unfavourable natural conditions together with associated natural hazards requires, apart from the high requirements in terms of essential professional preparation, that employees possess appropriate qualifications in terms of health, physical ability and

A detailed division of obligations between management and supervisory staff on the one hand and entities providing services to the Company on the other, to ensure safe working conditions and the proper coordination of work. Systematic discussion of workplace safety with the participation of representatives of sub-contractors and mining oversight authorities. Engaging employees and sub-contractors in campaigns carried out in the KGHM Group aimed at improving OHS standards. Advancement of development initiatives based on the idea of sustainable development and safety and enhancing the Group's image as being socially responsible under the adopted Strategy. Actions consistent with the cycle of self-improvement in order to continuously seek and prepare for implementation the catalogue of initiatives aimed at

psychological fitness. Risk is also associated with the possibility of temporary production stoppages caused by serious accidents, which could potentially affect the operations of the KGHM Group financially, legally and image-wise. The KGHM Group is also exposed to the risk of professional illnesses as a result of the impact of the workplace environment on people. Enhanced exposure to risk is also associated with external factors in the form of sub-contractors and their safety culture.

further improvement of OHS and advancement of the long-term goal of the Company, „Zero accidents due to human and technical errors“. Optimisation of health care for employees, especially following workplace accidents and the systematic search for new organisational and technical initiatives enabling achievement of a high level of safety for employees in the divisions of KGHM Polska Miedź S.A. Threats are identified and professional risk is evaluated on a cyclical basis as well as in accordance with the needs of the moment, including those related to the SARS-CoV-2 virus pandemic.

(KGHM Group)

The risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.

The KGHM Group is exposed to the risk of exposure to external factors involving the environment in which it operates and consequently, exposure to changes in the image of the organisation and its products or services. Risk of ineffective management of relations with stakeholders, which affects the willingness of the environment and the taking of actions towards the Group. In extreme cases, the materialisation of this risk may lead to the blocking of development plans. Risk related to the heightened expectations and awareness by stakeholders of questions related to sustainable development and corporate social responsibility, which could lead to higher operating and investment costs, and in extreme cases to their limitation. Variable consumer requirements, which is also connected with paying attention to the manner of production, and not only to the quality and price of the final good.

Advancement of CSR Strategy and close cooperation with government bodies. Meetings and negotiations with stakeholders, informational campaigns, conferences, publications. Cooperation with academic and sector bodies and authorities in order to meet the highest communication-public relations standards. Caring about and paying due diligence to the identification of expectations and demands by the external environment. Establishing commercial and business relationships with entities who declare an attitude of caring about environmental protection and compliance with existing laws in this regard.

(KGHM Group)

The risk of not being able to secure appropriate staff to advance the Group's business goals (including the lack of sufficient human resources to maintain the continuity of the Core Business operations due to the COVID-19 pandemic).

The risk of not being able to acquire and keep human resources, among others to support on-going operations and development projects. The KGHM Group is exposed to risk related to the availability of qualified staff in the market as well as on-going identification of staffing needs in terms of required qualifications and supplying them while reflecting staffing fluctuations. Of significance is access to qualified employees in the future in the context of an aging society and a market deficit of certain professions.

In 2021, an important factor affecting exposure to risk was the COVID-19 pandemic and the impact of its subsequent waves on the availability in particular of key employees necessary to maintain the continuity of the Core Business.

Advancing a variety of HR projects, identification of potential successors for key positions (including in terms of mobility) and preparations for advancement. On-going comparison of remuneration packages (including in relation to working conditions) to offers on the market. Cooperation with schools and universities to promote the company as an employer and to ensure qualified employees. Implementation of programs to develop employee skills and to secure funds for this purpose. Development of recruiting tools and the identification of key skills to advance the business goals of the KGHM Group.

Existing solutions in the KGHM Group undergo ongoing analysis and evaluation in terms of ensuring employee safety and the implementation of additional solutions aimed at limiting the risk of spreading the SARS-CoV-2 virus amongst the staff. Continually updating developed operating procedures in case of the need to limit or cease production, concepts are prepared for new working systems enabling contact between working shifts as well as lists of employees/specialists and their substitutes, who are vital to ensuring the operational continuity of the Core Business. Maintaining procedures on what to do in the case of detection of SARS CoV-2 amongst the employees in line with the guidelines of appropriate governmental institutions.

(KGHM Group)

Risk that the confidentiality, integrity or availability of informational assets which have been collected, stored or processed on IT resources may be compromised, as well as cybernetic threats.

The KGHM Group, due to its well-developed IT structure, is exposed to the risk of a breach in the confidentiality, authenticity, integrity or availability of informational assets which have been collected, stored or processed on IT resources. The sources of this risk are both forces of nature (e.g. fires, construction catastrophes, downpours) as well as hazards arising from human activities (intentional or not). The KGHM Group is exposed to the risk of an unauthorised loss, change or destruction of critical data and information as well as loss of the possibility of the operational control of equipment and systems as a result of cybernetic attacks on the infrastructure of the KGHM Group. Such incidents could generate the risk of production shutdowns, leading to production and financial losses and claims due to the loss/disclosure of personal data. This risk has a large impact on the reputation of the KGHM Group.

Strict adherence to and application of principles arising among others from the IT Security Policy and from Facility Protection Plans. The systematic evaluation of risk of loss of the confidentiality, integrity, authenticity or availability of informational assets which have been collected, stored or processed on IT resources. Ongoing monitoring of the usefulness of existing infrastructure as well as the analysis of and planning for the implementation of teleinformational solutions to increase security, in accordance with global trends and best practice in this regard. Implementation of security systems and adequate organisational solutions at various levels of the company's infrastructure, aimed at staying ahead of any decrease in the utility of systems at risk and minimising the potential losses of the KGHM Group.

In 2021, work commenced which was related among others to implementing automated information flow monitoring using a modern DLP (Data Loss Prevention) system and by building a dedicated Security Operation Center (SOC). The main task of the new unit will be a 24h first line of support to deal with cybersecurity incidents.

(KGHM Group)

The risk of exceeding project/program budgets and schedules, deviating from defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects. Risk related to the operational management and development of key mining projects, reflecting the question of incurred costs, permits and infrastructural requirements.

The KGHM Group is exposed to risk related to the advancement of projects and programs as a result of their improper management. The risk of changes in budgets, schedule, scope and deviations from the expected quality of project products and/or programs is related to a variety of factors of an internal nature involving both the methodological approach and the projected structure of management and supervision. Improperly selected tools and techniques, lack of established criteria and principles for evaluating projects, or inconsistency in their application or adherence to them may restrict or prevent the achievement of the KGHM Group's strategic goals. In terms of external factors, there remains the question of meeting legal and formal requirements which could generate deviations from the assumed schedule, and in extreme instances may halt the advancement of a project/program.

Improve standards in the management of portfolios and projects and implement a projects management system aimed at supporting the organisation in the planning and management of portfolios and projects. Standardisation of planning and preparation processes and in the advancement of investment projects, comprising such aspects as scheduling, preparing costs projections, technical designing, project review, investment handover documentation, risk analysis of projects/programs. Management of projects in accordance with international standards and conducting on-going monitoring of progress. On-going evaluation of the economic feasibility of existing and anticipated development projects.

CATEGORY – CLIMATE

Risk and description of risk factors

(KGHM Group)

Climate risk related to the negative impact of climate change on the activities of the KGHM Group.

The KGHM Group is exposed to the risk of climate change due to the negative impact of factors arising from specified events, in particular related to violent and chronic weather phenomena resulting from changes in the climate, such as storms, floods, fires or heat waves, as well as permanent changes in weather patterns, which could interrupt the values chain or the continuity of operations of the KGHM Group.

This risk is related to changes in the conditions under which activities are conducted as a result of climate change and adaptation to these changes.

(KGHM Group)

Climate risk related to the transition to a low-emissions economy and resistance to climate change.

The KGHM Group is exposed to risk arising from the need of the economy to adapt to gradual climate change, in particular by utilising low-emissions solutions. The temporary risk category comprises questions related to legal requirements, perceptions of customers and other stakeholders to climate questions, technological progress towards a low-carbon economy and changes in demand and supply for certain products and services, whose production is associated with negative climate impact.

This risk is related to changes in the conditions under which activities are conducted arising from climate changes and adaptation to these changes.

Mitigation

The development and publication of the Climate Policy of KGHM Polska Miedź S.A. as a directional document, whose chief goal is to present the climate-related ambitions of the Company and to set forth the scope of process and organisational changes needed to achieve them. The primary goal of the Climate Policy of KGHM is for the Parent Entity to achieve climate neutrality by 2050 with respect to Scope 1 emissions - direct emissions primarily related to the production activities and Scope 2 emissions - indirect emissions associated with the use of electricity and heat acquired from the market, with their maximum possible reduction. The intermediate target is to reduce total Scope 1 and Scope 2 emissions by 30% by 2030, compared to the emission levels of 2020. The reduction targets for the entire KGHM Group will be published no later than in the first half of 2023.

Details on how the goals will be attained, as well as total capital expenditures on the realisation of activities aimed at reducing the emission of greenhouse gases, will be provided in the form of the Decarbonisation Program of the KGHM Group.

Inclusion in the Strategy of the KGHM Group of global trends related to climate changes which are driving environmental challenges as well as planned changes in the introduction of mechanisms reflecting climate context in the processes of updating, implementing and monitoring the Strategy.

An implemented and improved effective system of risk management, which also comprises management of climate risk, including the categorisation, identification, assessment and manner of dealing with this risk, along with plans for its mitigation.

An implemented and improved effective system of compliance management, which also comprises management of the risk of loss of compliance with climate-related requirements.

Start of implementation of a climate reporting system based on the Recommendations of the Task Force on Climate-Related Financial Disclosures from 2017.

Development of changes involving key business and management processes - in particular those related to or having an impact on restrictions by the Parent Entity in greenhouse gas emissions by among others changes in corporate governance and changes as regards indicators, whose goal is to introduce the process of measuring emissions for the KGHM Group in a manner fully compliant with GHG Protocol and implementation of the first indicators responsible for monitoring improvements in the business robustness model to climate change.

INFORMATION ON THE IMPACT OF THE WAR IN UKRAINE ON THE COMPANY'S AND GROUP'S OPERATIONS

As at the date of approval for publication of this report, the geopolitical situation associated with the direct aggression of Russia in Ukraine and the implemented system of sanctions does not have a substantial impact on the operations of KGHM Polska Miedź S.A., while the risk of interruptions to the Company's operational continuity in this regard continues to be considered as low.

KGHM Polska Miedź S.A. does not engage in direct transactions with entities from Russia, Belarus or Ukraine; such contracts are held by certain intermediaries, mainly traders of wire rod, which could indirectly impact the level of purchases made by such clients.

The possible increase in the near-term in prices of fuels and energy carriers could be a primary factor generating higher cost of sales, selling costs and administrative expenses. The availability of resources and materials is currently at a stable level. It cannot however be ruled out that a continuation of this armed conflict over an extended period of time as well as the system of economic sanctions could have a negative impact on suppliers and lead to interruptions in the continuity of materials and services supply chains in the Company KGHM Polska Miedź S.A., caused among others by logistical restrictions and availability of materials on international markets, e.g. of steel, fuels and energy.

The level of cathode inventories in exchange warehouses is currently very low, while the sanctions imposed on Russia and on Russian entities may limit the availability of Russian cathodes (produced among others by Norilsk Nickel) on European markets. The potential for changes in supply and high copper prices on metals markets resulting from the aforementioned situation may lead to higher revenues of KGHM Polska Miedź S.A., but at the same time to higher prices for purchased metal-bearing materials used in production. A similar dependency may occur in the case of a weakening of the PLN versus other currencies (USD and EUR), where the possibility exists for higher revenues, and simultaneously for higher prices for imported materials and resources, for a higher copper tax, or the aforementioned costs of purchased metal-bearing materials. It is impossible to estimate the impact of the aforementioned, potential events on potential profit or loss; the situation is currently continuously monitored, with the simultaneous use of possible mitigating actions.

In terms of the availability of capital and the level of debt, KGHM holds no bank loans drawn from institutions threatened with sanctions.

Financial markets rapidly responded to the outbreak of the conflict in Ukraine. In the first phase, the copper price on the London market and currencies rose in response to the crisis. Within a month, the price of copper achieved the maximum level of 10 730 USD/t (7th March 2022). Currently, the market is visibly calming down and as at 18 March 2022 the copper price was at the level of 10 249 USD/t.

A similar relation occurred in the case of the weakening of the PLN as compared to the other currencies (USD and EUR). The initial appreciation of the USD reached its maximum on 7 March 2022 and amounted to PLN 4.5722, followed by easing to PLN 4.2707 as at 18 March 2022. The euro behaved correspondingly and on 7 March 2022 it reached its maximum of PLN 4.9647, then decreased to PLN 4.7221 as at 18 March 2022.

During this time, the Monetary Policy Council raised interest rates several times, with the last changes taking place on 8 March 2022, resulting in the interest rates becoming the highest ones since 2014.

In 2021 the process of implementing a comprehensive Business Continuity Management System commenced in the Company, which also enables a more detailed scope of actions to be taken in terms of corporate risk management as regards risks having a catastrophic impact and a small likelihood of occurrence.

INFORMATION ON THE IMPACT OF COVID-19 ON THE COMPANY'S AND GROUP'S OPERATIONS

The greatest impact on the operations and results of the KGHM Polska Miedź S.A. Group is from the Parent Entity and, to a lesser extent, the KGHM INTERNATIONAL LTD. Group.

Key risk categories

The most significant risk factors related to the COVID-19 pandemic and impacting the Company's and the Group's activities are:

- increased absenteeism amongst employees of the core production line as a result of subsequent waves of the SARS CoV-2 virus,
- potential interruptions in the materials and services supply chain as well as logistical restrictions, especially as regards international transport,
- possible restrictions in certain sales markets, a drop in demand and optimisation of inventories of raw materials and finished products amongst customers,
- potential exceptional legal changes,
- volatility in copper and silver prices on the metals markets,
- volatility in molybdenum prices,
- volatility in the USD/PLN exchange rate,

- volatility in electrolytic copper production costs, including in particular due to the minerals extraction tax, changes in the value of purchased copper-bearing materials consumed and volatility in prices of energy carriers and electricity,
- the effects of the implemented hedging policy, and
- the general uncertainty on financial markets and the impact of the economic crisis connected with the COVID-19 pandemic.

Evaluation of the key categories of risk which are impacted by the coronavirus pandemic underwent detailed analysis by the on-going monitoring of selected information in the areas of production, sales, supply chains, personnel management and finance, in order to support the process of reviewing the current financial and operating situation of the KGHM Polska Miedź S.A. Group. As a result, none of the aforementioned factors had a substantial negative impact on the Group's operations and consequently, there were no extensive deviations from achievement of the budget targets for 2021 in any of the operating segments of the KGHM Polska Miedź S.A. Group, with the exception of companies operating in the spa and hotel sector.

Impact on the metals market

In 2021 the COVID-19 pandemic did not have a significant impact on the world's metals markets. On 31 December 2021 the price of copper was 9 692 USD/t, or an increase by 25% compared to the price at the end of 2020. The price of silver on 31 December 2021 amounted to 23.10 USD/koz t, or a decrease by 13% compared to the price at the end of 2020. Molybdenum prices ended the year 2021 at the level of 18.61 USD/lb compared to 9.33 USD/lb at the end of 2020, or an increase by 99%.

Impact on the SPA activities of the group

In 2021 the greatest impact of the COVID-19 pandemic was on the Group's secondary activities involving the hotel and spa services of the companies Uzdrowiska Kłodzkie S.A. - Grupa PGU, Uzdrowisko Połczyn Grupa PGU S.A., Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU, INTERFERIE S.A. and Interferie Medical SPA Sp. z o.o. The spa and hotel companies obtained exemptions from financing institutions from the obligation to calculate the DSCR ratio for the entire year 2021. Financial liabilities to creditors and lessors are paid on an ongoing basis.

The spa and hotel companies of KGHM Polska Miedź S.A. received financing from the Polski Fundusz Rozwoju (Polish Development Fund or PDF) under the Anti-Crisis Shield 1.0 for large enterprises and under the Anti-Crisis Shield 2.0 for the SME sector. Companies which received financing from the shield for the SME sector submitted applications in the fourth quarter of 2021 requesting the write-off of some of the assistance (in the total amount of PLN 9.2 million). The Company is currently awaiting decisions regarding the settlement of the subsidies received. In addition, at the end of September, companies that joined the Anti-Crisis Shield 1.0 program for large enterprises submitted applications to join the Financial Shield under the 2.0 program for large enterprises. The total requested amount of liquidity loans amounted to PLN 18.7 million. At present, dedicated PDF teams are carrying out a financial and legal analysis. The total requested amount of liquidity loans amounted to PLN 18.7 million.

By maintaining a strict sanitary regime and regulatory restrictions as regards permitted occupancy rates in hotels, the companies were able to return to full realisation of their commercial and health-related services. In the long term, the progressive vaccination campaign will undoubtedly be the main factor regulating the situation in the hotel and spa industry.

Impact on the activities of the Parent Entity and other Group companies

With regard to the other domestic companies of the KGHM Polska Miedź S.A. Group, the epidemic situation in 2021 did not have a significant impact on the operating results generated by these entities.

The epidemic situation caused by COVID-19 did not have a significant impact on the Company's and the Group's operations, and at the date of publication of this report the Management Board of the Parent Entity estimates the risk of loss of going concern caused by COVID-19 as low. Individual, immaterial interruptions to the continuity of the supply chain for materials and services have been observed, caused by logistical restrictions in international markets. Regular contact with suppliers enables prompt reaction to delays by utilisation of the strategy of supplier diversification applied in the Group as well as the use of alternative solutions.

Preventive actions in the Group

In KGHM Polska Miedź S.A., as well as in all international mines of the KGHM Polska Miedź S.A. Group as well as Sierra Gorda S.C.M., thanks to the implementation of a variety of preventative measures, such as enforcing a sanitary regime and monitoring and testing the health of employees, there were no production stoppages which would have been directly attributable to the pandemic. As a result, the Group's copper production in 2021 was in line with the targets set at the start of the year.

In terms of sales, the majority of customers continue not to feel any strong negative impact from the epidemic on their activities, thanks to which their trade payables towards the Parent Entity are being paid on time, while the execution of deliveries to customers continues without interruption.

The Group is fully capable of meeting its financial obligations. The financial resources held by the Group and available borrowings guarantee its continued financial liquidity. The financing structure of the Group at the level of the Parent Entity, based on the long-term and diversified sources of financing, provided the Company and the Group with long-term financial stability through extending the average weighted maturity of the debt of KGHM Polska Miedź S.A.

Due to the centralisation of the process of obtaining external financing for the needs of the entire Group, in order to transfer liquidity within the Group, a debt instrument in the form of owners loans is used to support the investment process, and the Group uses local and international cash pooling to service its daily operations.

At present the Parent Entity is not aware of any significant risk of a breach in the financial covenants contained in external financing agreements related to the COVID-19 pandemic.

The Group continues to advance its investment projects in accordance with established schedules and is not aware of any increase in risk related to their continuation as a result of the coronavirus pandemic.

During the reported period there were likewise no interruptions in the continuity of the Group's operations caused by infections of this virus amongst the employees. There continues to be a lack of any substantial heightened level of absenteeism amongst employees of the Parent Entity's core business or domestic and international production assets related to the epidemic.

Taking into consideration the risk of a subsequent wave of the COVID-19 pandemic, there still remains uncertainty regarding the directions of development of the economic and social situation in Europe and globally. An important factor for the domestic and global economies will be the percentage of people fully vaccinated against COVID-19, which would enable among others the further easing of restrictions in individual countries and sectors, a reduction in uncertainty as to future periods, or improving the pace of economic recovery from the recession caused by the COVID-19 pandemic. The Parent Entity constantly monitors the global economic situation, in order to assess its potential negative impact on the KGHM Polska Miedź S.A. Group and to take preventive actions to mitigate this impact.

POLITICAL RISK IN CHILE

Due to the on-going work on the new Constitution in Chile, there is visible increased exposure to political risk which could in future have an impact on operations there. The Parent Entity is engaged in on-going monitoring of the political situation in Chile and its associated impact on the mining industry in order to make an up-to-date assessment of the potential ramifications for the KGHM Polska Miedź S.A. Group. Depending on the direction of the changes and the decisions undertaken by Chile's authorities and society, various scenarios are being analysed which will necessitate the taking of appropriate adaptive actions.

12.3. MARKET, CREDIT AND LIQUIDITY RISK

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and results in the short and medium terms and to enhance the Group's value over the long term. The management of risk includes both the elements of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Parent Entity these issues are covered in the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee, and
- Financial Liquidity Management Policy and the Rules of the Financial Liquidity Committee.

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group” covers selected mining companies in the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc. and Sociedad Contractual Minera Franke).

Financial liquidity management is carried out in accordance with the „Financial Liquidity Management Policy in the KGHM Group” which regulates financial liquidity management in the Group and is carried out by individual Group companies, while its organisation and coordination as well as the supervision thereof is performed in the Parent Entity.

Credit risk management in the Parent Entity is carried out in accordance with the Management Board-approved Credit Risk Management Policy. The Parent Entity serves as an advisor to the Group's companies with respect to managing credit risk. The „Credit Risk Management Policy in the KGHM Polska Miedź S.A. Group” applies to selected Group companies, the goal of which is to introduce a comprehensive, joint approach and the most important elements of the credit risk management process.

12.4. MARKET RISK MANAGEMENT

Market risk is understood as the possible negative impact on the Group's results arising from changes in the market prices of commodities, exchange rates and interest rates, as well as from changes in the value of debt securities and share prices of listed companies.

In terms of market risk management (in particular the risk of changes in metals prices and exchange rates) of greatest significance and impact on the results of the Group are the scale and nature of the activities of the Parent Entity and the mining companies of KGHM INTERNATIONAL LTD.

The Parent Entity actively manages market risk, undertaking actions and decisions in this regard within the context of the global exposure throughout the KGHM Polska Miedź S.A. Group.

The Management Board is responsible for market risk management in the Parent Entity and for adherence to policy in this regard. The main body involved in performing market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area.

Commodity risk, currency risk

In 2021, the Group was mainly exposed to the risk of the changes in the prices of metals it sells: copper and silver. Of major significance for the Parent Entity was the risk of changes in currency rates, in particular the USD/PLN exchange rate. The Group's companies are additionally exposed to the risk of volatility in the prices of other metals. Market risk related to changes in metals prices arises from the formula for setting prices in physical metals sales contracts, which are usually based on the average monthly market prices for the relevant future month.

In accordance with the Market Risk Management Policy, in 2021 the Parent Entity continuously identified and measured market risk related to changes in metals prices, exchange rates and interest rates (analysis of the impact of market risk factors on the Parent Entity's activities – profit or loss, statement of financial position, statement of cash flows), and also analysed the metals, currencies and interest rates markets. These analyses, along with assessment of the internal situation of the Parent Entity and Group, represented the basis for taking decisions on the application of hedging strategies on the metals, currency and interest rates markets.

In terms of the realisation of the strategic plan of hedging against the risk of changes in the USD/PLN exchange rate, in 2021 the Parent Entity purchased put options for the total amount of USD 1 050 million to cover planned revenues from sales with maturities from February 2021 to June 2022, and also entered into collar options strategies in the notional amount of USD 240 million with maturities from July 2022 to December 2022. Moreover, in 2021 the Parent Entity managed an open hedged position on the currency market by restructuring options structures.

In 2021, the Parent Entity implemented seagull hedging strategies on the copper market for the period from January 2022 to December 2023 for the total notional amount of 87 thousand tonnes. In terms of restructuring a hedging position on the copper market, call options were purchased for the period from March to December 2021 for the total notional amount of 155 thousand tonnes, opening at the same time participation in potential further price rises for the collar and seagull options structures held for 2021. In the second half of 2021 the strike price of structures hedging revenues from the sale of copper was also raised for the period from October to December 2021 for the total notional amount of 25.5 thousand tonnes. Also restructured was a position on the forward silver market for the period from July 2021 to December 2022. Detailed disclosures on the actions taken in 2021 with respect to market risk management is presented in notes 7.5.1.2 and 7.5.1.3 of the financial statements.

As at 31 December 2021, the Parent Entity also held open CIRS (Cross Currency Interest Rate Swap) transactions for the notional amount of PLN 2 billion, hedging against market risk related to the issue of bonds in PLN with a variable interest rate. Debt due to bonds denominated in PLN generate currency risk due to the fact that most of the Parent Entity's sales revenue is denominated in USD.

In terms of managing currency risk, the Parent Entity applies natural hedging by borrowing in currencies in which it has revenues. The value of bank and investment loans as at 31 December 2021 drawn in USD, following their translation into PLN, amounted to PLN 2 980 million (as at 31 December 2020: PLN 4 321 million).

In 2021, none of the Group's mining subsidiaries implemented forward transactions on the metals and currency markets and did not hold open positions as at 31 December 2021. Risk related to changes in metals prices did however exist in the case of embedded derivative instruments in contracts for the purchase of metal-bearing materials.

Some of the Group's Polish companies managed the currency risk related to their core businesses by opening derivative transactions on the EUR/PLN and USD/PLN markets.

