

Assessment of the company's standing for 2023 on a consolidated basis, with an evaluation of the internal control, risk management and compliance systems and of the internal audit function, with information on the actions taken by the Supervisory Board of KGHM Polska Miedź S.A. to perform this assessment

*/Adopted by Resolution No. 78/XI/24 of the Supervisory Board of KGHM Polska Miedź S.A.
dated 8 May 2024/*

May, 2024

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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 an annual report which among others contains an assessment of the standing of the Company on a consolidated basis, with an evaluation of the adequacy and effectiveness of the internal control, risk management and compliance systems and of the internal audit function, with information on the actions taken by the Supervisory Board of KGHM Polska Miedź S.A. to perform this assessment. This assessment comprises all of the important control mechanisms, including in particular those involving reporting and the operations.

In accordance with art. 382 § 3¹ of the Act dated 15 September 2022, i.e. 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 2023 on a consolidated basis, including an evaluation of the internal control, risk management and compliance systems and the internal audit function, concerns a year in which the supervisory functions were carried out by a different Supervisory Board than the one which has prepared this assessment. Consequently, this document was prepared based on an analysis of corporate documentation involving risk management, compliance and the internal audit function, as well as among others based on information 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 persons 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.

2. Economic results of the Company in 2023

2.1 Production

In 2023 extraction of ore (wet weight) was at the level of the prior year, i.e. 32.1 million tonnes, which, given slightly higher copper content, resulted in a slightly higher amount of copper (+0.6%) in extracted ore than in 2022, which in 2023 amounted to 445.5 thousand tonnes.

The Company achieved electrolytic copper production in the amount of 592.4 thousand tonnes, exceeding the amount from 2022 by 1.1%. The improvement was achieved as a result of the optimisation of production capacity by higher consumption of purchased copper-bearing materials.

Metallic silver production amounted to 1 403 tonnes, or 8.1% higher than in 2022, and reached the highest level in the history of KGHM.

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 2023

In 2023 the average price of copper on the LME amounted to 8 478 USD/t compared to 8 797 USD/t in 2022. The highest price was recorded on 18 January and amounted to 9 436 USD/t, while the lowest level was recorded on 5 October, when the price of copper amounted to 7 812 USD/t. During the year the price of copper fell by 3.6%.

It should however be pointed out that due to the strengthening of the Polish zloty in 2023, the average price expressed in PLN fell in 2023 by 9% compared to 2022 and amounted to 35 647 PLN/t (daily LME price after fixing by the NBP).

2.3 Revenues from sales

In 2023, the volume of copper sales by the Company amounted to 584.7 thousand tonnes, versus 565.0 thousand tonnes in the prior year. In 2023, sales of copper cathodes amounted to 306.3 thousand tonnes, or an increase by 9.5% compared to 2022, while sales of wire rod and OFE rod decreased by 2.4%, reaching in 2023 the level of 275.5 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 2023 amounted to 1 351.6 tonnes, or an increase by 1% versus 2022, with production higher by 8.1%. Inventories of silver at the end of 2023 were allocated to satisfy the schedule of sales in 2024.

Total revenues from sales of KGHM Polska Miedź S.A. in 2023 amounted to PLN 29 084 million, or an increase by 2.3% versus 2022, when revenues amounted to PLN 28 429 million.

The increase in revenues from contracts with customers compared to the prior year by PLN 655 million was mainly due to a higher volume (+PLN 1 107 million), the positive adjustment of revenues due to hedging transactions (+PLN 817 million), and higher prices of silver and gold with lower copper prices (+PLN 140 million) as well as lower revenues due to a less favourable USD/PLN exchange rate (-PLN 1 651 million).

2.4 Cost of sales, selling costs and administrative expenses

The Company's costs of sales, selling costs and administrative expenses in 2023 amounted to PLN 30 004 million, or an increase by 23% compared to 2022. The increase in in basic operating costs was to a large extent due to the impairment losses recognised on non-current property, plant and equipment and intangible assets in the amount of PLN 2 806 million, being the result of impairment tests conducted. After eliminating the impact of these impairment losses, basic operating costs increased by 11%.

