

Assessment of the Company's standing with an evaluation of the adequacy and effectiveness of the internal control, risk management and compliance systems in terms of standards or applicable practices, and the internal audit function

*[Adopted by Resolution No. 65/XI/23 of the Supervisory Board of KGHM Polska Miedź S.A. dated 11 May 2023]*

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## **1. Introduction**

In accordance with principle 2.11.3. of the „Best Practice for GPW Listed Companies 2021” (hereafter „DPSN 2021”) the Supervisory Board prepares and presents to the Ordinary General Meeting for its approval the annual financial statements, which among others contain an assessment of the standing of the Company on a consolidated basis, including an evaluation of the internal control, risk management and compliance systems and the internal audit function, with information on the actions taken by the Supervisory Board of KGHM Polska Miedź S.A. in performing this assessment. This assessment comprises all of the important control mechanisms, including in particular those involving reporting and the operations.

Moreover, in accordance with art. 382 §3<sup>1</sup> of the Commercial Partnerships and Companies Code, Supervisory Board reports shall include an assessment of the Company's standing, with an evaluation of the adequacy and effectiveness of the internal control, risk management and compliance systems in terms of standards or applicable practices, and the internal audit function.

This assessment of the standing of KGHM Polska Miedź S.A. (hereafter: „the Company”) for 2022 on a consolidated basis, including an evaluation of the internal control, risk management and compliance systems and the internal audit function, was prepared among others based on documents received from the Management Board of KGHM Polska Miedź S.A. (hereafter: „the Management Board”) and from persons managing risk and compliance and also managing internal audit regarding information on the effectiveness of these functions, discussions held with the participation of the Management Board and other individuals invited to attend meetings of the Supervisory Board of KGHM Polska Miedź S.A. (hereafter: „the Supervisory Board”), and also takes into account the financial statements and the reports of the Management Board on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group, and based on the conclusions from the audit of the Company's accounts by a Certified Auditor and other audits.

## **2. Economic results of the Company in 2022**

### **2.1 Production**

In 2022 extraction of ore was more than 1% higher compared to the prior year which, given a slightly lower copper content, was the deciding factor in the slightly higher than in 2021 amount of copper in extracted ore, which amounted in 2022 to 442.7 thousand tonnes.

The Company achieved electrolytic copper production in the amount of 586.0 thousand tonnes, exceeding the amount from 2021 by 1%. The improvement was achieved as a result of the optimisation of production capacity by increasing consumption of purchased copper-bearing materials.

Metallic silver production amounted to 1 298 tonnes, or 3% lower than in 2021, among others due to lower content of silver in extracted ore.

The production of other metallurgical products derives from the level of electrolytic copper production and on the Company's response to market demand.

### **2.2 Macroeconomic conditions in 2022**

In 2022 the average price of copper on the LME amounted to 8 797 USD/t compared to 9 317 USD/t in 2021. The lowest level was recorded on 15 July, when the price of copper amounted to 7 000 USD/t. During the year copper fell by 13% (first versus last day of the year).

It should however be pointed out that due to the weakening of the Polish zloty (4.46 USD/PLN versus 3.86 USD/PLN in 2021) the price of copper in PLN (39 037 PLN/t – the daily LME price after NBP fixing) was 8% higher than that recorded in 2021.

### **2.3 Revenues from sales**

In 2022, the volume of copper sales by the Company amounted to 565.0 thousand tonnes, versus 561.5 thousand tonnes in the prior year. In 2022, sales of copper cathodes amounted to 279.7 thousand tonnes, or an increase by 0.1% compared to 2021, while sales of wire rod and OFE rod increased by 2%, reaching in 2022 the level of 282.3 thousand tonnes. The structure of sales of copper products was due to continuing high demand throughout the year for more highly-processed products, with higher margins compared to copper cathodes.

The volume of metallic silver sales in 2022 amounted to 1 338 tonnes, or an increase by 7% versus 2021, with production lower by 3%. Inventories of silver at the end of 2022 were allocated to satisfy the schedule of sales in 2023.