<p>Interest rate risk</p>	<p>Interest rate risk is the possibility of the negative impact of changes in interest rates on the Group's position and results. In 2021, the Group was exposed to such risk due to loans granted, free cash invested on deposits, the reverse factoring program and borrowings.</p> <p>As at 31 December 2021, the following positions were exposed to interest rate risk by impacting the amount of interest income and costs:</p> <ul style="list-style-type: none"> - cash and cash equivalents: PLN 2 333 million, including the deposits of special purpose funds: the Mine Closure Fund and the Tailings Storage Facility Restoration Fund, - borrowings: PLN 2 153 million, - trade and similar payables: PLN 55 million. <p>As at 31 December 2021, the following positions were exposed to interest rate risk due to changes in the fair value of instruments with fixed interest rates:</p> <ul style="list-style-type: none"> - receivables due to loans granted by the Group: PLN 22 million, - borrowings: PLN 3 796 million. <p>As at 31 December 2021, the Parent Entity held open CIRS (Cross Currency Interest Rate Swap) transactions for the notional amount of PLN 2 billion, hedging against market risk related to the issue of bonds in PLN with a variable interest rate.</p>
<p>Price risk related to the change in share prices of listed companies</p>	<p>Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices.</p> <p>As at 31 December 2021, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 516 million.</p>
<p>Result on derivatives and hedging transactions</p>	<p>The total impact of derivatives and hedging instruments (transactions on the copper, silver, currency and interest rate markets as well as embedded derivatives and USD-denominated loans designated as a hedge against a change in the exchange rate) on the Group's profit or loss for 2021 amounted to -PLN 2 080 million, of which:</p> <ul style="list-style-type: none"> - PLN 1 651 million decreased revenues from contracts with customers, - PLN 385 million decreased the result on other operating activities, and - PLN 44 million decreased the result on financing activities (including: -PLN 34 million as an adjustment of interest on borrowings). <p>Moreover, in 2021 other comprehensive income decreased by PLN 367 million (impact of hedging instruments).</p> <p>As at 31 December 2021, the fair value of open positions in derivatives of the Group (on the metals, currency and interest rate markets and in embedded derivatives) amounted to -PLN 1 174 million.</p>

CREDIT RISK MANAGEMENT

Credit risk is defined as the risk that counterparties will not be able to meet their contractual liabilities.

The Management Board is responsible for credit risk management in the Parent Entity and for compliance with policy in this regard. The main body involved in actions in this area is the Credit Risk Committee.

In 2021, the KGHM Polska Miedź S.A. Group was exposed to this risk, mainly in four areas:

<p>Credit risk related to trade receivables</p>	<p>The Group's companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables.</p> <p>The Parent Entity limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits, using debtor security and non-recourse factoring. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of balance and aging of receivables and the internal reporting system.</p> <p>Buyer's credit is only provided to proven, long-term customers. In the case of new customers, an effort is made to ensure that sales are based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions.</p> <p>In 2021, the Parent Entity secured its receivables by promissory notes, registered pledges, bank guarantees, corporate guarantees, mortgages and documentary collection. Moreover, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain.</p> <p>To reduce the risk of insolvency by its customers, the Parent Entity has a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong</p>
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	<p>collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2021 the Parent Entity had secured 84% of its trade receivables (as at 31 December 2020: 75%).</p> <p>The concentration of credit risk in the Group is related to the terms of payment granted to key clients. Consequently, as at 31 December 2021 the balance of receivables from 7 of the Group's largest customers, in terms of trade receivables at the end of the reporting period, represented 49% of the trade receivables balance (as at 31 December 2020: 42%). Despite the concentration of this type of risk, it is considered that due to the availability of historical data and the many years of experience cooperating with clients, as well as above all due to the security used, the level of credit risk is low.</p>
Credit risk related to cash and cash equivalents and bank deposits	<p>The Group allocates periodically free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.</p> <p>Credit risk related to deposit transactions is continuously monitored by the on-going review of the credit ratings of those financial institutions with which the Group cooperates, and by limitation of the level of concentration in individual institutions. As at 31 December 2021, the maximum share of a single entity in terms of credit risk arising from financial institutions in which the Group has deposited funds amounted to 41% (as at 31 December 2020: 25%).</p>
Credit risk related to derivatives transactions	<p>All of the entities with which the Group enters into derivative transactions (with the exception of embedded derivatives) operate in the financial sector. These are mainly financial institutions, with a medium-high rating. According to fair value as at 31 December 2021, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and from unsettled derivatives amounted to 26% (as at 31 December 2020: 32%). Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.</p>
Credit risk related to loans granted	<p>As at 31 December 2021, the balance of loans granted by the Parent Entity amounted to PLN 8 366 million. The most important of these are long-term loans in the total amount of PLN 5 220 million granted to the company Future1 and to the KGHM INTERNATIONAL LTD. Group. Detailed information on the loans granted by KGHM Polska Miedź S.A. is presented in the Financial Statements, Note 6.2</p> <p>As at 31 December 2021, the balance of loans granted by the Group amounted to PLN 8 336 million. The most important of these are short-term and long-term loans in the total amount of PLN 8 314 million, or USD 2 047 million, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a mining joint venture in Chile.</p> <p>Credit risk related to the loans granted to the joint venture Sierra Gorda S.C.M. is dependent on the risk related to mine project advancement and is assessed by the Management Board of the Parent Entity as moderate.</p>

MANAGEMENT OF FINANCIAL LIQUIDITY RISK AND OF CAPITAL

The management of capital in the Group aims at securing funds for development and at securing relevant liquidity.

Financial liquidity management

Management of the Group's liquidity is conducted in accordance with the Financial Liquidity Management Policy in the KGHM Group. This document describes the process of financial liquidity management in the Group, which is realised by the Group's companies, while its organisation and coordination as well as the supervision thereof is performed in the Parent Entity.

The basic principles resulting from this document are:

- the need to ensure stable and effective financing for the Group's operations,
- constant monitoring of the Group's level of debt, and
- effective management of working capital.

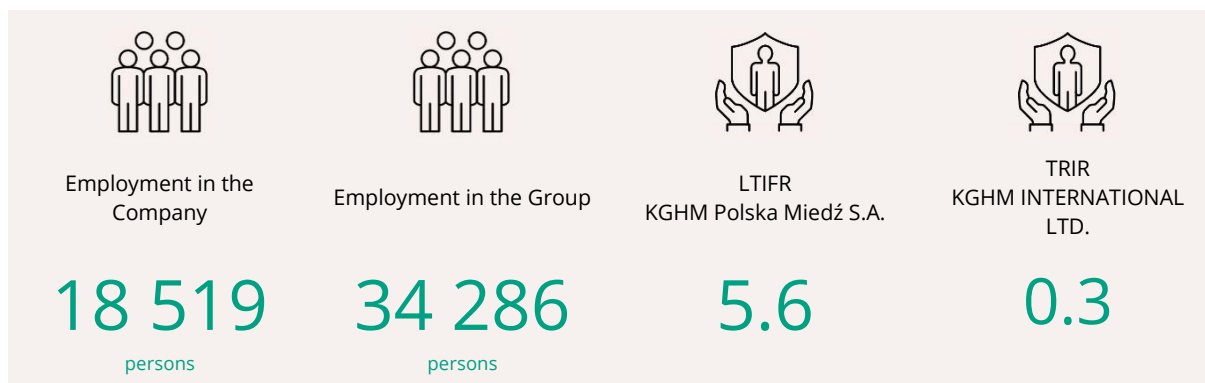
Borrowing by the Group is based on the following pillars:

- an unsecured, revolving syndicated credit facility, obtained by the Parent Entity in the amount of USD 1 500 million with a 5-year tenor with the option of extending for another 2 years (5+1+1). In 2021, the Parent Entity obtained the consent of the syndicate's members to extend the tenor by another year, or to 20 December 2026. The available financing limit during the period of extension will be USD 1 438 million,
- two investment loans granted to the Parent Entity by the European Investment Bank in the amount of PLN 2 000 million and PLN 1 340 million with financing periods of up to 12 years from the date the instalments are drawn,
- bilateral bank loans to the amount of PLN 2 877 million, supporting the management of liquidity of companies and the financing of working capital as well as the financing of investments,
- the bond issue program of the Parent Entity on the Polish market, based on an issue agreement dated 27 May 2019. On 27 June 2019 the first issue was made in the nominal amount of PLN 2 000 million, under which 5-year bonds were issued in the amount of PLN 400 million and 10-year bonds in the amount of PLN 1 600 million.

Detailed information regarding available sources of financing and their utilisation in 2021 may be found in Section 6.6 of this report.

The aforementioned sources of financing fully cover the liquidity needs of the Parent Entity and the Group. During 2021, the Group made use of borrowing which was available from all of the above categories, while liabilities of the Group due to bank and other loans drawn and to bonds issued as at 31 December 2021 amounted to PLN 5 304 million.

13. HUMAN RESOURCES IN THE COMPANY AND GROUP



13.1. EMPLOYMENT

GROUP

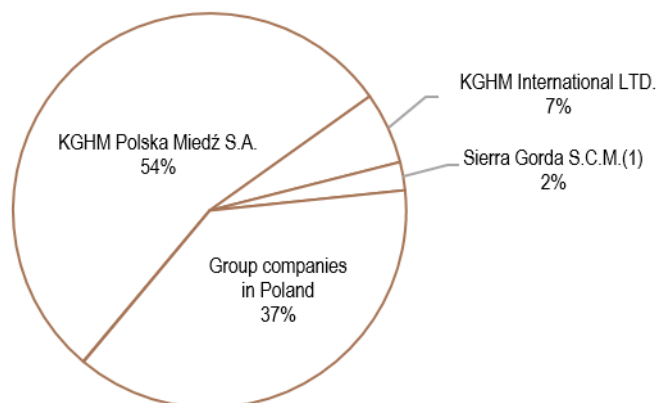
In 2021, 34 286 people were employed in the Group, or an increase by 0.5 % compared to the prior year. The employment structure is shown in the following table and chart:

Table 49. Average employment in the Group

	2021	2020	Change (%)
KGHM Polska Miedź S.A.	18 519	18 440	+0.4
KGHM INTERNATIONAL LTD.	2 236	2 006	+11.5
Sierra Gorda S.C.M. ¹	785	789	(0.5)
Group companies in Poland	12 737	12 872	(1.0)
Other Group companies	9	9	-
Total	34 286	34 116	+0.5

¹⁾ Sierra Gorda S.C.M. – employment proportional to share in the company (55%)

Chart 39. Structure of employment in the Group in 2021



¹⁾ Sierra Gorda S.C.M. – employment proportional to share in the company (55%)

KGHM Polska Miedź S.A.

In 2021, employment in KGHM Polska Miedź S.A. was slightly higher than in 2020. Employment at the end of 2021 amounted to 18 601 persons and was higher by 0.4% than employment at the end of 2020. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 519.

Table 50. Average employment in KGHM Polska Miedź S.A.

	2021	2020	Change (%)
Mines	12 453	12 430	+0.2
Metallurgical plants	3 607	3 604	+0.1
Other divisions	2 459	2 406	+2.2
KGHM Polska Miedź S.A.	18 519	18 440	+0.4

Companies in Poland

In 2021, average employment in the companies of the KGHM Polska Miedź S.A. Group in Poland decreased as compared to 2020 by 135 positions (or by 1%). This change was mainly in respect of blue-collar positions and was due to matching employment to the production tasks advanced.

Companies abroad

In 2021, average employment in the international companies of the KGHM Polska Miedź S.A. Group increased as compared to 2020 by 226 positions (or by 8.1%). The increase in employment was mainly in the companies operating under the DMC brand due to their involvement in the advancement of new projects in Canada and Chile.

13.2. HUMAN RESOURCES PROJECTS

KGHM Polska Miedź S.A.

Strategic program	<p>KGHM Polska Miedź S.A. functions in a market environment which has recently been undergoing dynamic changes. External factors affect the labour market, employee expectations and the business challenges that the Company's employees have to deal with.</p> <p>In consequence of this a Strategic Program was established encompassing key areas which directly impact the possibility of achieving the challenges and Strategy of KGHM Polska Miedź S.A. in the area „People and the environment“. Strategic initiatives were planned as regards: organisational culture, future competencies and digitalisation.</p>
Engagement research	<p>In 2021, for the first time in KGHM research was carried out on engagement at the scale of the entire Head Office and Company Divisions. The strategic partner of the research was the University of Warsaw. 54.9% of our employees participated.</p>
Implementation of leadership standards „Engaging Leader“ in the Divisions of KGHM Polska Miedź S.A.	<p>Under this initiative the results of research into focus groups were analysed in terms of key skills to be developed amongst the leadership staff in the Divisions. The result of this analysis was the start-up of development programs individually dedicated for specific managers or groups of managers.</p>
Development Program Executive MBA in Innovation Management	<p>Referring to the idea of building and developing the skills of KGHM's professional management staff, realisation of the Development Program Executive MBA in Innovation Management was commenced. This program was developed by the only business school of international renown – IESE Business School.</p> <p>The program enables its participants to utilise the resources of the largest research laboratory in Silicon Valley in terms of developing and implementing innovations.</p>
Post-graduate studies Copper Leaders	<p>Research into family business responsibilities carried out by KGHM showed how important it is to facilitate employee development. As a result of this research, prestigious post-graduate management studies are organised for mid-level management. This project, called Post-graduate studies Copper Leaders, is based on MBA standards and comprehensively discusses the role of the leader in managing change, projects, people and finances.</p>
Giants of KGHM Leader Academy	<p>In October 2021 a pilot program was commenced, dedicated to low-level managers, comprised of developing management skills. Under this Academy the challenge was taken up of dealing with the unstable pandemic situation by learning about the symptoms of depression and emergency aid methods.</p>
Competence Academy 4E	<p>In 2021, actions were continued aimed at the Company's managers related to operationalisation of the Strategy. This project is a response to the current business situation and is aimed at strengthening leadership skills, which are key from the point of view of future skills. Two editions of the Academy have been conducted, including the first which was conducted on-line. The first subject was #Strength_4E or the main pillars of the Strategy of KGHM and their significance during the pandemic. The second, „Let's talk about the company“, initiated by engagement research, dealt with subjects related with creating a motivational working environment and the role of the manager in this process.</p>
Project LinkedIn – #Rzecznictwo pracowników KGHM - #KGHM Lovers	<p>In October 2020 a pilot program was commenced called LinkedIn – #Rzecznictwo pracowników KGHM - #KGHM Lovers. This initiative continues and is aimed at developing employer advocacy skills and enhancing the employer's image in social media by promoting the personal brands of employees and managers of KGHM.</p>
On-board training program for new employees	<p>In 2020 a watershed process of on-board training commenced, which was continued in 2021. Cyclical training (also online in form) for newly-hired employees is aimed at familiarising them with the company, their rapid integration into the organisation and a smooth transition to accomplishing tasks. During this training the subjects raised are related to the Mission, Vision and Strategy of our Company, the subject of activities and the</p>

	production process, the rules governing the movement within the organisation, and HR questions.
Competent in the mining and metallurgy sector	KGHM – a key partner in professional training is a program active since 2018 and comprises 9 schools from cities such as Legnica, Bolesławiec, Lubin, Chojnów, Polkowice and Głogów. Young people are trained in 58 classes in professions which are significant for our organisation. In school year 2021/2022 in sponsored classes in 9 schools in the Copper Basin over 1900 students are being trained, both in vocational schools as well as 1 st degree industry schools.
@Pytania HR (@Questions HR)	This initiative was created in March 2020 together with an infoline for employees and their families in response to the urgent need for information regarding the situation in KGHM resulting from the covid situation. The electronic mailbox was kept as a source of contact for employees with the HR services in the Head Office of the Company.
Digitalisation of HR processes	As part of the efforts made to enhance the efficiency of HR actions, the processes of electronic servicing of workplace position cards and the process of management by results, delegations (abroad and local trips, eKariera system and development of the eRekrutacja system) were digitalised.
Newsletter for Leaders	This project was advanced by the HR Business Partners with the cooperation of the Communication Department in response to the need to support leaders at the start of the pandemic. The Newsletter provides information on the current situation in the Company and represents a development guide which in a nutshell shows directions regarding specific tools, proposes professional literature and publications enabling one to independently deepen knowledge.
eKariera (eCareer) app	The year 2020 initiated work on providing access to the entire eKariera system for external use. In 2021 two further modules were added to the existing eRekrutacja module: internships and theses.
E-learning language courses	The pandemic year 2021 permanently solidified the foreign language services provided to all of KGHM's employees and their families. English, German and Spanish courses are offered through dedicated language platforms available at any time and in any place.
Policy of international mobility in the KGHM Polska Miedz S.A. Group	In order to unify the principles of the international delegation of employees and to improve the efficiency of the mobility process, on 27 April 2020 an updated version of the Policy of International Mobility in the KGHM Polska Miedz S.A. Group was introduced. Also adopted for implementation was the Procedure for Advancing the Policy of International Mobility in the KGHM Polska Miedz S.A. Group.
Management of career paths and recruitment in KGHM Polska Miedz S.A.	KGHM Polska Miedz S.A. ensures highly-qualified staff through an internal process and external recruitment. Care for the KGHM brand as a first-choice employer for both current as well as potential employees. In dialogue with the labour market the image of a good employer is strengthened by displaying in job ads the organisational culture based on values and benefits for employees, i.e. the rich packet of benefits for parents, trainings and the possibility to learn foreign languages, subscription medical care, life insurance and the Employee Retirement Program.

GROUP

Companies in Poland

In 2021, in the Group's domestic companies, amongst the HR projects advanced were those involving raising abilities and professional qualifications and improving workplace efficiency, including through the use of motivational tools. The e-Rekrutacje system is an electronic tool which supported recruitment processes in the Group.

In the era of the employee market, the companies of the Group implemented solutions aimed at securing personnel.

In the company POL-MIEDŹ TRANS Sp. z o.o. in Lubin a Training and Examinations Center for Machinists and Machinist Candidates was established. The Center operates within the structures of the Railway Transport Division and provides training as well as maintains and raises the qualifications of employees working in the machinist profession or seeking to become qualified in this profession. The Company provides professional and financial support to the schools and centres of learning providing training in railway-related professions. The support provided to these schools is aimed at developing professional training for the railway sector and a staff of qualified employees for the Company in the future.

In the company NITROERG S.A. the On-boarding project is underway, involving a new formula of preliminary training and welcome packets. To build the employer's brand, the company is utilising the Employer Branding strategy.

HR processes were supported in some units by the implementation of the SAP system, with appropriate functionalities.

KGHM INTERNATIONAL LTD.

In 2021, the following HR projects were advanced in the companies of the KGHM INTERNATIONAL LTD. Group:

Assets in the Sudbury Basin in Canada

Succession planning	In 2021, HR teams developed a Succession Planning Guide and templates for use throughout the entire process. The existing organisational structure in the Sudbury Basin was assessed from a succession point of view, thanks to which key roles and internal successors were identified. Also implemented and developed was a development program for selected employees to prepare them for future professional advancement.
Retirement Notification Program	In the Sudbury Basin a Retirement Notification Program was introduced, which allows for the smooth planning of retirement departures and the efficient transfer of knowledge, as well as ensuring retiring employees the continuation of their benefits following retirement for a period of three months.
Management staff development	Each year in the Sudbury Basin a cycle of training workshops is conducted which is dedicated to the development of management staff in the production assets as well as HR teams. In 2021, subjects covered included First Nations, fit for duty, the obligations of superiors and psychological health in the workplace.
Unification of the Onboarding process	In 2021, HR team cooperated with representatives of management staff in the Canadian assets to update the process of introducing new employees in Canada. The main goal of the project was to unify the onboarding process by adapting it to the requirements of each business unit and to create a universal model of introduction training.

Robinson and Carlota mines in the USA:

Paid Personal Leave	The process comprised the creation of a Policy and the introduction of tools for the temporary calculation and tracking of personal leave. Since January 2022 the pay system calculates leave automatically, thanks to which employees can check their limit on their pay stubs at each payment.
Employee Guide	In the Robinson mine the Employee Guide was updated, which sets forth principles and procedures in the workplace and the rights and obligations of employees.
Supervisor's Handbook	In 2021, the HR team at the Robinson mine developed a Supervisor's Handbook, which presents all of the required documents and indicates areas with which a new supervisor will have to become familiar, at the same time supporting them in their role as a leader.
Summer Internships Program	In the summer of 2021 the Robinson mine reactivated its program of summer student internships. To reach desired candidates and expand the knowledge of young people about KGHM INTERNATIONAL LTD., cooperation was initiated with various schools, not only in Nevada, but also Utah, Idaho and Montana.
Firmus reporting tool	To solve the problem of inefficiency, the repeatability of tasks and in consideration of the need to improve the integrity of reported information, the HR team cooperated with the IT unit to ensure the reliability and effectiveness of reporting tools. Towards this end the IT unit utilised SiSense software, as well as the reporting tool InSight.
Benefits Fair	To demonstrate the commitment of the Robinson mine in terms of the health and well-being of its employees, at the start of November 2021 the first, two-day Benefits Fair in the mine's history was organised.
Carlota Severance Plan	Due to the projected life of mine of the Carlota mine, the Carlota Severance Plan was amended and updated, which is aimed at guaranteeing the retention of staff to the end of the mine's operations.

KGHM INTERNATIONAL LTD. in Canada:

Social Media	In 2021, work was carried out to increase activity on the LinkedIn website of KGHM International. Articles were published more frequently and at regular intervals, openly sharing information on the company's organisational culture, expanding knowledge about current events in KGHM INTERNATIONAL LTD. and the achievements of KGHM Polska Miedz S.A.
Book of Policies	In 2021, work began on the first stage of a project to update policies and procedures in force in KGHM INTERNATIONAL LTD.
Actions to counter molestation, abuse, violence and discrimination in the workplace	In 2021, HR teams in all of the assets of KGHM INTERNATIONAL LTD. in North America conducted training on actions to counter molestation, abuse, violence and discrimination in the workplace, in order to systematise employee knowledge in this area.

Actions to promote health and safety during the pandemic

In all of its assets, KGHM INTERNATIONAL LTD. continuously monitors the health of its employees and ensures they have ongoing access to information on local possibilities to be vaccinated and tested. In regions with a higher number of cases employees were provided the opportunity of remote work, while an office return plan and a program promoting vaccination against COVID-19 were created.

Sierra Gorda S.C.M.

In 2021, the following HR projects were advanced in the company Sierra Gorda S.C.M.:

- negotiations were completed on a new, 5-year agreement with a supplier of catering, cleaning and repairs services in the mine's installations; the new agreement was implemented in December 2021, maintaining the continuity of services,
- implementation of internet apps as regards: system for requesting services in employee hotels, cleaning services, minor repairs, laundry services, reservations of sporting venues for specific times due to pandemic restrictions, shift system consultations,
- creation of a new HR system for management staff for the purpose of consultation on reports and key information for the efficient management of employees (leaves, absences, business dependence, organisational structure, etc.),
- implementation of the PODER skills model, with its inclusion in HR processes such as employee efficiency assessments or the discretionary program,
- conduct of company-wide research into the organisational climate and employee satisfaction, with a 76% completion rate,
- a subsequent edition of the „ESTAR en Familia” (online) program for employees and their families, carried out for the purpose of improving employee bonding with the company and to improve the quality of life during the pandemic,
- establishment of the Sierra Gorda SCM Academy as a bank of organisational knowledge for various processes, actions, models and technical knowledge, which can be independently gained by managing development and training. The platform includes e-learning courses, which are part of the employee development programs at all levels of the organisation,
- update of the succession plan for key positions,
- a new edition of the development program for successors to key positions,
- improvement and digitalisation of the career path process for operators,
- implementation of changes and improvements in the mine's accreditation system,
- digitalisation of aggregate equipment,
- implementation of a campaign and projects related to the COVID-19 pandemic as regards employee safety, information about the pandemic situation, preventative measures, information for external companies on the current pandemic situation in the company and existing procedures,
- implementation of organisational newsletters for various sections and involving diversity management.

13.3. RELATIONS WITH THE TRADE UNIONS
KGHM POLSKA MIEDŹ S.A.

In 2021, w KGHM Polska Miedź S.A. continued its dialogue with the trade unions. The most important event with respect to relations with the trade unions was the signing in February 2021 of an agreement on wages and employee benefits. The main point of the agreement was the signing of an additional protocol to the Collective Labour Agreement (CLA) for the Employees of KGHM Polska Miedź S.A., which among others increased basic wage rates by 5.2% as at 1 January. Another point in the agreement was setting the minimum level of upward employee categorisation at 15%.

Given the restrictions related to the COVID-19 epidemic, some of the meetings were held through teleconferences. Apart from the usual subjects arising from the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., the discussions involved the actions taken by the Company as regards employee health and safety.

During wage negotiations with the trade unions which were held from 25-27 January 2022, wage and employee benefits agreements were reached and signed as well as an additional protocol to the CLA introducing the following wage elements in the current year:

- an increase in the monthly basic wage rate by 10%,
- upward employee categorisation covering 15% of employees,
- payment of a one-off gratification in the pre-tax amount of PLN 2 thousand per employee, contingent on:
 - achievement of planned production in the first half-year,
 - continuation of the average copper price at a level not lower than planned in the budget.