Expenses by nature, excluding purchased metal-bearing materials, the minerals extraction tax and the impairment losses recognised on production assets, amounted to PLN 15 845 million and were higher than the corresponding costs of the prior year by PLN 1 855 million, mainly due to higher costs in the following areas:

- consumption of materials and energy (+PLN 415 million) – mainly due to higher prices of technological materials and electricity,
- labour (+PLN 643 million) – due to an increase in remuneration rates and a higher by PLN 147 million revaluation of provisions for future employee benefits,
- external services (+PLN 400 million) – mainly due to an increase in transportation services, repairs and maintenance and mine development work,
- depreciation/amortisation (+PLN 171 million) - an increase due to investments advanced in prior periods.

The unit cash cost of producing payable copper in concentrate C1 amounted to respectively: in 2022 to 2.38 USD/lb and in 2023 to 2.98 USD/lb. The increase in this cost by 25% was mainly due to the higher costs of materials, external services and labour described above, but also to an increase in the minerals extraction tax charge, due to the lack of the relief from which the Company benefited in 2022, as well as a strengthening in the PLN as compared to the USD. Positive impact on this cost came from the valuation of by-products due to higher silver and gold prices.

2.5 Financial results and financial condition of the Company at the end of 2023

In 2023, the Company recorded a result on adjusted EBITDA in the amount of PLN 3 563 million and a loss for the period in the amount of PLN 1 153 million.

The decrease in EBITDA compared to the prior year by PLN 1 907 million (-34.9%) was mainly due to a less favourable exchange rate and higher costs, including employee costs and energy factors.

The deterioration in the net result by PLN 4 686 million was mainly comprised of:

- a decrease in EBITDA by PLN 1 907 million (described under revenues and cost of sales, selling costs and administrative expenses),
- impairment losses recognised due to impairment tests conducted on mining and metallurgical assets in the amount of PLN 3 771 million, of which PLN 2 806 million decreased cost of sales, selling costs and administrative expenses, while PLN 965 million decreased other operating costs,
- reversal of allowances recognised on shares in subsidiaries in 2023 in the amount of PLN 827 million, with respect to shares of Future 1 Sp. z o.o. (PLN 741 million) and KGHM Metraco S.A. (PLN 86 million),
- a lower result by PLN 733 million due to exchange differences, including in other operating activities (-PLN 1 270 million mainly on loans granted) and in financing activities (+PLN 537 million on borrowings),
- a decrease in the income tax charge by PLN 1 340 million, including current income tax by PLN 558 million (mainly due to lower EBITDA and the impact of exchange differences) and deferred tax by PLN 691 million (mainly the result of impairment losses).

Net cash generated from operating activities in 2023 amounted to +PLN 5 639 million. This amount was mainly comprised of EBITDA in the amount of PLN 3 563 million, income tax paid in the amount of PLN 1 631 million and the positive effect of working capital by PLN 3 185 million, including PLN 2 886 million due to trade payables transferred to factoring.

Net cash used in investing activities in 2023 amounted to -PLN 4 322 million and mainly comprised expenditures on property, plant and equipment and intangible assets in the amount of -PLN 3 074 million and the balance of proceeds and expenditures due to loans granted, -PLN 714 million.

Net cash used in financing activities amounted to -PLN 809 million and mainly comprised dividends paid to shareholders in the amount of PLN 200 million, the balance of loans drawn and paid in the amount of -PLN 422 million and interest paid, PLN 145 million.

After reflecting exchange differences on cash and cash equivalents, in 2023 cash and cash equivalents increased by PLN 496 million and amounted to PLN 1 481 million.