Total revenues from sales of KGHM Polska Miedź S.A. in 2022 amounted to PLN 28 429 million, or an increase by 15% versus 2021, when revenues amounted to PLN 24 618 million.

The increase in revenues from contracts with customers compared to the prior year by PLN 3 811 million was mainly due to higher prices of copper, silver and gold (+PLN 1 683 million) and higher volume (+PLN 427 million) as well as a lower than in the prior year negative adjustment of revenues due to hedging transactions (+PLN 1 469 million).

## **2.4 Cost of sales, selling costs and administrative expenses**

The Company's cost of sales, selling costs and administrative expenses in 2022 amounted to PLN 24 463 million, or an increase by 19% compared to 2021. The increase was mainly with respect the increase in electrolytic copper production by 8.4 thousand tonnes copper as well as to a significant increase in the purchase price of technological materials, fuels and energy due to the current market situation.

Total expenses by nature for 2022 compared to 2021 were higher by 18%, mainly due to higher costs:

- consumption of purchased metal-bearing materials by PLN 1 727 million (higher amount by 15 thousand tonnes and higher price by 16%),
- consumption of materials and energy (+PLN 1 718 million) – mainly due to higher prices of natural gas, electricity, coke and technological materials,
- labour (+PLN 583 million) – due to an increase in remuneration rates,
- external services (+PLN 354 million) – mainly due to an increase in transportation services, repairs and maintenance and mine development work,
- depreciation/amortisation (+PLN 69 million) - an increase due to investments advanced in prior periods,

with a lower minerals extraction tax charge by PLN 502 million.

The unit cash cost of producing payable copper in concentrate C1 amounted to respectively: in 2021, 2.26 USD/lb and in 2022, 2.38 USD/lb. The increase in this cost by 5% was mainly due to the higher costs of materials, external services and labour described above, but also to a lower valuation of by-products due to a decrease in silver prices. Positive impact on this cost came from a strengthening in the USD as compared to the PLN and to a lower minerals extraction tax charge.

## **2.5 Financial results and financial condition of the Company at the end of 2022**

In 2022, the Company recorded a result on adjusted EBITDA of PLN 5 400 million and profit for the period of PLN 3 533 million. This means that EBITDA remained at a level slightly lower than the amount recorded in the prior year (-1%) and a lower profit for the period by 32%.

The main reason for the decrease in profit for the period was the reversal in 2021 of impairment losses on the shares of the subsidiary Future 1 Sp. z o.o. in the amount of PLN 1 010 million (this entity indirectly holds 100% of the shares of KGHM INTERNATIONAL LTD.) and a lower than in 2021 reversal of impairment losses on financial instruments measured at amortised cost (a decrease in measurement from PLN 807 million to PLN 213 million), mainly in respect of loans granted to entities of the KGHM Polska Miedź S.A. Group.

Also of significance was the decrease in fair value gains on financial assets measured at fair value through profit or loss, from PLN 1 070 million to PLN 631 million (mainly in respect of loans).

On the other hand the decrease in the result due to the aforementioned factors was partially offset by the improvement in the result on the measurement and realisation of derivatives (+PLN 214 million), the lack of impairment losses on shares and investment certificates in subsidiaries (+PLN 182 million), the impact of exchange differences (+PLN 148 million) and lower income tax (+PLN 84 million).

Net cash generated from operating activities in 2022 amounted to +PLN 1 791 million. This amount was mainly comprised of profit before income tax in the amount of PLN 4 996 million (adjusted by the exclusion of income and costs in the amount of +PLN 247 million), income tax paid in the amount of PLN 1 575 million and a decrease in working capital of PLN 1 877 million. The change in working capital was mainly due to the following: a decrease in inventories (-PLN 2 027 million) with an increase in trade payables by PLN 225 million.