GROUP COMPANIES IN POLAND

With few exceptions, trade unions are active in the Group companies in Poland. In 2021, talks were held in these companies with the trade unions regarding questions of remuneration, rules for granting bonuses, the level of pension plan contributions, employment conditions and social matters. In most cases they concluded with the signing of agreements and additional protocols to the Collective Labour Agreements and with changes to remuneration regulations. In companies exposed to the impact of the COVID-19 epidemic agreements were entered into with the trade unions regarding the economic shutdown and the means of remunerating employees during this period.

In 2021, within the group of companies in Poland, a collective dispute was commenced but also concluded – in the company „Energetyka” sp. z o.o. However, a collective dispute initiated in prior years in the company MERCUS Logistyka sp. z o.o. remained unsettled.

„Energetyka” sp. z o.o. – On 15 April 2021 a collective dispute was initiated by the trade union Zakładowe Organizacje Związkowe. Given a lack of agreement during negotiations, the dispute continued with the participation of a mediator designated on 1 June 2021. As a result of the mediation carried out, the parties concluded the dispute with the signing on 25 June 2021 of an agreement regarding the disputed questions.

MERCUS Logistyka sp. z o.o. – in 2021 the collective dispute initiated in 2019 remained unsettled. In 2021 negotiations in respect of this dispute were not continued but instead were postponed, however agreements were reached as regards new questions raised during the year, involving questions of remuneration and apart from remuneration.

INTERNATIONAL COMPANIES OF THE GROUP

KGHM INTERNATIONAL LTD.

In the companies of the KGHM INTERNATIONAL LTD. Group in Canada and the United States, the interests of employees are represented by trade unions only in the assets in the Sudbury Basin in Canada, while employees in the Robinson and Carlota mines and at the Ajax and Victoria projects are not represented by trade unions. In the Sudbury Basin, the trade union United Steelworkers Local 2020 (USW Local 2020) represents 95 employees.

In the companies of the KGHM INTERNATIONAL LTD. Group in South America, there is trade union representation in the Franke mine. Two independent trade unions are active at the mine, covering altogether 295 employees.

In the companies acting under the DMC Mining Services brand, employees are not represented by trade unions.

In 2021, in the Sudbury Basin, cooperation continued with USW Local 2020 to ensure adherence to the Collective Labour Agreement, which is in force until 30 June 2023. In the past year a substantial amount of time was dedicated to consultations and cooperation with the Union to ensure the safety of the employees of KGHM INTERNATIONAL LTD. while crossing the picket line of striking employees of the neighbouring mine belonging to the company Vale and to enable travel to the Levack mine. Throughout the year there were also numerous discussions with USW Local 2020 on protecting the safety of the employees during the strengthening of the COVID-19 pandemic and the increases in infections in the region. The relations of KGHM INTERNATIONAL LTD. with USW Local 2020 are very important for the continued functioning of KGHM INTERNATIONAL LTD. in the Sudbury Basin, and both parties are striving to ensure that communication remains smooth and completely respectful.

Moreover, KGHM INTERNATIONAL LTD. supports First Nations in the Sudbury Basin through its obligations expressed in the Impact Benefit Agreements and Understanding Agreement, sharing information about the environment, potential business opportunities and job offers with each of the First Nations with whom the agreement has been signed, as well as continuously responding to any questions or concerns, thereby strengthening the ties between the First Nations in the region and KGHM INTERNATIONAL LTD.

In the Franke mine the parties to the collective labour agreement negotiated an agreement regarding the system of working time beyond the basic working time standard.

Sierra Gorda S.C.M.

There are three trade unions active in Sierra Gorda S.C.M. representing 1282 employees. Relations between Sierra Gorda SCM and its three trade unions are conducted in a very constructive and positive working atmosphere. The successful cooperation results among others from weekly meetings on various organisational topics.

In 2021, early collective negotiations were successfully held with all three unions. The successful conclusion of these negotiations given the complex pandemic and social situation, against a backdrop of rising copper prices, was a historic milestone in Sierra Gorda S.C.M., as well as being a seldom-seen situation in the Chilean mining industry. Sierra Gorda S.C.M. enjoys a reputation as a company engaged in dialogue which respects its trade union representatives.

13.4. OCCUPATIONAL HEALTH AND SAFETY

The life and health of employees and workplace safety in general is the chief priority in the hierarchy of values of the KGHM Polska Miedź S.A. Group. For several years the Company has advanced its vision of „Zero accidents due to human and technical errors, zero occupational illnesses among our employees and contractors”. In 2021, the Employee Safety

Improvement Program „Think About The Consequences“ continued as well as the Program to prevent the most common hazards to workplace safety by utilising innovative technology, in accordance with the updated Company Strategy to the year 2023.

The Company applies high OHS standards as demonstrated by the ISO 45001:2018 certificate, both towards its own employees as well as towards those providing services on the grounds of KGHM Polska Miedź S.A. All work stations have identified threats. The Company has assessed occupational risks and updates them continually. Working environments are continually monitored and periodic reviews and potential threat assessments are conducted, as well as reviews of equipment and required technical checks and approvals. Employees undergo systematic training and continually enhance their qualifications. The Company immediately implements new regulations and legal requirements regarding occupational health and safety.

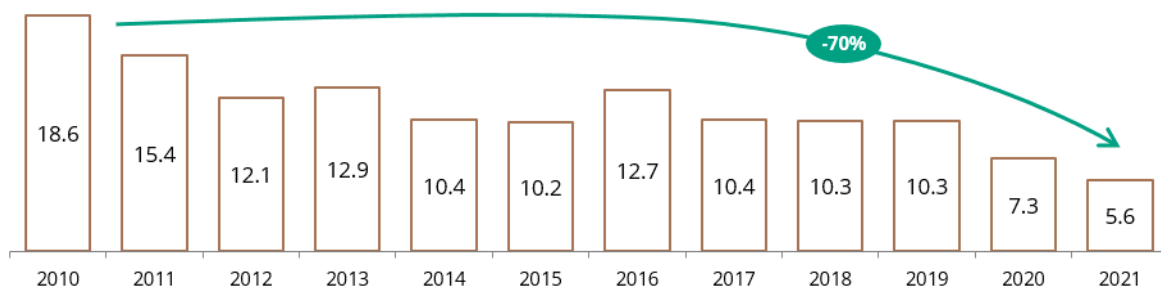
Despite the substantial threat posed by the external risk arising from the SARS-CoV-2 virus pandemic, in 2021 the Company once again recorded a significant drop in the number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses), with a year-on-year change from 213 to 165 injured (a decrease by 48 accidents). The number of workplace accidents in 2021 in KGHM Polska Miedź S.A., excluding accidents due to natural causes (roof collapses, destressings, tremors, rock falls) was lower by 44 (a decrease from 194 to 150). The vast majority of workplace accidents (around 96%) qualified as light injuries, caused mainly by contact (striking) with or by moveable/ immoveable objects, loss of balance by employees, as well as the breaking off of pieces of rock from the rockmass.

The mining operations of KGHM Polska Miedź S.A. are associated with natural threats. In particular they arise from the occurrence of mining tremors and their potential impact in the form of roof and wall collapses and de-stressings. These are very important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with production downtimes. The Company for many years has carried out a variety of preventive actions in its mines involving the intentional provoking of roof collapses and rock falls, comprising systematic seismological observations, on-going assessment of the rock mass and the marking off of areas of particular threat of roof collapse. The size, shape and number of chambers and inter-chamber pillars is selected, as well as the most advantageous direction of mine work advance and the optimum order of ore selection to minimise local concentrations of stress in the rock mass. So-called active methods of preventing uncontrolled roof collapses and rock falls are also applied, based on provoking dynamic events through mass blasting of mining faces and through blasting to release stress in the orebody or its roof.

In 2021, in the mines of KGHM Polska Miedź S.A. a total of 15 workplace accidents were recorded, resulting from natural hazards from the rockmass. These incidents represented 13% of all workplace accidents in the mines during this period. The Company is continuously improving its safety record in the mining of the copper ore deposit.

The LTIFR_{KGHM} ratio (Lost Time Injury Frequency Rate KGHM) in 2021, or the total number of workplace accidents (as defined by the Act dated 30 October 2002 on social insurance due to workplace accidents and occupational illnesses) in the Company, being the number of accidents per million hours worked by the employees of KGHM Polska Miedź S.A., amounted to 5.63 and was lower by 70% than the amount recorded in 2010, and also 23% lower than the amount recorded in 2020 (7.31). This is the best result to date in the Company's history, one achieved thanks to the attitude and commitment of all of the Company's employees.

Chart 40. LTIFR_{KGHM} ratio in the Parent Entity



KGHM INTERNATIONAL LTD. in 2021, despite the continuing difficult conditions imposed by the pandemic, once again recorded its best result in history in terms of occupational health and safety, improving on the result from 2020.

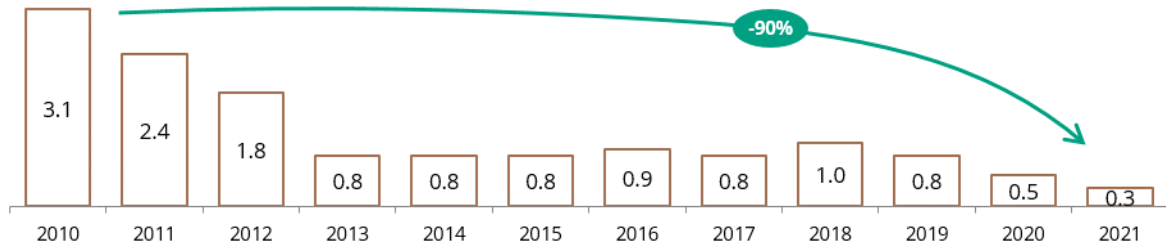
In 2021, a total of 11 incidents at work were registered in the mines supervised by KGHM INTERNATIONAL LTD. in Canada and the United States of America compared to 19 registered in 2020, while the TRIR ratio amounted to 1.00.

In Chile, KGHM Polska Miedź S.A. conducts mining operations in two entities, which have separate systems of OHS management adapted to the legal requirements and mining conditions in this country. These systems encompass both the employees in these entities as well as sub-contractors, and are aimed at achieving the long-term vision „Zero harm“. In KGHM Chile SpA, which oversees the Franke mine, and which also engages in its own exploration and other activities, only a single workplace accident was recorded in 2021 (compared to 4 registered in 2020), with a TRIR ratio of 0.12.

In the joint venture company Sierra Gorda SCM, nine workplace accidents were recorded in 2021 (compared to 11 registered in 2020), with a TRIR ratio of 0.20.

In 2021, in the entities in which the KGHM Polska Miedź S.A. Group conducts mining operations in Canada, the United States and Chile, compared to 2020, a total of 13 fewer workplace accidents were registered (a drop from 34 to 21 workplace accidents). The consolidated TRIR ratio (Total Recordable Incident Rate) for these operations reached 0.32. This was 0.20 lower compared to 2020 and at the same time 90% lower than the level recorded in 2010.

Chart 41. TRIR¹⁾ ratio in KGHM INTERNATIONAL LTD.



¹⁾ TRIR (Total Recordable Incident Rate) calculated using accepted methodology as the number of accidents at work meeting the conditions of registration as defined in the ICMM (International Council on Mining & Metals) standard, in total for the employees of KGHM INTERNATIONAL LTD., KGHM Chile SpA and Sierra Gorda SCM and sub-contractors for these entities, per 200 000 worked hours.

14. SIGNIFICANT CONTRACTS FOR THE COMPANY AND GROUP

In 2021, Group companies entered into the following significant contracts:

<i>Date</i>	<i>Description</i>
26 March 2021	<p>Conclusion of a sales agreement for 100% of the interest in the share capital of PGE EJ 1 sp. z o.o. between shareholders representing 100% of the share capital of PGE EJ 1 sp. z o.o. (including KGHM Polska Miedź S.A.), and the State Treasury.</p> <p>PGE EJ 1 sp. z o.o. is responsible for preparation and realisation of an investment involving the construction and operation of Poland's first nuclear power plant. The Company had 10% of the shares in PGE EJ 1 sp. z o.o.</p> <p>The price for the shares in the company PGE EJ 1 sp. z o.o. held by KGHM Polska Miedź S.A. amounted to PLN 53.1 million, or the market equivalent of 10% of the shares of the Company as at 31 December 2020. Payment of the sale price was made on 31 March 2021.</p> <p>In accordance with the signed Agreement, the price was adjusted due to the necessity to update the market value of the shares of PGE EJ 1 sp. z o.o. as at the date of payment of the price. Based on a report on the valuation of 100% of the shares of the Company, which was updated as at 31 March 2021, the estimated price owed to KGHM Polska Miedź S.A. amounted to PLN 52.6 million, with the adjusted amount of PLN 0.5 million to be returned to the state. On 2 June 2021 payment of the adjusted amount was made to the State Treasury.</p> <p>In addition, the Partners and PGE EJ 1 sp. z o.o. signed an annex to the agreement dated 15 April 2015 regarding WorleyParsons, according to which the Partners are proportionally responsible for liabilities or are entitled to claims that may potentially arise as a result of resolution of a dispute with WorleyParsons, up to the level of claims together with accrued interest as at 26 March 2021.</p>
29 March 2021	<p>Conclusion by Sierra Gorda S.C.M. of a renewable revolving bank loan agreement with Bank Gospodarstwa Krajowego with a maximum limit of USD 700 million.</p> <p>The bank loan is being used to refinance the current debt and potentially to finance Sierra Gorda's current activities. Obligations arising from the bank loan agreement entered into by Sierra Gorda are secured by a corporate guarantee issued by the owners of Sierra Gorda.</p> <p>The value of the guarantee which KGHM will be obliged to grant derives from the shares held in Sierra Gorda (55% share) and from the total amount of the bank loan (USD 700 million). The value of the guarantee issued by KGHM amounts to USD 385 million.</p>
25 June 2021	<p>Signing of an Annex to an unsecured loan agreement for the amount of PLN 900 million dated 11 December 2017 with the European Investment Bank.</p> <p>The signing of the Annex increased the available amount of the loan granted by the equivalent of PLN 440 million, meaning the amount of financing granted under the signed Agreement amounts to PLN 1.34 billion. The period of availability of the additional loan in the amount of PLN 440 million is 22 months from the date of signing of the Annex. The loan will be drawn through a maximum of 4 instalments, with each instalment amounting to at least the equivalent of PLN 110 million. For each of the loan instalments the Company has the option to select the currency to be drawn in: PLN or USD or EUR, as well as a fixed or variable rate. The additional amount will represent a potential reserve, which can be used to finance the Company's investment projects.</p> <p>Other terms of the Agreement were not substantially altered and are consistent with standard terms for such transactions.</p>
23 September 2021	<p>Signing of a tripartite agreement between KGHM Polska Miedź S.A., NuScale Power LLC – a producer involved in the development of reactors using small modular reactor (SMR) technology, and PBE Molecule Sp. z o.o. Sp. k. – an advisory company, with respect to preparations to advance an investment involving the construction of nuclear energy sources (“the Agreement”). The Agreement will be in force to 23 September 2024. The Agreement involves the development of nuclear technology in the form of repowering current coal-fired turbines or the development of new nuclear energy sources in the form of SMRs – from 1 to 12 modules, each generating 77 MW. Completion of the nuclear energy development project is expected by the end of 2030, however the Company assumes that the first nuclear reactor will begin operations in 2029.</p>
2 December 2021	<p>Unsecured revolving syndicated credit facility agreement in the amount of USD 1 500 million entered into on 20 December 2019 for a five-year tenor with two one-year extension options exercisable at the request of KGHM Polska Miedź S.A.</p> <p>The Management Board agreed to a second extension of the aforementioned credit facility in the amount of USD 1 500 million, by one year, i.e. to 20 December 2026, by submitting a request to the financing banks.</p>

One of the members of the syndicate did not exercise its right to extend its participation after 20 December 2025. The aforementioned decision stems from internal regulations of the member regarding the equity requirements of the bank.

As a result of the syndicate members' decision, during the second extension, that is from 20 December 2025 to 20 December 2026, the amount of available credit facility will amount to USD 1 438 million.

The extension of the agreement represents an advancement of the Strategy of KGHM Polska Miedź S.A. with respect to ensuring long-term financial stability by, among others, basing the financing structure on long-term instruments.

14.1. INFORMATION ON TRANSACTIONS ENTERED INTO BETWEEN RELATED PARTIES, UNDER OTHER THAN ARM'S LENGTH CONDITIONS

In 2021, neither the Parent Entity nor its subsidiaries entered into related party transactions under other than arm's length conditions.

14.2. INFORMATION ON CONTRACTS WITH THE ENTITY ENTITLED TO AUDIT THE FINANCIAL STATEMENTS

The entity entitled to audit the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. with its registered head office in Warsaw at the address ul. Polna 11.

The contract with PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyt Sp.k. (PwC), signed on 27 February 2019 for the period from 1 January 2019 to 31 December 2021, is for the audit and review of the financial statements of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group. Following a positive evaluation of the services performed by the existing auditor and of the offer submitted by the auditor to provide services comprised of the audit and review of the financial statements of KGHM Polska Miedź S.A. and of key entities of the Group, the Supervisory Board of KGHM Polska Miedź S.A. resolved to extend the life of the aforementioned agreement for the years 2022-2024.

Based on a declaration by the Supervisory Board, the Management Board of the Company announces that the selection of the auditing firm auditing the annual financial statements for 2021 and the annual consolidated financial statements for 2021 was conducted in compliance with the rules, including those respecting the selection of, and procedures regulating the selection of, the auditing firm, indicating that:

- the auditing firm and the members of the team conducting the audit met the terms for the preparation of an unbiased and independent report on the audit of the annual financial statements and the annual consolidated financial statements in accordance with prevailing laws in force, professional standards and professional ethical principles,
- rules related to the rotation of the auditing firm and the key certified accountant, as well as the mandatory mandate periods, are adhered to, and
- the Company has a policy covering the selection of the auditing firm as well as a policy covering permitted non-auditing services provided by the auditing firm, the entity related to the auditing firm or a member of its network, including services conditionally freed from the ban on services provided by the auditing firm.

The Company made use of the services of PwC in the years 2010-2015 for the audit and review of the financial statements of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group, and in the years 2016-2018 with respect to tax advising and financial-accounting services.

Detailed information on remuneration of the entity entitled to audit the financial statements for the review and audit of financial statements and other remuneration is presented in note 12.10 of the separate and consolidated financial statements.

14.3. INFORMATION ABOUT SUPPLIERS AND CUSTOMERS

The procurement procedures in force in KGHM Polska Miedź S.A. are precisely defined in the „Procurement Policy of the KGHM Polska Miedź S.A. Group”, while the selection of suppliers is carried out in compliance with the principle of transparency and the equal treatment of economic entities.

The goals set forth in the Procurement Policy are:

- Ensure transparency in the process of making decisions,
- Monitoring of all purchases by introducing a joint system for managing the procurement process, and
- Ensure the efficient optimisation of costs, mainly by standardising the assortment, optimising technical specifications and market diversification.

This joint Procurement Policy applies to all of the Divisions of KGHM Polska Miedź S.A. and to all of the companies of the Group which are critical elements of the production process. The basic tenets set forth in the aforementioned document are carried out with the aid of IT tools.

In 2021, in the area covered by the Procurement Policy of the KGHM Polska Miedź S.A. Group, 3248 suppliers (being the number of bidders taking active part in our tender proceedings) cooperated with the KGHM Polska Miedź S.A. Group, out of which 2203 suppliers were selected.

The share of suppliers outside of Poland is relatively low. The number of non-Polish suppliers in 2021, in respect of the aforementioned information, amounted respectively to 168 and 104, or around 5% of all suppliers to the Company.

KGHM works with all types of suppliers: contractors, intermediaries, wholesalers. These include suppliers of raw materials, components, end producers and distributors. Additionally, within the Group, KGHM Polska Miedź S.A. utilises the services of a Logistics Operator – specialised companies providing supply-related functions (Mercus Logistyka, KGHM Metraco, ENERGETYKA).

In 2021 there were no significant changes in the sources of supply of materials, merchandise and services to KGHM Polska Miedź S.A. There was no recorded dependence on a single or multiple customers or suppliers.

KGHM Polska Miedź S.A. is strengthening its position as an honest and ethical business partner, which cares about the Company's image as well as social matters. In terms of procurement subject to the aforementioned Policy, the Company strives to ensure that those with whom the Company cooperates meet ethical business standards and operate in a socially responsible manner

The copper smelters and refineries of KGHM Polska Miedź S.A. produce electrolytic copper from their own concentrates as well as from purchased copper-bearing material (concentrates, copper scrap and blister copper). In 2021, the production of electrolytic copper from purchased copper-bearing material amounted to 196.2 thousand tonnes, and represented 34% of total electrolytic copper production.

For the most part, this production came from copper scrap (135.4 thousand tonnes of copper; 23% of total electrolytic copper production), which is supplied to KGHM's metallurgical plants by KGHM Metraco S.A. – a 100%-owned subsidiary of KGHM Polska Miedź S.A.

KGHM Metraco S.A., due to its specialisation and familiarity with the scrap market, as well as to its equity relationship with KGHM Polska Miedź S.A., supplies scrap to the metallurgical plants of KGHM based on exclusivity and as a result revenues of this company from sales to KGHM Polska Miedź S.A. are significant and represent 23% of KGHM Polska Miedź S.A.'s sales revenue and 19% of sales revenue of the Group. This company was the only one whose turnover with the Company exceeded 10% of the sales revenues of KGHM Polska Miedź S.A.

15. LITIGATION AND CLAIMS

LIST OF SIGNIFICANT PROCEEDINGS BEFORE COURTS, ARBITRATION AUTHORITIES OR PUBLIC ADMINISTRATION AUTHORITIES RESPECTING THE LIABILITIES AND RECEIVABLES OF KGHM POLSKA MIEDŹ S.A. AND ITS SUBSIDIARIES

Proceedings regarding royalties for use by the Company of invention project no. 1/97/KGHM pt. „Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants”

In the claim dated 26 September 2007, Plaintiffs (14 natural persons) filed a claim against KGHM Polska Miedź S.A. with the Regional Court in Legnica for the payment of royalties for the use by the Company of invention project no. 1/97/KGHM called „Sposób zwiększenia zdolności produkcyjnej wydziałów elektrorafinacji Huty Miedzi” (Method for increasing the production capacity of the electrorefining sections of the Metallurgical Plants) for the 8th calculation period, together with interest due. The amount of the claim (principal amount) was set by the Plaintiffs in the claim in the amount of approx. PLN 42 million (principal amount without interest and court costs). Interest as at 31 March 2019 amounted to approx. PLN 55 million. On 21 January 2008, in the response to the claim, KGHM Polska Miedź S.A. requested the dismissal of the claim in its entirety and filed a counter claim for the repayment of undue royalties paid for the 6th and 7th year of application of invention project no. 1/97/KGHM, together with interest due, also invoking the right of mutual set-off of claims. The amount of the claim (principal amount) in the counter claim was set by the Company in the amount of approx. PLN 25 million.

In a judgment dated 25 September 2018, the Regional Court in Legnica dismissed the counter claim and partially upheld the principal claim to the total amount of approx. PLN 24 million, and at the same time ordered the payment of interest in the amount of approx. PLN 30 million, totalling to PLN 54 million. Both parties to the proceedings appealed against this judgment.

In a judgment dated 12 June 2019, the Court of Appeal in Wrocław dismissed the appeals of both sides, altering the judgment of the court of first instance solely in the matter of the resolution of court costs from the hearings at the court of first instance and charging them to KGHM Polska Miedź S.A. The judgment is binding and was executed by KGHM on 18-19 June 2019. KGHM Polska Miedź S.A. filed a cassation appeal against the judgment of the court of second instance, i.e. with respect to the partially upheld principal claim in the amount of approx. PLN 24 million as well as with respect to the dismissed counter-claim in the amount of approx. PLN 25 million. The plaintiffs did not file a cassation appeal. Proceedings before the Supreme Court were registered and received a court signature.

In accordance with the Company's position, the plaintiffs' claim should be dismissed in its entirety and the counter claim is justified. The Company in this regard paid the authors of the project royalties for a longer period of application of the project than anticipated in the initial contract entered into by the parties on advancing the invention project, based on an annex to the contract, extending the period of payment of royalties, whose validity is questioned by the Company. Moreover, the Company is questioning the „rationalisation” nature of the solutions, as well as whether they were in fact used in their entirety, and also their completeness and suitability for use in the form supplied by the plaintiffs as well as the means of calculating the economic effects of this solution, which were the basis for paying the royalties.

16. ENVIRONMENTAL PROTECTION

16.1. KGHM POLSKA MIEDŹ S.A.

ACTIONS TAKEN BY THE COMPANY TO PROTECT THE ENVIRONMENT

KGHM Polska Miedź S.A. as one of the largest, socially responsible companies in Lower Silesia, is aware of the goals and challenges related to the impact of our activities on climate change. We are developing our activities based on innovative, low-emission technology in compliance with circular economy principles. We are advancing this goal by investing in the best available environmental technology (BAT), and conduct our business with the aim of achieving the highest possible ecological neutrality in our production processes.