As at 31 December 2023, total assets amounted to PLN 48 896 million, or an increase as compared to the end of 2022 by PLN 901 million, or by 2%, mainly due to the following:

- a decrease in the value of non-current tangible and intangible assets by PLN 1 907 million, which is mainly due to impairment losses by PLN 3 777 million and depreciation/amortisation at the level of PLN 1 675 million. Increases in this regard include the result on investment expenditures incurred in the amount of PLN 3 074 million,
- an increase in investments in subsidiaries by PLN 1 106 million, including due to reversals of impairment losses recognised on the shares of FUTURE 1 Sp. z o.o. in the amount of PLN 741 million and KGHM METRACO S.A. by PLN 86 million, and increases in the share capital of Energetyka Sp. z o.o. by PLN 159 million,
- an increase in long term loans (+PLN 875 million) granted, mainly to KGHM INTERNATIONAL LTD. due to advancement of the Victoria project,
- a decrease in the value of derivatives by PLN 517 million,
- an increase in tax receivables by PLN 620 million, mainly due to a surplus of prepayments on income tax,
- an increase in cash and cash equivalents by PLN 496 million, which were of a short term nature and were mainly related to an increase in factoring liabilities in the fourth quarter of 2023.

The increase in equity and liabilities was mainly comprised of:

- a decrease in equity by PLN 857 million due to a loss for the period in the amount of PLN 1 153 million, dividends paid of PLN 200 million and actuarial losses due to the measurement of benefits after the period of employment, by PLN 219 million. The increase in reserves from the measurement of financial instruments by PLN 715 million was mainly due to the measurement of Tauron Polska Energia S.A. +PLN 294 million and an increase in the measurement of cash flow hedging instruments, +PLN 451 million,
- higher current trade and similar payables by PLN 3 246 million, mainly due to an increase in liabilities transferred to factoring by PLN 3 021 million.
- a decrease in borrowings, leases and debt securities by PLN 783 million,
- a decrease in tax liabilities by PLN 656 million, mainly in respect of overpayment of tax liabilities due to the application of fixed income tax advances under a simplified formula, i.e. at a fixed level calculated on the basis of income earned in 2021. Tax liabilities for 2022 were paid by 30 June 2023. At the end of 2023 the Company did not have any income tax liabilities,
- a decrease in liabilities due to derivatives by PLN 452 million,
- higher liabilities due to employee benefits (+PLN 377 million) mainly due to an increase in the measurement of liabilities due to the coal equivalent (+PLN 191 million), jubilee awards (+PLN 112 million) and retirement and disability benefits (+PLN 109 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 at the end of 2023 amounted to 1.06, 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 2023, 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 2023. The Supervisory Board in resolutions 68/XI/24, 69/XI/24 and 70/XI/24 dated 23 April 2024, positively evaluated the

forementioned financial statements, presenting them for approval by the Ordinary General Meeting of KGHM Polska Miedź S.A.

In 2023, the Supervisory Board had the possibility to oversee 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 Supervisory Board had reviewed and approved the Budget for 2024 adopted by the Management Board, which identified the main economic and financial goals to be achieved in 2024. The Budget was approved by the Supervisory Board by resolution no. 170/XI/23 dated 28 December 2022, following a review by the Audit Committee of the Supervisory Board.

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

The Supervisory Board had the possibility to 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.

Moreover, in 2023, the Supervisory Board received access to Management Board reports regarding: monitoring and assessing the execution of key investments, expenditures on advisory, legal and marketing services incurred by the Company and exposure to market risk, as well as the situation in the international assets and the Company's debt level.

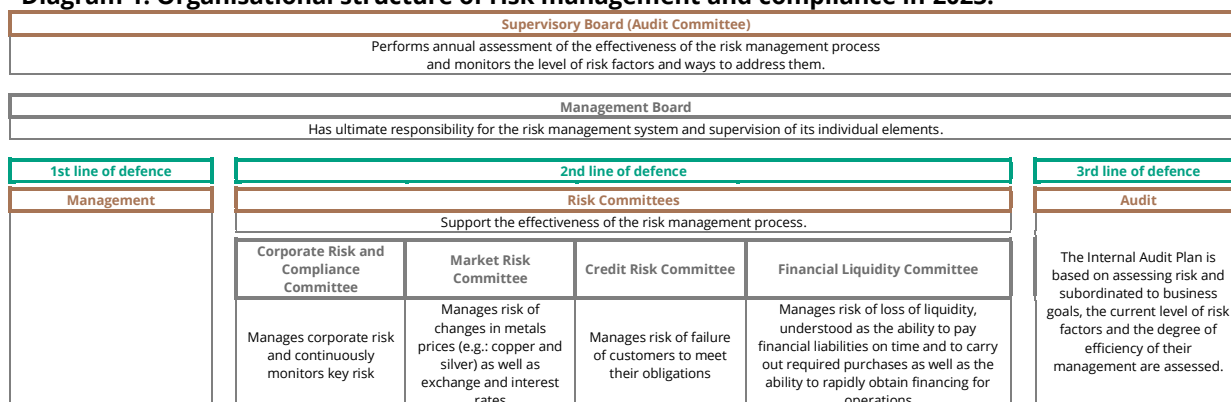
3. Assessment of the risk management system in the Company in 2023