Net cash used in investing activities in 2022 amounted to -PLN 1 629 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of -PLN 2 731 million and the balance of proceeds and expenditures due to loans granted, +PLN 1 043 million.

Net cash used in financing activities amounted to -PLN 506 million and mainly comprised dividends paid to shareholders in the amount of PLN 600 million.

After reflecting exchange differences on cash and cash equivalents, in 2022 cash and cash equivalents decreased by PLN 347 million and amounted to PLN 985 million.

As at 31 December 2022, total assets amounted to PLN 47 995 million, or an increase as compared to the end of 2021 by PLN 4 537 million, or by 10%, mainly due to increases in the following items:

- inventories by PLN 2 087 million, including half-finished products and work in progress (+PLN 1 235 million, finished goods (+PLN 479 million) and materials (+PLN 379 million),
- property, plant and equipment and intangible assets by PLN 1 502 million, resulting from advancement of investments – cash expenditures on property, plant and equipment and intangible assets in 2021 amounted to PLN 2 741 million,
- long-term financial instruments by PLN 461 million, including loans granted (+PLN 514 million),
- short-term financial instruments by PLN 542 million.

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

- equity by PLN 3 835 million, mainly with respect to the profit for 2022 in the amount of PLN 3 533 million,
- employee benefits liabilities (+PLN 589 million),
- borrowings, lease and debt securities (+PLN 562 million),
- provisions for decommissioning costs of mines and other technological facilities (+PLN 422 million),
- deferred tax liabilities (+PLN 415 million),
- trade and similar payables (+PLN 206 million),

alongside a decrease in:

- derivatives (-PLN 868 million),
- tax liabilities (-PLN 230 million).

The good condition of the Company and of the KGHM Group is also attested to by the debt ratios, including mainly net debt to EBITDA for the KGHM Group, which increased from 0.6 at the end of 2021 to 0.8 at the end of 2022, remaining at a safe level, substantially below covenant restrictions.

**The full scope of financial and economic results of the Company were presented in the separate and consolidated financial statements for 2022, and the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2022. The Supervisory Board in resolutions 50/XI/23, 51/XI/23 and 52/XI/23 dated 21 March 2023, positively evaluated the aforementioned financial statements, presenting them for approval by the Ordinary General Meeting of KGHM Polska Miedź S.A.**

In 2022, the Supervisory Board oversaw the process of assessment and control of the economic situation of the Company both directly and through committees: Audit, Remuneration and Strategy, comprised of members of the Supervisory Board.

The first stage of this process was the review and approval of the Budget for 2023 adopted by the Management Board, which identified the main economic and financial goals to be achieved in 2023. The Budget was approved by the Supervisory Board by resolution no. 109/XI/2022 dated 28 December 2022, following a review by the Audit Committee of the Supervisory Board.

An important element of this process was the identification of key performance parameters and tasks (KPI's) for the Members of the Management Board, comprised of measures and indicators including safety, production and finance.

A subsequent phase of the assessment of the Company's standing comprised an analysis of current reports on the results achieved and the achievement of budgetary goals in the Company's individual operational and financial areas, including production, sales, investments, borrowing and the results of the Company and the KGHM Group. Reports are prepared by the Company after each reporting month and are subject to approval by the Management Board. In 2022, questions such as monitoring and assessing the execution of key investments, expenditures on advisory, legal and marketing services incurred by the Company, exposure to market risk, as well as the situation in the international assets and the Company's debt level required the particular attention of the Supervisory Board.

### 3. Assessment of the risk management system in the Company in 2022

#### Comprehensive corporate risk management system

Under the implemented Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee in force, the process of corporate risk management in the KGHM Group is consistently performed. The Company oversees the process of managing corporate risk in the KGHM Group, while in the companies of the KGHM Group, documents regulating the management of corporate risk are consistent with those of the Company.