The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the natural environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations protecting the environment, both those built in the past as well as new investments in this area. During the year intensive efforts were made aimed at complying with the European Commission's Implementing Decision, establishing best available techniques (BAT) conclusions for the non-ferrous metals industry. Adaptation of the metallurgical installations to BAT conclusions also involves the further reduction in particulates and gases emissions. In 2021 the Company spent more than PLN 446 million on investments to protect the natural environment, of which the largest expenditure, in the amount of over PLN 199 million, was incurred on the expansion of the Źelazny Most Tailings Storage Facility.

ENVIRONMENTAL FEES

Environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2021 amounted to PLN 17 million. In the previous year, in the structure of fees, the highest amount incurred was the waste storage fee: PLN 6 million. Another item of costs, over PLN 5 million, is the fee for particulates and gases emissions.

LEGAL STATUS, PARTICIPATION IN THE EU ETS SYSTEM AND FUTURE ACTIONS

KGHM Polska Miedź S.A. operates ten installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits.

In addition, the Tailings Division holds permits for the operation of the Źelazny Most Tailings Storage Facility, and sector permits required by law. The mines operate on the basis of current sector permits with respect to airborne emissions and waste management.

Metallurgical installations at the Głogów and Legnica Copper Smelters and Refineries as well as the gas-steam blocks in Polkowice and Głogów also hold permits to participate in the CO₂ emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the obligatory European Union Emissions Trading System (EU ETS).

In 2021, emissions in the previous year (2020) in the amount of 1.217 million Mg of CO₂ were settled thanks to freely-acquired rights (around 892 thousand Mg of CO₂ for 2020 and from reserve) augmented by purchases of rights (EUA – EU emissions allowances, and CER – Certified Emission Reduction units).

It is expected that 2021 emissions at the level of around 1.263 million Mg of CO₂ will be settled thanks to freely-acquired rights for the Głogów and Legnica Copper Smelters and Refineries as well as rights for the Gas-Steam Blocks in Polkowice and Głogów (in total around 911 thousand Mg of CO₂) and reserves of rights from prior years, as well as purchases of rights (EUA and CER) in the amount of around PLN 183 million, including around PLN 80 million from the planned Projects Management System portfolio, with PLN 103 million being additional purchases in December 2021. These purchases enable the creation of a large reserve for subsequent years.

The most important planned undertakings related to environmental protection in the near term are as follows:

- the continuation of investments involving the need to adapt the metallurgical installations to BAT conclusions. Advancement of these investments is also related to further reductions in particulates and gas emissions, including arsenic emissions,
- updating the integrated permits and documentation of plants characterised by a high risk of industrial breakdowns of the installed installations,
- overseeing the system for trading CO₂ emissions, along with obtaining rights for these emissions,
- the continuation of a program to promote health and prevent environmental threats, aimed at the people living in the nearest proximity to our metallurgical facilities.

ACTIVITIES ASSOCIATED WITH THE MANUFACTURE AND APPLICATION OF CHEMICAL SUBSTANCES

KGHM Polska Miedź S.A., as one of Europe's leading nonferrous metals producers, applies the principles of responsible management of chemicals introduced by the EU's REACH and CLP regulations.

The REACH and CLP regulations are aimed at:

- committing enterprises that produce or import chemicals to provide clear descriptions and information on the properties of their substances, as well as to provide information on their use and in respect of whom they may pose a danger.
- controlling the risk of threats to people and the environment represented by hazardous chemicals, by limiting their amounts,
- ensuring that hazardous substances are classified and have been included in the publically-available list on the website of the European Chemicals Agency, and that any product which includes such substances is appropriately labelled and packaged in a manner guaranteeing its safe use, and that consumers and employees are properly informed, and
- ensuring the gradual withdrawal from use of the most hazardous chemicals.

KGHM Polska Miedź S.A. has successfully implemented the REACH system in its activities in order to maintain compliance with the REACH regulations and to ensure the uninterrupted supply of KGHM's products to its customers, and has made it a part of its daily activities.

As part of the REACH system, the Company has registered all of the substances it has introduced to trading with the European Chemicals Agency. Under the REACH implementation strategy, KGHM became a member of several REACH consortia, which manage the process of registering substances and half-finished products included in the consortia.

KGHM is currently a member of six international REACH substances consortia:

- the REACH Copper Consortium,
- the European Precious Metals Federation,
- the Lead REACH Consortium,
- the Nickel REACH Consortium,
- the REACH Selenium & Tellurium Consortium,
- the REACH Copper Compounds Consortium.

In 2021, the consortia worked on updating the registration documentation for substances and half-finished products, reflecting the newest results of research and the newest guidelines of the European Chemicals Agency.

Under these consortia activities were carried out with respect to the harmonised classification of copper, lead and silver, procedures for granting lead permits, copper endocrine properties and permissible lead and copper concentrations in the workplace environment. As a result of the presentation in October 2020 of the „EU chemicals strategy for sustainability”, the European Commission commenced a review of the REACH and CLP regulations. The consortia, together with Eurometaux, are analysing the assumptions for the changes in the regulations and are actively participating in broad consultations in this regard. The goal of the new chemicals strategy is to increase safety and to achieve zero polluting emissions for a non-toxic environment, contained in the European Green Deal. The new strategy carries with it many challenges and is being broadly commented on throughout Europe.

In 2021, the Company's costs incurred from cooperation with the consortia amounted to EUR 154 thousand. The main item was a fee paid to the European Precious Metals Federation connected with research on metallic silver and the updating of registration documentation.

Due to changes in the REACH regulation's requirements, the Company updated its substances properties cards, which were then provided to customers.

16.2. KGHM INTERNATIONAL LTD. GROUP

In 2021, entities of the KGHM INTERNATIONAL LTD. Group also engaged in activities related to environmental protection.

In the case of the Robinson mine (USA), activities were aimed at monitoring air and water quality, waste management and the restoration of mining areas – expenditures for these purposes amounted to around PLN 15 million, including just under PLN 3 million due to environmental permits held.

At the Carlota mine (USA), activities were mainly related to environmental monitoring and preparing for the process of restoration – total expenditures for this purpose amounted to just under PLN 7 million.

In the Sudbury Basin mines (Canada) activities focused on environmental monitoring and work associated with development of the Victoria project. A total of over PLN 17 million was incurred for this purpose.

At the Franke mine (Chile) activities focused on acquiring required permits and environmental monitoring. Total expenditures for this purpose amounted to just under PLN 6 million.

FINANCIAL RESOURCES FOR MINE DECOMMISSIONING AND RESTORATION OF MINING AREAS

Pursuant to laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to provide collateral in the form of blocked cash or guarantees/letters of credit at the amount of the estimated liabilities for decommissioning of mines and technological facilities.

As at 31 December 2021, the value of assets for decommissioning the mines of KGHM INTERNATIONAL LTD. (cash) amounted to PLN 45 million (as at 31 December 2020: PLN 50 million).

In addition, as at 31 December 2021, KGHM Polska Miedź S.A. had issued letters of credit to secure liabilities related to covering the costs of decommissioning and restoring mining areas in the amount of PLN 408 million (as at 31 December 2020: PLN 388 million). Letters of credit issued by KGHM INTERNATIONAL LTD. as at 31 December 2021 amounted to PLN 268 million (as at 31 December 2020: PLN 172 million).

16.3. OTHER GROUP COMPANIES IN POLAND

The Polish companies of the KGHM Polska Miedź S.A. Group operate in compliance with environmental laws. Companies which are required to do so hold valid environmental permits.

Amongst the Polish companies of the Group, the largest environmental impact comes from the activities of the company „Energetyka” sp. z o.o. In 2021, this company incurred the highest environmental fees. These amounted to PLN 2.8 million and mainly comprised payments for water intake and effluents discharge (PLN 2.5 million) and for emission of contaminants to the atmosphere (PLN 0.3 million). In 2021, monetary fines were imposed on the company – the fee was raised for the discharge in 2019 and 2020 of effluents from the effluents treatment plant of Section W-4 in Legnica to the Pawłówka stream (Białynia) with a breach of the terms of the integrated permit.

In 2021, investments made by the company were aimed at the following:

- adapting existing equipment and installations of the Polkowice heat and power plant to the emissions requirements of the IED Directive and BAT Conclusions (completion of investments commenced in prior years),
- modernisation of two steam boilers at the Głogów Unit – adaptation to new conditions and technological processes related to a halt in the incineration of throat gases (the modernisation involves adapting equipment to changes in incineration fuel in the boilers from throat gas to nitrogen-rich natural gas to the extent necessary for reserving steam for the Głogów Copper Smelter and Refinery and supplying heat to the town of Głogów (completion of investments commenced in prior years),
- modernisation of the industrial effluents separation chamber at the Legnica Unit – ensuring uninterrupted production by the Legnica Copper Smelter and Refinery and increasing the efficiency of the industrial effluents treatment plant (completion of investments commenced in prior years),
- construction of a photovoltaic installation on the grounds of the Głogów heat and power plant – a photovoltaic generator with installed capacity of 1 400 kW, connected with the distribution network of KGHM Polska Miedź S.A. – decrease in CO₂ emissions (investment commenced).

The second-highest environmental fees paid in 2021 were incurred by the company KGHM ZANAM S.A., i.e. PLN 1.3 million, including PLN 1.2 million due to waste management – an increase of 44% compared to 2020, due to the advancement of maintenance and modernisation work and the cleaning of company facilities and services facilities. As a result of the company's commencement of operations by the photovoltaic power plant on the grounds of the Plant in Legnica, a reduction of emissions was recorded in 2021 of the following: particulates, sulphur oxide, nitrogen, carbon oxide and carbon dioxide. Moreover, in 2021, at the Casting Unit in Legnica, advancement of an investment commenced involving the exchange of gas furnace powering technology with an electric chamber furnace.

NITROERG S.A. is an entity in the Group whose environmental fees are not large (in 2021 they amounted to PLN 0.2 million), but is one whose activities could have a significant impact on the environment due to the risk of industrial breakdowns. Its activities comprise the production of explosives, fuel additives and initiation materials. The plant meets all requirements as regards the conduct of operations by plants involved in hazardous activities.

17. THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD OF THE PARENT ENTITY

17.1. BIOS AND RESPONSIBILITIES OF MEMBERS OF THE MANAGEMENT BOARD

MARCIN CHLUDZIŃSKI – PRESIDENT OF THE MANAGEMENT BOARD

(fulfilling his duties for a continuous period from 6 July 2018)



Since January 2016 the member of the Supervisory Board of PZU S.A. and simultaneously (since June 2018) the President of the Management Board of Agencja Rozwoju Przemysłu S.A., where he was responsible for the restructuring, merger and acquisition processes. Defined the strategic development directions in Agencja Rozwoju Przemysłu S.A. He restructured the following companies: Przewozy Regionalne, H. Cegielski – Fabryka Pojazdów Szynowych and Świętokrzyskie Kopalnie Surowców Mineralnych. Co-founder and President of the Management Board of Invent Grupa Doradztwa i Treningu Sp. z o.o. in the years 2006–2015. President of the economic think tank Fundacja Republikańska (Republican Foundation) in the years 2011–2015.

Graduate of the Institute of Social Policy at the University of Warsaw. He finished his MBA at the Institute of Economics, Polish Academy of Sciences. He co-operated as a lecturer with University of Warsaw, Collegium Civitas and Lazarski University.

He has management experience in the strategic consulting and corporate supervision. He specializes in corporate development restructuring and capital investments.

The President of the Management Board is responsible for:

- activities related to overall risk management at the corporate level as well as internal auditing and controlling within the Group;
- the preparation, implementation and execution of the Company's Strategy and Sustainable Development Policy;
- activities related to comprehensive management of security and preventing losses in the Group;
- the application of the adopted corporate governance principles in the Company;
- activities related to the development and preparation for implementation of solutions as regards organization and management in the Company, including designing and developing the Company's organizational structure;
- providing organizational services to the Company's bodies;
- providing legal services to the Company's bodies with the exception of the Supervisory Board;
- activities related to communications and corporate image-building within the Group;
- the shaping of relations with the Company's external business environment;
- activities related to human resources management;
- activities related to the development projects in the field of energy.

ANDRZEJ KENSBOK – VICE PRESIDENT OF THE MANAGEMENT BOARD (FINANCE)

(appointed as at 16 April 2021)



From 6 February 2020 to 24 March 2021 he served as the President of the Management Board of Polska Grupa Zbrojeniowa, where he was responsible among others for consolidating the group around key technology.

Previously (2019-2020) he was associated with KGHM Polska Miedź S.A. He was executive director for strategic projects as well as the President & CEO of KGHM INTERNATIONAL LTD. in Canada. There he carried out a program to increase ore extraction and processing in the Robinson mine/Nevada and to prepare the Victoria deposit to commence exploratory work.

Since 2018 Chairman of the Supervisory Board of PKP S.A. From March 2017 to June 2019 he was Vice President of the Management Board of Agencja Rozwoju Przemysłu S.A. (Industrial Development Agency) and was responsible for finance, corporate supervision and equity transactions.

From 2015 he was on the supervisory board and served as the proxy of the management board for restructuring of companies of „Masfrost“. In the years 1989-2013 he served in the functions of unit manager and director of companies in the industrial sector.

A graduate of the Catholic University of Lublin, with a Master's Degree in philosophy and theoretical physics. He completed MBA studies at INSEAD Business School where he specialized in costs management and the reorganisation of business processes.

Has many years of experience in economic and financial consulting.

The Vice President of the Management Board (Finance) is responsible for:

- the shaping of the Group's financial policy;
- the review of the Strategy's projects in terms of their financial feasibility;
- finances in all of the Group's operations and activities;
- the creation of the Group tax policy;
- the Company's accounting services;
- compliance with formal reporting and publishing obligations within the scope required by law;
- activities related to building and maintaining relations with investors on the Polish and international market;
- the activities of the Data Center (COPI) with respect to supplying and developing information and communication services required for the proper functioning of the Company and the companies of the KGHM Polska Miedź S.A. Group.

PAWEŁ GRUZA – VICE PRESIDENT OF THE MANAGEMENT BOARD (INTERNATIONAL ASSETS)

((fulfilling his duties for a continuous period from 10 September 2018))



Graduate of the University of Warsaw, Faculty of Law and Administration.

Undersecretary of State in the Ministry of Finance from November 2016. Co-author of the tax reform. Undersecretary of State in the Ministry of the State Treasury from April to November 2016. He managed a portfolio of companies with State Treasury ownership and state legal entities. He worked on reforming supervision over State Treasury companies. An expert and a management board member of Fundacja Republikańska (Republican Foundation) from 2007 to 2016. As a representative of the minister responsible for financial institutions he was also a member of the Polish Financial Supervision Authority.

He was a partner and a management board member of MMR Consulting sp. z o.o., as well as a partner in the tax consultant office GWW Tax from 2007 to 2016. He worked in the Arthur Andersen and Ernst & Young consultancy companies from 2000 to 2006. He managed interdisciplinary consultant projects for Polish and international companies from the industrial and financial sector.

Author and co-author of numerous publications on taxes and social security.

The Vice President of the Management Board (International Assets) is responsible for:

- the preparation and implementation of strategy for international assets;
- activities related to acquiring and developing the international resource base;
- analysis, assessment and preparation of new international exploration projects;
- preparation of studies and expert opinions as regards international resource base projects;
- coordination of tasks with respect to the Company's equity investments plan as regards international subsidiaries;
- substantive oversight over the Group's international production subsidiaries, including the creation and execution of their production plans;
- the shaping of the Company's commercial and logistics policies;
- the identification of international mining projects with the potential to provide development opportunities for the Company.

ADAM BUGAJCZUK – VICE PRESIDENT OF THE MANAGEMENT BOARD (DEVELOPMENT)

(fulfilling his duties for a continuous period from 24 August 2018)



Graduate of the Wrocław University of Economics, Faculty of Economics, Management and Tourism. He completed an Executive MBA – Business Trends program at WSB University in Wrocław.

Involved with PKO Bank Polski S.A. from January 2011, where he served as a manager and director. Among others, he was responsible for supervision over the execution of investment projects and optimisation of business processes, as well the preparation of development plans and improvements in supervised areas. Co-responsible for execution of cost optimisation under the bank's business strategy.

Supported the process of business expansion of PKO Bank Polski S.A. Responsible for the implementation of procurement policy in the Group's companies.

He was employed from 2002 to 2010 in the company Bank Zachodni WBK S.A., where he cooperated in the implementation of investment projects. He was also responsible for the optimisation of and supervision over the realisation of network contracts.

He has extensive experience in the areas of standardisation and normalisation of business processes.

The Vice President of the Management Board (Development) is responsible for:

- advancement of the Company's R&D policy;
- advancement of the Company's innovation and intellectual property protection policy;
- coordination of the Company's investments and development projects;
- the development, updating and monitoring of execution of the Company's consolidated equity investments portfolio;
- shaping of the Company's portfolio of development projects;
- initiation, development and implementation of management standards in the process of managing projects and portfolios;
- acquisition and development of the mining resources base in Poland;
- management of real estate;
- overseeing the Company's administrative services;
- development of the mining structure;
- development of the production lines;
- coordination of the purchasing processes in the Group.

MAREK PIETRZAK – VICE PRESIDENT OF THE MANAGEMENT BOARD (CORPORATE AFFAIRS)

(appointed as of 21 October 2021)



Until October 2021 he served as President of the Management Board of Orlen Asphalt Sp. z o.o. Currently, he serves as Chairman of the Supervisory Board of Polskie Radio Regionalna Rozgłośnia w Warszawie, Radio dla Ciebie S.A. and as a member of the Supervisory Board of Alior Bank S.A. From December 2016 until October 2021 he served as a Member of the Supervisory Board of KGHM Polska Miedź S.A.

A graduate of the Department of Law and Administration of Łazarski University in Warsaw and the Department of Economics of the Private Higher School of Business and Administration in Warsaw. In 2013, he finished his legal adviser apprenticeship in the District Chamber of Legal Advisers in Warsaw and was licensed to perform the profession.

He also finished management and business studies (MBA) at the Warsaw Management University, accredited by the Apsley Business School of London and was granted the title of Executive Master of Business Administration. A graduate of post-graduate studies in Accounting and Corporate Finance of the SGH Warsaw School of Economics. He has professional experience in public administration and practical experience in the supervision and management of commercial law companies, including those where the State Treasury is one of the shareholders.

The Vice President of the Management Board (Corporate Affairs) is responsible for:

- corporate supervision standards;
- overall corporate oversight over the Group's subsidiaries in Poland and abroad;
- activities related to creating, updating and maintaining the uniformity of the organisation's internal regulations to maintain consistent operating principles;
- ensuring legal services to the statutory bodies of the Company with regard to the Supervisory Board of the Company;
- ensuring legal services to the Company, with the exclusion of the scope assigned to the President of the Management Board;
- on the Founder's behalf – supervision of the functioning of the KGHM Polish Copper Foundation as well as other organisations serving the public, which support achievement of the Group's business goals.

MAREK ŚWIDER – VICE PRESIDENT OF THE MANAGEMENT BOARD (PRODUCTION)

(appointed as at 15 March 2022)



Since the start of his professional career, i.e. since 1996, he has been connected with KGHM Polska Miedź S.A., where he has held positions such as Executive Director of the Rudna mine, Executive Director for Mining in the International Assets, Chief Mining Engineer and Director of the Projects Management Department. In the years 2015-2016 he was responsible for production in the position of Vice President, Production Control in KGHM INTERNATIONAL LTD.

Until 14 March 2022 he served as Executive Director of the Polkowice-Sieroszowice Mine Division of KGHM Polska Miedź S.A., where he managed the production structure.

He has mainly been responsible for planning the development of the core production line, searching for and implementing new technology and methods for managing organisational structures in the copper company.

He is a graduate of Wrocław University of Science and Technology and has a Master's Degree in Mine Engineering with specialisation in techniques for mining underground deposits. He has completed post-graduate studies in costs management as well as MBA studies – Master of Business Administration.

He has many years of professional experience in strategic planning, management and mining technology which he acquired during work both in Poland and in the international production assets of the KGHM Polska Miedź S.A. Group.

The Vice President of the Management Board (Production), is responsible for:

- the integrated planning and optimisation of the Company's current production;
- occupational health and safety and control of environmental risks;
- activities with respect to maintaining the readiness of the production and non-production assets and achievement of the main goals of the Energy Strategy;
- activities with respect to manufacturing products and the development of mine and metallurgical production;
- overseeing activities connected with the implementation, maintenance and improvement of management systems in the Company;
- integrated supply chain management.

17.2. BIOGRAMS OF MEMBERS OF THE SUPERVISORY BOARD

AGNIESZKA WINNIK-KALEMBA – CHAIRWOMAN OF THE SUPERVISORY BOARD

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2016)

Attorney, graduate of the Department of Law of Wrocław University. Also a graduate of the faculty of Public Administration at Georgetown University in Washington D.C.; and of the faculty of Public Administration and Business Law at the University of Kentucky.

She passed her bar exam in 2003 under the District Bar Council in Wrocław and was licensed to work in the profession.

Since 2003 owner of a Law Office. In the years 2006 - 2010 served as an advisor and regular associate of the late Member of Parliament Aleksandra Natalii – Świat. In the years 1999 - 2003 gained experience as an apprentice attorney-at-law at Kazimierz Cyrklewicz's Law Office in Wrocław. In addition, was previously Manager of the Legal Services Office of the Lower Silesia Marshal's Office in Wrocław and was Legal Assistant to the Chairman of the Chamber of Regions of the European Council in Strasbourg,. Also gained experience as Legal Assistant in the Law Offices of Bowles, Keating, Matuszewicz & Fiordalisi Chicago – Milan – Rome, a Partnership of Professional Corporation, Chicago USA. In the years of 2006-2008 was the member of the Supervisory Board of PKO Bank Polski S.A., and in 2016 was Deputy Chairwoman of the Supervisory Board of PKO Bank Polski S.A. Since 2021 again a Member of the Supervisory Board of PKO Bank Polski S.A.

KATARZYNA KRUPA – DEPUTY CHAIRWOMAN OF THE SUPERVISORY BOARD*(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2021)*

Graduate of the Faculty of Management at the University of Warsaw. Employee of the Ministry of State Assets, where she supervises the section responsible for the supervision of companies with a majority interest held by the State Treasury. In the years 1998-2017 she was an employee of the Ministry of the State Treasury, subsequently of the Ministry of Development, engaged in tasks involving ownership transformation and ownership supervision. She gained professional skills by working in corporate bodies of capital companies. She was a member among others in supervisory boards of companies: Zakłady Azotowe Puławy S.A., Kopex S.A., Warmińsko-Mazurska Specjalna Strefa Ekonomiczna S.A.

Has many years of experience in conducting ownership supervision of companies with interest held by the State Treasury and in transactions on the capital market.

She is a member of the Supervisory Board of the company Pol-Mot Holding S.A. in restructurisation with its registered head office in Warsaw.

JAROSŁAW JANAS – SECRETARY OF THE SUPERVISORY BOARD*(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2018)*

An attorney with a doctorate in law from Wrocław. From 2009 to 2010 he researched British public healthcare at the University of Exeter School of Law (UK), resulting in a doctorate, "Prywatyzacja brytyjskiego sektora publicznego na przykładzie National Health Service" ("Privatisation of the British public sector, illustrated by the National Health Service"). An entrepreneur continuously from 1999, an academic teacher, member of the management board of Fundacja Sancta Familia (Sancta Familia Foundation) in Wrocław since 2005, Chairman of the Estate Council of Biskupin-Sępólno-Bartoszewice-Dąbie in the years 2009-2013, a volunteer in Ilford Park Polish Home (UK) 2009-2010, member of the Wrocławska Rada ds. Budżetu Obywatelskiego (Wrocław Citizen's Budget Council) in the years 2015-2017, member of the Supervisory Board of Polska Agencja Inwestycji i Handlu S.A. (State Treasury) from 2016 to 2018, and an expert in healthcare reform (2018), since 2020 Member of the Council of Narodowy Fundusz Zdrowia (National Health Fund).

In the years 2011-2019 he was an author of research papers on British law, privatisation of the public sector, judicial control of public administration and healthcare law. He has more than twenty years of experience in management.

JÓZEF CZYCZERSKI*(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2012)*

Secondary technical education. Since 1979 employed in the Rudna mine of KGHM Polska Miedź S.A., an underground electromechanic. Chairman of the National Section of Copper Ore Mining of NSZZ Solidarność. Employee-elected member of the Supervisory Board of KGHM Polska Miedź S.A. in the years 1999-2011, and then from 2014.

ROBERT KALETA*(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2021)*

Graduate of the Faculty of Law and Administration at the University of Warsaw.

Since July 2019 has served as President of the Management Board of the company Energa Operator Wykonawstwo Elektroenergetyczne sp. z o.o. with its registered head office in Słupsk, which carries out construction projects involving the development and maintenance of power distribution networks. He acquired professional experience in management positions in economic entities and with respect to ownership supervision. Since 1995 through his own business he has provided consulting services for a variety of companies in the public and private sector in many industries, including transportation, construction and related to education.

As Vice President of the Management Board of the Foundation „Universitatis Varsoviensis” since 1996 he has been responsible for advancing a variety of cultural, educational and charitable initiatives and promoting economic patriotism.