Comprehensive corporate risk management system

The process of corporate risk management in the KGHM Group is carried out under the implemented Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk and Compliance Committee in force. The Company oversees the process of managing corporate risk in the KGHM Group, while in the companies of the KGHM Group, documents regulating this area 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 defense, with the strong 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.

Diagram 1. Organisational structure of risk management and compliance in 2023.



Assessment of the Company's standing for 2023 in consolidated terms, with an evaluation of the adequacy and effectiveness of the internal control, risk management and compliance systems and of the internal audit function, with information on the actions taken by the Supervisory Board of KGHM Polska Miedź S.A. to perform this assessment

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.	Corporate Risk Management Policy	Market Risk Management Policy	Credit Risk Management Policy	Liquidity Management Policy	Internal Audit Rules
	Compliance Management Policy				Executive Director for Financial Management
	Operational Continuity Management Policy	Department of Corporate Risk Management and Compliance	Reports to the Vice President of the Management Board (Finance)		Reports to the President of the Management Board

Based on the above diagram, the Management Board has ultimate responsibility for the risk management system and supervision of its individual elements. In accordance with the adopted model and based on an analysis of corporate documentation, in 2023 the Supervisory Board, through the Audit Committee of the Supervisory Board, had the opportunity to monitor 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, containing 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) as documented in the minutes of these meetings, had the opportunity in 2023 to analyze 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 2023 together with an indication of the key risks, risk factors and mitigation.

Moreover, in 2023 the corporate risk management system was subjected to an annual efficiency audit compliant with the guidelines of DPSN2021 carried out by the Internal Audit Department and presented in the Report on the execution of the internal audit plan for 2023.

The Department of Corporate Risk Management and Compliance provided the Supervisory Board with their own assessment of the functioning of the system in 2023, 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 an acceptable level. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Company these issues are covered in the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Committee,
- Financial Liquidity Management Policy and the Rules of the Financial Liquidity Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee, and
- The policy on purchasing electricity, property rights, guarantees of origin and natural gas.

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group” covers selected mining companies in the KGHM Group. Key tasks involving the process of market risk management in the KGHM 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, were centralised in the Company.

The Company 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 2023 the Company 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 and documented in the minutes of these meetings.

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 2023

Based on a analysis of available corporate documents (such as the minutes of meetings of the Supervisory Board and its committees for 2023), the internal rules in force in 2023 (such as the Organisational Regulations of KGHM Polska Miedź S.A., the Corporate Risk Management Policy in the KGHM Polska Miedź S.A. Group), the periodic risk management reports submitted in 2023, the self-assessment 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 DPSN 2021, carried out by the Internal Audit Department, the Supervisory Board declares that the risk management system:

- ensures a breakdown of duties and responsibilities,
- has the possibility of encompassing all areas of activity and elements of the value chain,
- enables the identification of risk and mitigating actions to be undertaken,
- assumes the regularity of stages and cyclical improvement, and
- is tasked with supporting 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 and methods of mitigation.