The Company has broken down its structure into units responsible for achieving tasks under the risk management system and ensures them of the possibility of reporting directly to the Supervisory Board. The breakdown of rights and responsibilities under this system within the KGHM Group applies best practice principles for Corporate Governance and the generally recognised model of three lines of defence, with the first line comprised of risk management by business units and risk owners as well as control mechanisms in the Company's operational processes, the second of functions supporting risk management, with the third being internal audit which controls the other lines.

**Schemat 1. Organisational structure of risk management and compliance**

<b>Supervisory Board (Audit Committee)</b>					
Performs annual assessment of the effectiveness of the risk management process and monitors the level of risk factors and ways to address them.					
<b>Management Board</b>					
Has ultimate responsibility for the risk management system and supervision of its individual elements.					
<b>1st line of defence</b>	<b>2nd line of defence</b>			<b>3rd line of defence</b>	
<b>Management</b>	<b>Risk Committees</b>			<b>Audit</b>	
Managers are responsible for identifying, assessing and analysing risk and for the implementation, within their daily duties, of responses to risk. Managers are tasked with ongoing supervision over the application of appropriate responses to risk within the realised tasks, to ensure the expected level of risk is not exceeded.	Support the effectiveness of the risk management process.				
	<b>Corporate Risk and Compliance Committee</b>	<b>Market Risk Committee</b>	<b>Credit Risk Committee</b>	<b>Financial Liquidity Committee</b>	
	Manages corporate risk and continuously monitors key risk	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of customers to meet their obligations	Manages risk of loss of liquidity, understood as the ability to pay financial liabilities on time and to carry out required purchases as well as the ability to rapidly obtain financing for operations	The Internal Audit Plan is based on assessing risk and subordinated to business goals, the current level of risk factors and the degree of efficiency of their management are assessed.  <i>Internal Audit Rules</i>  Executive Director for Audit  <i>Reports to the President of the Management Board</i>
	<i>Corporate Risk Management Policy</i>	<i>Market Risk Management Policy</i>	<i>Credit Risk Management Policy</i>	<i>Liquidity Management Policy</i>	
	<i>Compliance Management Policy</i>				
	<i>Operational Continuity Management Policy</i>				
Department of Corporate Risk Management and Compliance	Executive Director for Financial Management				
<i>Reports to the Management Board</i>	<i>Reports to the Vice President of the Management Board (Finance)</i>				

The Management Board has ultimate responsibility for the risk management system and supervision of its individual elements. In accordance with the adopted model, the Supervisory Board, through the Audit Committee of the Supervisory Board, monitored the actions of the Management Board in terms of risk management in the Company and the KGHM Group, analysing among others the periodic Reports on Corporate Risk Management presented by the manager of the corporate risk management function as well as monitoring the level of key risks and the manner of dealing with these risks (including indicators to evaluate market, credit and liquidity risk). Moreover, the Supervisory Board, both in terms of the work of this body as well as through the work of the Committees (especially the Audit Committee and the Strategy Committee), engaged in comprehensive analyses of individual questions related to the risk of the KGHM Group, presented by the staff of the relevant units of the Company invited to attend the meetings of the aforementioned bodies as needed.

**The comprehensive risk management system in the KGHM Group was described in detail in the Management Board's Report on the activities of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group in 2022 together with an indication of the key risks, risk factors and mitigation.**

Moreover the corporate risk management system is subjected to an efficiency audit compliant with the guidelines of "Best Practice for GPW Listed Companies 2021" carried out by the Internal Audit Department. The Management Board and the Department of Corporate Risk Management and Compliance provided the Supervisory Board with their own assessment of the functioning of the system in 2022, performed on the basis of criteria of a qualitative and quantitative nature, confirming the general conformity of the corporate risk management function in the Company with the adopted evaluation criteria.

**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 KGHM 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 INTERNATIONAL LTD., FNX Mining Company Inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc.). Within the Company, key tasks are centralised involving the process of market risk management in the Group, such as coordination of the identification of sources of exposure to market risk, the proposal of hedging strategies, contacts with financial institutions aimed at concluding, confirming and settling derivatives transactions, and calculating measurements to fair value.