He also gained many years of experience in ownership supervision by serving among others on Supervisory Boards: Przedsiębiorstwo Budowy Kopalń Pebeka S.A., KGHM ZANAM S.A., Trade Trans Karya sp. z o.o. and Wytwórnia Lin Stalowo-Gumowych SAG sp. z o.o.

ANDRZEJ KISIELEWICZ*(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2018)*

Graduate of the Faculty of Mathematics and Computer Science, University of Wrocław. He received his doctorate in mathematics at the Polish Academy of Science in Warsaw. He habilitated at the University of Wrocław and was awarded the title of Professor of Mathematics in 2001. He is currently a professor at the Wrocław University of Technology.

He gained his professional experience in foreign research centres: University of Manitoba (Winnipeg, Canada, 1989-1990), Technische Hochschule Darmstadt (Germany, 1990-1992), Vanderbilt University (Nashville, USA, 2001-2002). In addition, he has held a number of short-term internships abroad, among others in France, Italy, Austria and Israel. He is the recipient of two of the world's most prestigious academic scholarships: the Alexander von Humboldt Scholarship and the Fulbright Scholarship.

He also has many years of experience in supervisory boards. Among others, he was a member and chairman of the supervisory boards of such companies as "Spedtrans" sp. z o.o., "Teta" S.A. and PKO BP S.A.

He is the author of more than eighty scientific publications on mathematics, logic and computer science in foreign journals, as well as three books in Polish "Logika i argumentacja" (Logic and argumentation), "Sztuczna inteligencja i logika" (Artificial intelligence and logic), "Wprowadzenie do informatyki" (Introduction to computer science). At present he is a Member of the Supervisory Board of PKO Bank Polski S.A.

BARTOSZ PIECHOTA

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2018)

Bartosz Piechota is an advocate, a graduate of the Faculty of Law and Administration at the University of Warsaw and Cardiff University Law School (Diploma in Legal Studies), as well as IESE Business School Barcelona (Advanced Management Program, AMP). He also graduated from the School of American Law run by the University of Florida Levin College of Law and the Warsaw University. He has many years of experience in providing legal advice to the largest Polish and foreign enterprises. He is identified by international rankings including Legal500 2019 and 2020 as a leading lawyer, in particular in dispute resolution and restructuring/insolvency. He has advised, for instance, on a number of key infrastructure investments and numerous restructuring proceedings. He was a founding partner of a leading dispute resolution and restructuring law firm in Poland. He previously worked in international and Polish law firms, including Allen & Overy and Wardyński & Partners.

From 2014 to 2016, he was the "Liaison Officer" of the International Bar Association's Restructuring and Insolvency Section responsible for the Central and Eastern Europe area. He was a member of the International Bar Association as well as author of publications and speaker at international and national conferences. Since August 2019, he has been Vice President of the Management Board of the Polish Aviation Group.

From 2016 to 2019, he was a member of the Supervisory Board of PLL LOT S.A., and from October 2018 to July 2019, he served, by delegation, as a member of the Management Board of PLL LOT S.A. He has worked as an expert with the Republican Foundation for many years.

Bartosz Piechota was appointed as a member having knowledge and skills in accounting resulting from his education (among others, graduation from IESE Business School within the Advanced Management Program (AMP) experience and professional practice - performing the function of a member of the management board in commercial law companies, including the one responsible for the finance area, performing the function of a member of supervisory boards, including the function of a member of audit committees of supervisory boards, consulting in restructuring processes and performing the function of a chairman of creditors' councils in restructuring proceedings.

BOGUSŁAW SZAREK

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2012)

Secondary technical education.

Since 1982 employed at the Sieroszowice Mine of KGHM Polska Miedź S.A. in the position: mining machinery and tools mechanic.

Since 1992 Chairman of the Plant Committee of the trade union NSZZ „Solidarność” in the Sieroszowice Mine. Following the merger of the Polkowice and Sieroszowice mines, since 1996 Chairman of the Plant Committee of the trade union NSZZ „Solidarność” in the Polkowice-Sieroszowice mine. Since 2012 an employee-elected Member of the Supervisory Board of KGHM Polska Miedź S.A.

Deputy Chairman of the National Section of Copper Ore Mining of NSZZ „Solidarność”. Treasurer of the Board of the Secretary Office for Mining and Energy of the trade union NSZZ „Solidarność”. Member of the National Committee of the trade union NSZZ „Solidarność”.

PRZEMYSŁAW DAROWSKI

(Member of the Supervisory Board of KGHM Polska Miedź S.A. since 2020)

He has higher technical education. Started his professional career in 1997 as a locksmith, thereafter as a Specialist of railway rolling stock at Pol-Miedź Trans Sp. z o.o. From 2003, he was the Head of the Planning and Settlement of Renovations Department and Renovations Control, subsequently the Manager of the Railway Operations Department in Głogów. Since 2006, Senior Specialist/Commissioner of the Carriage Maintenance Department. He cooperated with Legnica Municipality, on behalf of which the Complex of Technical and Comprehensive School of Henryk Pobożny in Legnica is run, in the field of conducting trainings and examinations for train drivers and candidates for train drivers.

Former member of railway commissions at Pol-Miedź Trans that investigate railway accidents and incidents. In addition, in 2017-2019, he held an office of a Social Labour Inspector.

Currently, Chairman of the Intercompany Committee of NSSZ "Solidarność" in Pol-Miedź Trans. Member of the National Section of Copper Ore Mining of NSSZ "Solidarność". Member of the Board of the Copper Basin Region of NSSZ "Solidarność".

17.3. CHANGES IN THE PARENT ENTITY'S BODIES

MANAGEMENT BOARD OF THE COMPANY

In accordance with the Statutes of KGHM Polska Miedź S.A. the members of the Management Board are appointed and dismissed by the Supervisory Board. The composition of the 10th-term Management Board of KGHM Polska Miedź S.A. as at 1 January 2021 was as follows:

- Marcin Chludziński President of the Management Board,
- Adam Bugajczuk Vice President of the Management Board (Development),
- Paweł Gruza Vice President of the Management Board (International Assets),
- Katarzyna Kreczmańska-Gigol Vice President of the Management Board (Finance),
- Radosław Stach Vice President of the Management Board (Production).

On 23 March 2021 the Supervisory Board of KGHM Polska Miedź S.A. having the intention to synchronize the term of office and the mandate of the Management Board, as well as after conducting the qualification proceedings for the positions of individual Members of the 11th-term Management Board, adopted resolutions on dismissing, as of 15 April 2021, all of the members of the 10th-term Management Board of KGHM Polska Miedź S.A., and then on the appointment, as of 16 April 2021, to the 11th-term Management Board of KGHM Polska Miedź S.A.:

- Marcin Chludziński, assigning him the function of the President of the Management Board,
- Andrzej Kensbok, assigning him the function of the Vice President of the Management Board (Finance),
- Adam Bugajczuk, assigning him the function of the Vice President of the Management Board (Development),
- Paweł Gruza, assigning him the function of the Vice President of the Management Board (International Assets).

On 14 May 2021 the Supervisory Board of the Company, following the qualification proceedings for the function of Vice President of the Management Board (Production), on 15 May 2021 adopted a resolution on appointing Dariusz Świdzki to the Management Board of KGHM Polska Miedź S.A, assigning him the function of Vice President of the 11th-term Management Board (Production).

On 25 October 2021 the Supervisory Board of the Company, following the qualification proceedings for the function of Vice President of the Management Board (Corporate Affairs), on 26 October 2021 adopted a resolution on appointing Marek Pietrzak to the Management Board of KGHM Polska Miedź S.A, assigning him the function of Vice President of the 11th-term Management Board (Corporate Affairs).

The composition of the 11th-term Management Board of KGHM Polska Miedź S.A. from 26 October 2021 was as follows:

- Marcin Chludziński President of the Management Board,
- Adam Bugajczuk Vice President of the Management Board (Development),
- Paweł Gruza Vice President of the Management Board (International Assets),
- Andrzej Kensbok Vice President of the Management Board (Finance),
- Dariusz Świdzki Vice President of the Management Board (Production),
- Marek Pietrzak Vice President of the Management Board (Corporate Affairs).

On 21 February 2022 the Supervisory Board of KGHM Polska Miedź S.A. dismissed Dariusz Świdzki, serving in the function of Vice President of the Management Board (Production), from the composition of the Management Board of KGHM Polska Miedź S.A., at the same time initiating qualification proceedings aimed at verifying and assessing the qualifications of the candidates and appointing the best candidate to the function of Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.

On 22 February 2022 the Supervisory Board of KGHM Polska Miedź S.A. assigned the temporary function of fulfilling the duties of Vice President of the Management Board (Production) to Marek Pietrzak until the conclusion of qualification proceedings for this function.

On 14 March 2022, the Supervisory Board of the Company, following the qualification proceedings for the position of Vice President of the Management Board (Production), adopted a resolution on appointing Marek Świder as of 15 March 2022 to the Management Board of KGHM Polska Miedź S.A., granting him the function of Vice President of the 11th term Management Board (Production) of KGHM Polska Miedź S.A.

The composition of the 11th-term Management Board of KGHM Polska Miedź S.A. from 15 March 2022 was as follows:

- Marcin Chludziński President of the Management Board,
- Adam Bugajczuk Vice President of the Management Board (Development),
- Paweł Gruza Vice President of the Management Board (International Assets),
- Andrzej Kensbok Vice President of the Management Board (Finance),
- Marek Pietrzak Vice President of the Management Board (Corporate Affairs),
- Marek Świder Vice President of the Management Board (Production).

SUPERVISORY BOARD OF THE COMPANY

In accordance with the Statutes of the Company the members of the Supervisory Board are appointed and dismissed by the General Meeting.

As at 1 January 2021, the composition of the 10th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Andrzej Kisielewicz Chairman
- Katarzyna Lewandowska Deputy Chairwoman
- Jarosław Janas Secretary

- Bartosz Piechota
- Marek Pietrzak
- Agnieszka Winnik-Kalemba

and elected by employees:

- Józef Czyczerski
- Bogusław Szarek
- Przemysław Darowski

On 20 April 2021 the Company received a letter from Katarzyna Lewandowska concerning her resignation from serving in the function of Member of the Supervisory Board of KGHM Polska Miedź S.A. as of 20 April 2021.

On 6 July 2021 the General Meeting appointed Robert Kaleta and Katarzyna Krupa to the Supervisory Board.

On 16 August 2021 Andrzej Kisielewicz submitted his resignation from the function of Chairman of the Supervisory Board, effective immediately. On the same day, the Supervisory Board adopted a resolution concerning the appointment of Agnieszka Winnik-Kalemba as Chairwoman of the Supervisory Board of KGHM Polska Miedź S.A.

On 23 August 2021 the Supervisory Board adopted a resolution regarding the appointment of Marek Pietrzak as Deputy Chairman of the Supervisory Board of KGHM Polska Miedź S.A.

On 25 October 2021 the Company received a letter from Marek Pietrzak announcing his resignation from the function of Member of the Supervisory Board, effective immediately.

On 20 December 2021 the Supervisory Board adopted a resolution regarding the appointment of Katarzyna Krupa as Deputy Chairwoman of the Supervisory Board of KGHM Polska Miedź S.A.

From 20 December 2021 the composition of the Supervisory Board was as follows:

- | | |
|----------------------------|-------------------|
| – Agnieszka Winnik-Kalemba | Chairwoman |
| – Katarzyna Krupa | Deputy Chairwoman |
| – Jarosław Janas | Secretary |
| – Andrzej Kisielewicz | |
| – Bartosz Piechota | |
| – Robert Kaleta | |

and elected by employees:

- Józef Czyczerski
- Bogusław Szarek
- Przemysław Darowski

17.4. REMUNERATION OF THE PARENT ENTITY'S BODIES AND OF OTHER KEY MANAGERS OF THE GROUP

INFORMATION ON REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A.

Detailed principles for setting the terms of remuneration of the Management Board Members were established by the Supervisory Board in accordance with "Policy of remuneration of Management Board and Supervisory Board Members of KGHM Polska Miedź S.A." in the templates for the management services contracts for the Company's Management Board.

The management services contracts were signed for the time Members of the Management Board serve in the Management Board, within one term. This means that the termination of a contract will occur on the final day on which the function is served, with no notice period and without the need to take additional actions.

Total remuneration received on their basis consists of a fixed part - a basic monthly remuneration, as well as variable remuneration representing supplementary remuneration for the Company's financial year.

The fixed monthly remuneration for individual members of the Company's Management Board is for the President of the Management Board fifteen times, and for Vice Presidents of the Management Board fourteen times of the average monthly salary in the corporate sector, excluding payments from profit in the fourth quarter of the previous year, announced by the President of the Central Statistical Office.

Variable remuneration depends on the level of achievement of the management goals set by the Supervisory Board for a given financial year and may not exceed 100% of the annual fixed remuneration for the time during which the subject of a given contract is performed (with the provision that the contract was performed for a period longer than three months).

Based on the Statutes of KGHM Polska Miedź S.A., the Bylaws of the Supervisory Board, the management services contracts, resolution no. 8/2016 of the Extraordinary General Meeting and the Act on the terms of setting the remuneration of individuals managing certain companies, the Supervisory Board set Management Goals for the Management Board of KGHM Polska Miedź S.A. for 2021.

The Management Goals under which the variable remuneration for the financial year of the Company may be received are the following:

- application of the principles of remunerating members of management and supervisory bodies, pursuant to the act dated 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies, in all of the Group's companies;
- execution of the duties described in art. 17-20, art. 22 and art. 23 of the act dated 16 December 2016 on the principles of state assets management.

The Supervisory Board also established additional management goals for individual members of the Management Board according to the areas of competence assigned to them, including:

- business measures (KPIs)
 - adjusted EBITDA of KGHM and KGHM INTERNATIONAL LTD.,
 - volume of electrolytic copper production from own concentrate;
 - C1 cost of KGHM Polska Miedź S.A.;
 - Net debt/EBITDA ratio for the KGHM Polska Miedź S.A. Group;
 - LTIFR;
- other management goals related to the implementation of key strategic projects, such as:
 - efficiency increase of the KGHM Polska Miedź S.A. Group subsidiaries,
 - Climate Policy of KGHM Polska Miedź S.A.,
 - review and update of the strategy in the context of changes in the macroeconomic and legislative environment,
 - ensuring long-term financial stability,
 - implementation of the Integrated Financial Management System at the Head Office, Divisions and in selected companies of the KGHM Group,
 - preparation and implementation of the Research Agenda,
 - development of the Core Production Line,
 - increasing the efficiency of the KGHM Polska Miedź S.A. Group through innovative activities,
 - optimization of procurement processes at KGHM Polska Miedź S.A.,
 - implementation of systemic external services management,
 - implementation of measures to maintain mining production at the level of 440 thousand tonnes of copper in ore,
 - realisation of Sierra Gorda's planned ore processing,
 - realisation of copper production plans by international assets,
 - Sierra Gorda financing,
 - preparation of a Long-Term Plan for Ensuring an Optimal Portfolio of Purchased Metal-bearing Material Inputs ensuring the production level assumed in the Strategy of KGHM Polska Miedź S.A.

Payment of variable remuneration is made following the submission by individual members of the Management Board of reports on the achievement of the KPIs and goals. Payment of the variable part is contingent on the achievement by a manager of the management goals, approval of the Management Board's report on the activities of the Company and the Company's financial statements for the prior financial year, and the granting of approval by the General Meeting for the given Management Board Member's performance of duties. On this basis, the Supervisory Board evaluates the execution of the aforementioned goals and sets the amount of the variable remuneration due.

Potentially-due remuneration of Members of the Management Board of KGHM Polska Miedź S.A. for 2021.

Table 51. Potentially-due remuneration of Members of the Management Board of KGHM Polska Miedź S.A. for 2021.

<i>First, last name</i>	<i>Position</i>	<i>Potentially-due variable remuneration (PLN thousand)</i>
Marcin Chludziński	Member of the Management Board - President of the Management Board	1 018.0
Andrzej Kensbok	Member of the Management Board - Vice President of the Management Board	673.0
Adam Bugajczuk	Member of the Management Board - Vice President of the Management Board	950.1
Dariusz Świdorski	Member of the Management Board - Vice President of the Management Board	599.1
Paweł Gruza	Member of the Management Board - Vice President of the Management Board	950.1
Marek Pietrzak	Member of the Management Board - Vice President of the Management Board	0.0
Katarzyna Kreczmańska-Gigol	Member of the Management Board - Vice President of the Management Board	277.1
Radosław Stach	Member of the Management Board - Vice President of the Management Board	277.1
TOTAL		4 744.5

Members of the Management Board may join the Employee Pension Program under the terms of the existing Collective Agreement, with the proviso that the amount of the monthly contribution under this Program is included in the amount of the fixed remuneration for the given period.

From 2020, by a decision of the Supervisory Board, it is permissible for the cost of a Management Board Member's life insurance policy, under the group life insurance policies in place in the Company, including in the case of death, accident or illness, to be covered by the Company. The scope of this insurance is analogous to that provided to management staff, the sole difference being that in the case of the selection by a particular Management Board Member of life insurance with a so-called equity insurance fund (ubezpieczeniowy fundusz kapitałowy), that portion of the contribution under this option will not be financed by the Company.

The management services contracts also regulate issues involving the application (utilisation) of all of the Company's resources (tools) required to carry out the contractual duties and to maintain the requirements of security in terms of collecting and transmitting data, including in particular:

- office space together with technical equipment and infrastructure, including a personal computer with wireless Internet access and other necessary equipment, means of communication, including a mobile phone;
- local housing appropriate to the Function served (in respect of which the Company covers the cost of such housing to the net amount of PLN 2 500);
- participation in conferences, seminars or business meetings related to the Company's operations and, if necessary to carry out these obligations, business trips in Poland and abroad;
- the incurring by the Company of costs related to services performed outside of the Head Office which must be incurred to properly perform the services, in particular such as travel costs and accommodation in a standard appropriate to the function performed;
- use of a company car for business purposes;
- civil liability insurance for the Management Board Member related to serving in the function; and
- incurring or refinancing costs of individual training for the Management Board Member related to the Contract in question and contractual obligations, in each case with the prior consent of the Chairman of the Supervisory Board of the Company.

The Contracts also provide that if the Management Board Member serves as a member of a body in a subsidiary of the Company within the Group, the Management Board Member will not receive additional remuneration for this function, apart from the remuneration provided for in the management services contract. In addition, the Management Board Member is obligated to inform the Supervisory Board of the possession of shares in publically-listed companies and to gain its consent for accepting a position or serving in a function in the body of another commercial law company – excluding companies of the Group, the acquisition or possession of shares in another commercial law company, as well as performing work or services on behalf of other entities based on an employment contract, mandate contract or based on any other legal relationship.

The contracts signed with the Members of the Management Board regulate the question of compensation in the case of termination, with or without notice, of the management services contract for reasons other than breach of the contract's basic obligations. The contracts foresee that the Company will provide severance pay of no higher than three times the amount of the fixed part of remuneration (if the contract was in force for at least 12 months).

The contracts with the Members of the Management Board – both during the period of employment as well as following the period of employment – deal with the question of forbidding competition. In particular, they establish that for a period of six months from the date when employment in the function ceases, the Management Board Member is not allowed to engage in any competing activities. For adherence to the clause on forbidding competitive activities, KGHM pays the Management Board Member compensation throughout the period during which competitive activities are banned in the amount of 50% (and in the case of the President of the Management Board 100%) of the monthly fixed remuneration. The payment of compensation is conditional on the Management Board Member's having served in the function for at least 6 months. If a Member of the Management Board breaches the aforementioned contract, he or she will be required to pay a contractual penalty in the amount of the entire compensation received. Payment of the contractual penalty does not deprive the Company of the right to seek compensation in an amount exceeding that amount under general rules.

INFORMATION ON REMUNERATION OF SUPERVISORY BOARD MEMBERS

The remuneration of members of supervisory boards was set on 7 June 2019 by the General Meeting based on the Act dated 9 June 2016 on the terms of setting the remuneration of individuals managing certain companies. According to "Policy of remuneration of Management Board and Supervisory Board Members of KGHM Polska Miedź S.A." the amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as 2.2x or twice the average monthly remuneration in the corporate sector excluding payments from profit in the fourth quarter of the previous year, announced by the President of the Central Statistical Office. Members of the Supervisory Board are not remunerated for any month in which they did not attend any of the formally convened meetings for unjustified reasons, which are assessed and qualified by the Supervisory Board.

Apart from the above-mentioned remuneration, Members of the Supervisory Board are not entitled to receive any additional remuneration components, including bonuses or other cash benefits.

According to the Commercial Partnerships and Companies Code, the Company also covers or reimburses costs related to participation in the work of the Supervisory Board.

Detailed information on the amount of remuneration and other benefits for Supervisory Board and Management Board members may be found in note 12.9 of the separate and consolidated financial statement and will be presented in "Report on the remuneration of members of the Management Board and Supervisory Board KGHM Polska Miedź S.A. for 2021".

INFORMATION ON THE ADOPTED AND APPLIED REMUNERATION SYSTEM FOR KEY MANAGERS

The principles of the remuneration of key managers of KGHM Polska Miedź S.A. – the Executive Directors of the Head Office and the Executive Directors of the Company's divisions – is set by the Company's Management Board.

The employment contracts concluded with the above-mentioned directors provide that they are entitled to the following components of remuneration and benefits:

- basic monthly remuneration, which amounts – depending on the function served – from 9- to 12-times the average monthly remuneration in the corporate sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Central Statistical Office.
- an annual bonus up to 40% of the annual fixed part of remuneration, paid in accordance with the principles for bonuses based on a system of business measures and individual goals; the system is based on collective and individual KPIs and goals, the basis of which are the key performance indicators of the Management Board and goals resulting from the Company's strategy,
- additional benefits, such as life insurance, the Employee Pension Program, a Health Care Package,
- a company car, and
- severance pay of no higher than three times the amount of the basic monthly remuneration, in the case of termination, of the contract by the Employer (if the contract was in force for at least 6 months).

PENSION OBLIGATIONS AND RELATED BENEFITS IN RESPECT OF FORMER MANAGEMENT AND SUPERVISORY STAFF

KGHM Polska Miedź S.A. has no pension obligations or related benefits in respect of former management and supervisory staff or liabilities drawn in respect of such pensions.

18. ETHICS AND CORPORATE GOVERNANCE

The Code of Ethics of the KGHM Polska Miedź S.A. Group is the main tool, in the corporate Group culture, which assists in defining priorities and in establishing a collection of principles which are binding for all employees in their daily work.

The objective of the Code of Ethics is to ensure that the behaviour of employees conforms to the highest standards based on the values which guide the Group's employees: zero harm, teamwork, results-driven, accountability and courage.

Additionally, in order to enable effective implementation of the principles and values set forth in the Code of Ethics across the Group, other appropriate policies and procedures were introduced. Their implementation meets global corporate governance standards as well as the increasing expectations of stakeholders, including above all customers and financial institutions.

Based on best practices in corporate governance in the KGHM Polska Miedź S.A. Group, the following policies are in force within the KGHM Polska Miedź S.A. Group, introducing global, unified standards which have been adapted to the laws applicable in all of the jurisdictions in which the KGHM Polska Miedź S.A. Group operates:

Compliance Management Policy in the KGHM Polska Miedź S.A. Group	The Compliance Management Policy in the KGHM Polska Miedź S.A. Group serves as the framework of the compliance management system and an organisation-wide approach, based on recognised international standards and industry best practices. The adopted solution to the creation of the compliance system has been tailored to the specific nature of the Group and is an important business tool used to prevent the occurrence of events that could result in the imposition of sanctions. It enables the systematic identification, assessment and analysis of the risk of non-compliance or possible non-compliance with generally applicable law, internal corporate regulations and voluntarily adopted legal obligations and standards, including ethical standards, in order to design and implement actions to ensure compliance.
Competition Law Policy in the KGHM Polska Miedź S.A. Group	The purpose of the Competition Law Policy is to establish an operational framework for a system that will enable the maintenance of conformity with the competition law and is applicable in all the countries in which the KGHM Polska Miedź S.A. Group operates. Therefore, the Group undertakes an obligation to compete on the markets in a legal and ethical manner, as well as to prevent, counteract and detect violations in accordance with the applicable legal regulations.
Procurement Policy in the KGHM Polska Miedź S.A. Group	The aim of the Procurement Policy is to establish the overarching principles that should be followed by all participants of the procurement process in the KGHM Polska Miedź S.A. Group, as well as the general regulations of this process. The Policy specifies supervision measures limiting the risk of irregularities in the procurement process.
Anticorruption Policy in the KGHM Polska Miedź S.A. Group	The Anticorruption Policy establishes basic principles and standards, whose goal is to ensure compliance with the anticorruption regulations applicable in the jurisdictions in which the KGHM Polska Miedź S.A. Group operates and voluntary commitments to counteract corruption. The Group applies a zero tolerance policy towards corruption and bribery. The Policy includes a declaration by the top management of their full commitment to activities related to the maintenance and continuous improvement of the implemented Anti-Corruption Management System, compliant with the requirements of the PN-ISO 37001 standard.
Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group	The Responsible Supply Chain Policy is aimed at guaranteeing the selection only of responsible suppliers and at ensuring that the goods and services purchased by the KGHM Polska Miedź S.A. Group are not contributing to financing terrorism, and are manufactured or provided in accordance with basic human rights, labour standards, environmental protection and counteracting corruption.
Security Policy in the KGHM Polska Miedź S.A. Group	The Security Policy sets forth joint principles and goals for the entities and organisational units of the KGHM Polska Miedź S.A. Group related to safety and preventing losses. Pursuant to its clauses, all of the Group's employees act in accordance with basic principles: professional integrity, diligence in the discharge of professional duties, loyalty towards the employer, a results oriented approach, courage, teamwork, accountability, mutual responsibility for safety and preventing losses and avoidance of actions harmful to the employer.