In 2023 the Supervisory Board had the opportunity to engage in ongoing analysis of the Company's approach to key risks related to the advancement of the business goals, among others by monitoring the risk management function conducted by the Audit Committee of the Supervisory Board. The Company provided information on the exposure of its activities to key risks by presenting assessments of its sensitivity to individual risk factors as well as an evaluation of the impact and probability of the 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 2023

Compliance system

A compliance management system has been implemented in the Company, the goal of which is to identify, evaluate and analyze the risk of a loss of compliance, defined as adherence to existing external laws in force

and internal regulations or voluntarily adopted legal regulations and standards (including ethical standards). In accordance with the adopted Compliance Management Policy, the Company recognises that compliance is an important element in its effective functioning, which requires that actions be taken to ensure that this goal is achieved. The process of compliance management, which is connected with the process of corporate risk management in the KGHM Group, is aimed at preventing 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.

Based on the aforementioned diagram, the Management Board has ultimate responsibility for the compliance management system and supervision of its individual elements. In accordance with the adopted model and based on analysis of corporate documentation, in 2023 the Supervisory Board, through the Audit Committee of the Supervisory Board, had the opportunity to monitor the actions of the Management Board in terms of compliance management in the Company and the KGHM Group, analysing among others the periodic, quarterly Reports on Corporate Risk Management presented by the manager of the corporate risk management function, which contained information on the risk of a loss of compliance (first half of the year) and quarterly Reports on Compliance Management (second half of the year). 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) as documented in the minutes of these meetings, had the opportunity in 2023 to analyze individual questions related to evaluate 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.

Evaluation of the Supervisory Board – compliance system in 2023

Based on a analysis of available corporate documents (such as the minutes of meetings of the Supervisory Board and its committees for 2023), the internal rules in force in 2023 (such as the Organisational Regulations of KGHM Polska Miedź S.A., and the Compliance Management Policy in the KGHM Polska Miedź S.A. Group), the periodic risk management reports submitted in 2023, the self-assessment 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 DPSN 2021, carried out by the Internal Audit Department, the Supervisory Board declares that the compliance system:

- ensures a consistent and clear breakdown of duties and responsibilities,
- has the possibility of preventing the occurrence of events which could result in the imposition of sanctions,
- is a cyclical process and undergoes annual evaluation,
- reflects both adherence to external laws generally in force and as well as to internal regulations and voluntarily adopted legal regulations and standards,
- assumes the building of transparent and active participation in the process of creating legal norms and business standards,
- assumes the regularity of stages and cyclical improvement, and
- is aimed at supporting 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 and its mitigation.

In 2023 the Supervisory Board had the opportunity to engage in ongoing analysis of the Company's approach to key compliance risks related to the advancement of the business goals, among others by monitoring the risk management function conducted by the Audit Committee of the Supervisory Board. The Company provided information on the exposure of its activities to the key risk of a loss of compliance, among others by presenting assessments of the impacts of potential non-compliance.

5. Evaluation of the internal audit and internal control system for 2023

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, the controls designed in IT systems 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 internal control system is performed with the goal of 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, which in 2023 was 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 presented reports 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 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 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. Moreover, work is underway on improving the internal audit function in terms of ensuring full compliance with International Internal Audit Standards, in particular the assurance of full independence.

In 2023, 26 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 2023, 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 2023 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

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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. Despite the identified inefficiencies of the internal control system, they do not significantly affect the ability to achieve the main objectives of the KGHM Polska Miedź S.A. Group.

In 2023 the Supervisory Board had the opportunity to monitor the functioning of the internal audit and internal control system, among others by the cyclical assessment of risk management and of the control mechanisms carried out by the Company's internal audit and their documentation in half-year and annual reports on the execution of the Internal Audit Plan of the KGHM Polska Miedź S.A. Group. The Company implemented and generally maintains corporate governance solutions aimed at assessing and improving the effectiveness of the processes of risk management, control and organisational management.

Chairman of the Supervisory Board
Tadeusz Kocowski

Member of the Supervisory Board
Aleksander Cieśliński

Deputy Chairman of the Supervisory Board
Marian Noga

Member of the Supervisory Board
Józef Czycherski

Secretary of the Supervisory Board
Bogusław Szarek

Member of the Supervisory Board
Przemysław Darowski

Member of the Supervisory Board
Zbysław Dobrowolski

Member of the Supervisory Board
Dominik Januszewski

Member of the Supervisory Board
Piotr Prugar

The appropriate signatures on the original Polish document
Lubin, 8 May 2024