The Company actively manages market risk connected with changes in the prices of metals, exchange rates and interest rates, taking actions and decisions in this regard in the context of global exposure throughout the KGHM Group. In accordance with the „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group” in 2022 the Company continually identified and measured market risk connected with changes in the prices of metals, exchange rates and interest rates (analysis of the impact of market risk factors on the activities of the Company and the KGHM Group – financial result, balance sheet, cash flow), and also analysed the metals, currency and interest rates markets. These analyses, along with assessment of the internal situation of the Company and the KGHM Group, represented the basis for taking decisions on applying hedging strategies on the metals, currency and interest rates markets.

Periodic reports and ad hoc analyses on the market environment, market risk management and its measurement, were provided to and presented at meetings of the Supervisory Board, enabling the requisite monitoring of this area.

Management of liquidity is conducted in accordance with the „Financial Liquidity Management Policy in the KGHM Group” which regulates in a comprehensive manner the process of financial liquidity management in the KGHM Group, which is realised by individual companies, while its organisation and coordination as well as the supervision thereof is performed in the Company.

The basic principles arising from the „Financial Liquidity Management Policy in the KGHM Group” are:

- to ensure the stable and effective financing of the KGHM Group's activities,
- ongoing monitoring of the level of debt of the KGHM Group, and
- the efficient management of working capital.

The management of credit risk in the Company is performed in accordance with the „Credit Risk Management Policy” adopted by the Management Board. The Company serves in an advisory capacity for the companies of the KGHM Group as regards credit risk management. The „Credit Risk Management Policy in the KGHM Polska Miedź S.A. Group” covers selected companies in the KGHM Group, while its goal is to introduce a general, joint approach along with the most important elements of the credit risk management process.

## **Evaluation of the Supervisory Board – the risk management system in 2022**

Based on ongoing monitoring, the analysis of documents and internal regulations in force, including periodic risk management reports submitted, self-assessments presented by the Department of Corporate Risk Management and Compliance, the evaluation of the system presented by the Management Board and the results of the review of effectiveness of the system in accordance with the guidelines contained in „Best Practice for GPW Listed Companies 2021”, carried out by the Internal Audit Department, the Supervisory Board hereby confirms that the risk management system:

- ensures a consistent and clear breakdown of duties and responsibilities,
- encompasses all areas of activity and elements of the value chain, enabling an appropriately early identification of risk and enabling adequate and effective mitigating actions to be undertaken,
- is consistent with the strategy of growth, continually strives for operational improvement and the principles of sustainable and responsible business,
- is a cyclical process, based on continual improvement, enabling adaptation to a changing environment (internal and external),
- emphasises the promotion of an organisational culture which strengthens awareness of risk management within the Company and the KGHM Group, and
- supports the Management Board and the Supervisory Board in carrying out their duties, both statutory and legal, as well as those involving the advancement of business goals by among others supplying critical information about risk, its factors, or methods of mitigation.

**Taking the above into consideration, the Supervisory Board positively assesses the risk management system implemented in the KGHM Group. In 2022 the Supervisory Board had the opportunity to analyse on an ongoing basis the Company's approach to key risks related to the advancement of the business goals. In the Supervisory Board's opinion, the Company appropriately endeavoured to plan and execute actions aimed at minimising exposure to risk both by decreasing susceptibility to individual risk factors as well as reducing the probability of materialisation of negative events. It should however be noted that the process of risk management is connected with uncertainty as to the mitigation of risk, especially in those areas beyond the direct control of the KGHM Group.**

## **4. Evaluation of the compliance management system for 2022**

### **Compliance system**

The Company recognises that compliance is an important element in its effective functioning, which requires that decisive actions to be taken to ensure that this goal is achieved. 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 laws generally in force (external and internal) and to voluntarily adopted legal regulations and standards (including ethical standards), in 2020 the Management Board adopted the Compliance Management Policy in the KGHM Polska Miedź S.A. Group and the Compliance Management Procedure and Methodology in KGHM Polska Miedź S.A. The process of compliance management, which is connected with the process of corporate risk management in the KGHM Group, is an important business tool used to prevent the occurrence of events which could result in the imposition of sanctions.