The Compliance Management Policy in the KGHM Polska Miedź S.A. Group, adopted by the Management Board of KGHM Polska Miedź S.A., and the Compliance Management Procedure and Methodology in KGHM Polska Miedź S.A., are in force from 2020 in order to unify the approach to ensuring compliance, defined as compliance with the requirements resulting from applicable external (laws in force) and internal regulations or voluntarily accepted legal obligations and standards. Possession of a coherent compliance system in the KGHM Polska Miedź S.A. Group is a constituent of effective corporate governance management through, inter alia, more efficient response and readiness to regulatory changes, protecting

reputation and building an ethical culture in the organisation, as well as increasing awareness and a sense of responsibility for compliance among employees. In 2021 activities related to improvement of the effectiveness of the compliance system were carried out, among others, in the selection of complementary IT solutions necessary for the implementation of the process. Support work and work aimed at raising the standards of compliance will be continued in 2022.

In order to improve the standards of maintaining compliance with the competition law, the Instruction of Conduct in order to prevent violations resulting from competition law, which is an extension and clarification of the content of the KGHM Polska Miedź S.A. Group's Competition Law Policy updated in 2019, was approved by the Management Board of KGHM Polska Miedź S.A. and is in force from 2020. In December 2021, training was conducted for Local Plenipotentiaries for Competition Law in the KGHM Polska Miedź S.A. Group. Support work and work aimed at raising the standards of compliance with the competition law will be continued in 2022.

In 2021 the Responsible Supply Chain Policy in the KGHM Polska Miedź S.A. Group was updated, among others, in order to adapt the documentation of the responsible supply chain management process to the requirements of the "Copper Mark" sector standard, as well as to expand the catalogue of unacceptable, potential violations by the Group's counterparties. The content of the Policy also includes the conclusions of other organisational units of KGHM in terms of ensuring compliance with the expectations of their stakeholders. The updated Policy continues to be an important part of the Responsible Gold and Silver Supply Chain Management System which is subject to an annual, independent, external audit to assure the Company's adherence to the principles of conflict-free gold and silver under the LBMA Responsible Gold Guidance and the LBMA Responsible Silver Guidance. The current Compliance Report of KGHM Polska Miedź S.A. along with the Report on the independent assurance service is available on the website at: <https://kg hm.com/en/our-business/products/responsible-supply-chain>.

In 2021, a compliance audit was carried out in KGHM Polska Miedź S.A. under the Copper Mark standard, which introduced additional requirements for the responsible supply chain of copper and lead. Meeting the necessary criteria upon which the granting of the Copper Mark was contingent allowed for the certification of the Legnica Copper Smelter and Refinery and the Głogów Copper Smelter and Refinery with the Copper Mark, which is a prestigious distinction and confirmation of compliance by KGHM Polska Miedź S.A. with the principles of corporate social responsibility, as well as compliance with ethical, environmental and organisational standards. The acquisition of the Copper Mark was necessary for the further continuation of free trade by KGHM Polska Miedź S.A., in particular to facilitate the maintenance of cathode registration on the LME (London Metal Exchange). In 2022, further work will be carried out, which was initiated in 2021, on the implementation of the auditor's recommendations aimed at further improvement of the indicated areas of the responsible supply chain, in order to maintain the certification in subsequent years.

In 2018, the Management Board of KGHM Polska Miedź S.A. adopted a new „Code of Ethics of the KGHM Polska Miedź S.A. Group”. In order to comply with the most important principles related to counteracting corruption in the KGHM Polska Miedź S.A. Group and in the companies of the KGHM Polska Miedź S.A. Group located in Poland and abroad, in 2020 the Management Board of KGHM Polska Miedź S.A. made a decision, based on a resolution on the implementation of the Anti-Corruption Management System in accordance with the PN-ISO 37001:2017 standard in the Divisions, the Head Office of KGHM Polska Miedź S.A. and the subsidiaries. Therefore, a number of training sessions were conducted for employees, including those preparing to serve as internal auditors and Plenipotentiaries for the Anti-Corruption Management System pursuant to PN-ISO 37001:2017.

In relation to the implementation of the PN-ISO 37001:2017 standard, in 2021 a new Anti-Corruption Policy was adopted for the KGHM Polska Miedź S.A. Group. The team appointed to carry out implementation work, with the support of an external expert, prepared, updated and developed new regulations in the area of counteracting corruption, in line with the requirements of the standard, aimed at ensuring the implementation of the Anti-corruption Policy in force, which were adopted by a resolution of the Management Board of KGHM Polska Miedź S.A. and are currently being implemented in all the entities of the Group.

The basis of the Anti-Corruption Activities Management System is Corruption Risk Management, based on the identification and assessment of corruption risk in individual processes carried out by entities of the Group. The adopted procedures regulate the process of managing Corruption Risk in the Group, including the management of corruption risk in relation to Supervised Organisations and Business Partners. They define in detail the standards for dealing with activities susceptible to corruption, including in the event of a conflict of interest, giving and accepting business gifts, contacts with public officials or events which might appear to be a corruption proposal. They also define responsibility for violating the provisions of the Anti-Corruption Policy and anti-corruption regulations.

In order to ensure the correct implementation of the adopted Security Policy and Anti-Corruption Policy in the KGHM Polska Miedź S.A. Group, units for security and loss prevention have been established in all divisions and in seven selected domestic companies, the work of which is regulated by the Instruction implemented in 2020. Ethics and Anti-Corruption Plenipotentiaries have been appointed in all domestic and international entities of the KGHM Polska Miedź S.A. Group. In 2019, the Procedure for Disclosing Improprieties and Protecting Whistleblowers in the Group was also updated, adapting it to the requirements of the amended Act on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. This procedure is aimed at enhancing the effectiveness of uncovering and resolving situations related to the occurrence of irregularities representing an abuse of regulations applied in the Group, in particular the Code of Ethics of the KGHM Group, the Security Policy and the Anti-corruption Policy. The procedure also defines the scope and conditions of Whistleblower protection.

In 2019, an additional channel for Whistleblowers was implemented – the „KGHM Ethics Line” platform, available on the corporate website for both employees and third parties, including counterparties and customers in four languages – Polish, English, Spanish and Russian. It enables the anonymous disclosure of irregularities and is an alternative channel for other forms of contact – telephone lines, email addresses and addresses for correspondence. All reports, in accordance with the internal regulations currently in force, are subject to verification and explanation.

In 2021, an investment project was launched to develop an IT tool supporting the handling and processing of reports from Whistleblowers. The planned date of completion of the work and the availability of the tool in the production version is the end of 2022. The development of the tool is the next step in perfecting the process and a response to the changing legal requirements, related to the entry into force of Directive (EU) 2019/1937 of the European Parliament and of the European Council of 23 October 2019, on the protection of persons who report breaches of Union law. Work is also underway on updating internal normative acts regarding the receipt of reports from Whistleblowers and their protection in order to ensure compliance with the EU directive and national regulations regarding the protection of persons reporting breaches of the law (currently a draft act).

In the entities of the KGHM Polska Miedź S.A. Group, an Internal Control Procedure was implemented, prepared by KGHM Polska Miedź S.A.'s Safety and Prevention of Losses Section. The audit conducted by the Safety and Prevention of Losses Section comprises the identification and uncovering of fraud, irregularities, abuse, corruption, mobbing, breaches of the Group's Code of Ethics and monitors the transparency of procurement processes.

Verification of contractors, including in terms of the risk of corruption and the possibility of a conflict of interest, is executed in accordance with the Verification Procedure in procurement, sales and investment processes implemented in 2019 by the Security Department of KGHM Polska Miedź S.A.

In 2020, the “ABCs of Conflicts of Interest. Corporate ethical handbook of KGHM Polska Miedź S.A.” was developed and published. The publication describes in a concise form the issue of conflicts of interest and the regulations on counteracting this phenomenon. It includes a questionnaire, thanks to which every employee can independently check whether the problem of a conflict of interest applies to them. In 2021, online training for employees of KGHM Polska Miedź S.A. was developed and launched on the educational platform concerning the issue of conflict of interest. Every year, educational and information campaigns, competitions and publications are prepared for employees on ethics and counteracting corruption.

In the entirety of the of the KGHM Polska Miedź S.A. Group, the Anti-Personal Abuse Procedure was implemented, enabling the effective prevention of mobbing in the workplace. A tool which supports the Employer in the question of prevention of mobbing, discrimination and breaches of employee rights are the Ethics Committees appointed in the Company and entities of the Group, examining suspected violations of ethical standards applicable in the Group.

Support work and work aimed at raising ethical standards and corporate governance will be continued in 2022.

19. REGULATORY FILINGS PUBLISHED AFTER THE BALANCE SHEET DATE

<i>Date of report</i>	<i>Contents</i>	<i>Section</i>
14 January 2022	Strategy of the KGHM Polska Miedź S.A. Group to 2030 with an outlook to 2040 The Management Board of the Company announced that the Supervisory Board of the Company approved the Strategy of the KGHM Polska Miedź S.A. Group to the year 2030 with an outlook to 2040 and provided the main strategic assumptions.	5
14 January 2022	Main assumptions of the Budget for 2022 The Management Board of KGHM Polska Miedź S.A. announced that the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group for 2022 and provided the main budgetary assumptions.	6.5
21 February 2022	Dismissal of a Member of the Management Board The Supervisory Board of the Company dismissed Dariusz Świdorski from the composition of the Management Board of KGHM Polska Miedź S.A., and at the same time initiated qualification proceedings aimed at verifying and assessing the candidates and appointing the best candidate to the function of Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.	17
14 March 2022	Appointment of a Member of the Management Board The Supervisory Board of the Company adopted a resolution on appointing Marek Świder as of 15 March 2022 to the Management Board of KGHM Polska Miedź S.A., granting him the function of Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.	17

In addition, in 2022 regulatory filings were published concerning preliminary production and sales data of the KGHM Polska Miedź S.A. Group for December 2021 (25 January 2022), and for January 2022 (22 February 2022).

APPENDIX 1 CORPORATE GOVERNANCE STATEMENT

INDICATION OF LEGAL BASIS AND COLLECTION OF CORPORATE GOVERNANCE PRINCIPLES WITH THE SCOPE OF ITS APPLICATION

The following Statement on the application of Corporate Governance was prepared in accordance with § 70 sec. 6 point 5) of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in the period from 1 January 2021 do 30 June 2021 was compliant with the corporate governance principles described in the document „Best Practice for GPW Listed Companies 2016”, which was adopted by the Warsaw Stock Exchange Supervisory Board on 13 October 2015 (this document is available on the official website of the Warsaw Stock Exchange at <https://www.gpw.pl/best-practice-archives> and in the archives of KGHM Polska Miedź S.A.'s corporate website of at <https://kghm.com/en/investors/corporate-governance>).

On 29 March 2021, the Supervisory Board of the Warsaw Stock Exchange via a Resolution No 13/1834/2021 adopted the document „Best Practice for GPW Listed Companies 2021” (hereafter “Best Practices”), in force from 1 July 2021. The content of the principles is available on the website of the Warsaw Stock Exchange devoted to this subject <https://www.gpw.pl/best-practice2021>, as well as on the corporate website of KGHM Polska Miedź S.A. in the corporate governance section <https://kghm.com/en/investors/corporate-governance>. Due to the above, a number of measures were taken to adjust KGHM Polska Miedź S.A. to the current trends in the area of corporate governance and market expectations, expressed in the content of the new Best Practices. KGHM Polska Miedź S.A. strives at every stage of its operations to apply the principles contained in the "Best Practices", taking into account the principles of proportionality and adequacy to the greatest possible extent.

In accordance with the published statement on the Company's compliance with the principles contained in the "Best Practices", the following principle does not apply to the Company:

Principle	Explanation
<p>Principle 3.7 which states that principles 3.4 to 3.6 apply also to members of the company's group which are material to its activity if they appoint persons to perform such tasks.</p> <p><i>(see principles 3.4. - the remuneration of persons responsible for risk and compliance management and of the head of internal audit should depend on the performance of delegated tasks rather than short-term results of the company.</i></p> <p><i>Principle 3.5. - persons responsible for risk and compliance management report directly to the president or other member of the management board.</i></p> <p><i>Principle 3.6. - the head of internal audit reports organisationally to the president of the management board and functionally to the chair of the audit committee or the chair of the supervisory board if the supervisory board performs the functions of the audit committee).</i></p>	<p>This principle is not applicable to the Company. The Company has not appointed persons to perform the tasks specified in principles 3.4-3.6. in entities of the Group, but has appointed persons in Group entities who serve as risk coordinators and report directly to persons responsible for risk management and compliance in the Parent Entity (i.e. in the Company). Moreover, in 2022, following completion of the development of an IT tool for the compliance function, it is expected that compliance coordinators will be appointed in these companies. The Company will also consider, in respect of group companies, the development of a structure which would meet the criteria of principles 3.4.-3.6. in terms of the risk management and compliance function. In Group entities the audit function is fulfilled by the Internal Audit Department of the Parent Entity (the Company).</p>

In accordance with the published statement on the Company's compliance with the principles contained in the "Best Practices", the following principles are not applied:

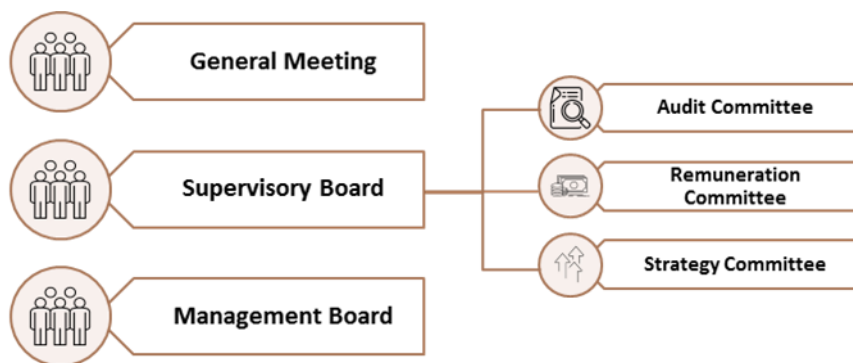
Principle	Explanation
<p>Principle 1.3.1 on integration of ESG factors in the business strategy, including in particular environmental factors, including measures and risks related to climate change and sustainable development.</p>	<p><u>The principle is partially applied.</u> The Company includes ESG and environmental themes in its business strategy, and is fully conscious of its impact on its surroundings and on the need for the Company to develop in compliance with the principles of sustainable development. The Company regularly reports on risk analysis, emissions (scope 1, 2 and, since July 2021, scope 3), energy usage, water intake and many other GRI indicators in the non-financial and integrated reports published by the Company. At present KGHM is developing more detailed solutions in terms of developing plans and strategic goals as regards climate, among others in the form of a Climate Policy which will include emissions reduction targets, yardsticks and</p>

Principle	Explanation
<p>Principle 1.3.2 on integration of ESG factors in the business strategy, including in particular social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations.</p>	<p>emissions scopes and scenario analyses, as well as detailed descriptions of the risks and opportunities related with climate change.</p> <p><u>The principle is partially applied.</u> The Company regularly publishes a broad range of information on its actions as regards social and employee issues, proper working conditions, respecting employee rights, dialogue with local communities and relations with its customers and stakeholders. In accordance with planned regulations, such as the SFDR, the Company will soon be providing information regarding employment at senior management levels broken down by gender as well as information on current and planned actions aimed at ensuring gender equality.</p>
<p>Principle 1.4.1 according to which a company publishes on their website information concerning the framework of the ESG strategy that should explain how the decision-making processes of the company and its group members integrate climate change, including the resulting risks.</p>	<p>At present the Company is developing more detailed solutions in terms of developing plans and strategic goals as regards climate change, among others in the form of a Climate Policy. This work includes, among others, detailed descriptions of the risks and opportunities related to climate change as well as the modelling of decision-making processes in the Company and Group entities in terms of questions related to climate change. The completion of this work will enable the appropriate information to be provided on the website.</p>
<p>Principle 2.1. which states that a company should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.</p>	<p><u>The principle is partially applied.</u> While the Company does not have a Diversity Policy as regards the Management Board and Supervisory Board, due to the international scope of its operations, cultural differences and the nature of the sector in which the Group operates, the "Declaration of Diversity of KGHM Polska Miedź S.A." has been implemented. In its operations the Company complies with discrimination prohibitions and undertakes actions aimed at respecting diversity in the workplace. An organisational culture is nurtured based on mutual respect, equality, access to development opportunities and optimal use of employee talent regardless of, among others: ethnic origin, age, gender, sexual orientation, nationality, citizenship, religious orientation, political convictions or trade union membership. The Company aims at ensuring reasonable diversity in the selection of persons to the management board and supervisory board. The practical application of the „Declaration of Diversity” results in fully respecting gender equality and sufficient selection in terms of expected skills, knowledge, experience and education. The management and supervisory teams are consequently composed of persons of various genders, ages and experiences. More information on the Company's approach to diversity in the management and supervisory bodies is presented further in this Corporate Governance Statement.</p>
<p>Principle 2.2. according to which persons taking decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.</p>	<p><u>The principle is partially applied.</u> As described in reference to principle 2.1, the Company does not currently have a Diversity Policy. Nonetheless the Company aims at ensuring reasonable diversity in terms of the members of the supervisory board and management board. The management and supervisory teams are composed of persons of various genders, ages and experiences. More information on the Company's approach to diversity in the management and supervisory bodies is presented further in this Corporate Governance Statement.</p>
<p>Principle 2.11.6. according to which, in addition to its responsibilities laid down in the legislation, the supervisory board prepares and presents an annual report to the annual general meeting once per year, includes the information regarding the degree of implementation of the diversity policy applicable to the management board and the supervisory board, including the achievement of goals referred to in principle 2.1.</p>	<p>The principle is not applied at present due to a lack of a Diversity Policy (see the explanation regarding the non-application of principle 2.1.)</p>

<i>Principle</i>	<i>Explanation</i>
Principle 3.3. according to which a company participating in the WIG20, mWIG40 or SWIG80 index appoints an internal auditor to head the internal audit function in compliance with generally accepted international standards for the professional practice of internal auditing. In other companies which do not appoint an internal auditor who meets such requirements, the audit committee (or the supervisory board if it performs the functions of the audit committee) assesses on an annual basis whether such person should be appointed.	<u>The principle is partially applied.</u> The Company has an Executive Director for Audit. As not all of the criteria for independence as understood in generally-recognised international internal audit standards are complied with, the Company partially applies the principle.
Principle 3.4. concerning the remuneration of persons responsible for risk and compliance management and of the head of internal audit should depend on the performance of delegated tasks rather than short-term results of the company.	<u>The principle is partially applied.</u> The remuneration of persons responsible for risk and compliance management and of the head of internal audit in the Company results from the Company's internal rules and from the Collective Labour Agreement, which links a part of the remuneration to the Company's profit for a given year as well as to EBITDA. At present, remuneration is partially linked to the achievement of specific tasks.
Principle 3.5. which states that persons responsible for risk and compliance management report directly to the president or other member of the management board.	The person responsible for risk and compliance management reports organisationally to the Executive Director for Audit, but in accordance with the Company's Organisational Regulations this person is ensured autonomy which is expressed among others by directly reporting to the Management Board and the Supervisory Board's Audit Committee.
Principle 4.1. according to which a company should enable their shareholders to participate in a general meeting by means of electronic communication (e-meeting) if justified by the expectations of shareholders notified to the company, provided that the company is in a position to provide the technical infrastructure necessary for such general meeting to proceed.	The principle is not applied at present. In the Company's opinion, introduction of the possibility of participation in general meetings using electronic means of communication may carry risks of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the Company's opinion, the principle of participation in the general meetings of KGHM Polska Miedź S.A. enables all shareholders to exercise the rights attached to owning the shares and protects the interests of all shareholders. The Company's Statutes do not restrict the participation of shareholders in general meetings in terms of the use of electronic means of communication, and the Company is able to ensure the requisite technical infrastructure to conduct such general meetings. The Company will consider the implementation of the principle if the technical and legal aspect no longer raise any doubts, and when such introduction will be justified by a real need for this form of communication with shareholders. Since 2016 KGHM Polska Miedź S.A. has been providing real-time streaming webcasts of its General Meetings.
Principle 4.8. according to which draft resolutions of the general meeting on matters put on the agenda of the general meeting should be tabled by shareholders no later than three days before the general meeting.	The Company applies the Commercial Partnerships and Companies Code in this regard. In the Company's opinion, this principle restricts the rights of shareholders to propose items for the agenda during general meetings.
Principle 4.9.1. which states that the candidates for members of the supervisory board should be nominated with a notice necessary for shareholders present at the general meeting to make an informed decision and in any case no later than three days before the general meeting; the names of candidates and all related documents should be immediately published on the company's website.	Years of practical experience by the Company have shown that proposals of a shareholder (pursuant to the shareholder's rights arising from the Commercial Partnerships and Companies Code) of candidates to the Supervisory Board usually occur during the course of a General Meeting, i.e. in breach of principle 4.9.1. In the Company's opinion, despite the fact that such announcements are made during the course of a General Meeting, candidates are assessed with due consideration, based on complete materials regarding the given candidate.
Principle 6.4. according to which as the supervisory board performs its	<u>The Company partially applies the principle.</u> The members of the Supervisory Board are remunerated regardless of the number of meetings

Principle	Explanation
responsibilities on a continuous basis, the remuneration of supervisory board members cannot depend on the number of meetings held. The remuneration of members of committees, in particular the audit committee, should take into account additional workload on the committee.	officially convened and held in a given calendar month. The Members of the Supervisory Board do not however receive remuneration if, for unjustified reasons, they do not take part in any of the meetings of the Supervisory Board officially convened and held in a given month. The members of the Committees do not receive additional remuneration. The partial lack of application of the principle is also due to implementation of the act dated 9 June 2016 on the principles of setting the remuneration of individuals managing certain companies.

Diagram 14. Corporate governance structure in KGHM Polska Miedź S.A.



MAIN CHARACTERISTICS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS AS APPLIED BY THE COMPANY IN THE PROCESS OF PREPARING SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

To ensure reliability and accuracy as well as compliance with general laws in force and internal regulations, the process of preparing the separate and consolidated financial statements is subject to internal audit and risk management systems, comprised of the following:

Supervision of the application of uniform accounting principles by the Parent Entity and the companies of the KGHM Polska Miedź S.A. Group during the process of preparing reporting packets to prepare the consolidated financial statements of the KGHM Polska Miedź S.A. Group	<p>In order to ensure truthfulness and accuracy in the keeping of the accounting records of the Parent Entity and the uniformity of the accounting principles applied when preparing the financial statements of Group subsidiaries, the Management Board of the Parent Entity has introduced for continuous use an Accounting Policy for the Group in accordance with International Financial Reporting Standards approved by the European Union which is regularly updated in compliance with new regulations.</p> <p>Control over the accounting policies applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of the Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems.</p> <p>The reporting packets of subsidiaries are also reviewed by appropriate services in the Parent Entity.</p>
Centralised financial and accounting services	<p>KGHM Polska Miedź S.A. performs its accounting activities within a centralised financial and accounting services structure. Bookkeeping in the Parent Entity is performed by the Accounting Services Center under the Head Office of KGHM Polska Miedź S.A. The centralisation of accounting services under a process model which provides for the transparent breakdown of duties and responsibilities ensures minimisation of the risk of bookkeeping errors and high-quality of financial statements. Actions are systematically being taken aimed at optimising the functioning of the accounting services structures and enhancing the security of the process of bookkeeping accounting services.</p>
Finance and accounting systems	<p>KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and sub-ledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards. The Parent Entity's solutions are implemented in the IT systems of the Group's entities.</p> <p>To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been</p>

introduced. Access to the resources of the financial and accounting system, as well as financial reporting, is limited by a system of authorisations that are granted to authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular review and audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

A key element in limiting the risk of errors and misstatements in accounting for economic activities are the actions taken which are aimed at increasing the use of IT tools to automate control over and the settlement of purchases by the Company. These actions include:

- the Workflow system of electronic document settlement and approval,
- the system for transmitting data between the system in the Parent Entity and IT systems in Group companies, and
- customer settlement based on e-invoices for procurement and sales.

Corporate risk management

Under the Corporate Risk Management Policy and Procedures and the Corporate Risk and Compliance Committee Rules, corporate risk management is an on-going process in the KGHM Polska Miedź S.A. Group. Risk factors associated with the Group's various operations are continuously identified, assessed and analysed in terms of their possible limitation.

The Department of Corporate Risk Management and Compliance is responsible for coordination of the entire corporate risk management process and for developing the methods and tools used by managers in the Parent Entity, its subsidiaries and projects, as well as for risk monitoring and escalation, and for reporting incidents.

These activities also comprise risk management with respect to the process of preparing the consolidated financial statements of the Group.

The process of corporate risk management is annually subjected to an effectiveness audit (in compliance with the guidelines of "Best Practice for GPW Listed Companies 2021").

Detailed information regarding the risk management system applied in the KGHM Polska Miedź S.A. Group is presented in section 12 of this report.

Internal audit

A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risks in the operations of KGHM Polska Miedź S.A. is the work carried out by the Internal Audit Department. This work also indirectly strengthens the process of preparing financial statements as well as their accuracy.

The Internal Audit Department carries out its tasks based on the "Audit Plan" for the given calendar year approved by the Management Board of KGHM Polska Miedź S.A. and assessed by the Audit Committee of KGHM Polska Miedź S.A.

The goal of an audit is to provide the Management Board and the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and in the Group's companies. Independently from internal audit and institutional control, the obligation fully remains in KGHM Polska Miedź S.A. for each employee to exercise self-control in respect of their duties and for all levels of management to exercise their control as part of their coordination and supervision duties.

External audit

In accordance with prevailing law, consolidated financial statements of the KGHM Polska Miedź S.A. Group are submitted for half-year review and annual auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Supervisory Board's Audit Committee and the report on the tender conducted by the Committee.

The appropriate entity to audit the financial statements of KGHM Polska Miedź S.A. for the years 2019-2021 is PricewaterhouseCoopers Polska spółka z ograniczoną odpowiedzialnością Audit sp.k.

As part of the audit work performed the certified auditor performs, on the basis of prevailing audit methodology, an independent evaluation of the accounting principles applied by Parent Entity in preparing the financial statements and the accuracy and reliability of the consolidated financial statements.

The effectiveness of the internal control system and the risk management system in the process of preparing the financial statements is confirmed by the unqualified report on the audit issued by the certified auditor from its audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Supervision over the process of financial reporting

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Supervisory Board's Audit Committee, which is appointed by the Supervisory Board of the Parent Entity. The Audit Committee, in accordance with its duties as set forth in the Act dated 11 May 2017 on certified auditors, auditing firms and public oversight, in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- conducts the process of selecting the entity entitled to audit financial statements of the Parent Entity to provide a recommendation to the Supervisory Board.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by this body, ensuring the reliability and accuracy of the data presented in the separate and consolidated financial statements of the KGHM Polska Miedź S.A. Group.

Proper management of the process of keeping records and preparing financial statements ensures the security and the high quality of the information.

GENERAL MEETING

The General Meeting (GM) of KGHM Polska Miedź S.A. is the Company's highest authority. It meets in either ordinary or extraordinary form, based on generally prevailing law, the Statutes of the Company and the "Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin". GMs are convened by the Company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a General Meeting. The General Meeting of the Company is convened by an announcement published on the Company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. A General Meeting may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are adopted by a simple majority of votes cast, unless the law or the Company's Statutes state otherwise. The principles for conducting a General Meeting are set forth by the Commercial Partnerships and Companies Code and the Company's Statutes. Additional issues related to the functioning of the General Meeting are regulated by the "Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin" adopted by the GM on 17 May 2010, which are available on the Company's website, www.kghm.com.

The duties of the General Meeting include in particular:

- 1) examining and approving the report of the Management Board on the Company's activity and the financial statements, including the financial statements of the Group, for the past financial year,
- 2) adopting resolutions on the distribution of profits or coverage of losses,
- 3) acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- 4) changing the subject of the Company's activity,
- 5) changes in the Company Statutes,
- 6) increasing or decreasing the share capital,
- 7) the manner and conditions for retiring shares,
- 8) merging, splitting and transforming the Company,
- 9) dissolving and liquidating the Company,
- 10) issuing convertible bonds or senior bonds,
- 11) consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,

- 12) all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- 13) purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years,
- 14) establishing principles of the remuneration of members of the Supervisory Board, and
- 15) establishing principles of the remuneration of members of the Management Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the register of entrepreneurs of the National Court Register. Changes in the Company Statutes are made by the General Meeting in accordance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, i.e. by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and relevant materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

SHAREHOLDERS AND THEIR RIGHTS

Detailed information on the ownership structure is presented in Section 11 of this report.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A.

Shareholders are entitled to exercise their voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form. All of the shares are bearer shares. Each share represents one vote.

There is no limitation to the transfer of ownership rights to the shares of the Company or with respect to the execution of voting rights on the shares of the Company, other than those generally prescribed by laws in force.

The Company has not issued securities which would grant special control rights in respect of the Company.

A shareholder is entitled in particular to the following:

- 1) to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital,
- 2) to announce draft resolutions and their justification during a General Meeting which are in regard to matters introduced to the agenda,
- 3) in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted,
- 4) to request that a matter included in the agenda be removed or not considered,
- 5) to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital.

SUPERVISORY BOARD

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory authority of KGHM Polska Miedź S.A., in all of the Company's functional areas. According to the Statutes of the Company, the Supervisory Board is composed of 7 to 10 members appointed by the General Meeting, 3 of whom are elected by the Company's employees. The Members of the Supervisory Board are appointed for a mutual term in the office, which lasts three years. The Supervisory Board selects from among its members a Chairman of the Supervisory Board, his Deputy and, if needed, a Secretary. The Supervisory Board should meet at least once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members. Voting shall be open unless otherwise provided for by law or if any member of the Supervisory Board requests a secret ballot.

The duties of the Supervisory Board include in particular the following:

- 1) evaluation of the separate and consolidated financial statements and the report of the Management Board on the Company's activities for the financial year,
- 2) evaluation of the Management Board's proposals for the distribution of profit or coverage of losses,
- 3) report annually in writing to the General Meeting on the results of the evaluations referred to in points 1 i 2,
- 4) submitting annual proposals to the General Meeting to discharge the members of the Board of Directors for the performance of their duties in the financial year,

- 5) examination and control of the Company's activities and financial status, and submission to the General Meeting of a concise assessment of the Company's situation on an annual basis,
- 6) selecting a statutory auditor to audit the accounts referred to in point 1,
- 7) determining the number of members of the Management Board for a given term of office,
- 8) appointment and dismissal of Management Board Members, subject to the provisions of Clause 12 of the Company's Articles of Association,
- 9) suspending individual or all Members of the Management Board for important reasons,
- 10) delegating a Member or Members of the Board to temporarily perform the duties of Members of the Company's Management Board who are unable to perform their duties,
- 11) fixing remuneration for members of the Management Board and other terms and conditions of their agreements or contracts,
- 12) approval of the Regulations of the Company's Management Board,
- 13) approval of the Company's annual and multi-annual business plans, including the Company Strategy and the annual budget,
- 14) giving its opinion on the Board's proposals to the General Assembly,
- 15) at the request of the Management Board giving its consent to:
 - a) acquisition and disposal of real estate, perpetual usufruct or share in real estate (no resolution of the General Meeting is required in this respect),
 - b) granting of sureties and loans to business entities in which the Company holds less than 1/3 of the votes from shares or stocks at the General Meetings / Shareholders' Meetings of such entities,
 - c) formation of and participation in commercial companies,
 - d) disposal of shares in the Company's subsidiaries,
 - e) establishment abroad of departments, companies, representative offices and other business units or entities,
 - f) subscription for or acquisition of shares in another Company,
 - g) establishment and winding-up of foundations,
 - h) entering into contracts for legal services, marketing services, public relations and social communication services and management consulting services, if the total remuneration for the services provided exceeds the net amount of PLN 500 000, on an annual basis,
 - i) entering into an amendment to a contract for legal services, marketing services, public relations and communication services and management consulting services, which increases the remuneration above the amount referred to in point (h),
 - j) entering into contracts for legal services, marketing services, public relations and communication services and management consulting services where no maximum remuneration is provided for,
 - k) entering into a donation or another similar agreement with a value exceeding PLN 20 000 or 0.1% of the total assets within the meaning of the Accounting Act of 29 September 1994, as determined on the basis of the last approved financial statements,
 - l) entering into a debt waiver or another similar agreement with a value exceeding PLN 50 000 or 0.1% of the total assets within the meaning of the Accounting Act of 29 September 1994, as determined on the basis of the last approved financial statements.
- 16) defining the manner of exercising voting rights by the representative of KGHM Polska Miedź S.A. at the General Meeting of companies with respect to which the Company is a dominant enterprise within the meaning of Article 4 (3) of the Act on Competition and Consumer Protection on the following matters:
 - a) incorporation by the company of another company;
 - b) amendments to the company's Memorandum or Articles of Association and objects of business;
 - c) merger, transformation, division, dissolution and liquidation of the company;
 - d) increase or reduction of the company's share capital;
 - e) sale and lease of the company's undertaking or its organised part and the creation of a limited right in rem thereon;
 - f) redemption of shares;
 - g) determination of remuneration of members of the Management Board and the Supervisory Board;
 - h) provisions concerning claims for damage caused by the formation of the company or by its management or supervision;
 - i) in the matters referred to in Article 17 of the Act of 16 December 2016, on the principles of state property management, subject to § 34 (4) of the Articles of Association.
- 17) expressing opinions on the Company's investments in fixed assets that meet one of the conditions:
 - a) an investment with a value exceeding 10% of the Company's fixed asset capital expenditure budget for the financial year,

- b) an investment of more than 5% of the Company's capital expenditure budget in fixed assets for a given financial year, if the investment does not meet the criterion of planned efficiency in comparison with the Company's assumed rate of return on capital.
- 18) giving an opinion on reports drawn up by the Management Board on representation expenses, expenses for legal services, marketing services, public relations and communication services and management consulting services,
 - 19) giving its opinion on the principles of sponsorship activities and assessing the effectiveness of the Company's sponsorship activities,
 - 20) giving an opinion on the change in the rules for disposing of fixed assets, as laid down in §331 of the Articles of Association,
 - 21) approving the remuneration policy for the Group,
 - 22) acceptance of a uniform text of the Company Statutes, prepared by the Management Board,
 - 23) drawing up and submitting to the Ordinary General Meeting for approval the annual report on the activities of the Supervisory Board,
 - 24) examining the assessment, submitted to the Supervisory Board, of the effectiveness of the internal control, risk management and compliance systems, as well as the internal audit function and the Management Board's report in this regard.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the Company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the Company are available on the Company's website www.kghm.com.

The composition of the Supervisory Board in 2021 was as follows:

	1 January – 20 April	20 April – 6 July	6 July – 16 August	16 August – 25 October	25 October – 31 December
Agnieszka Winnik-Kalemba	✓	✓	✓	✓ (Chairwoman)	✓ (Chairwoman)
Bartosz Piechota	✓	✓	✓	✓	✓
Marek Pietrzak	✓	✓	✓	✓	
Bogusław Szarek ⁽¹⁾	✓	✓	✓	✓	✓
Jarosław Janas	✓	✓	✓	✓	✓
Józef Czyczerski ⁽¹⁾	✓	✓	✓	✓	✓
Andrzej Kisielewicz	✓ (Chairman)	✓ (Chairman)	✓ (Chairman)	✓	✓
Katarzyna Lewandowska	✓				
Przemysław Darowski ⁽¹⁾	✓	✓	✓	✓	✓
Robert Kaleta			✓	✓	✓
Katarzyna Krupa			✓	✓	✓

⁽¹⁾ elected by Employees

As of 31 December 2021 the Members of the Supervisory Board of KGHM Polska Miedź S.A.: Andrzej Kisielewicz, Jarosław Janas, Agnieszka Winnik – Kalemba and Robert Kaleta submitted declarations on meeting independence criteria, specified in the Act of 11 May 2017 on Auditors, Audit Firms and Public Supervision, and have no actual and material relations with any shareholder who holds at least 5% of the total vote in the Company (principle 2.3. of Best Practices).

SUPERVISORY BOARD COMMITTEES

Within the structure of the Supervisory Board are three committees which serve in an auxiliary role to the Supervisory Board in the preparation of assessments, opinions and other actions aimed at reaching decisions which must be made by the Supervisory Board.

Audit Committee

The composition of the Audit Committee in 2021:

	1 January – 20 April	20 April – 23 August	23 August – 25 October	25 October – 20 December	20 December – 31 December
Agnieszka Winnik-Kalemba	✓ (Chairwoman)	✓ (Chairwoman)	✓	✓	✓
Bartosz Piechota	✓	✓	✓	✓	✓
Marek Pietrzak	✓	✓	✓ (Chairman)		
Bogusław Szarek	✓	✓	✓	✓	✓
Jarosław Janas	✓	✓	✓	✓	✓ (Chairman)
Katarzyna Lewandowska	✓				
Przemysław Darowski	✓	✓	✓	✓	✓
Robert Kaleta			✓	✓	✓
Katarzyna Krupa			✓	✓	✓

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:

- 1) monitoring of:
 - a) the financial reporting process,
 - b) the effectiveness of internal control systems and risk management systems, compliance monitoring as well as internal auditing, including financial reporting,
 - c) the conduct of financial review, in particular the conduct of audits by the auditor, reflecting all of the conclusions and recommendations of the Polish Audit Supervision Agency arising from audits conducted in the auditing firm,
- 2) conducting reviews of transactions carried out by the Company, which the Audit Committee considers as significant for the Company,
- 3) providing an opinion on the Company's internal audit plan and the internal audit bylaws, as well as changes in the position of Internal Audit Director who reports directly to the President or other Member of the Management Board,
- 4) analysis of the conclusions and recommendations of the Company's internal audit from monitoring the degree of implementation of recommendations made by the Company's Management Board,
- 5) auditing and monitoring the independence of the certified auditor and the auditing firm, in particular if the auditing firm provides services to the Company apart from auditing,
- 6) informing the Supervisory Board of audit results and explaining to what degree such audits have resulted in the transparency of financial reporting in the Company, and also the role of the Audit Committee in this process,
- 7) assessing the independence of the certified auditor and expressing consent for the certified auditor to provide permitted non-auditing services in the Company,
- 8) developing a policy to select the auditing firm for conducting audits,
- 9) developing a policy for the auditing firm conducting audits, through entities related to the said auditing firm and by a member of the auditing firm's network, to provide permitted non-auditing services,
- 10) setting forth the Company's procedures for selecting an auditing firm,
- 11) presenting the Supervisory Board with the recommendations referred to in art. 16 section 2 of Decree No. 537/2014 (i.e. recommendations regarding the appointment of a certified auditor or auditing firms), in accordance with the Policies in points 8 and 9 above,
- 12) submitting recommendations aimed at ensuring the transparency of the Company's financial reporting process,
- 13) making a recommendation to the Supervisory Board on the appointment of an independent auditor to review the internal audit function,
- 14) other tasks ordered by the Supervisory Board.

Members of the Audit Committee that met the criteria for independence as defined by art. 129 sec. 3 of the Act dated 11 May 2017 on certified auditors, auditing firms and public oversight:

- Agnieszka Winnik-Kalemba, Bartosz Piechota and Jarosław Janas serving in the functions from 1 January 2021 to 31 December 2021,
- Marek Pietrzak serving in the function from 1 January 2021 to 25 October 2021,
- Robert Kaleta serving in the function from 23 August 2021 to 31 December 2021.

The qualifications of the Committee's members in the areas of accounting or the auditing of financial statements, as well as knowledge and skills in the sector in which KGHM Polska Miedź S.A. operates, resulted from the education, experience and professional practice of the Committee's members. Following is detailed information on their qualifications in the areas of accounting or the auditing of financial statements as well as their knowledge and skills in the sector in which KGHM Polska Miedź S.A. operates.

In the period from 1 January 2021 to 25 October 2021 Marek Pietrzak was selected as a member possessing qualifications in the field of accounting or the auditing of financial statements, resulting from his education (among others the title of legal adviser and Executive Master of Business Administration and completion of post-graduate studies in accounting and corporate finance at the SGH Warsaw School of Economics), experience and professional practice (among others supervision and management of commercial law companies).

In the period from 25 October 2021 to 31 December Bartosz Piechota was selected as a member possessing knowledge and skills in accounting resulting from his education (among others, graduation from IESE Business School within the Advanced Management Program (AMP) experience and professional practice - performing the function of a member of the management board in commercial law companies, including the one responsible for the area of finance, performing the function of a member of supervisory boards, including the function of a member of audit committees of supervisory boards, consulting in restructuring processes and performing the function of a chairman of creditors' committees in restructuring proceedings.

Bogusław Szarek was selected as a member possessing knowledge and skills in the sector in which KGHM Polska Miedź S.A. operates resulting from many years of employment (since 1982) in KGHM Polska Miedź S.A. as well as being a member of the Supervisory Board of KGHM Polska Miedź S.A. since 2012, as a Member of the KGHM Polska Miedź S.A. Supervisory Board elected by employees.

In 2021 there were 11 meetings of the Audit Committee.

Remuneration Committee

Composition of the Remuneration Committee in 2021:

	1 January – 20 April	20 April – 23 August	23 August – 25 October	25 October – 31 December
Józef Czyczerski	✓	✓	✓	✓
Marek Pietrzak	✓	✓	✓	
Bogusław Szarek	✓	✓	✓	✓
Andrzej Kisielewicz	✓ (Chairman)	✓ (Chairman)	✓ (Chairman)	✓ (Chairman)
Jarosław Janas	✓	✓	✓	✓
Katarzyna Lewandowska	✓		✓	✓
Przemysław Darowski	✓	✓	✓	✓
Katarzyna Krupa			✓	✓
Agnieszka Winnik - Kalemba			✓	✓
Bartosz Piechota			✓	✓

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- 1) the management of issues related to the recruitment and employment of members of the Management Board by preparing and arranging draft documents and processes to be submitted for the acceptance of the Supervisory Board,
- 2) the preparation of draft contracts/agreements and other sample documents related to the establishment of an employment relationship with Members of the Management Board and oversight of the execution of the contractual obligations by the parties,
- 3) oversight of the execution of the Management Board remuneration system, in particular the preparation of settlement documents with respect to variable/exchangeable bonus elements of the remuneration in order to submit recommendations to the Supervisory Board on the remuneration of Members of the Management Board and Supervisory Board,
- 4) monitoring and periodic assessment of the remuneration system for the Company's senior management and, if necessary, the preparation of recommendations for the Supervisory Board,
- 5) oversight of the proper execution of additional benefits for Members of the Management Board arising from agreements binding Members of the Management Board with the Company, such as insurance, company cars, housing, etc.,
- 6) other tasks ordered by the Supervisory Board.

Strategy Committee

Composition of the Strategy Committee in 2021:

	1 January – 20 April	20 April – 23 August	23 August – 25 October	25 October – 31 December
Józef Czyczerski	✓	✓	✓	✓
Marek Pietrzak	✓	✓	✓	
Bogusław Szarek	✓	✓	✓	✓
Bartosz Piechota	✓ (Chairman)	✓ (Chairman)	✓ (Chairman)	✓ (Chairman)
Agnieszka Winnik-Kalemba	✓	✓	✓	✓
Katarzyna Lewandowska	✓			
Przemysław Darowski	✓	✓	✓	✓
Robert Kaleta			✓	✓

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- 1) execution on behalf of the Company's Supervisory Board of tasks in the area of oversight of issues associated with the Company's strategy and the annual and long-term operating plans of the Company,
- 2) monitoring execution of the Company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- 3) monitoring execution of the annual and long-term operating plans of the Company by the Management Board, and assessment of whether these plans need to be modified,
- 4) assessment of the consistency of the annual and long-term operating plans of the Company with the Company's strategy as executed by the Management Board, and the presentation of any proposed changes in all such Company's documents,
- 5) submission to the Company's Supervisory Board of its opinions regarding the draft strategies of the Company and any changes thereto and of the annual and multi-year operating plans of the Company, as presented by the Company's Management Board, including budget,
- 6) other tasks ordered by the Supervisory Board.

The detailed rights, scope of activities and manner of work of these Committees are described by bylaws approved by the Supervisory Board. After the end of the year the Audit, Remuneration and Strategy Committees submit reports on their activities to the Supervisory Board.

MANAGEMENT BOARD

The duties of the Management Board include all matters pertaining to the functioning of the Company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the Company to the duties of the General Meeting and the Supervisory Board. A detailed description of the Management Board's scope of duties and obligations and the manner in which it functions may be found in the Bylaws of the Management Board.

According to the Statutes of KGHM Polska Miedź S.A., the Company's Management Board may be composed of 1 to 7 persons, appointed for a mutual term of office. The term of office of the Management Board lasts three consecutive years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board and the Vice Presidents. The Supervisory Board appoints the members of the Management Board following the conduct of qualification proceedings, the goal of which is to review and evaluate the qualifications of candidates and to select the best candidate for Member of the Management Board, with due regard being given to sec. 5 and sections 7 to 12 of Statutes concerning the appointment or recall of an employee-elected member of the Management Board. The members of the Management Board, including any such chosen by the employees, may be recalled by the Supervisory Board prior to the expiration of their term, which in no way shall interfere with their rights arising from their employment contract or other legal relationship relating to their functioning as a member of the Management Board. The result of elections of an employee-elected member of the Management Board, or the result of voting for their recalling, shall be binding upon the Supervisory Board, as long as in the said voting for either their appointment or recalling at least 50% of the Company's employees have participated. The election and recall of an employee-elected member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the Company and the Bylaws of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are approved by a simple majority of the votes cast. In the case of a tie vote being cast either for or against a given resolution, the President of the Management Board casts the deciding vote. Resolutions of the Management Board shall be adopted in open voting unless otherwise provided for by law or if any member of the Management Board requests a secret ballot.

A detailed list of the matters requiring a resolution of the Management Board is included in the Bylaws of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the Company may be redeemed given shareholder consent through their acquisition by the Company (voluntary redemption). Redemption may not be carried out more than once per financial year. A resolution of the General Meeting on the redemption of shares may be preceded by an agreement entered into with a shareholder whose shares are to be redeemed. In accordance with §29 sec. 1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the Company). The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The delegation of duties of the Management Board is presented in Section 17 of this report. In 2021 there were following changes in the Management Board and the composition of the Management Board:

- on 23 March 2021 the Supervisory Board of the Company, having the intention to synchronize the term of office and the mandate, adopted resolutions on dismissing, as of 15 April 2021, of all members of the 10th-term Management Board of KGHM Polska Miedź S.A., listed as follows:
 - Marcin Chludziński (President of the Management Board of KGHM Polska Miedź S.A. appointed as of 6 July 2018),
 - Adam Bugajczuk (Vice President of Management Board (Development) appointed as of 24 August 2018),
 - Paweł Gruza (Vice President of Management Board (International Assets) appointed as of 10 September 2018),
 - Katarzyna Kreczmańska-Gigol (Vice President of Management Board (Finance) appointed as of 6 July 2018),
 - Radosław Stach (Vice President of Management Board (Production) appointed as of 6 July 2018).
- on 23 March 2021 the Supervisory Board of the Company adopted resolutions on the appointment, as of 16 April 2021, to the 11th-term Management Board of KGHM Polska Miedź S.A., the following Members of the Management Board:
 - Marcin Chludziński (President of the Management Board of KGHM Polska Miedź S.A.),
 - Adam Bugajczuk (Vice President of Management Board (Development)),
 - Paweł Gruza (Vice President of Management Board (International Assets)),
 - Andrzej Kensbok (Vice President of Management Board (Finance)).
- on 14 May 2021 the Supervisory Board of the Company adopted a resolution on the appointment of Dariusz Świdorski as of 15 May 2021, as Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.,
- on 25 October 2021 the Supervisory Board of the Company adopted a resolution on the appointment of Marek Pietrzak as of 26 October 2021, as Vice President of the Management Board (Corporate Affairs) of KGHM Polska Miedź S.A.,
- on 21 February 2022 the Supervisory Board of the Company adopted a resolution on dismissal of Dariusz Świdorski serving in the function of Vice President of the Management Board (Production) of KGHM Polska Miedź S.A.,

- on 22 February 2022 the Supervisory Board of the Company adopted a resolution on temporary assignment of duties of Vice President of the Management Board (Production) to Marek Pietrzak until the settlement of qualification proceedings for the function of Vice President of the Management Board (Production),
- on 14 March 2022, the Supervisory Board of the Company, following the qualification proceedings for the function of Vice President of the Management Board (Production), adopted a resolution on the appointment of Marek Świder as of 15 March 2022 to the Management Board of KGHM Polska Miedź S.A., granting him the function of Vice President of the 11th term Management Board (Production) of KGHM Polska Miedź S.A.

AUDIT FIRM AUDITING THE FINANCIAL STATEMENTS

Permitted non-auditing services were provided to the Company by the firm auditing its financial statements. In each case the Audit Committee evaluated the independence of the auditing firm and expressed its consent to the provision of these services.

Detailed information on remuneration of the entity entitled to audit the financial statements for the review and audit of financial statements and other remuneration is presented in note 12.10 of the separate and consolidated financial statements.

In 2021 the Company implemented an updated Policy of KGHM Polska Miedź S.A. for the selection of the auditing firm to conduct audits of the financial statements, adopted by Resolution No. 151/X/21 of the Supervisory Board of KGHM Polska Miedź S.A., dated 22 October 2021 (hereafter: Selection policy) and an updated Policy for permitted non-auditing services to be provided by the auditing firm conducting audits of the KGHM Polska Miedź S.A. Group through entities associated with the auditing firm and through members of the auditing firm's network, adopted by the Resolution No. 152/X/21 of the Supervisory Board of KGHM Polska Miedź S.A. dated 22 October 2021 (hereafter: Services policy).