The Company has broken down its structure into units responsible for achieving tasks under the compliance management system and ensures them of the possibility of reporting directly to the Supervisory Board (the Audit Committee of the Supervisory Board). The breakdown of rights and responsibilities under this system in the KGHM Group applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense. The organisational structure of risk management and compliance is presented above in Diagram 1.

The Management Board has ultimate responsibility for the compliance management system and supervision of its individual elements. In accordance with the adopted model, the Supervisory Board, through the Audit Committee of the Supervisory Board, monitored the actions of the Management Board in terms of compliance management, analysing among others the periodic Reports on Corporate Risk Management presented by the manager of the corporate risk management and compliance function, which contained information on the risk of a loss of compliance, its monitoring and how to proceed. Moreover, the Supervisory Board, both in terms of the work of this body as well as through the work of the Committees (especially the Audit Committee



and the Strategy Committee), engaged in comprehensive analyses of individual questions related to the risk of the loss of compliance presented by the staff of the relevant units of the Company invited to attend the meetings of the aforementioned bodies as needed.

Functioning in the Company are a variety of organisational units (such as the Department of Corporate Risk Management and Compliance, the Supply Chain Security Department, the Ethics and Anticorruption Procedures Unit, the Legal Department and the Legal Unit) as well as systemic solutions (such as employee access to legal databases, formalised internal procedures for legal interpretations, processes to identify legal requirements and to assess their compliance in terms of the ISO standards in force in the Company), which are aimed at ensuring compliance.

In 2022, actions continued on enhancing the efficacy of the compliance system, such as regards the selection of complementary IT solutions necessary to advance the process.

#### **Evaluation of the Supervisory Board – compliance system in 2022**

Based on ongoing monitoring, the analysis of documents and internal regulations in force, periodic risk management reports submitted, self-assessments presented by the Department of Corporate Risk Management and Compliance, the evaluation of the system presented by the Management Board and the results of the review of effectiveness of the system in accordance with the guidelines contained in „Best Practice for GPW Listed Companies 2021”, carried out by the Internal Audit Department, the Supervisory Board hereby confirms that the compliance management system:

- ensures a consistent and clear breakdown of duties and responsibilities,
- is an important business tool used to prevent the occurrence of events which could result in the imposition of sanctions,
- reflects both adherence to laws generally in force and internal regulations as well as to voluntarily adopted legal regulations and standards,
- assumes the development of and the effective realisation of transparent and active participation in the process of creating legal norms and business standards,
- assumes the regularity of stages and undergoes cyclical continual improvement, enabling adaptation to a changing environment (internal and external),
- emphasises the promotion of an organisational culture which strengthens awareness of ensuring compliance and avoiding non-compliance or risk of the loss of compliance, and
- supports the Management Board and the Supervisory Board in carrying out their duties, both statutory and legal, as well as those involving the advancement of business goals by among others supplying critical information about the risk of a loss of compliance.

**Taking the above into consideration, the Supervisory Board positively assesses the functioning in the KGHM Group of the compliance management system. In the Supervisory Board's opinion, the Company systematically develops the system, as reflected in the actions taken in 2022. The Supervisory Board had the opportunity to analyse on an ongoing basis the Company's approach to key risks related to the loss of compliance. The Company appropriately endeavoured to plan and execute actions aimed at minimising exposure to the risk of loss of compliance.**

## **5. Evaluation of the internal audit and internal control system for 2022**

The internal audit system is aimed at ensuring effective and efficient Company operations, the accuracy of financial reporting and the compliance of the Company's actions with laws in force and internal regulations.

The internal control system comprises the areas of oversight, all of the internal procedures, the function of compliance with laws, the financial reporting system, organisational structures, IT systems audits and other control mechanisms aiding in the achievement of the Company's goals as well as having an impact on its security and the stability of its functioning. The purpose of the internal control system is the rational realisation of effective and efficient operations, the accuracy of information disclosed, in particular as regards financial statements as well as the adequacy and operational efficiency of the audits conducted.

The internal control system is supervised in the Company by:

- the actions of the Company's Management Board, involving the establishment of an appropriate and effective internal control system,
- monitoring the efficiency of the internal control system by the Supervisory Board's Audit Committee, and
- oversight by the owners of individual business areas over their respective organisational units.

In addition, in terms of institutional control, actions are undertaken by specialised units, in particular those responsible for security and internal auditing.

The internal audit function plays a special role, and is performed by a separate organisational unit in the Company – the Internal Audit Department, headed by the Executive Director for Audit. The internal audit function is overseen by the Supervisory Board's Audit Committee, which issues opinions on internal audit regulations, the annual internal audit plan and receives a half-year and an annual report on the execution of audit plans. The Executive Director for Audit presents a report on the execution of audit plans at meetings of the Supervisory Board's Audit Committee. Moreover, the Audit Committee of the Supervisory Board may order the conduct of ad hoc audits.

The Internal Audit Department systematically evaluates and monitors the control mechanisms and identifies potential risks in individual processes occurring in the Company and in the entire Group, as well as uncovers irregularities and violations of existing procedures. Audit tasks in Sierra Gorda SCM (hereafter „SG“) are carried out by SG's internal audit team.

Auditing activities focus on assessing risk and evaluating and monitoring the functioning of the internal control systems in individual processes occurring in the Company and KGHM Group.

The work of internal auditing in the Company is based on the principle of independence, and may encompass all areas of the Company's and the KGHM Group's operations. In cases where the employees of the Internal Audit Department do not possess sufficient competence in an area which is to be assessed, the Department makes use of internal or external experts.

In 2022, 32 audits were conducted. Most of them were performed in several, or a dozen or so, KGHM Group entities simultaneously. These tasks were performed both in the divisions as well as in companies of the KGHM Group, including those outside Poland.

As a result of audits performed in 2022, recommendations were formulated for implementation. A summary of the results and recommendations from the comprehensive work were described in the Report on the Implementation of the Internal Audit Plan for 2022 of the KGHM Polska Miedź S.A. Group.

The audits carried out uncovered irregularities and violations of, among others, a formal and legal nature, violations of employee duties, and also inefficient management of resources in various units of the KGHM Group. The recommendations made in respect of the controlled units were aimed at eliminating the identified irregularities and strengthening the internal control system by implementing corrective procedures. The implementation of recommendations is continuously monitored by the Internal Audit Department.

**In the Supervisory Board's opinion, the internal audit and internal control system is effective, and is an important element of risk management as regards the functioning of the control mechanisms in the activities of the Company. Independent and objective information on the internal control system and risk management systems as well as the analysis of business processes in the KGHM Group supplied by internal audit, in the opinion of the Supervisory Board represents value added and results in the organisation's operational improvement.**

Chairwoman of the Supervisory Board

Agnieszka Winnik-Kalemba

Deputy Chairwoman of the Supervisory Board

Katarzyna Krupa

Secretary of the Supervisory Board

Wojciech Zarzycki

Member of the Supervisory Board

Józef Czyczerski

Member of the Supervisory Board

Przemysław Darowski

Member of the Supervisory Board

Andrzej Kisielewicz

Member of the Supervisory Board

Bogusław Szarek

Member of the Supervisory Board

Marek Wojtków

Member of the Supervisory Board

Radosław Zimroz

Member of the Supervisory Board

Piotr Ziubroniewicz

appropriate signatures on the original

Lubin, dated 11 May 2023

*Translation from the original Polish version*