Main tenets of the Selection policy:

- maximum uninterrupted period of providing services by a given auditing firm of audits of the financial statements amounting to 10 years, followed by a grace period of at least 4 years, with the provision that the key certified auditor may not carry out the statutory audit for more than 5 years,
- transparency, accuracy and honesty in all procedures involving the selection of the auditing firm,
- equal opportunity for all of the auditing firms meeting the Company's requirements to be selected,
- appropriate substantive preparation and due diligence of persons selected within the Company to carry out the Selection policy,
- documentation of selection procedures performed and evaluation of offers in a manner which ensures the transparency of the actions taken.

Main assumptions of the Services policy:

- limitation of the scope of permitted non-auditing services ordered from the auditing firm or a related entity thereof; maximum total remuneration for the services provided in this regard is limited to 70% of the average remuneration paid out during the last three financial years due to providing statutory auditing services,
- need to review the purpose and necessity for purchasing permitted non-auditing services from the auditing firm or a related entity thereof on an individual basis,
- active participation of the Audit Committee in the process of evaluating threats to and the security of the independence of the auditing firm in providing permitted non-auditing services,
- signing of an agreement and the providing of services, as well as any change in the scope of the services or remuneration thereof, will be possible only after the Audit Committee has provided the requisite consent.

The entity authorised to audit the financial statements for the years 2019-2021 is PricewaterhouseCoopers Polska Spółka z ograniczoną odpowiedzialnością Audyty sp.k. The selection of the auditing firm was made as a result of an organised procedure of selection, which met the existing criteria.

DIVERSITY POLICY APPLIED TO THE ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY

KGHM Polska Miedź S.A. applies best practice in promoting diversity with respect to its employees. As a global company, active on global markets, labour and employee relations standards are applied which are consistent with local laws in force, as well as with those defined by international institutions. Existing regulations and policies reflect the good of employees and mutual relations, based on best practice, regardless of the jurisdiction in which KGHM Polska Miedź S.A. operates.

KGHM Polska Miedź S.A. creates a non-discriminatory environment and workplace, and consequently no form of discrimination is tolerated, especially as regards gender, age, origin, citizenship, religion, political opinion and trade union membership.

KGHM Polska Miedź S.A. manages diversity by aiming at creating an organisational culture based on mutual respect, equal treatment, access to development opportunities and the utilisation of employee potential. The approach to management of diversity is defined by the „Declaration of Diversity of KGHM Polska Miedź S.A.”.

Moreover, in KGHM Polska Miedź S.A. the process of recruitment is conducted with full respect to the principles of diversity and equal access to employment. All candidates meeting the criteria set forth for a given recruitment process are treated

equally. The participants in this process adhere to the ban on discrimination. They endeavour to ensure a rational degree of diversity in the process of selecting individual employees, while maintaining the primacy of knowledge, substantive skills and social ability.

The management of diversity also applies to members of the Supervisory Board and Management Board of KGHM Polska Miedź S.A. The management and supervisory board members are diverse in terms of gender, age and experience:

Table 52. Structure of diversity amongst management and supervisory board members of the Company as at 31 December 2021

Structure of gender diversity	Women		Men	
	Supervisory Board of KGHM Polska Miedź S.A.	2		7
Management Board of KGHM Polska Miedź S.A.	-		6	

Structure of age diversity	<40 years	40-50 years	51-60 years	>60 years
	Supervisory Board of KGHM Polska Miedź S.A.	-	4	2
Management Board of KGHM Polska Miedź S.A.	-	4	2	-

Employment in KGHM Polska Miedź S.A.	<5 years	5-10 years	11-20 years	>20 years
	Supervisory Board of KGHM Polska Miedź S.A.	6	1	-
Management Board of KGHM Polska Miedź S.A.	4	1	-	1

APPENDIX 2 KGHM POLSKA MIEDŹ S.A. GROUP STRUCTURE

Percentages represent the total share of the Group.

KGHM Polska Miedź S.A.					
PeBeKa S.A.	100%	CBJ sp. z o.o.	100%	KGHM (SHANGHAI) COPPER TRADING CO., LTD.	100%
BIPROMET S.A.	100%	INOVA Spółka z o.o.	100%	TUW-CUPRUM ⁽²⁾	100%
KGHM TFI S.A.	100%	KGHM CUPRUM sp. z o.o. - CBR,	100%	Zagłębie Lubin S.A.	100%
KGHM VII FIZAN	100%	POL-MIEDŹ TRANS Sp. z o.o.	100%	„MCZ” S.A.	100%
Fundusz Hotele 01 Sp. z o.o.	100%	PMT Linie Kolejowe Sp. z o.o.	100%	Cuprum Nieruchomości sp. z o.o.	100%
Fundusz Hotele 01 Sp. z o.o. S.K.A.	100%	KGHM ZANAM S.A.	100%	KGHM Centrum Analityki sp. z o.o.	100%
INTERFERIE S.A.	70%	OOO ZANAM VOSTOK	100%	Future 3 Sp. z o.o.	100%
Interferie Medical SPA Sp. z o.o.	90%	„Energetyka” sp. z o.o.	100%	Future 4 Sp. z o.o.	100%
Cuprum Development sp. z o.o.	100%	WPEC w Legnicy S.A.	100%	Future 5 Sp. z o.o.	100%
Polska Grupa Uzdrawisk Sp. z o.o.	100%	KGHM Metraco S.A.	100%	Future 7 Sp. z o.o. in liquidation	100%
Uzdrowisko Połczyn Grupa PGU S.A.	100%	CENTROZŁOM WROCŁAW S.A.	100%	MERCUS Logistyka sp. z o.o.	100%
Uzdrowiska Kłodzkie S.A. - Grupa PGU	100%	Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	85%	PHU „Lubinpex” Sp. z o.o.	100%
Uzdrowisko Świeradów - Czerniawa Sp. z o.o. - Grupa PGU	99%	Future 1 Sp. z o.o.	100%	NITROERG S.A.	87%
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	99%	KGHM Kupfer AG	100%	NITROERG SERWIS Sp. z o.o. ⁽³⁾	87%
NANO CARBON Sp. z o.o. in liquidation ⁽¹⁾	49%	KGHM INTERNATIONAL LTD. Group	100%		

1) joint venture accounted for using the equity method

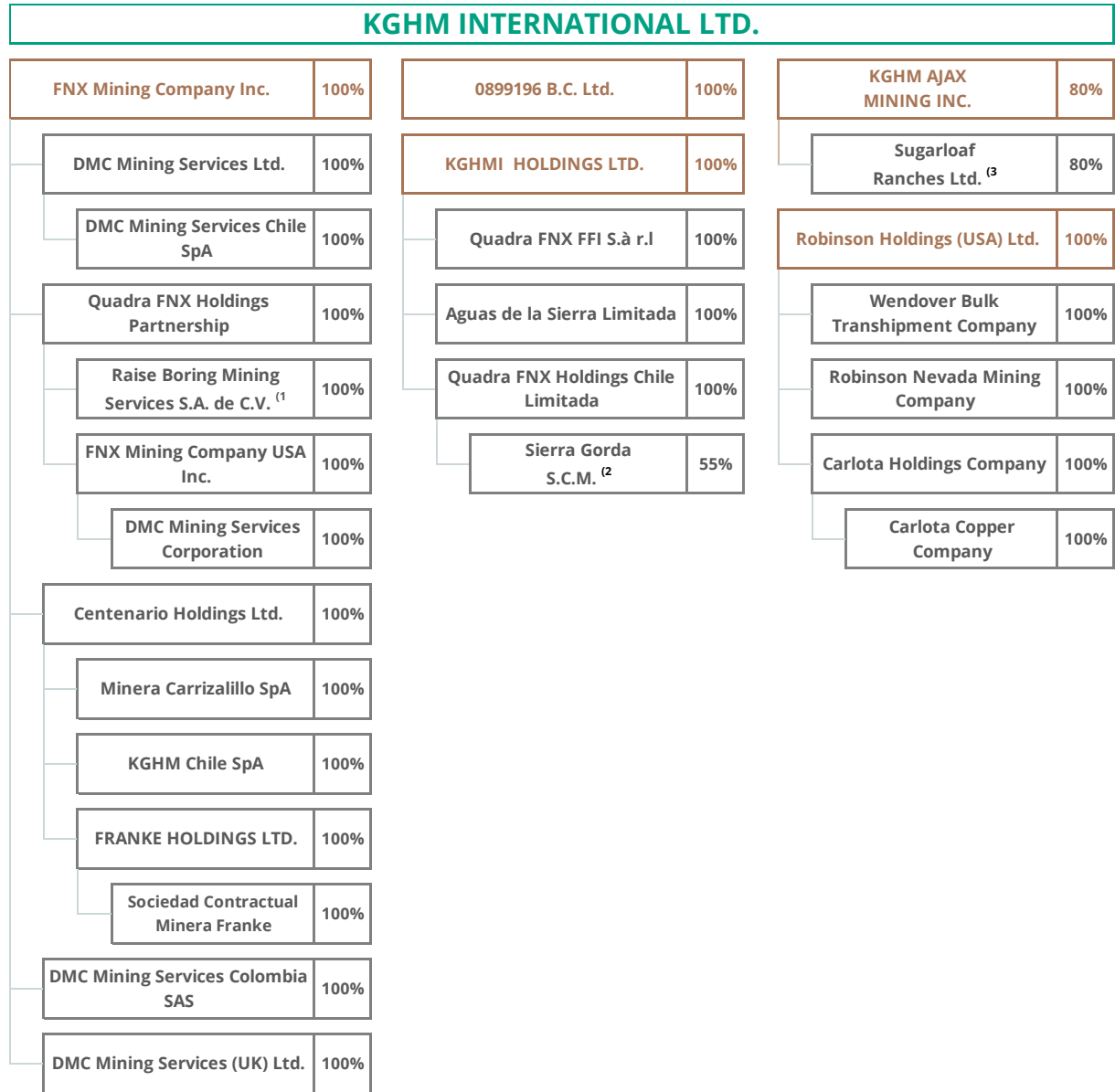
2) unconsolidated subsidiary

3) actual Group interest - 87%

↓
KGHM INTERNATIONAL LTD. Group structure presented in Appendix 3

APPENDIX 3 KGHM INTERNATIONAL LTD. GROUP STRUCTURE

Percentages represent the total share of the Group.



1) name changed to DMC Mining Services Mexico, S.A. de C.V. (as at 11 February 2022)

2) joint venture accounted for using the equity method

3) actual Group interest - 80%

APPENDIX 4 ACTIVITIES OF SUBSIDIARIES AND JOINT VENTURES OF KGHM POLSKA MIEDŹ S.A.**COMPANIES IN POLAND**

<i>Entity</i>	<i>Head Office</i>	<i>Activities</i>
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka” sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy; water-sewage management; trade in oil-based products
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological/exploration drilling)
KGHM ZANAM S.A.	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; advancement of investments; steel construction services; roadway cargo transport
KGHM CUPRUM sp. z o.o. - CBR	Poland	design and R&D activities
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
INOVA the Company z o.o.	Poland	design and production – innovative solutions in electrical engineering, automated equipment and communication systems; certification and attestation of machinery and equipment
KGHM Metraco S.A.	Poland	trade and processing of non-ferrous metals scrap; rhenium recovery from acidic industrial waste; processing of shaft slag into road-building material and sale of such; trading in salt; recovery of copper and silver from smelter tiles; trading in chemical factors
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport
NITROERG S.A.	Poland	production of explosives, fuel additives and initiating systems
MERCUS Logistyka sp. z o.o.	Poland	materials logistics; trade in consumer goods; production of bundled electrical cables and hydraulic cables; passenger roadway transport
NITROERG SERWIS Sp. z o.o.	Poland	comprehensive drilling and blasting work for mines, sales of explosives and initiating systems
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of metallurgical products and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
PHU „Lubinpex” Sp. z o.o.	Poland	gastronomic, commercial and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	authorized management of railway infrastructure
KGHM TFI S.A.	Poland	creation and management of investment funds
INTERFERIE S.A.	Poland	hotel services combining active recreation with sanatorium-healing, rehabilitation, SPA and wellness services
Interferie Medical SPA Sp. z o.o.	Poland	hotel, recreation, rehabilitation, health tourism and wellness services
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
Uzdrowiska Kłodzkie S.A. - Grupa PGU Uzdrowisko Polczyn Grupa PGU S.A. Uzdrowisko Cieplice sp. z o.o. – Grupa PGU Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU	Poland	services in the following areas: spa-healing, sanatorium, preventative medicine, rehabilitation, biological renewal, recreation based on natural healing materials and bioclimatic conditions
Fundusz Hotele 01 Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. S.K.A.	Poland	special-purpose companies operating within the structures of the KGHM VII FIZAN investment fund
Polska Grupa Uzdrowisk Sp. z o.o.	Poland	centre of common services for entities operating within the structures of the investment fund
KGHM VII FIZAN	Poland	closed-end, non-public investment fund - investing cash

<i>Entity</i>	<i>Head Office</i>	<i>Activities</i>
„MCZ” S.A.	Poland	hospital services; medical practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work, general realisation of investments, rental of real estate
Cuprum Development sp. z o.o.	Poland	activities related to real estate market services, construction services, design work and financing
Cuprum Nieruchomości sp. z o.o.	Poland	company not engaged in operations
KGHM Centrum Analityki sp. z o.o.	Poland	support of data analysis in the Group, including BigData creation
Future 3 Sp. z o.o.		
Future 4 Sp. z o.o.		
Future 5 Sp. z o.o.	Poland	companies not engaged in operations
Future 7 Sp. z o.o. in liquidation		
NANO CARBON Sp. z o.o. in liquidation	Poland	production of graphene and research into its properties
Towarzystwo Ubezpieczeń Wzajemnych CUPRUM ⁽¹⁾	Poland	insurance services on a reciprocal basis

¹⁾ Entity excluded from consolidation

INTERNATIONAL COMPANIES (AND FUTURE 1 SP. Z O.O.)

<i>Entity</i>	<i>Head Office</i>	<i>Activities</i>
DIRECT SUBSIDIARIES		
Future 1 Sp. z o.o.	Poland	management and control of other companies, including the KGHM INTERNATIONAL LTD. Group
KGHM (SHANGHAI) COPPER TRADING CO. LTD.	China	Service and coordination activities involving copper/rhenium sales and procurement support
INDIRECT SUBSIDIARIES		
COMPANIES BELONGING TO Future 1 Sp. z o.o.		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of companies in the KGHM INTERNATIONAL LTD. Group
KGHM Kupfer AG	Germany	in 2021 did not engage in operations
COMPANIES BELONGING TO KGHM INTERNATIONAL LTD.		
KGHM Ajax Mining Inc.	Canada	development of copper mining projects
Sugarloaf Ranches Ltd.	Canada	agricultural activities (this company owns assets in the form of land designated for future mining activities related to the Ajax project)
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper
Carlota Copper Company	USA	copper ore leaching, production and sale of copper
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Robinson Holdings (USA) Ltd.	USA	technical and management services
DMC Mining Services Corporation	USA	contract mining services
KGHM Chile SpA	Chile	management and exploration services
Minera Carrizalillo SpA	Chile	the ownership of water and deposits rights
Wendover Bulk Transshipment Company	USA	shipment services
Raise Boring Mining Services, S.A. de C.V. (from 11 February 2022 DMC Mining Services Mexico, S.A. de C.V.)	Mexico	mine drilling services
KGHMI Holdings Ltd.	Canada	the management and control of other companies

<i>Entity</i>	<i>Head Office</i>	<i>Activities</i>
Carlota Holdings Company	USA	the management and control of other companies
Quadra FNX FFI S.à r.l.	Luxembourg	financial services
Centenario Holdings Ltd.	Canada	the management and control of other companies
Franke Holdings Ltd.	Canada	the management and control of other companies
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
FNX Mining Company USA Inc.	USA	the management and control of other companies
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 B.C. Ltd.	Canada	the management and control of other companies
DMC Mining Services Ltd.	Canada	contract mining services
DMC Mining Services Chile SpA	Chile	contract mining services
Sierra Gorda S.C.M.	Chile	the operation of an open-pit copper and molybdenum mine
DMC Mining Services Colombia SAS	Colombia	contract mining services
DMC Mining Services (UK) Ltd.	United Kingdom	contract mining services
SUBSIDIARY OF KGHM ZANAM S.A. (99%) and Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. (1%)		
Obszczestwo s ograniczennoj otwietstwiennostju ZANAM VOSTOK	Russian Federation	sale and after-sales service of mining machinery produced by KGHM ZANAM S.A.

LIST OF TABLES, CHARTS AND DIAGRAMS

TABLES

Table 1.	Changes in the Group's structure and organisation (Polish assets) in 2021	20
Table 2.	Changes in the Group's structure and organisation (international assets) in 2021	21
Table 3.	Macroeconomic factors significant for the operations of the KGHM Polska Miedź S.A. Group.....	26
Table 4.	Production in the Group.....	50
Table 5.	C1 cost of producing payable copper in the Group	51
Table 6.	Financial results of the Group	52
Table 7.	Main factors impacting the change in profit or loss of the Group	52
Table 8.	Cash flow of the Group.....	53
Table 9.	Consolidated assets	54
Table 10.	Consolidated equity and liabilities.....	55
Table 11.	2021 targets versus achievements and targets for 2022	56
Table 12.	Net debt structure of the Group.....	57
Table 13.	Net debt structure of the Parent Entity	57
Table 14.	Amount available and drawn by the Group.....	59
Table 15.	Net debt / EBITDA of the Group.....	59
Table 16.	The most significant ¹ loans granted by companies of the Group as at 31 December 2021	60
Table 17.	The loans granted by companies of the Group in 2021	61
Table 18.	Mine production of KGHM Polska Miedź S.A.	63
Table 19.	Metallurgical production of KGHM Polska Miedź S.A.....	63
Table 20.	Sales volume of basic products of KGHM Polska Miedź S.A.	65
Table 21.	Revenues from contracts with customers of KGHM Polska Miedź S.A.	65
Table 22.	Expenses by nature of KGHM Polska Miedź S.A.	66
Table 23.	Basic items of the statement of profit or loss of KGHM Polska Miedź S.A.	68
Table 24.	Main factors impacting the change in profit or loss of KGHM Polska Miedź S.A.	68
Table 25.	Statement of cash flows of KGHM Polska Miedź S.A.	70
Table 26.	Assets of KGHM Polska Miedź S.A.	71
Table 27.	Equity and liabilities of KGHM Polska Miedź S.A.	72
Table 28.	Structure of expenditures on property, plant and equipment and intangible assets of KGHM Polska Miedź S.A.....	73
Table 29.	Production of KGHM INTERNATIONAL LTD.	75
Table 30.	Volume and sales revenue of KGHM INTERNATIONAL LTD.	75
Table 31.	Sales revenue of KGHM INTERNATIONAL LTD.	75
Table 32.	C1 payable copper production cost of KGHM INTERNATIONAL LTD.	76
Table 33.	Financial results of KGHM INTERNATIONAL LTD. (in USD million)	76
Table 34.	Financial results of KGHM INTERNATIONAL LTD. (in PLN million).....	76
Table 35.	Key factors impacting the change in financial result of KGHM INTERNATIONAL LTD.	77
Table 36.	Cash expenditures of KGHM INTERNATIONAL LTD. (in USD million).....	77
Table 37.	Cash expenditures of KGHM INTERNATIONAL LTD. (in PLN million)	78
Table 38.	Production of copper, molybdenum and precious metals by Sierra Gorda S.C.M.....	79
Table 39.	Sales volume and revenues of Sierra Gorda S.C.M.	79
Table 40.	Cost of sales, selling costs and administrative expenses and production cost of payable copper (C1) of Sierra Gorda S.C.M.....	80
Table 41.	Results of Sierra Gorda S.C.M. in USD million	80
Table 42.	Results of the segment Sierra Gorda S.C.M. proportionally to the interest held (55%) in PLN million.....	81
Table 43.	Main factors impacting the change in the financial result of the segment Sierra Gorda S.C.M.....	81
Table 44.	Cash expenditures of Sierra Gorda S.C.M.....	82
Table 45.	Financial results of other segments	83
Table 46.	Shareholder structure as at 31 December 2021 and at the date this report was signed	84
Table 47.	Key share price data of the Company on the Warsaw Stock Exchange.....	86
Table 48.	Brokerages which prepare reports on KGHM Polska Miedź S.A.	87
Table 49.	Average employment in the Group.....	110
Table 50.	Average employment in KGHM Polska Miedź S.A.....	110
Table 51.	Potentially-due remuneration of Members of the Management Board of KGHM Polska Miedź S.A. for 2021.	133
Table 52.	Structure of diversity amongst management and supervisory board members of the Company as at 31 December 2021 ..	153

CHARTS

Chart 1.	Forecasts of real GDP growth per the International Monetary Fund from January 2022 versus previous forecasts	25
Chart 2.	Change in commodities prices in 2021	25
Chart 3.	Copper price (average monthly) per the London Metal Exchange	27
Chart 4.	Silver price (average monthly) per the London Bullion Market Association	27
Chart 5.	Molybdenum price (average monthly) per the CRU	28
Chart 6.	USD/PLN exchange rate (average monthly) per the National Bank of Poland	28
Chart 7.	USD/CAD exchange rate (average monthly) per the Bank of Canada	29
Chart 8.	USD/CLP exchange rate (average monthly) USD/CLP per the Bank of Chile	29
Chart 9.	Geographical breakdown of copper concentrates production in 2021	30
Chart 10.	Geographical breakdown of refined copper production in 2021	31
Chart 11.	Geographical breakdown of refined copper consumption in 2021	31
Chart 12.	Geographical breakdown of copper wire rod production in 2021	32
Chart 13.	Geographical breakdown of global wire rod consumption in 2021	32
Chart 14.	Geographical breakdown of global mined silver production in 2021	33
Chart 15.	Greenhouse gas emissions at production divisions of KGHM in 2020	47
Chart 16.	Power sources of KGHM Polska Miedź S.A. in 2021	49
Chart 17.	Geographic structure of Group sales	51
Chart 18.	Product structure of Group sales	51
Chart 19.	Change in profit/loss for 2021	53
Chart 20.	Cash flow in 2021	54
Chart 21.	Change in assets in 2021	54
Chart 22.	Change in equity and liabilities in 2021	55
Chart 23.	Production of electrolytic copper (thousand tonnes) and metallic silver	64
Chart 24.	Sales revenue of KGHM Polska Miedź S.A. by market	66
Chart 25.	Structure of expenses by nature in 2021	67
Chart 26.	Cost of producing payable copper in concentrate – C1	67
Chart 27.	Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate	67
Chart 28.	Change in profit for the period of KGHM Polska Miedź S.A.	70
Chart 29.	Cash flow of KGHM Polska Miedź S.A.	71
Chart 30.	Change in assets of KGHM Polska Miedź S.A. in 2021	71
Chart 31.	Change in equity and liabilities of KGHM Polska Miedź S.A. in 2021	72
Chart 32.	Structure of expenditures on the replacement of equipment	73
Chart 33.	Structure of expenditures on maintaining mine production	74
Chart 34.	Structure of expenditures on development	74
Chart 35.	Change in profit or loss of KGHM INTERNATIONAL LTD.	77
Chart 36.	Change in profit/loss for the period	82
Chart 37.	Geographic shareholder structure of KGHM Polska Miedź S.A.	84
Chart 38.	Percentage change of share price of KGHM Polska Miedź S.A. versus the WIG index and FTSE 350 mining index	85
Chart 39.	Structure of employment in the Group in 2021	110
Chart 40.	LTIFR _{KGHM} ratio in the Parent Entity	116
Chart 41.	TRIR ¹⁾ ratio in KGHM INTERNATIONAL LTD.	117

DIAGRAMS

Diagram 1.	Business model of the KGHM Polska Miedź S.A. Group	9
Diagram 2.	Reporting segments of the KGHM Polska Miedź S.A. Group	10
Diagram 3.	Organisational structure of the Company as at 31 December 2021	11
Diagram 4.	Location of the production assets of the KGHM Polska Miedź S.A. Group	12
Diagram 5.	Integrated geological, mining and metallurgical activities in KGHM Polska Miedź S.A.	17
Diagram 6.	Simplified flowchart of the core business of the KGHM INTERNATIONAL LTD. Group	19
Diagram 7.	Mission, Vision and Development Directions of the Strategy of KGHM Polska Miedź S.A.	35
Diagram 8.	5 Pillars based on 5 updated development directions in the Strategy of KGHM Polska Miedź S.A.	35
Diagram 9.	Emission reduction targets of KGHM Polska Miedź S.A. and the main directions of decarbonisation	37
Diagram 10.	Emissions reduction targets of KGHM and main decarbonisation directions	47
Diagram 11.	Corporate risk management process	89
Diagram 12.	Organisational structure of risk management in KGHM Polska Miedź S.A.	91
Diagram 13.	Risk categories in the Risk Model of KGHM Polska Miedź S.A. and their definitions	92
Diagram 14.	Corporate governance structure in KGHM Polska Miedź S.A.	143

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD

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of the Management Board

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Vice President
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